



Periodic Report

For 2011

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Description of Corporation's Operations

Chapter 1 – General

Israel Chemicals Ltd. is honored to present a report regarding various matters relating to the description of corporate activity for the year 2011 (the “**Report Period**”), which encompasses a description of the corporation and the development of its business activities, The financial data contained in this report are set out in US dollars.

Facts that appear in this report “as of the date of the report” are current as of March 26, 2012, unless otherwise stated.

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

This report is presented as part of the periodic report for 2011, on the assumption that the other sections of the periodic report are also in front of the reader.

Where external sources are quoted in the periodic report, the Company clarifies that these sources are accepted professional sources that the Company believes to be reliable sources. However, the information quoted in these sources was not prepared by the Company and therefore it cannot vouch for its correctness.

All the estimates of the subsidiaries set out in the periodic report have been adopted by the Company.

In respect of regulation applicable to the Company's activities, the Company clarifies that as of the date of the report, the Company has all the material licenses required for its activities.

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

“Amfert”	Amsterdam Fertilizers B.V. - a Dutch Company Of The ICL Fertilizers Segment. The Activities Of Amfert were transferred to ICL Fertilizers Europe C.V.
“Astaris”	Astaris LLC – a corporation from which operations and assets were purchased for ICL PP America.
“BKG”	A company in the ICL Performance Products segment, based in Germany.
“Bromine Compounds”	Bromine Compounds Ltd., a subsidiary of the Bromine Company, of the ICL Industrial Products segment.
“Bromine”	A chemical element used as a basis for a wide variety of uses and compounds, and mainly as a component in flame retardants or fire prevention substances. Unless otherwise stated, the term “bromine” refers to elemental bromine.
“CFR”	Cost and freight. In a CFR transaction, the price of goods includes, as well as FOB expenses, any other costs that arise after the goods leave the factory gates and up to the destination port.
“CIF”	Cost, insurance and freight. In a CIF transaction, the price of goods includes, as well as FOB expenses, the expenses for insurance, shipping and any other costs that arise after the goods leave the factory gates and up to the destination port.
“CPL”	Cleveland Potash Ltd. – a UK company of the ICL Fertilizers segment.
“CRU/ British Sulfur”	A professional research and analysis institute – dealing with, among others, the chemical industry, fertilizers, mining and extraction.
“DAP”	Diammonium phosphate, fertilizer containing 18% nitrate and 46% phosphorus acid
“Directors’ Report”	The directors’ report of ICL as at December 31, 2011 included as section B of the report
“Dollar”	U.S. dollar.
“DSM”	Dead Sea Magnesium Ltd.
“DSW”	Dead Sea Works Ltd. of the ICL Fertilizers segment
“EMAS”	Eco-Management and Audit Scheme – a voluntary initiative of the European Union for measurement of environmental performance beyond the minimum legal standards for the participating companies.
“F&C”	Fertilizers and Chemical Materials Ltd. – in the ICL Fertilizers segment.
“FAO”	The Food And Agriculture Organization of The United Nations – an international food organization.
“FertEcon”	A professional publication in the field of fertilizers.
“Financial Statements”	The financial statements of ICL as at December 31, 2011 included as section C of the report
“FOB”	Free on board expenses are expenses for land transportation, loading costs and other costs, up to and including the port of origin. In a FOB transaction, the seller pays the FOB expenses and the buyer pays the other costs from this point onwards.

“HACCP”	Hazard Analysis and Control Point - A system of rules and monitoring of risk analysis and pollution prevention in the food industry, developed by the U.S. Food and Drug Administration.
“HBr”	Hydrobromic acid
“ICL Industrial Products”	ICL-IP
“ICL Performance Products”	ICL-PP
“ICL PP America”	The assets and operations acquired from Astaris and other companies in the ICL Performance Products segment.
“ICL” or “the Company”	Israel Chemicals Ltd., including its consolidated companies
“ICLFE”	ICL Fertilizers Europe – a unit within the ICL Fertilizers segment which coordinates the activities of ICL Fertilizers in Europe.
“IFA”	The International Fertilizers Association – an international association of fertilizer manufacturers.
“IP”	Iberpotash SA – a Spanish company of the ICL Fertilizers segment.
“ISO”	The International Management standard in various fields
“Israel Corp”	The Israel Corporation Ltd., which is the controlling shareholder of ICL.
“K”	The element potassium, one of the three main plant nutrients.
“MAP”	Mono ammonium phosphate, fertilizer containing 10% nitrate and 52% phosphorus oxide
“N”	The element nitrogen, one of the three main plant nutrients.
“OSHA”	Standards published by the US Federal Occupational Safety & Health Administration Agency.
“P”	The element phosphorus, one of the three main plant nutrients.
“PCS”	Potash Corporation of Saskatchewan Inc., a Canadian company, the largest potash producer in the world, which is an interested party of the Company
“Phosphate”	Phosphate rock that contains the element phosphorus. Its concentration is measured in units of P ₂ O ₅ .
“Polyhalite”	A mineral known commercially as polysulfate, composed of potash, sulfur, calcium and magnesium, used in its natural form as fertilizer for organic agriculture.
“Potash”	KCl, used as a plant’s main source of potassium.
“REACH”	Registration, Evaluation and Authorization of Chemicals – a framework within the European Union – see sections 4.2.15, 4.3.16 and 4.4 of the report.
“Responsible Care”	An international program of chemical industry companies for the advancement of health, safety and the environment.
“Rotem”	Rotem Amfert Negev Ltd., of the ICL Fertilizers segment
“Salt”	Unless otherwise specified, sodium chloride: NaCl.
“Segment”	A managerial division of ICL as described in section 2.1.3 and section 2.2 below.

“Soluble NPK”	Soluble fertilizer containing the three basic elements for plant development (nitrogen, phosphorous and potash)
“SRF/CRF”	Slow/controlled release fertilizers
“Supresta”	ICL-IP America Inc. and ICL-IP Bitterfeld GmbH in the ICL Industrial Products segment
“Tami”	Tami (IMI) Research and Development Institute Ltd. – the central research institute of ICL, part of ICL Industrial Products segment.
“TBBA”, “Deca”,HBCD”	Bromine-based flame retardants
“The Bromine Company”	Dead Sea Bromine Company Ltd. of the ICL Industrial Products segment.
“TSP”	Triple superphosphate, fertilizer containing 46% phosphorus oxide
“USDA”	United States Department of Agriculture.
“Zafir Site”	ICL Fertilizers phosphate mining and beneficiation sites, located at Zin and Oron.

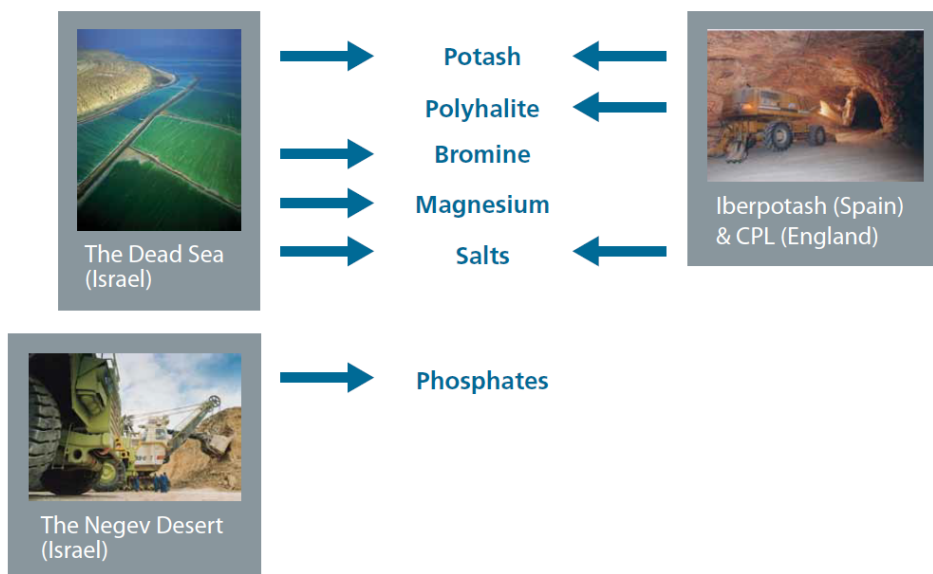
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Chapter 2 – Description of General Development of Company’s Business

2.1 General

2.1.1 ICL is a multinational company that operates mainly in the areas of fertilizers and specialty chemicals, in three segments – fertilizers, industrial products and performance products.

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



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

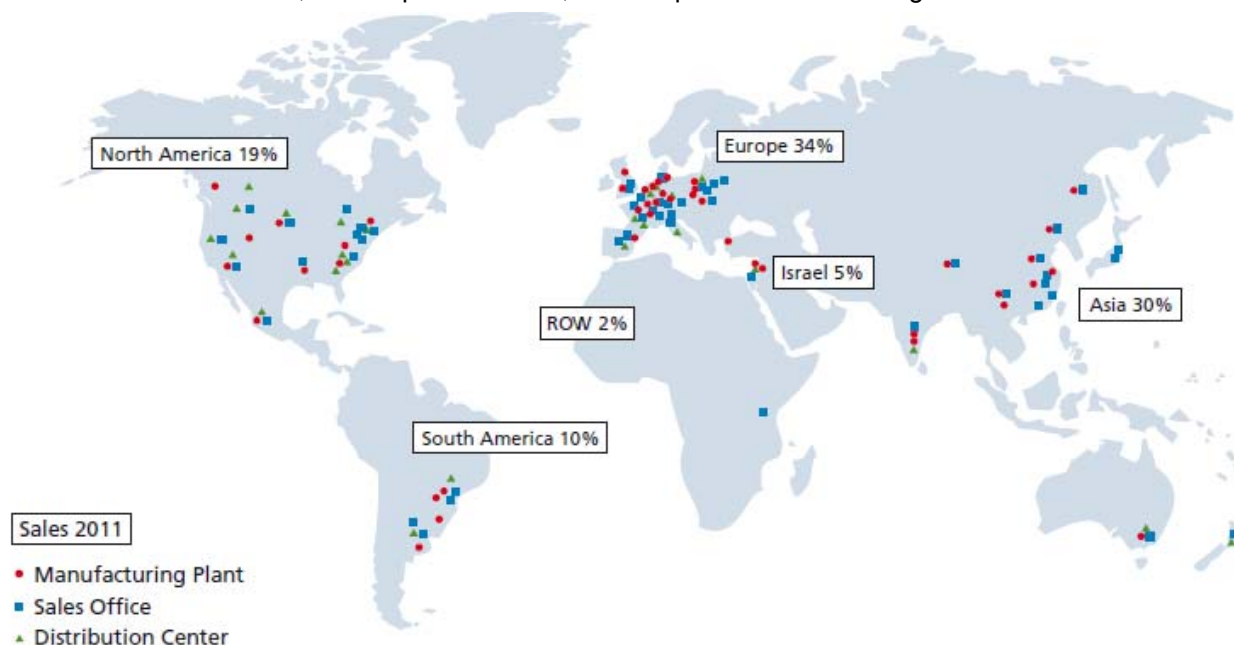
ICL has direct access to most of the raw materials required for its activities, at low cost and high quality, by virtue of the exclusive concession granted to ICL by the State of Israel for extraction of minerals from the Israeli side of the Dead Sea, in return for payment of royalties to the State (for details, see section 4.1.14 below).

ICL’s production facilities are based in Israel and other countries. ICL’s operations outside of Israel are primarily in the production of products that are complimentary to or are based on ICL’s operations in Israel or related fields. The activities of ICL’s facilities are integrated with one another to a great extent, in terms of both supply of raw materials and such that one facility frequently utilizes the by-products of another facility to produce end-products.

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

In 2011, approximately 43.5% of ICL's sales revenue arose from production activities taking place outside of Israel. Approximately 13% of the cost of sales of the products produced outside of Israel is attributable to raw materials supplied from Israel.

ICL has no material dependency on any single customer. ICL has dependency on raw material sources due to the concessions granted to ICL by the State (see section 14.1.4.a.1); on the sole natural gas supplier in Israel (see section 18.1.4.E); on Israel Electric Corporation for the supply of electricity in Israel; on the supply of water in Israel from resources; and on ports in Israel, for transportation and loading.



2.1.2 Competitive advantages

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

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

¹ Sources: Potash – data by Fertecon and by competing companies for bromine and phosphorus- based flame retardants, assessments of ICL Industrial Products; Phosphoric acid and special phosphates – data as collected by the Company from the annual reports and various reports of competitors. The Company is not responsible for the veracity of external data.

Product	Business segment	Rank in international market
Potash	ICL Fertilizers	Sixth
Elemental bromine	ICL Industrial Products	First
Pure Phosphoric Acid	ICL Performance Products	First
Specialty phosphates	ICL Performance Products	First
Phosphorus-based flame retardants	ICL Industrial Products	First
Fire retardants	ICL Performance Products	First
Clear solutions	ICL Industrial Products	First
Functional fluids	ICL Industrial Products	First

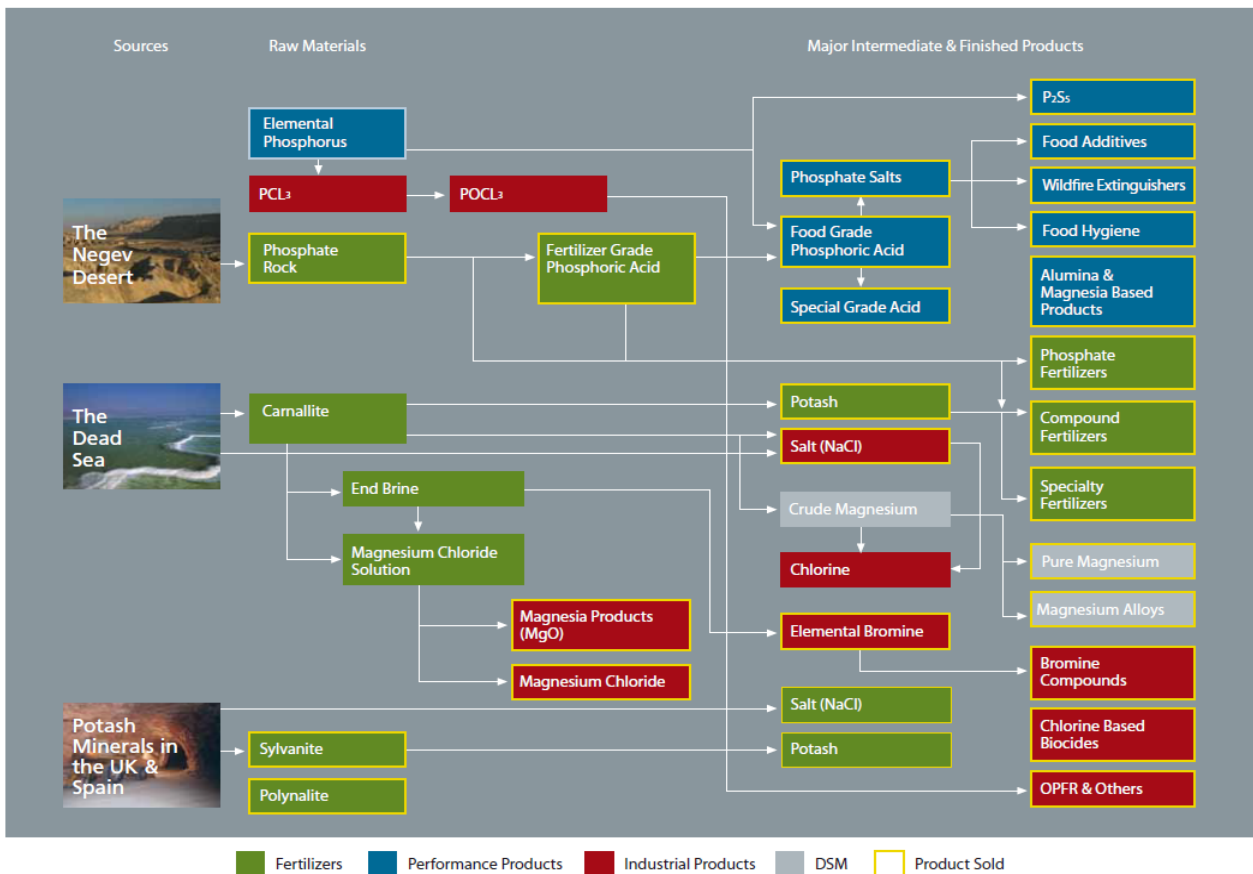
Similarly, ICL has a leading position in a number of niche markets for specialty chemicals and specialty fertilizers.

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

1. The relatively low production costs in Sodom derive primarily from the high concentration of minerals in the Dead Sea and due to the fact that production of them at Sodom is effected by using solar energy in the evaporation process.

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

2. Potash production without dependence upon storage limitations: The hot and dry climate of the Dead Sea enables the Company to store, at particularly low cost, large quantities of potash in open areas. This advantage in storage capability enables the Company to produce continuously at Sodom, without dependency on the fluctuations in the worldwide demand for potash. This fact also affords ICL Fertilizers has some flexibility in directing sales from its various sources in Israel and Europe, which allows it to reduce the harm to potash production in Europe in times of crisis.
3. Relatively low shipping costs: ICL enjoys relatively low shipping costs due to the location of most of its facilities fairly close to seaports in Israel and worldwide. The location of ICL Fertilizers' facilities in Israel gives it a logistical advantage over some of its competitors. ICL's facilities are based in the Negev Desert, so it can ship its bulk products, through the Port of Ashdod towards Europe and South America and through the Port of Eilat towards Asia, Africa and Oceania. The Company has dedicated bulk-loading port facilities in Israel – in Ashdod and Eilat; and in Europe – in Barcelona (IP); Amsterdam; Ludwigshafen (AMFERT); and Teesside, England (CPL).
4. Synergies: ICL benefits from synergies within the Company that reduce its production cost by, among other things, utilizing by-products and waste from one process as a raw material for another process. For example, the production of bromine is based on utilizing the bromine in the end brines resulting from potash production, where its concentration is higher than in the Dead Sea water. Magnesia is produced from brines rich in magnesium chloride that result as by-products from potash production in Sodom; ICL Fertilizers uses a by-product of the process of producing metal magnesium (sylvinite) to produce potash; ICL-IP uses chlorine that is released by the process of producing metal magnesium, to produce bromine, etc.



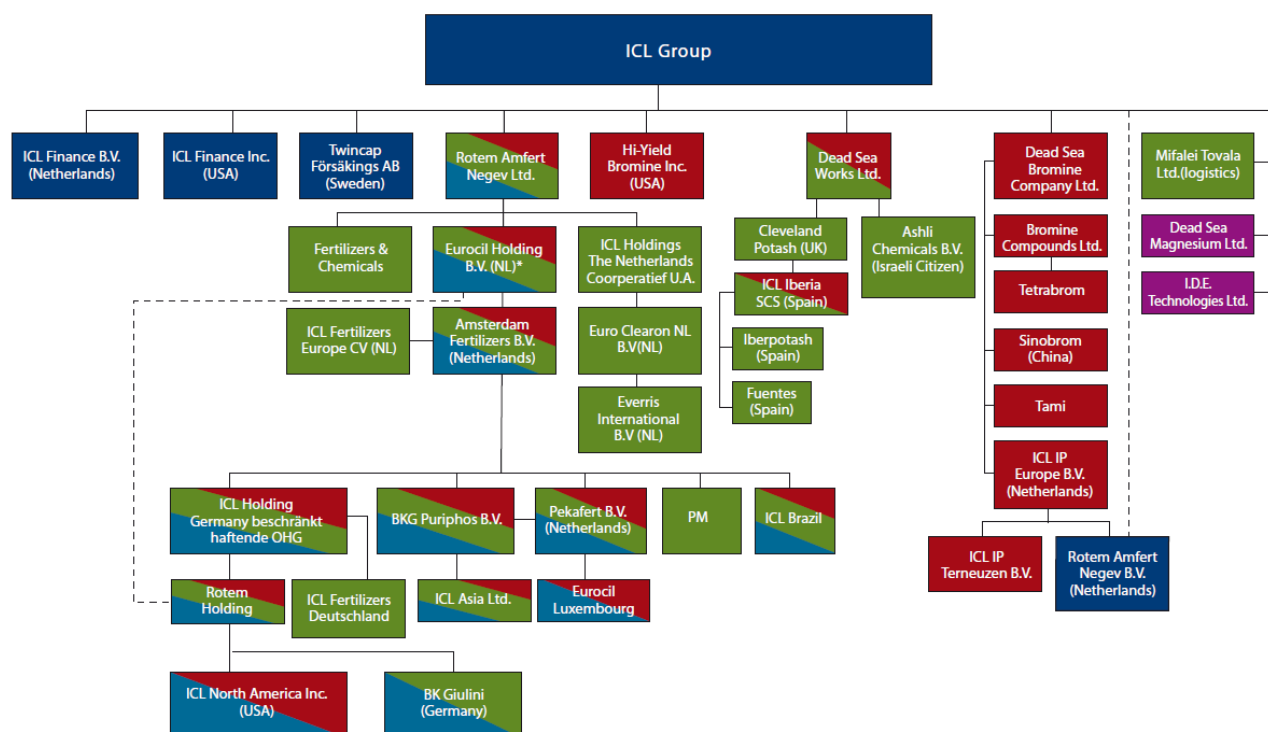
- D. Manufacture of products with high added value: ICL efficiently utilizes various basic materials that are produced in its plants and turns them into downstream products with high added value. For example, ICL Fertilizers produces fertilizer-grade phosphoric acid from phosphate rock that it extracts from open-pit mines in the Negev Desert. ICL-PP further refines this acid into pure phosphoric acid that enables ICL-PP to manufacture phosphate salts and hygiene products. Phosphate salts are also used in the manufacture of food additives.
- E. Significant entry barriers: the entry of new competitors in many of the Company's areas of business would be expensive and time-consuming. This is due to the need for long-term mining concessions, heavy investments and relatively long time for establishing production facilities, intellectual property (proprietary knowledge, technologies and patents for various products and applications), and investment in international logistics, marketing and distribution systems.
- However, it should be emphasized that in some of the main areas of operation of the Company, existing manufacturers may well increase their production capacity.
- F. Relatively high positive cash flow from operations: In 2011 and 2010, the cash flow from operations of ICL was approximately \$1,269 million and \$1,537 million, respectively. ICL's high cash flows enable it to appropriately maintain and expand its production facilities, invest in infrastructure, invest in the environment, establish new plants, take advantage of acquisition opportunities, and distribute dividends to Company shareholders.
- G. Wide global presence with diversified businesses: the distribution of ICL's international activities around the world reduces the exposure of its businesses to regional changes in different geographical areas. In addition, ICL produces and sells a wide range of products, for use in different industries throughout the world. In 2011, the Company did not have any single customer that accounted for more than 10% of the total sales of the Company.
- H. Company management: ICL's operations are managed by a management team with rich industry experience.

2.1.3 **Corporate structure**

The chart below describes the administrative segments of ICL as at the date of this report:

<p>Fertilizers</p> <hr/> <p><u>Potash</u></p> <ul style="list-style-type: none">> Standard, compacted & fine> Red, & white from 3 sources> Salt <p><u>Phosphates</u></p> <ul style="list-style-type: none">> Phosphate rock> Phosphoric acid> Phosphate Fertilizers, Compound Fertilizers and Specialty Fertilizers> Animal feed additives	<p>Industrial Products</p> <hr/> <p><u>Flame Retardants</u></p> <ul style="list-style-type: none">> Based on bromine, organophosphorus & magnesia <p><u>Elemental Bromine</u></p> <p><u>Dead Sea Salts</u></p> <p><u>Other Chemicals</u></p> <ul style="list-style-type: none">> Organic and inorganic bromine compounds> Bromine and chlorine based biocides for water treatment> Functional fluids based on phosphorus> Magnesia products	<p>Performance Products</p> <hr/> <p><u>Speciality Phosphates</u></p> <ul style="list-style-type: none">> Technical, food grade & electronic grade phosphoric acid> Food additives> Water treatment chemicals & services <p><u>Other Products</u></p> <ul style="list-style-type: none">> Based on phosphorus, phosphate, alumina & other chemicals
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Structure of the legal holdings of ICL (material companies)²



2.1.4 Year of incorporation of the Corporation and corporate structure

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

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

In 1992, following a decision by the Israeli government to privatize ICL, the State published its tender prospectus, and the shares of ICL were listed on the Tel-Aviv Stock Exchange Ltd. (hereinafter the “TASE”). Prior to its public share issuance, ICL issued to the State of Israel a special State share (the “Special State Share”) in ICL and its main Israeli subsidiaries (for rules of the Special State Share and the rights it affords the State, see section 5.5.2 of this report.).

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

² All the companies included in the chart are wholly-owned by the ICL Group, with the exception of: IDE, a company with joint control held 50% by ICL and the remaining 50% by Delek Infrastructures Ltd. Sinobrom – Dead Sea Bromine Ltd., a subsidiary of ICL, holds 75% and Shandong Haihua Shareholding Co. holds the other 25%.

ICL, but it retained the Special State Share. In 1999 the Ofer Group acquired control of the Eisenberg family's shares in the Israel Corporation.

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

Within the framework of this process, in the period 1999-2001, ICL purchased all the minority interests in ICL's publicly listed companies. Management segments were defined and teams were set up to manage the business units in the segments. The division into segments matches ICL's management concept which is based on matrix management, and which does not necessarily correspond to the legal structure of the companies in the Group.

Alongside the structure of management by segments, organizational headquarters were set up at ICL on a geographical basis, which were intended to coordinate operations in the same geographical area among the various companies, to increase efficiency and prevent duplication and to realize the synergies between the segments in each area, all without derogating from the overall responsibility of the segments for the companies, and for the business units for which they are responsible.

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

For additional details about the Company's strategy see section 5.6 below.

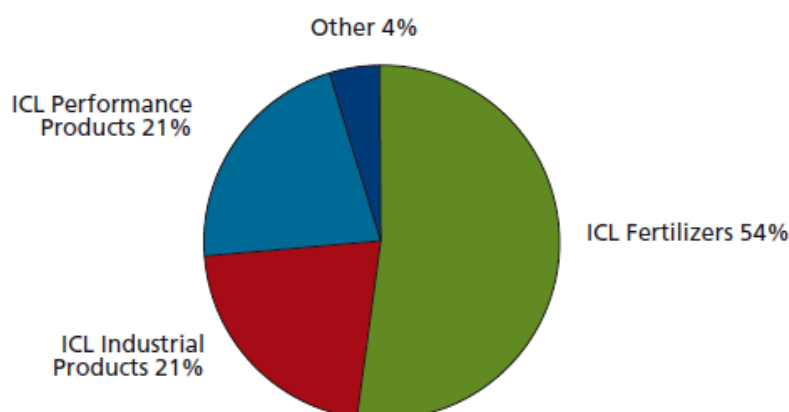
2.1.5 Changes in the management of the company's business

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

2.2 Areas of operation

The following is a description of the revenue of ICL in 2011, by segments

Total sales in 2011 - \$7.1 billion³



The following is a description of the business segments:

³ For the purpose of this graph, the revenue data for the segments used for calculating the proportion of total revenue include revenue from external sources only.

- A. **ICL Fertilizers:** ICL Fertilizers produces potash from the Dead Sea and extracts and produces potash and salt from underground mines in Spain and England. ICL Fertilizers refines potash into various grades and sells it worldwide. In addition, the segment uses a portion of its production of potash to manufacture compound fertilizers. In 2011, potash represented approximately 60% of the segment's sales.

In addition, ICL Fertilizers mines and processes phosphate rock from open-pit mines in the Negev Desert, and produces in Israel sulfuric acid, fertilizer-grade phosphoric acid, phosphate fertilizers, compound fertilizers based primarily on potash and phosphate, liquid fertilizers and soluble fertilizers. ICL Fertilizers also produces compound fertilizers in Holland, Germany and Belgium, liquid fertilizers and soluble fertilizers in Spain, slow release and controlled release fertilizers in Holland and the United States and phosphate-based animal feed additives, in Turkey and Israel. ICL Fertilizers markets its products worldwide, primarily in Europe, Brazil, India, China, and Israel.

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

- B. **ICL Industrial Products:** ICL Industrial Products ("ICL-IP") produces elemental bromine from an end-brine that is created as a by-product of the production process of potash in Sodom and produces bromine-based compounds. In 2011, ICL-IP was the world's leading producer of elemental bromine (see section 4.2.7). In that year, ICL-IP produced approximately a third of the world's production of this product. During 2011, ICL-IP used approximately 76% of the bromine it produced for its own production of bromine compounds in its production facilities in Israel, the Netherlands and China.

Additionally, ICL-IP produces flame retardants and other phosphorus-based products at production sites in the USA and Germany.

ICL-IP also produces various salt products, magnesia and chlorine (produced together with caustic soda by electrolysis of salt which is created as a by-product of potash production, and which serves as a raw material in the segment's production processes) in Israel.

ICL-IP also manufactures chlorine-based products for water treatment in the United States and Ireland.

ICL-IP markets its products worldwide.

- C. **ICL Performance Products:** ICL Performance Products ("ICL-PP") purifies some of the fertilizer-grade phosphoric acid produced by ICL Fertilizers, purchases pure phosphoric acid from other sources, and also produces thermal phosphoric acid and uses the pure phosphoric acid to produce downstream products with high added value – phosphate salts, which are also a raw material in the production of food additives, the production of hygiene products and the production of products for preventing the spreading of fires and for extinguishing them. ICL-PP also produces phosphorus derivatives based on elemental phosphorus purchased from outside sources as well as specialty products based on aluminum oxide ("alumina") and other raw materials. ICL-PP production takes place at production facilities in Europe and specifically in Germany, in the United States, Brazil, Israel, China and other countries. The products based on specialty phosphates represented approximately 75% of ICL-PP sales in 2011.

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

For further details about these other operations see section 4.5 below.

2.3 Capital investment in the corporation and transactions in its shares

During the course of 2010 and 2011, the following changes occurred in the share capital of the Corporation:

- A. In 2007, ICL issued 11,800,000 non-negotiable options for no consideration to officers and senior employees.

In 2010, 4,678,849 options were exercised for 2,945,485 shares. In 2011, 2,991,740 options were exercised for 1,929,779 shares. In 2012, up to the date of this report, 2,156,596 options were exercised for 1,667,327 shares.

On January 7, 2010 the board of directors of ICL approved an allotment of 10,930,500 non-negotiable options, for no consideration, to officers and senior employees. Of this quantity, 800,000 options were allotted to the chairman of the board of directors following the approval of the special general meeting held on February 15, 2010. For further details, see Note 25 c (4) to the Financial Statements.

For this issue, see section 5.2(E) below.

- B. To the best of ICL's knowledge, and based on reports received from the shareholders, in 2010 and 2011, and subsequent to the balance sheet date, there were no material transactions in ICL shares, other than the following:

Potash Corporation of Saskatchewan (PCS), an interested party in ICL, reported to ICL that it had purchased, on an off-floor transaction, ordinary shares of ICL, as follows:

Date	Number of shares	Share price (NIS)	Total consideration (NIS millions)
January 26, 2010	8,000,000	49.90	399.2
January 27, 2010	5,940,000	49.57	294.4
February 5, 2010	18,500,000	47.00	869.5

Subsequent to these purchases, PotashCorp holds 13.9% of the share capital of ICL.

On January 25, 2010, Israel Corporation sold 8,000,000 ordinary shares of ICL representing 0.63% of the share capital, at a share price of NIS 49.4, for a total consideration of NIS 395,000,000.

On December 16, 2010, Israel Corporation acquired 985,026 ICL shares from the CEO of ICL, in an off-floor transaction, in consideration for NIS 57,920 thousand. These shares originate in the exercising of 1,466,667 stock options. The exercise took place on that date.

On January 29, 2012, Israel Corporation acquired 733,333 shares of ICL from Akiva Mozes, CEO of the Company, in consideration for NIS 29,187,000, in an off-floor transaction. These shares originate in the exercise of 733,333 stock options. The exercise took place on that date.

Subsequent to the acquisitions, and as at the Report Date, the Israel Corporation holds 52.3% of ICL's share capital.

2.4 **Distribution of dividends**

2.4.1 **Details regarding the distribution of a cash dividend in the past two years:**

Announcement date	Distribution amount
	\$ millions
March 23, 2010	155
May 24, 2010	668
August 23, 2010	177
November 22, 2010	170
March 27, 2011	170
May 15, 2011	195
August 16, 2011	298

On March 26, 2012, the board of directors of ICL resolved to distribute a cash dividend of \$260 million to be distributed on April 30, 2012.

The total retained earnings available for distribution as at December 31, 2011, after deducting the amount to be distributed as dividend, is approximately \$ 2,439 million.

All of the dividends distributions noted above were made from profits and did not require court approval. The amounts are before deduction of the share of a subsidiary. The board of directors of the Company determined before each distribution of dividends that the distribution meets the profit test and the ability of repayment test as established in section 302 of the Companies Law.

For details regarding covenants to banks for preservation of share capital, see note 18 D to the Financial Statements.

2.4.2 Dividend distribution policy

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

On May 24, 2010, the board of directors of the Company once again discussed the Company's future dividend policy. During the meeting, it was decided that in view of the Company's financial situation, a one-time dividend of \$500 million would be distributed, and the policy concerning the distribution of a quarterly dividend of up to 70% of net profit, would be redefined. For further details, see an Immediate Report from May 25, 2010 (ref. 2010-01-492390).

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

Year	Dividend Yield (%)⁴
2001	4.0
2002	4.8
2003	4.5
2004	4.5
2005	3.6
2006	6.4
2007	3.5
2008	5.9
2009	3.9
2010	7.0
2011	5.9

⁴ Dividend yield – the total dividend per share in NIS distributed from the relevant year's profits, divided by the average price per share on the TASE during that year.

Chapter 3 – Other Information

3.1 Financial Information Regarding the Corporation's Areas of Operations

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

2011 (\$ thousands)									
	ICL Fertilizers				ICL-IP	ICL-PP	Other	Unattributable setoffs	Consolidated
	Potash	Phosphate	Setoffs	Total					
Revenue:									
Revenue from external sources	<u>2,284,707</u>	<u>1,551,412</u>	=	<u>3,836,119</u>	<u>1,498,482</u>	<u>1,430,345</u>	<u>302,888</u>	=	<u>7,067,834</u>
Revenue from sales to other segments	<u>221,451</u>	<u>154,493</u>	<u>(114,416)</u>	<u>261,528</u>	<u>14,532</u>	<u>64,475</u>	<u>40,992</u>	<u>(381,527)</u>	=
Total revenues	<u>2,506,158</u>	<u>1,705,905</u>	<u>(114,416)</u>	<u>4,097,647</u>	<u>1,513,014</u>	<u>1,494,820</u>	<u>343,880</u>	<u>(381,527)</u>	<u>7,067,834</u>
Breakdown of revenues	<u>35.5%</u>	<u>24.1%</u>	<u>(1.6%)</u>	<u>58.0%</u>	<u>21.4%</u>	<u>21.1%</u>	<u>4.9%</u>	<u>(5.4%)</u>	<u>100%</u>
Costs:									
Expenses representing revenue of other Company segments	<u>34,618</u>	<u>178,953</u>	<u>(114,544)</u>	<u>99,027</u>	<u>108,240</u>	<u>126,023</u>	<u>48,237</u>	<u>(381,527)</u>	=
Other costs	<u>1,289,555</u>	<u>1,305,688</u>	=	<u>2,595,243</u>	<u>1,107,062</u>	<u>1,175,907</u>	<u>257,122</u>	<u>6,535</u>	<u>5,141,869</u>
Total costs	<u>1,324,173</u>	<u>1,484,641</u>	<u>(114,544)</u>	<u>2,694,270</u>	<u>1,215,302</u>	<u>1,301,930</u>	<u>305,359</u>	<u>(374,992)</u>	<u>5,141,869</u>
Operating profit	<u>1,181,985</u>	<u>221,264</u>	<u>128</u>	<u>1,403,377</u>	<u>297,712</u>	<u>192,890</u>	<u>38,521</u>	<u>(6,535)</u>	<u>1,925,565</u>
Breakdown of operating profit	<u>61.6%</u>	<u>11.5%</u>	<u>0.0%</u>	<u>73.1%</u>	<u>15.5%</u>	<u>10.1%</u>	<u>1.6%</u>	<u>(0.3%)</u>	<u>100%</u>
Fixed operating costs	<u>743,534</u>	<u>601,643</u>	<u>(10,124)</u>	<u>1,335,053</u>	<u>529,496</u>	<u>479,818</u>	<u>98,216</u>	<u>(13,953)</u>	<u>2,428,629</u>
Variable operating costs	<u>580,639</u>	<u>882,998</u>	<u>(104,420)</u>	<u>1,359,217</u>	<u>685,806</u>	<u>822,112</u>	<u>207,143</u>	<u>(361,039)</u>	<u>2,713,240</u>
Total assets at December 31, 2011	<u>1,843,039</u>	<u>1,498,290</u>	<u>(71,313)</u>	<u>3,270,016</u>	<u>1,643,301</u>	<u>994,566</u>	<u>184,621</u>	<u>1,190,594</u>	<u>7,283,098</u>
Minority interest in revenue from external sources	-	<u>6,175</u>	-	<u>6,175</u>	<u>8,366</u>	<u>10,415</u>	-	-	<u>24,956</u>

2010 (\$ thousands)									
	ICL Fertilizers				ICL-IP	ICL-PP	Other	Setoffs	Consolidated
	Potash	Phosphate	Setoffs	Total					
<u>Revenue:</u>									
Revenue from external sources	1,956,879	931,829	-	2,888,708	1,298,513	1,287,247	217,069		5,691,537
Revenue from sales to other segments	183,810	124,511	(89,774)	218,547	14,679	52,781	28,933	(314,940)	-
Total revenues	2,140,689	1,056,340	(89,774)	3,107,255	1,313,192	1,340,028	246,002	(314,940)	5,691,537
Breakdown of revenues	37.6%	18.6%	(1.6%)	54.6%	23.1%	23.5%	4.3%	(5.5%)	100%
<u>Costs:</u>									
Expenses representing revenue of other segments of the Company	25,180	140,808	(88,408)	77,580	90,875	102,795	43,690	(314,940)	-
Other costs	1,257,595	806,949	0	2,064,544	1,015,718	1,052,166	187,120	25,862	4,345,410
Total costs	1,282,775	947,757	(88,408)	2,142,124	1,106,593	1,154,961	230,810	(289,078)	4,345,410
<u>Operating profit</u>	<u>857,914</u>	<u>108,583</u>	<u>(1,366)</u>	<u>965,131</u>	<u>206,599</u>	<u>185,067</u>	<u>15,192</u>	<u>(25,862)</u>	<u>1,346,127</u>
Breakdown of operating profit	63.7%	8.1%	(0.1%)	71.7%	15.3%	13.7%	1.1%	(1.9%)	100.0%
Fixed operating costs	746,243	411,733	(7,520)	1,150,456	452,065	429,999	100,836	(0)	2,133,356
Variable operating costs	536,532	536,024	(80,888)	991,668	654,528	724,962	129,974	(289,078)	2,212,054
Total assets at December 31, 2010	1,691,488	852,107	(91,184)	2,452,411	1,540,411	866,191	190,252	1,336,630	6,385,895
Minority interest in revenue from external sources	-	4,348	-	4,348	8,755	10,416	-	-	23,519

	2009 (\$ thousands)								
	ICL Fertilizers				ICL-IP	ICL-PP	Other	Setoffs	Consolidated
	Potash	Phosphate	Setoffs	Total					
Revenue:									
Revenue from external sources	1,264,567	689,174	-	1,953,741	1,003,982	1,293,539	303,054	-	4,554,316
Revenue from sales to other segments	<u>164,46</u>	<u>98,537</u>	<u>(70,136)</u>	<u>192,866</u>	<u>11,099</u>	<u>34,505</u>	<u>35,895</u>	<u>(274,365)</u>	-
Total revenue	1,429,032	787,711	(70,136)	2,146,607	1,015,081	1,328,044	338,949	(274,365)	4,554,316
Breakdown of Revenues	31.4%	17.3%	(1.5%)	47.1%	22.3%	29.2%	7.4%	(6.0%)	100.0%
Costs									
Expenses representing revenue of other segments of the Company	35,668	105,254	(73,715)	67,207	75,410	82,507	49,241	(274,365)	-
Other costs	<u>685,293</u>	670,984	-	<u>1,356,277</u>	<u>918,820</u>	<u>1,082,791</u>	<u>260,414</u>	<u>(2,159)</u>	<u>3,616,143</u>
Total costs	720,961	776,238	(73,715)	1,423,484	994,230	1,165,298	309,655	(276,524)	3,616,143
Operating profit	<u>708,071</u>	<u>11,473</u>	<u>3,579</u>	<u>723,123</u>	<u>20,851</u>	<u>162,746</u>	<u>29,294</u>	<u>2,159</u>	<u>938,173</u>
Breakdown of Operating profit	75.5%	1.2%	0.4%	77.1%	2.2%	17.3%	3.1%	0.2%	100.0%
Fixed operating costs	<u>408,513</u>	<u>394,088</u>	-	<u>802,601</u>	<u>478,416</u>	<u>470,801</u>	<u>85,548</u>	<u>(10,439)</u>	<u>1,826,927</u>
Variable operating costs	<u>312,448</u>	<u>382,150</u>	<u>(73,715)</u>	<u>620,833</u>	<u>515,814</u>	<u>694,497</u>	<u>224,107</u>	<u>(266,085)</u>	<u>1,789,216</u>
Total assets as at December 31, 2009	<u>1,904,870</u>	<u>893,906</u>	<u>(75,195)</u>	<u>2,723,581</u>	<u>1,441,332</u>	<u>876,876</u>	<u>228,695</u>	<u>637,105</u>	<u>5,907,589</u>
Minority interest in revenue from external sources		<u>4,904</u>		<u>4,904</u>	<u>7,565</u>	<u>8,324</u>			<u>20,793</u>

* Including costs not allocated to the segments

B. Explanation of changes and developments

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

3.2 General Business Environment and Influence of External Factors on ICL

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

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

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

3.2.3 Most of ICL's loans bear variable interest rates. Therefore, the Company's cash flow is exposed to risks due to fluctuations in interest rates. The Company partially hedges against such exposure by using financial hedging instruments including financial derivatives. For the amount of such hedging activities in 2011, see Note 28 to the Financial Statements.

3.2.4 Energy expenses in 2011 represent approximately 8% of the total production costs of ICL. Of the energy costs, the cost of oil and oil products, electricity and natural gas represent approximately 26% (\$100 million), 45% (\$177 million), and 20% (\$78 million), respectively. In tandem with a gradual increase in the use of natural gas, energy costs as a percentage of total production costs are declining and the mix of these costs is changing. Energy prices were higher in 2011 than in 2010. However, the increase in the use of natural gas in plants in Israel moderated the effect of the higher energy prices on the Company's results.

Carnallite is produced at the Dead Sea using one of the world's largest solar evaporation systems. The use of solar energy to produce carnallite contributes to lower production costs for ICL Fertilizers compared to its competitors.

At the beginning of December 2009, the project to lay a gas pipeline to Sodom was completed. The pipeline is used for generating electricity at the DSW power station at Sodom and for heating and drying processes at the Sodom plants' product ovens. During the Report Period, conversion of the Sodom plants to gas continued. At the date of the report, the conversion of 91% of the Sodom facilities that had been planned for conversion was complete.

As from the first quarter of 2011, ICL plants at Mishor Rotem started to connect to the natural gas pipeline. At the approval date of the reports, 80% of ICL plants at Mishor Rotem converted to use of natural gas. The bromine plant at Ramat Hovav is in the final stages of conversion and obtaining a permit to use natural gas.

At the approval date of the reports, 85% of ICL plants in the south of Israel have converted to use of natural gas.

For information about acquisition agreements for natural gas, and the reduction in gas supply at the end of the period, see section 4.1.18 (e) below.

The shift to natural gas is significantly reducing pollutants in the vicinity of the plants, improving the product quality, reducing maintenance expenses and bringing about a significant financial savings as a result of moving from more expensive fuels.

3.2.5 In 2011 and 2010, ICL's shipping expenses amounted to approximately 8% of the total operational costs of ICL. In 2011, the Company's shipping costs amounted to approximately \$435 million.

In recent years, bulk shipping prices have been extremely volatile. Bulk transportation prices started to decline in the fourth quarter of 2010, and this trend continued in 2011. . In 2011, the average Baltic dry index (BDI) was 1,577 points compared to an average 2,763 points last year, representing a decrease of 44%. The chart below shows the development of the index in recent years from 2000 until the end of 2011.

The Baltic Dry Index



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

3.2.6 Most of ICL's sales are in foreign currency, mainly US dollars and Euro. Part of its operating expenses in Israel are in NIS. Therefore, a devaluation of the NIS relative to the US dollar has a positive impact on ICL's profitability and revaluation has the opposite effect. A devaluation of the average Euro exchange rate against the dollar has a negative impact on ICL's profits and a revaluation has the opposite effect. In contrast, a devaluation of the Euro against the US dollar improves the competitive ability of ICL's subsidiaries whose operations are in Euro, in contrast with their competitors who operate in dollars. A weaker dollar relative to the shekel during the Report Period, compared with the corresponding period last year, has a negative impact on ICL's operating profit by approximately \$35 million, and a positive impact on financing expenses by about \$34 million. ICL hedges some of its aforementioned foreign currency exposure.

The following are developments in exchange rate of the shekel and the euro compared with the US dollar:

Exchange rate shekel/ \$

Exchange rate euro / \$



- 3.2.7 For explanations of the business environment of operating segments, see sections 4.1, 4.2 and 4.3.

3.3 **Corporate Social Responsibility (CSR)**

- 3.3.1 Corporate social responsibility is a voluntary policy adopted by corporations wishing to manage their businesses while taking into account the interests of the stakeholders who are linked to the corporation.⁵

ICL adopted the CSR policies and adapted its strategy and activities to this policy. ICL believes that applying this policy will lead to **sustainable activity and development**, for the next generations.

In 2011, ICL published a Corporate Responsibility Report for 2010, in accordance with the international reporting principles of the Global Reporting Initiative (GRI).⁶ This report summarizes the Company's activities for social, economic and environmental issues, is designed to reinforce the ties between the Company and stakeholders and the general public, and is part of the strategy to create full transparency in its operations. This is the first report published by the Company that includes all the major ICL plants in Israel and other countries.

The CSR policy, as reflected in the Corporate Responsibility Report for 2010, which the Company published is based on three main principles:

A. **Economic responsibility:**

- i. In this framework, ICL operates to **maximize, in the long term, its profits for the benefit of its shareholders, taking into account the benefit of other stakeholders**, such as the Company's employees, suppliers, customers and creditors.
- ii. **Transparency:** As a public company, ICL operates in accordance with several relevant laws, regulations and guidelines, with full transparency, from economic aspects as well as from social and environmental aspects.

For further information see the Company's immediate report of November 22, 2011, ref. 2011-01-334563
- iii. ICL strives for continuous improvement, while complying with the law and **beyond compliance**, and in cases where there is no legislation, in compliance with standards and accepted and leading practices in the industry around the world.
- iv. ICL applies a policy of efficient and effective use of resources, while minimizing waste and effluent where possible. ICL believes that this is compatible with its economic goals and operates a system of training and regulations to apply this policy.
- v. In addition, ICL acts to use the **Best Available Economic Technologies**⁷ in order to comply with regulatory requirements.

B. **Environmental responsibility and environmental risk management**

1. Sustainable development policy: This policy includes the following issues:

⁵ Stakeholders are all the entities (private and corporations) that affect or are affected by the operations of the organization, such as employees, the local community, customers, suppliers and shareholders.

⁶ **Global Reporting Initiative** is the accepted and common standard in the world for reporting on corporate social responsibility and sustainability. The principles of GRI aim to formulate an accepted reporting method for the three layers of CSR: economic, social and environmental.

⁷ "Best available economic technological measures" are defined by law as follows: The best technology currently available for the prevention of hazards and nuisances and for the prevention of contamination of water sources, currently in use and economically implementable – section 1 of the Business Licensing (Concentrations of Salts in Industrial Effluent) Regulations, 5763-2003.

- a. **Responsible use of natural resources**, including land resources, restoration of river beds, restoration and preservation of mining and quarrying areas, and restitution of them to the State at the end of operations for the land zoning uses determined by the State, and in accordance with the relevant statutory provisions.
 - b. **Reduction at source (upstream), of quantities of waste generated by ICL companies and increased recycling of recyclable waste**, This activity is done in ongoing cooperation with manufacturers, suppliers, research institutes, customers and other users in order to develop and implement of methods for safe production and use of products, while reducing and preventing harm to users and the environment.
 - c. **Safe transportation** – selecting and training responsible carriers, use of emergency systems to handle transportation failures, strict compliance with safe and standardized packaging and strict compliance with proper and adequate transportation measures.
 - d. ICL applies a **green building procedure** in plants and offices.
2. **Measuring reduction of emissions and greenhouse gases (GHG)**: ICL is striving to become an Israeli leader in reduction of emissions in general and greenhouse gas (GHG) emissions in particular. The Company's actions in this regard are being effected on two levels: One is to reduce emissions in production processes (**including conversion to natural gas**, replacement of shielding gas in magnesium production, energy efficiency and other reduction activities) and the other is to develop new products that contribute to reduction of emissions. Pursuant to this policy, the Company annually measures the balance of GHG emissions in most of its production plants and offices worldwide and measures the carbon footprint of over 35 of its products (in terms of CO₂e/ton). The Company continues to consistently expand this measurement to other products.

In recent years, two ICL plants implemented projects to reduce greenhouse gas emissions as part of the Clean Development Mechanism (CDM), under the auspices of the United Nations. In this context, these plants, which implemented activities to reduce emissions, earned certified emission reduction (CER) credits for developing countries.

In the report to the Carbon Disclosure Project (CDP), the leading international reporting mechanism which collects information about climatic change from more than 3,000 companies worldwide, ICL reported its greenhouse gas balance in 2010, and described in detail how the organization addresses climatic change. ICL's high level of transparency achieved a score of 90 (out of 100). Accordingly, ICL has been included in the Carbon Disclosure Leadership Index. Additionally, in the past year, ICL was one of the first companies to voluntarily report its GHG emissions to the Ministry of Environmental Protection, for which it received an award from the Minister.

3. ICL applies a policy of responsible product management throughout the product life cycle (**Product Stewardship**). In this context, ICL acts to develop and improve products and to minimize risks and exposure to materials during their life cycle, complies with regulations and has a system for handling emergencies in and out of the plants. ICL Fertilizers has accepted the offer of the International Fertilizer Industry Association (IFA) to participate in a global pilot to implement the program. In 2011, the IFA conducted audits at DSW and Rotem Amfert Negev and awarded the Company product stewardship certification with honor.
4. **Responsible care**: In addition, ICL has voluntarily adopted the Responsible Care policy, the international chemical industry's flagship program for chemical management and handling of chemicals, with the aim of improving the companies' performance in occupational safety and health and in the environment. The program is run by the ICCA – the International Council for Chemicals Associations, in which associations from 53 countries around the world are members, including the Israeli Manufacturers Association.

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

ICL adopted the charter of principles set out by the leaders of the global chemical industry to regularize the activities of the global chemical industry in the next few years, according to the Responsible Care policy – called the **Responsible Care Global Charter**. The principles include: responsibility for management along the product life cycle - Product Stewardship (see definition above), responsibility for management of environmental risk along the supply chain, increased transparency along the supply chain, contribution to sustainable development, increased dialog with interested parties, instilling a management system, external controls, etc.

5. ICL-IP has adopted the **Voluntary Emissions Control Action Program (VECAP)**, based on the principles of ISO 14001. VECAP aims to reduce environmental emissions of flame retardants. The program includes reduction of environmental emissions of flame retardants in the production state and down the supply chain, namely, when the product is used. Under VECAP, ICL-IP secures commitments to the program from its relevant customers. This partnership in the industrial supply chain, involves mainly small and medium enterprises (SMEs) in the plastic and textile industries in Europe and North America. Customers using flame retardants to manufacture end products review their production processes, quantify the loss of material using a mass balance approach, diagnose the reason for the loss (into the atmosphere, water and soil), and prepare an improvement plan to prevent environmental emissions. ICL-IP provides customer training for optimal courses of action and supports customers by providing information and professional guidance. Since 2009, an independent professional conducts audits and grants VECAP certification.
6. Meeting standards of safety and environment is one of the criteria in compensating the managers.
7. ICL takes steps to reduce, monitor and manage the environmental risks that its operations entail. These activities are done in cooperation with the authorities, with employees, suppliers and customers, In order to assist in this activity; ICL is implementing a module for control of hazardous substances using ERP software.

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

In 2011, ICL spent about \$106 million on issues related to the environment and environmental conservation. Out of this sum, ICL invested approximately \$39 million in plant and equipment for the prevention of environmental hazards, and approximately \$67 million as a current expense in this area.

In 2012, ICL expects to spend a sum of approximately \$136 million in these areas, of which \$68 million will be in an investment in plant and equipment and about \$67 million will be as a current expense for the same purposes. It is also expected that beyond 2012 there will not be a drop in the amount of these costs⁸.

The Company included in its financial statements a provision of about \$1 million in respect of legal or administrative proceedings related to the environment.

C. **Social responsibility**

1. **Occupational safety and health:** Industrial production in general, and treatment of hazardous substances and production at high pressures and temperatures in particular, are dangerous and require special precautionary measures. Some ICL products and raw materials for production and production processes are characterized by a high risk to anyone who may be exposed to them. To ensure the safety of the employees and other people in its plants, ICL is required to comply with safety standards and requirements, which are prescribed by local laws and international and

⁸ Assessments regarding the projected costs and expenses constitute forward-looking statements, and are based on legislation and regulation currently in effect, on governmental requirements known at present and on investment estimates made by Company engineers. The realization of these estimates cannot be certain. Any change in these estimates, including changes in the estimates made by the Company's engineers or changes in adoption of governmental requirements or legal rulings may cause different results than those stated above.

local standards. ICL constantly invests in occupational safety and health measures, with the aim of preventing accidents and out of constant concern for the Company's employees.

ICL set itself a goal of **zero accidents**. A multi-year goal reflects constant striving in each company towards safety improvement and excellence, with the aim steadily reducing the number of accidents and near accidents, and the routine measures for improving the conditions and level of occupational safety.

ICL's policy in this area includes the following objectives and goals:

- Implementation of focused procedures to achieve the goal of zero accidents, including a Task Safety plan and a Safety First plan.
- Continuation of the implementation of an operational risk management methodology (ORM) to manage and prevent safety risks.
- A **comprehensive training system and control of authorizations** for employees, service providers and contractor employees for safety.
- Environmental **occupational safety monitoring checks** in work areas as required under the regulations and beyond, in order ensuring the health of employees.
- Implementation of processes for **assessing health risks** in order preventing exposure of employees to hazardous products and processes at factories.
- **Periodic medical checks for employees and operation of a system for occupational medicine** and preventative medicine inside the factories, in cooperation with hospitals and experts in occupational and preventative medicine
- Inter-company activities for **increasing awareness and drawing conclusions**, feedback and encouragement of plans and ideas.
- Development of a computerized control system for safety and health management in companies, with emphasis on training for all employees, according to the professional profile of the employees.
- Establishment of an inter-plant emergency system, to provide an appropriate solution during emergencies in the industry and during natural disasters.
- Performance of updated risk surveys of all the events that may affect companies if they occur, with the support of external consultants

The boards of directors of the segments, as well as the safety committees in the segments and the plants, periodically examine safety achievements and events, and the extent to which targets set in view of the segments' safety policy are met.

The segments implement a safety and health enforcement plan and there are internal and external audits to ensure compliance with the provisions of the law and ICL's regulations.

2. **Joint forums with the community:** As part of the community discourse with interested parties, ICL companies initiated **community advisory panels (CAP)** for factory representatives together with community representatives and environmental organizations, in which issues of environmental protection are discussed and joint ventures implemented in various areas for the benefit of the public. The first forum in Israel was set up at the Bromine Compounds factory in the ICL-IP segment more than eight years ago. After that, other forums were set up, including the DSW forum (ICL Fertilizers) and the magnesium forum, with the involvement of residents of the area. One of the resolutions that were implemented is the establishment up of a monitoring station at Neot Hakikar, financed by the factories, with the option being given to all residents to view the monitoring results on the website. In addition, 900,000 square meters of land south of the concession area were also transferred for agricultural cultivation to one of the moshav communities in the area. These dialogues lead to alliances, transparency and establishment of trust for the benefit of the public and the plants.
3. **Security:** Since there are many hazardous substances and valuable property at ICL plants, security at the plants and facilities is extremely important. The security policy at

ICL companies is based on implementation of Israeli and international guidelines, statutes and regulations, and, as far as possible, beyond the requirements of the guidelines of authorities as well (beyond compliance). Security operations are effected in cooperation with local security forces (including the police and the army), in the Company's areas of operation. In 2008, ICL began expanding its security system at its plants in Israel.

ICL's Board of Directors has accepted the proposal of the Israel Police for voluntarily implementation of the Organization of Security in Public Bodies Law in ICL companies in Israel.

3.3.2 Community Involvement of the ICL Group

In 2001, the board of directors of ICL formulated a strategic policy of involvement and investment in the society and the community. Accordingly, the yearly budget of donations to the community is approved. Each investment or donation is reviewed by the donations committee of the board of directors and joint operations teams of ICL and other companies in the Israel Corporation Group which promote joint social activities. ICL focuses its community involvement in the development areas of the Negev, in Dimona, Yerucham, Arad, Beer Sheba and the Bedouin settlements in the Negev, as well as in the North of Israel in Kiryat Ata and Isfiya – all areas where most of the employees live, whose welfare and that of the community is of special importance to ICL.

ICL focuses its activities on children and youth with handicaps, women and children at risk, populations in harsh socioeconomic conditions and populations in need and with special medical needs, as well as on education and excellence of pupils in the fields of chemistry, computing, young entrepreneurship and acquaintance with industry.

Following is a description of the main projects that ICL, its managers, employees, their children and ICL's pensioners are involved in:

In 2001, a donation was approved for a national flagship project involving the adoption of a network of clubs for children at risk aged 6-13. .

The children's club project is run and financed by the local authorities together with the Ministry of Welfare and Ministry of Education, and includes the development and upkeep of the clubs, both by material means, and by providing education content and values by means of active and close contact of ICL employees and retirees and their participation in club activities. Each of the principal ICL companies adopted a specific town in the Negev or the North of the country, and each production facility or department of each company adopted one of the clubs in the company's adopted town. The connection is on a warm, personal basis, and employees act as tutors, friends and leaders and represent the figure that these children often lack. These clubs are a therapeutic framework, a model for the organized home and functional family, intended for children aged 6 – 13. The children who attend these clubs are defined as being at risk, whose parents are unable to look after them during the day for various reasons – financial, violence, neglect, dysfunction, and so on and they are referred to the clubs by the Ministry of Welfare and the local authorities.

The project kicked off with the adoption of six pilot clubs adopted in 2001 in Yeruham, Beer Sheva, Dimona, Arad, Kiryat Ata and Haifa, which are near ICL plants, and has grown steadily. ICL's clubs now also include activities for older children. In this context, ICL is also adopting the Beer Sheva branch of the Down's Syndrome Children's Association, as well as "warm homes" for girls in distress in Beer Sheva, Dimona and Arad, in the Bedouin community in the Negev and in Isfiya.

The active contribution includes work by teams of employees – repairs to the club buildings, setting them up, environmental development, donations of computers, domestic appliances, games and books, as well as enrichment activities, hikes, and activities on holidays and vacations.

In 2011, ICL manages and employees adopted about 60 clubs. The amount of the support was approximately NIS 2.8 million directly, which was used to fund enrichment activities, trips and events. In addition, thousands of volunteer hours were donated by employees, some in the spare time of employees, retirees and their families.

From 2005 to 2007 and 2009 to 2011, the board of directors of ICL approved donations to the Alut Association for the construction of permanent housing for autistic youth and teenagers in Be'er Sheva. The first two buildings of "Kfar Hairusim" were opened at the beginning of 2009 and are already inhabited. At the end of 2009, the board of directors of ICL decided to add NIS 3 million, as aid to the completion of "Kfar Hairusim" in Be'er Sheva adding another two residence buildings a workshop and a dining hall. The donations will be spread over 3 years from 2009 to 2011, so that

ICL's contribution will reach a total of NIS 6.75 million. In 2011, ICL transferred a further NIS 1 million for the construction of an ALUT home for autistic adolescents in Be'er Sheva.

In 2011, ICL donated NIS 1 million to Soroka Hospital in Be'er Sheva. For the past ten years, once a year, the donation collected is used for the construction, development and equipping of one of the hospital's departments. In the summer months, the children of employees assist in various activities and tasks in the hospital, in clubs and in other community activities, in cooperation with the municipalities. The children are paid by ICL companies.

ICL companies convert the holiday gifts (New Year and Passover) traditionally distributed to colleagues and other external entities, into hundreds of food parcels and gift vouchers to needy families in the development towns of the Negev, and distribute parcels, in cooperation with the "Haim" society, to children with cancer who are hospitalized or in the daily care of the Soroka Medical Center in Be'er Sheva.

ICL also assists and contributes both money and money equivalents to various support organizations operating in the south of the country. These include the "Haim" society for children with cancer and their families, "Al-Sam" in Be'er Sheva, "Nitzan" for children with learning difficulties, the Bat Dor Dance Company for children in Be'er Sheva, the Arad branch of the Cancer Association, equipment for "Yad Sarah" in Be'er Sheva, food parcels for the needy in Be'er Sheva, Dimona, Arad and Yeruham at holiday times, "B'Terem", an organization promoting children's safety, an aid fund for new immigrants in the Negev, and other associations and activities operating in the towns and communities of ICL employees in the Negev. In 2011, ICL continued to increase its support for the Bedouin population in the Negev, including setting up a club in Rahat and is active in empowerment activities for youth and students. Activity in the Bedouin community in 2011 accounted for about NIS 1.2 million.

ICL promotes activity for the support of women, at the Be'er Sheva branches of the "Inbal" and "Maslan". In August 2008, a donation of about NIS 2 million was approved over five years to Inbal and Maslan (in equal parts). Inbal is a support center for child victims of sexual abuse, and Maslan supports and helps rehabilitate battered women and women who are victims of violence and sexual abuse.

Another area of education in which ICL is actively involved is the encouragement of chemistry studies among high school students, in cooperation with the Weizmann Institute of Science, including competitions, tours and other events, at a cost of NIS 400,000.

The ICL group of companies, together with the Association for the Wellbeing of Israel's Soldiers (AWIS) adopts several IDF units and bases (including, as part of the Adopt a Soldier program, the Bedouin reconnaissance battalion), organizes joint activities and contributes to the wellbeing of the soldiers.

Employees and managers of ICL companies are actively involved in public bodies in the community at Yeruham, Be'er Sheva, Dimona and Arad and organizations from the Third Sector operating in the Negev. ICL pensioners are also involved in Youth Club activities, Yated and other voluntary bodies.

ICL participates in projects to promote culture and conserve the environment and encourages its employees to volunteer the advance these causes. In 2011, ICL participated in the following activities:

- Activities to conserve birds of prey and prevent their becoming extinct in the Negev area (in conjunction with the Israel Nature and Parks Authority).
- Initiated Clean-up of the main traffic artery in the Aravah from the DSW plant to Eilat.
- Setting up refreshment stations on holiday eves and the intermediate days of Passover and Sukkot on the Aravah road.
- Maintaining roads to the nature and landscape preserves in the Negev (the hiking path to Hor Hahar, to the Machtsh Hakatan and to Ein Zin.)
- Assistance to hikers in its areas of operations.
- Assistance to local cultural events including hikes, bicycle rides especially of various associations of handicapped people, off the road treks and cultural events
- During the summer holidays, the children of employees are stationed help out in the Soroka hospital, old age homes and clubs.

In 2010 ICL agreed to donate NIS 7.5 million to establish a school for “sustainability” at the interdisciplinary College in Herzliya. The parties to the agreement are the Israel Corp., the Oil Refineries Ltd. and ICL. ICL will participate in the financing up to 2013.

At the end of 2010, during the Carmel Forest fire, ICL assisted the State of Israel by supplying flame retardants from its overseas plants to spray the fire from the air, in an amount of approximately NIS 3.6 million.

In April 2011, the Deputy Attorney General of Israel issued draft regulations for contributions to local authorities with guidelines for procedures that the local authorities should apply and considerations to be weighed prior to accepting contributions from commercial entities. ICL operates in compliance with the draft guidelines. In respect of the clubhouse project described above, ICL applied to the Deputy Attorney General for a clarification regarding the applicability of the draft regulations to its participation in financing this activity.

The total financial contributions of ICL in 2011 amounted to approximately NIS 18 million (compared to NIS 20 million in the previous year, which included the cost of firefighting assistance in the Carmel fire). This sum does not include the many volunteer hours donated by its employees.

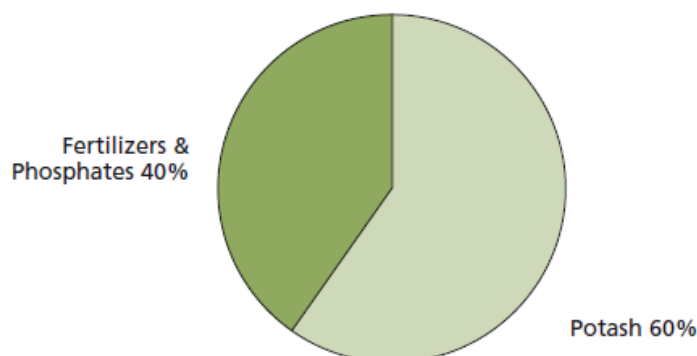
Chapter 4 – Description of the Corporation’s Business by Area of Activity

4.1 ICL Fertilizers

4.1.1 General information about ICL Fertilizers

The chart below presents the external sales⁹ of ICL Fertilizers, by product:

Total external sales for 2011 – \$3,836 million



A. Description of operations

ICL Fertilizers develops, manufactures, markets and sells fertilizers that are based primarily on potash (potassium chloride) and phosphate. In 2011, sales of ICL Fertilizers totaled \$4.1 billion, representing about 58% of the total sales of ICL (including sales to other segments of the Company). The major products of ICL Fertilizers are potash, phosphate rock, sulfuric acid (primarily used as a raw material in the production of phosphoric acid), fertilizer-grade phosphoric acid, phosphate fertilizers, compound fertilizers, liquid fertilizers, soluble fertilizers, slow release fertilizers, controlled release fertilizer and phosphate-based feed additives for livestock. According to professional publications in recent years, ICL Fertilizers was the world’s sixth largest producer of potash, and ranked second in production and sales in Western Europe. ICL Fertilizers is also a leading player in the specialty fertilizers market.

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

Production and marketing activities for potash and phosphate fertilizers in Europe are coordinated by ICLFE, which was established to take advantage of synergies between ICL’s companies.

In 2011, there was a significant expansion in specialty fertilizer operations with the completion of the acquisition of Everris (formerly Scotts Global Pro), a multinational company, whose core activity is the manufacture and sale of high-quality specialty fertilizers, including controlled release, slow release and soluble fertilizers, the acquisition of Fuentes Fertilizantes, a leading company in Spain that manufactures

⁹ The term “external sales” refers to the segment’s sales to customers outside of the ICL Group (customers that are not other segments of ICL).

and distributes liquid and soluble fertilizers, NPK compounds and conventional fertilizers, and acquisition of all the shares of Nutrisi Holdings, a partner in one of the world's largest manufacturers of soluble fertilizer compounds. After completing the above transactions, ICL Fertilizers has established its position as a leading player in the specialty fertilizer market. For further information about the acquisition of new companies, see section 4.1.17.

The specialty fertilizer market, which has an average growth rate exceeding that of the conventional fertilizer market, is an important component in ICL's strategy for global growth and expansion.

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



The agricultural sector aims to optimize production from a given cultivated area. The more optimal the soil fertilization, the higher the yield and quality of the harvest in a given area, therefore there is a correlation between efficiencies (in terms of benefit per dollar invested) in the agriculture industry and fertilizer consumption.

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

Potash is the primary source of potassium for plants, and phosphate is the primary source of phosphorus.

Potassium and phosphorus are vital for many of a plant's physiological processes, including strengthening cereal stalks, stimulating root development, leaf and fruit health, and accelerating the growth rate of crops. Without these elements, crops cannot achieve their growth potential. The agriculture industry strives to derive the greatest production from a given cultivated area. Potassium also enhances the plant's ability to withstand drought and cold, the efficient use of nitrogen and other nutrients necessary for plant development and the durability of agricultural production in storage and transportation, thereby prolonging the shelf life of the produce.

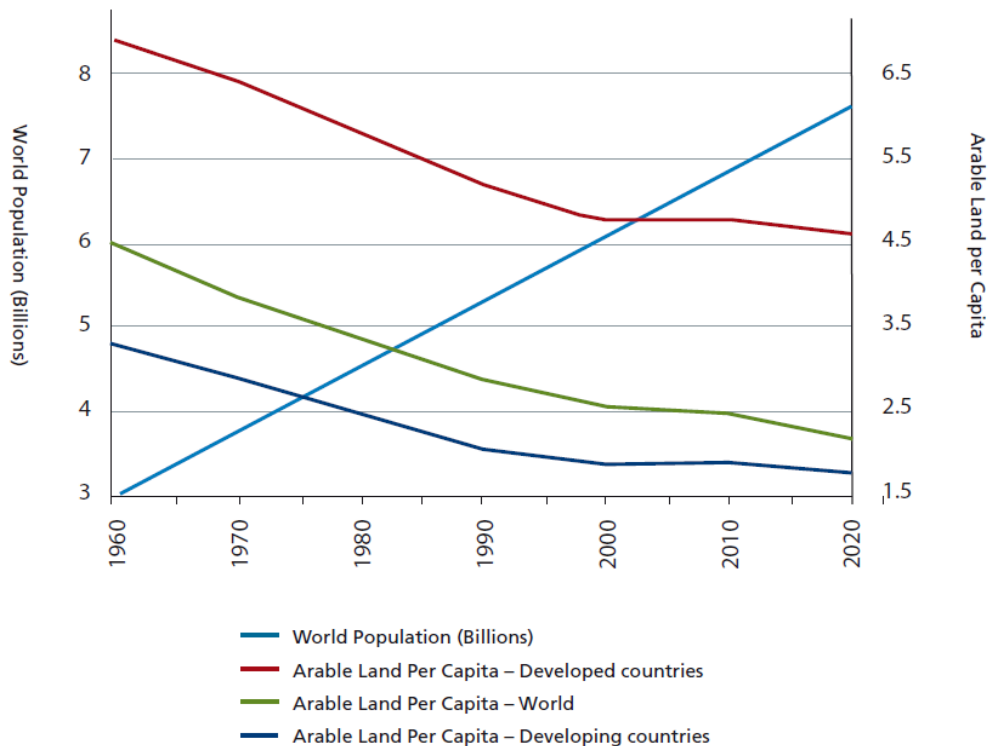
B. Description of the fertilizer market, trends and development

ICL Fertilizers' operations in the agricultural sector are mainly in fertilizers. One of the outstanding characteristics in the fertilizer industry is the inter-dependency between the amount of arable land and the amount of food required by the population, and use of fertilizers.

The demand for fertilizers is affected by a number of factors, as follows:

- Global population growth and the process of urbanization which lead to diminishing arable land per capita are expected to cause growth in demand for fertilizers over time. As available arable for cultivation land diminishes and the global population grows, there is a need to produce greater quantities of food in smaller areas (in other words, a higher yield in a smaller given area). This requires increasingly greater use of fertilizers.

Expected growth in global populations and available arable land



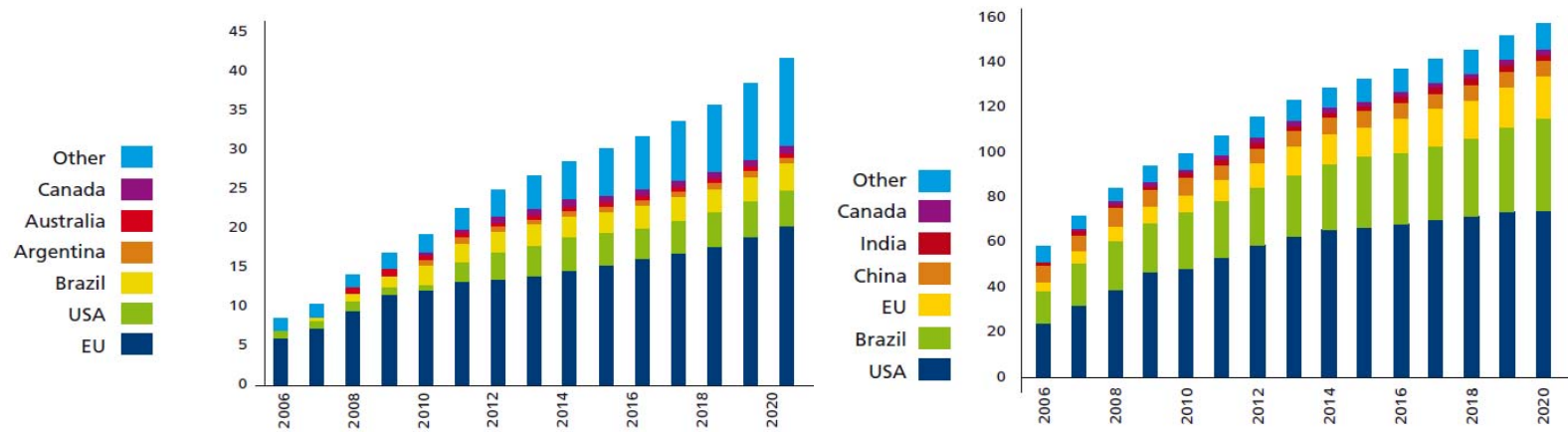
Source: Food for Thought: The Future of Agribusiness
Global Research Report by Capgemini Consulting 2010 .

- The rising standard of living and the resulting changes in nutrition habits, reflected, inter alia, in a shift to consumption of animal protein, lead to an increase in consumption of meat. As consumption of fertilizer per nutrition unit of meat is higher than for that of a nutrition unit of produce, consumption of fertilizers has increased.
- High energy costs and the ecological effects of using certain fuels have increased the use of fuels that are produced from agricultural crops (bio-fuels) and accordingly, the demand for fertilizers.

Estimated production capacity of bio-fuels (billions of liters)

Biodiesel (Billion Gallons)

Ethanol (Billion Gallons)

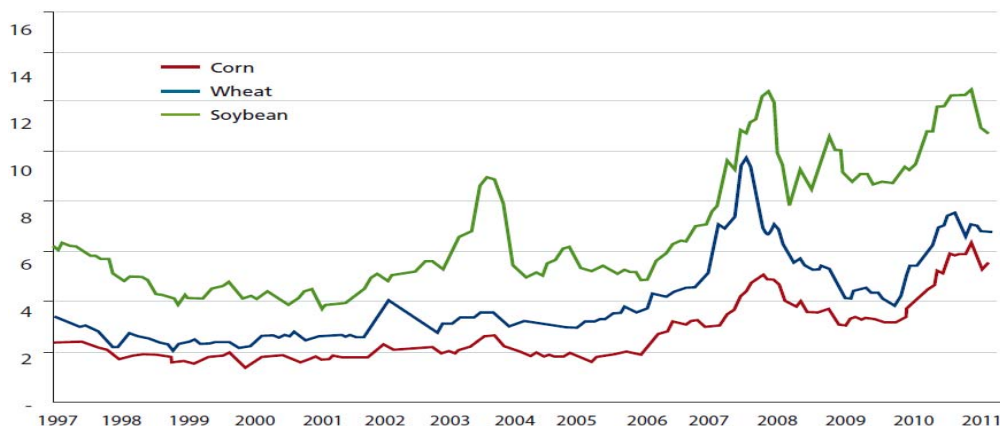


Source: OECD-FAO Agricultural Outlook 2011-2020 (June 2011)

- Many countries, in particular developing countries that are characterized, amongst other things, by population growth as well as a rise in the standard of living, are dependent on agriculture, therefore prioritize and encourage agriculture or agricultural produce.

These trends led over the last few years to a steady decline in global grain stocks several years ago, and consequently, higher prices of agricultural produce, increased planting of grain crops worldwide and to a trend of increased yield per unit of agricultural land, mainly by increased application of fertilizers.

Prices of principal grains for US farmers



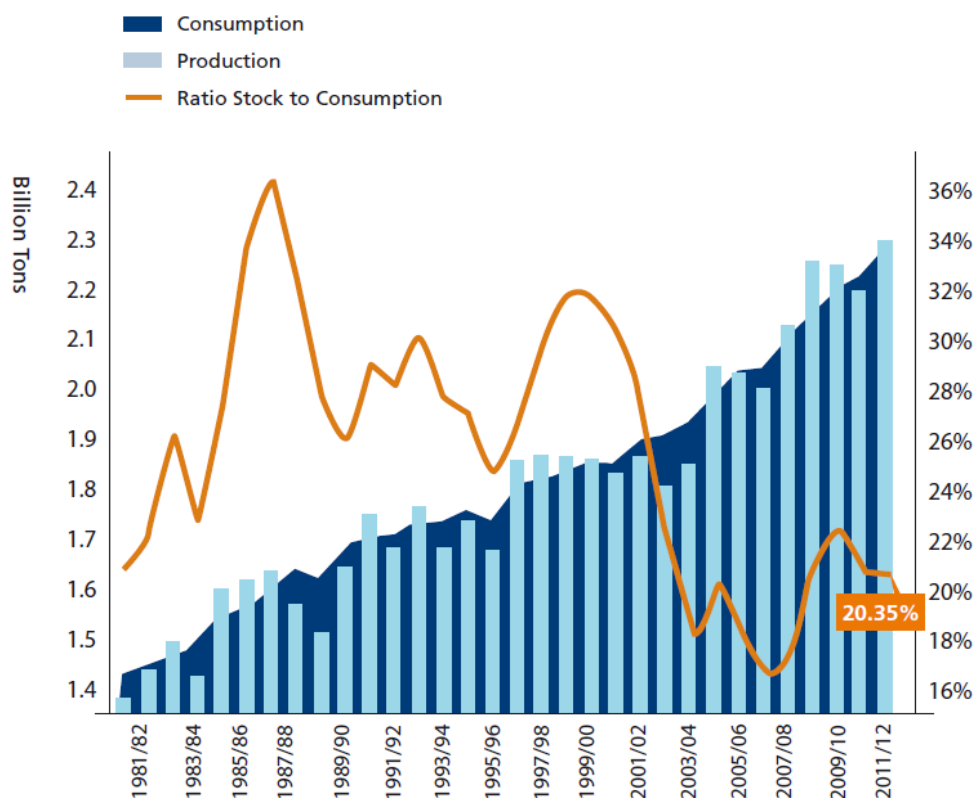
Source: USDA, December 2011

In the first half of 2011, grain prices continued to increase, in continuation of the price increases in 2010. In the second half of 2011, there was a reversal, and prices started to fall somewhat, mainly due to the credit crisis threatening countries in Europe and the rest of the world and the slow recovery of

the economy in the United States. However, grain prices are still higher than in the past and compared to production costs. The high price level ensures satisfactory profits for growers.¹⁰

The natural disasters which struck a number of regions in 2011 damaged crops, resulting in higher crop prices. The major natural disasters included severe drought in northern China, floods in northern Australia, an unusually long dry spell in northern Europe, a dry spell in the southern United States and extreme cold in the northern states, which damaged wheat crops, a dry spell in South America which hurt soybean yields, severe drought in Mexico and floods in Thailand.

According to the report published in March 2012 by USDA, a further decline is expected in the ratio of grain stocks to annual consumption to 20.35% at the end of the 2011/2012 agricultural year compared to 20.8% in the prior agricultural year and 22.3% in the 2009/2010 agricultural year. The decline is mainly due to lower stocks of all grains, such as corn, wheat, soybean and rice..¹¹



Source: USDA, FAS, January 2012

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

¹⁰ Chicago Board of Trade (CBOT)

¹¹ Estimates regarding future trends in this section are forward-looking information and there is no certainty that they will materialize and if so, when and at what pace. They may change due to fluctuations in agricultural markets worldwide, particularly in ICL's target markets and including, inter alia, changes in levels of demand and supply, extreme climate changes, in the prices of products, commodities and grains, in the price of inputs, in transportation and energy costs, and they may also be affected by action taken by governments, manufacturers and consumers. They may also possibly be affected by the state of the money markets, including changes in exchange rates, the credit situation and interest costs.

Most of 2011 was characterized by the continued recovery of the fertilizer market from the severe crisis of the 2008/2009 agricultural year. There was a high demand for all fertilizers and according to IFA estimates, annual consumption of all three nutrients ((nitrogen, phosphorus and potassium) will reach a record level in 2011.

At the beginning of 2011, Chinese importers (Sinofert and CNAPGC) and several potash producers signed contracts for the supply of potash for the first half of 2011 at \$400 per ton CFR, representing an increase of \$50 per ton compared to prices in 2010 (this is the first time that contracts in China were signed for six months and instead of for one year, as in the past). There was a further price increase in the middle of the year, when contracts for potash sales for the second half of the year were set at \$470 per ton CFR. ICL Fertilizers signed contracts for the sale of potash to China under similar conditions, with a quantity of 500,000 and 750,000 tons in the first and second half, respectively. At the balance sheet date, the entire amount has been supplied for these agreements.

On March 20, 2012 BPC and Canpotex announced that they had signed contracts to sell potash to China for the second quarter of the year in the amount of 400 thousand tons (with an option for a further 100 thousand tons) and 500 thousand tons (with an option for a further 200 thousand tons), respectively, at a price of \$470 per ton CFR. ICL Fertilizers in also negotiating with its customers in China to close contracts.

In the Indian market, the change in policy for subsidizing fertilizers, which resulted in an increase in the retail price of potash and phosphate for growers, and the devaluation in the local currency against the dollar, which also resulted in an increase in prices for growers, postponed the renewal of contracts for potash supply.

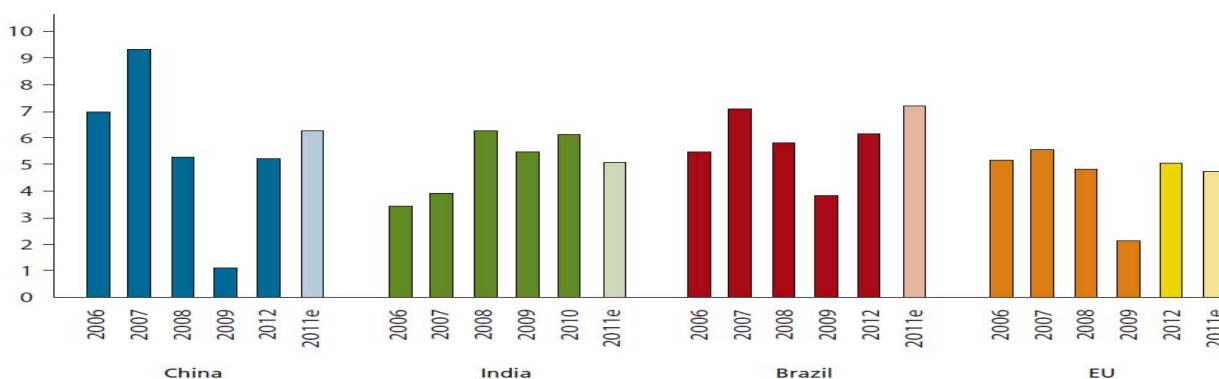
Contracts for potash supply in the 2011/2012 agricultural year were signed in August (the agricultural year begins in April) at an average price of \$490 per ton CFR. ICL Fertilizers signed contracts for potash sales of 1.390 million tons with an option for another 125,000 tons. Towards the end of the year, due to an accumulation of inventory in ports in India, Indian importers sought to delay deliveries of the first quarter of 2012 for two to three months. The Company estimates that the agreement period, which was due to end at the end of March, will be extended by several months.

As a result of the delay in signing the annual contract for the 2011/2012 agricultural year, as set out above, it is estimated that import of potash to India in 2011 was significantly lower than in 2010.

Brazil opened 2011 with high import quantities. Potash imports to the country in 2011 amounted to 7.4 million tons, representing an increase of 21% compared to the corresponding period last year.

According to IFA estimates,¹² global potash sales amounted to 55.7 million tons in 2011 compared to 55.2 million tons last year.

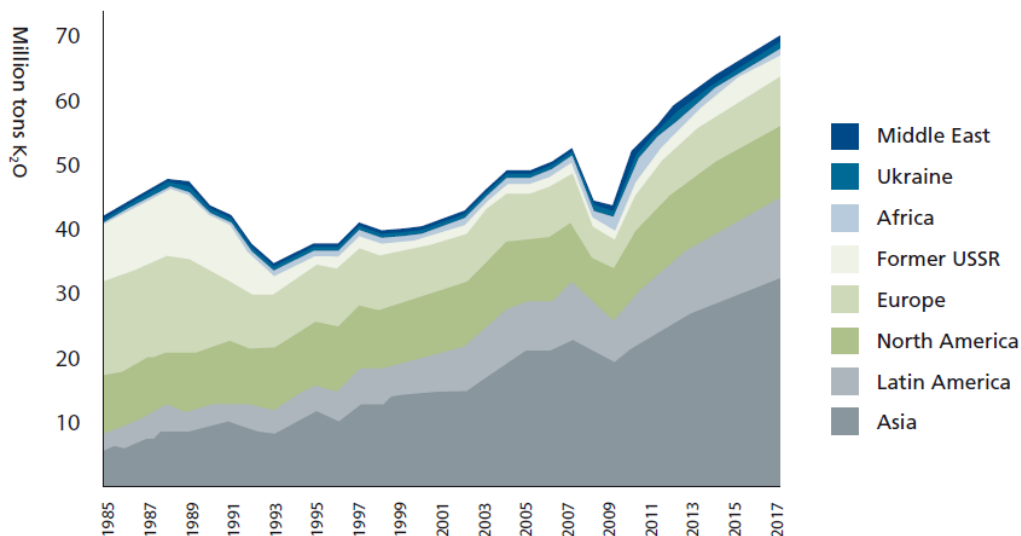
Below is a description of potash imports in the key countries:



Source: FertEcon Potash Outlook 2011-4, (Feb. 2012)

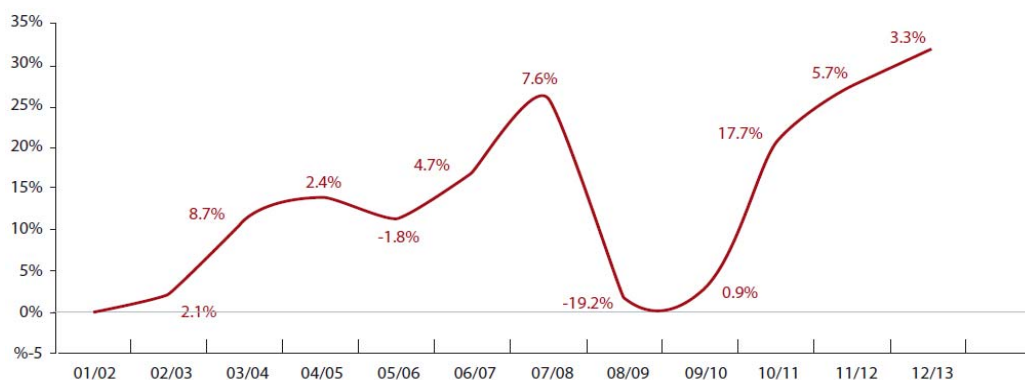
Below is a description of potash consumption (including forecast) by continent¹³

¹² IFA, Global Fertilizer Supply and Trade: 2011 – 2012 (Dec. 2011)



Source: FertEcon Potash Outlook 2011-4, (Feb. 2012)

The graph below describes the current projections regarding the growth rate for worldwide potash demand.¹⁴



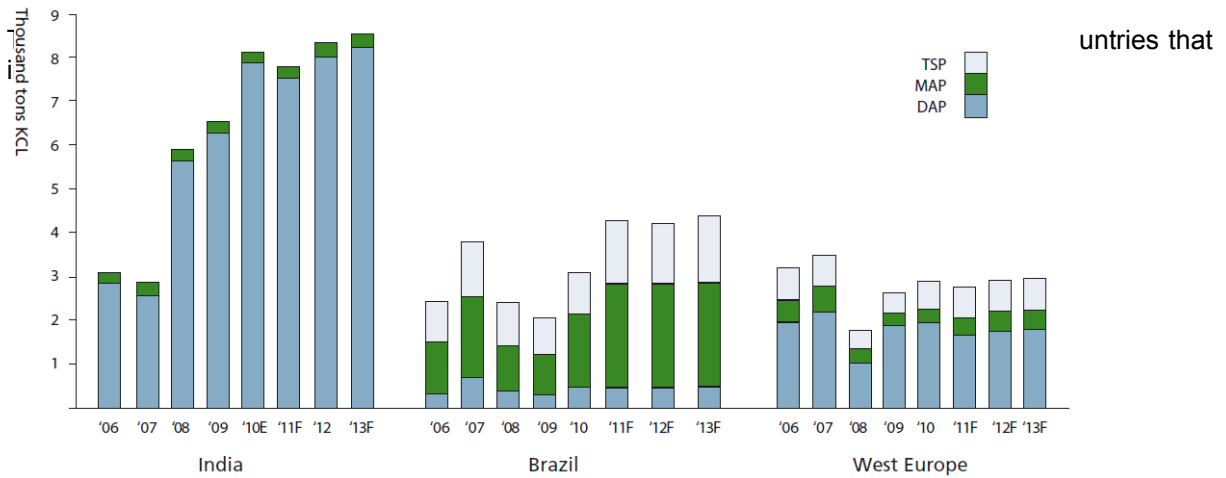
Source: IFA Short-Term Prospects for World Agriculture and Fertilizer Demand 2010/11 – 2011/12 Dec 2011

Between the 2001/2002 agricultural year and until the 2007/2008 agricultural year, potash consumption in the world increased by 25.7%. The increase in demand for fertilizer surpassed the supply and created surplus demand for this product, leading to frequent potash price increases. This trend continued until the third quarter of 2008. Following the global economic crisis, demands for potash stalled and in the fourth quarter of 2008, there was a significant drop in sales. As a result, potash consumption dropped by 19.2% in the agricultural year 2008/2009 compared to the prior year. According to the IFA's estimates, consumption in the current agricultural year (2011/2012) is expected to reach 49 million tons (which includes only agricultural consumption), a 5.7% increase compared with the previous agricultural year. According to these estimates, a further increase of 3.3% is expected in the 2012/2013 agricultural year as well.

¹³ The information in the paragraph and the graph includes forward looking information based on various estimates in professional publications. The estimates may not be realized, or may be partially realized and they are dependent, inter alia, on fluctuations in global economy, the climate, the rate of food production, fluctuations in supply and demand for various production inputs, developments in agriculture and industry, the world trade balance, particularly between the developed and developing countries and the effect of exchange rates.

¹⁴ The information in this paragraph and in the graph includes forward-looking information based on various estimates in professional publications. These estimates may not be realized or may be partially realized, and are dependent, inter alia, on fluctuations in global economy, the climate, the rate of food production, fluctuations in supply and demand for various production inputs, developments in agriculture and industry, the world trade balance, particularly between the developed and developing countries, the effect of exchange rates, etc.

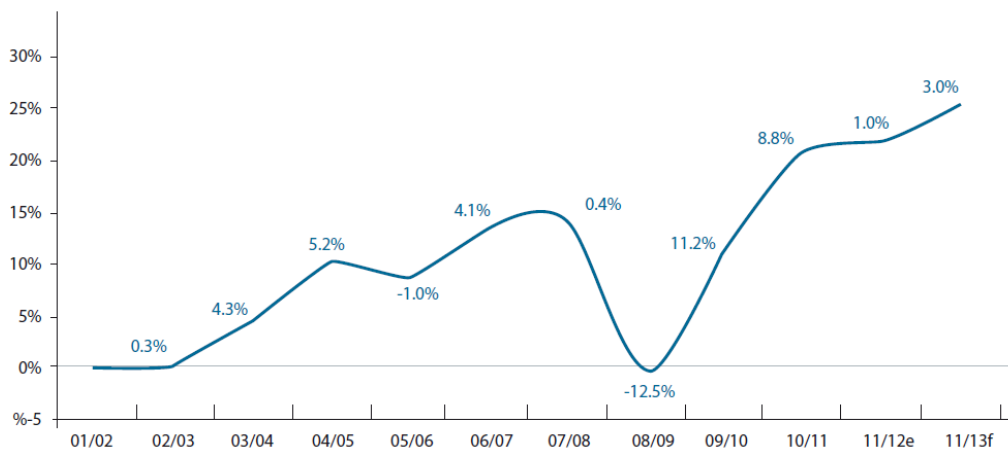
According to IFA estimates, phosphate fertilizer consumption in 2011 amounted to 40.7 million tons P₂O₅, representing an increase of 2.5% compared to the prior year. Phosphate fertilizer sales recorded an increase of 6% compared to the prior year.



Source: FertEcon Concentrated Phosphates Outlook 2011-2013, (November 2011)

Of the products in the above table, ICL produces TSP and technical and soluble MAP only.

The graph below describes the current projections regarding the growth rate for worldwide phosphate fertilizer demand.



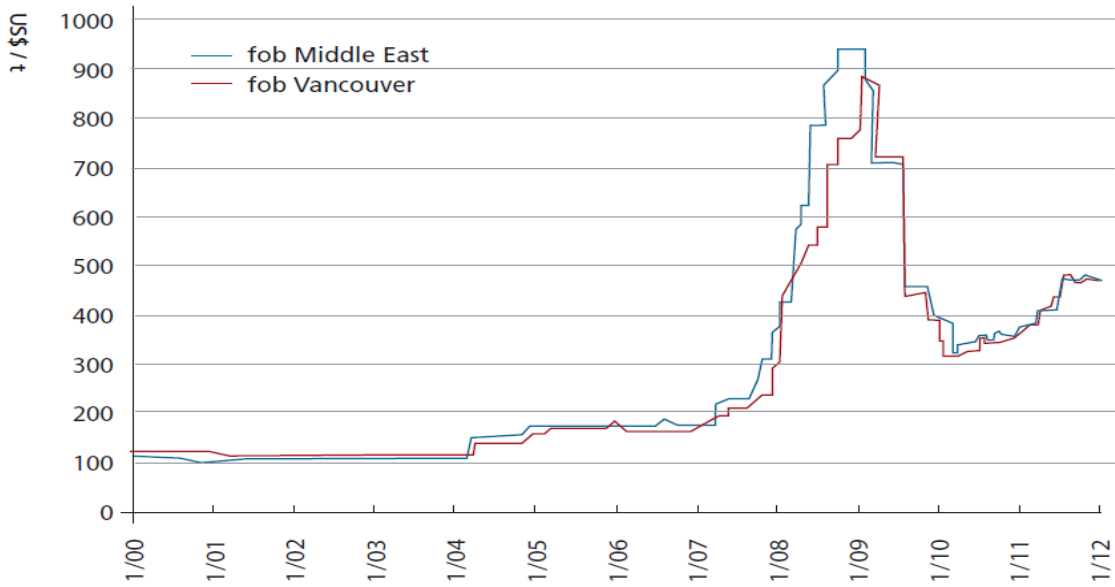
Source: IFA Short-Term Prospects for World Agriculture and Fertilizer Demand 2010/01 – 2011/12, December 2011

From the 2000/2001 agricultural year until the 2007/2008 agricultural year, worldwide consumption of phosphate fertilizers grew by 18%. The increase in the demand for fertilizers caught up with supply, even generating excess demand for phosphate fertilizers leading to frequent price increases. In the wake of the global economic crisis which occurred towards the end of 2008, demand slowed and the volume of sales fell sharply, starting from the fourth quarter of 2008. Consequently, the consumption of fertilizers in the 2008/2009 agricultural year fell by about 13%. In the 2009/2010 agricultural year, there was some recovery and consumption increased by about 11.2% compared to the prior year. According to the IFA's initial estimates, consumption in the current agricultural year (2011/2012) is expected to reach 41.1 million tons of P₂O₅, similar to consumption in the previous agricultural year. According to these estimates, a further increase of 3% is expected for the 2012/2013 agricultural year.¹⁵

¹⁵ The information in this section and in the related note includes forward-looking information that is based on various estimates in professional publications. These estimates may not materialize or may materialize partially and they

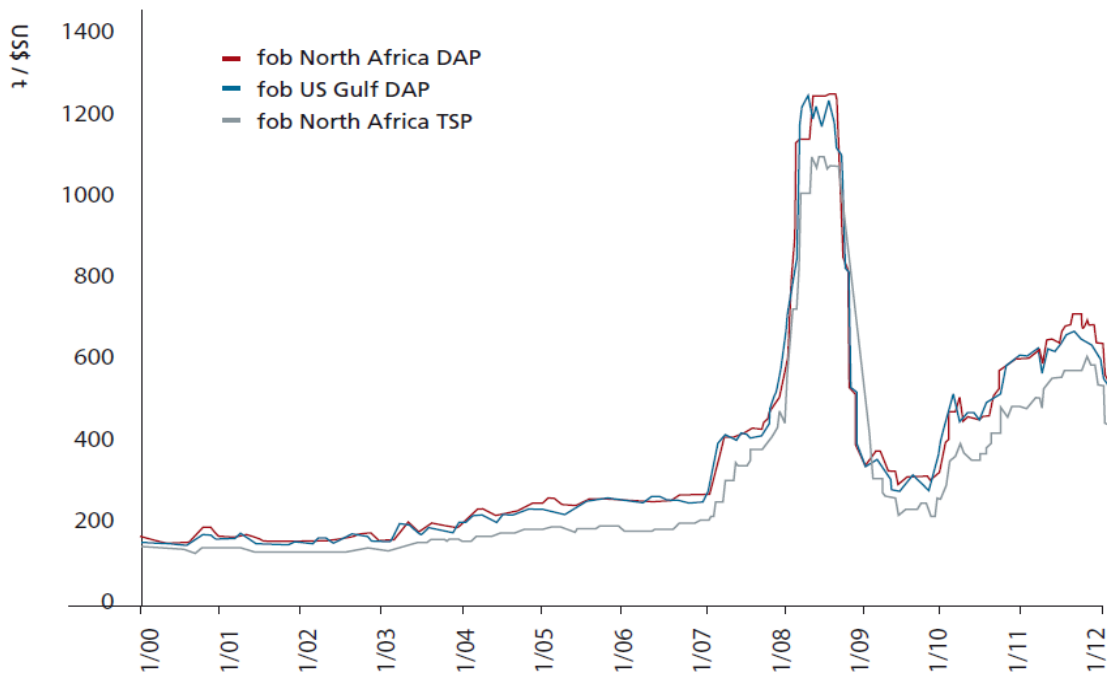
The graph below describes the development in potash and phosphate prices in recent years.

Standard potash prices (KCL) over time



Source: Fertilizer Week (December 2011)

Phosphate fertilizer prices over time



Source: Fertilizer week (Dec. 2011)

Up to 2006, fertilizer and potash prices were stable. Fertilizer and potash prices have soared since the middle of 2006, reaching record highs in the middle of 2008.

depend, in part, on fluctuations in the global economy, in climate conditions, the food production rate, fluctuations in supply and demand for various manufacturing inputs, developments in agriculture and in industry, the global balance of trade, particularly between developing and the developed countries and currency exchange rates.

Following the decline in global demand for fertilizers and potash, as described above, prices began to fall. The sharpest immediate decrease was in prices of nitrogen fertilizers, followed by phosphorus and potash prices. After the recovery in the demand for fertilizers in 2010, prices began to rise again from the slump of 2008/2009.

Potash prices, which reached a low of \$300 per ton FOB, recovered and towards the end of 2011, reached a level of \$450 - \$500 per ton FOB. Prices of phosphate fertilizers started to recover earlier and the increase from the slump of mid-2009 was already apparent in the fourth quarter of 2009. At the lowest level, the DAP price fell to \$300 per ton FOB. In 2010 and 2011 DAP prices rose, and in the fourth quarter, the DAP price reached \$600 per ton FOB. There was a slump in demand towards the end of 2011, mainly in Brazil, the United States and India, which created pressure to lower prices. In December 2011, the DAP price decreased by \$100 from the peak price of the year.¹⁶

In continuation of the trend towards the increase in prices of soluble fertilizers in the second half of 2010, prices of specialty fertilizers continued to rise at the beginning of 2011, due to the increase in demand for these products. As from the second quarter of 2011, fertilizer prices started to decline, as a result of competition (mainly from Chinese suppliers), seasonality and the tendency to refrain from purchasing stock and to postpone orders due to the global economic situation.

There was a slight fluctuation in CRF prices during the year, with a tendency to higher prices in the first and last quarters, and lower prices in the second and third quarters, due to seasonality.

4.1.2 Products

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

Specialty fertilizers usually include various microelements as well. These fertilizers are manufactured and sold in different forms, mainly as soluble, liquid, controlled release and slow release fertilizers.

¹⁶ Source: Fertiizer Week

A. Potash

Potash is the common name for potassium chloride, which is the most common source of potassium for plants. Potassium is required for plant development, improves the plant's ability to withstand disease, increases the yield, improves the quality and lengthens the shelf life of the crop. ICL Fertilizers sells potash for direct application as a fertilizer and to compound fertilizer manufacturers. ICL Fertilizers also uses potash for its own production of compound fertilizers, based mainly on phosphate and potash.

ICL Fertilizers produces potash from the Dead Sea and from underground mines in Spain and England. The potash production process in Israel is based on extracting the carnallite in a chemical process. The carnallite, which is a compound of potassium chloride, sodium chloride and magnesium chloride, precipitates in some of the largest solar evaporation ponds in the world, which contain brines drawn from the Dead Sea. The carnallite is transferred to the plants where a chemical process breaks down the carnallite crystal into potash using two parallel technologies ("hot" and "cold" crystallization)..

Extraction of potash from underground mines in Spain and England is carried out by mining sylvinite (a mixture of potash and salt found in varying potash concentrations). The potash is separated from the salt in production plants near the mines.

Polyhalite

Polyhalite or polysulfide is a mineral used in its natural form as fertilizer for organic agriculture, but may also be used as a raw material for production of specialty fertilizers. Polyhalite is composed of potash, sulfur, calcium and magnesium, which are essential components for improvement of crops and agricultural products.

Geological studies performed by CPL indicate that there more than one billion tons of polyhalite ore beneath the potash layer in the Company's mine.

At the end of 2011, ICL Fertilizers started to conduct trial sales of the product. As from 2012, ICL Fertilizers is expected to increase polyhalite production and sales.

B. Fertilizers and phosphates

Phosphorus, which is provided by fertilizers that are derived from phosphate rock, directly contributes to a wide range of physiological processes in the plant, including production of sugars (including starch), photosynthesis, and energy transfer. Phosphorus strengthens plants, stimulates root development, promotes flower formation and accelerates crop development.

The principal raw material used in production of phosphate products is phosphate rock. ICL Fertilizers mines phosphate rock from open-pit mines in the Negev Desert. 79% of the phosphate rock produced in 2011 was used to manufacture phosphate fertilizers and phosphoric acid. The balance of the phosphate rock was sold to external producers who manufacture phosphoric acid and fertilizers and as direct application fertilizer. The policy of ICL Fertilizers is to use most of the phosphate rock it produces to produce downstream products. The quantity of phosphate rock that will be sold directly will be derived from its market price.

ICL Fertilizers produces fertilizer-grade phosphoric acid, phosphate fertilizers, compound fertilizers and specialty fertilizers at its facilities in Israel. ICL Fertilizers also has facilities for production of phosphate fertilizers and specialty compound fertilizers in the Netherlands, Germany and Belgium, and feed additives facilities in Turkey and in Israel. As well as the use of phosphate rock, phosphoric acid production also requires significant quantities of sulfur, which ICL Fertilizers purchases from third parties (with respect to the fluctuations in sulfur prices, see section 4.1.11(C) below).

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

Specialty fertilizers allow more accurate application of essential elements for plant development (phosphorus, potassium and nitrogen). These fertilizers include:

- Controlled release fertilizers (CRF), which allow accurate release of nutrients over time, and slow release fertilizers (SRF), which allow very slow release of nutrients (N and K only). These fertilizers have a special coating that allows prolonged release of nutrients (over several months, compared

to regular fertilizer that dissolves in the soil and is available for up to 4 weeks). These fertilizers improve crop quality and yield. The coating technology also provides protection in the rainy season, while in regular fertilizers, the nitrogen leaks into the soil. The coating of controlled or slow release fertilizers creates a partition that allows nutrients to dissolve and remain in the coating, preventing leakage into the soil and the detrimental effect on the environment. Moreover, due to the high concentration and the efficiency of the coated fertilizer, there is a significant reduction in the amount of fertilizer used by growers, resulting in significant financial savings.

- Soluble fertilizers, which are fully water-soluble, and fully-soluble NPK compound fertilizers, commonly used for fertilization through drip irrigation systems and foliar spraying to optimize fertilizer efficiency in the root zone and optimize yields
- Liquid fertilizers, used for intensive agriculture and integrated in irrigation systems (mainly drip systems)
- Substrate culture for various crops, usually containing CRF.

4.1.3 Breakdown of revenues and profitability of products and services

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

	Year	Revenues (\$ million)*	% of ICL revenue*	Gross profit (\$ millions)	Gross profit (% of revenues)
Potash	2011	2,506.2	33.1	1,554.2	62.0
	2010	2,140.7	37.6	1,226.4	57.3
	2009	1,429.0	29.5	907.4	63.5
Phosphates and fertilizers	2011	1,705.9	22.5	502.8	29.5
	2010	1,056.3	18.6	285.4	27.0
	2009	787.7	16.3	163.7	20.8

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

The increase in potash revenue in 2011 compared to the prior year is due to the increase in selling prices. Conversely, the decrease in sales quantities is partially due to the suspension of potash shipments from Israel during the strike in the first quarter.

In fertilizers, the increase in revenue in 2011 compared to the prior year was mainly due to the increase in selling prices of phosphate fertilizers and rock phosphate and the consolidation for the first time of the financial statements of companies acquired in the reporting period. This increase was partially offset by a decrease in sales of phosphate fertilizers.

The increase in profit and in the gross profit margin of potash, fertilizers and phosphates is due to the increase in selling prices.

4.1.4 Customers

A. Dependence on single customer

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

B. Geographical distribution of external sales:

	2011		2010		2009	
	\$ million	%	\$ million	%	\$ million	%
Israel	218	6	228	8	171	9
North America	324	8	91	3	22	1
South America	544	14	517	18	442	23
Europe	1,230	32	891	31	541	28
Asia	1,441	38	1,102	38	752	38
Other countries	78	2	63	2	26	1

In 2011, there was an increase in revenue in all destinations, other than in Israel, following the increase in selling prices of potash and fertilizers as well as the acquisition of the new specialty fertilizer companies. In some destinations, there was also an increase in sales quantities. The decrease in the proportionate share of sales in South America is partly due to the effect of the strike in the first quarter, which led to a reduction in sales in this region during the strike (mainly granulated potash sales). The Asian market continues to be one of ICL's major markets.

4.1.5 Marketing and distribution

The primary markets of ICL Fertilizers are China, India, Brazil, France and Germany. ICL Fertilizers sells its fertilizer products primarily via a network of its own sales offices as well as sales agents throughout the world and pays the commissions that are customary in the market. In 2011, ICL Fertilizers paid commissions amounting to about \$12.3 million.

Most of ICL Fertilizers' sales are not transacted by means of long-term contracts or orders, but rather via current orders close to the date of supply. Consequently, the concept of a backlog has no meaning for ICL Fertilizers.

The price of potash and fertilizers is determined in negotiations between the manufacturers and the customers and is affected mainly by the ratio between the market demand and the available supply at that date as well as from the size of the customer and agreement period. Prices of relatively long-term projects are not necessarily similar to spot prices (random sales transactions).

In India and China, it used to be customary to negotiate for potash agreements, with commercial entities connected to the governments of those countries. ICL Fertilizers has agreements in China with distributors and NPK producers. Under these agreements, the agreed price was usually for a year. Unlike the past, the contracts signed in China for 2011 are semi-annual. In other markets, potash is usually imported by a larger number of customers, and the potash price is determined between the suppliers and the customers for shorter periods (quarterly, monthly or even for each individual shipment). In these markets, the Company has trade relations with most of the major importers.

ICL Fertilizers ships its products from Israel to customers overseas by ships (mainly bulk ships) that it leases in the marketplace and loads using dedicated facilities in the ports of Ashdod and Eilat.

ICL Fertilizers has special port facilities for bulk loading in Barcelona, Amsterdam, Ludwigshafen (Germany), Teesside (UK), Cartagena and Almeria (Spain), for soluble and liquid fertilizers only.

4.1.6 Competition

A. Competition and main entry barriers

The potash market is characterized by a relatively small number of manufacturers, some of which export jointly through two trade corporations, BPC and Canpotex. The ability to compete in the market is dependent mainly on production costs and logistics. Moreover, there are high entry barriers for new players. The barriers to entry in the potash market are high due to the heavy investment required to establish production plants for the basic minerals, which are used

a raw materials for the fertilizer industry, and the relatively long time required to establish these plants. In addition, this industry requires appropriate concessions and proximity of production facilities to quarries.

The phosphate fertilizer market is characterized by a relatively large number of competitors, including government companies. The ability to compete in the market is dependent mainly on production costs, product quality and logistics.

B. Conditions of competition in areas of activity and facing competition

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

1. Potash

The significant competitors of ICL Fertilizers in the potash sector are PCS (Canada), Belaruskali (Belarus), Mosaic (Canada and the United States), Uralkali (Russia), K+S (Germany), APC (Jordan), and SQM (Chile).

A number of potash producers have recently announced planned expansion of their production capacity. A number of companies have also announced possible entry into the potash industry. In 2011, there was intensive activity by the mining giants VALE and BHP.

The Australian company BHP, one of the largest mining companies in the world, with a large number of potash mining concessions in Canada, is in the process of developing a new potash mine in Saskatchewan, Canada. According to company publications, in the first stage, a mine and plant will be constructed to produce two million tons of potash annually

As from 2017 and over the next decade, an annual production capacity of eight million tons is planned. Notwithstanding the development processes, construction of the mine by BHP has yet to be approved.

The Brazilian company Vale, the second-largest mining company in the world, operates a small potash mine in Brazil. In 2009, Vale acquired Rio Tinto's concession to mine potash in neighboring Argentina and several concessions in Canada. According to publications by Vale, in the first stage of the Argentine operations, the mine is expected to produce 2.4 million tons of potash per annum as of the second half of 2014. Production is expected to double later on.

The Russian fertilizer producer EuroChem is currently implementing a project to open a potash mine that, according to its own statements, will begin production at the end of 2014, with output that will gradually rise to 2.3 million tons a year. EuroChem plans to increase the annual output of the plant by a further one million tons.

This year, the German potash producer K+S, purchase Potash One, a Canadian development company, and issued a plan to develop a new mine in Canada. The new mine is scheduled to reach an annual production of two million tons as from 2017.

Concurrent with the development plan for new mines (Greenfield), existing potash producers are working to consolidate their presence in the market through expansions. According to information published by the large Canadian producers PCS and Mosaic, these companies are planning to expand their annual production capacity by 5 million tons each over the next ten years.

In January 2012, the Canadian potash producer Agrium announced that its board of directors had approved an investment of \$1.5 billion to expand annual potash production from two million tons to three million tons. Construction is expected to continue through 2014 and operation is planned to start in the second half of 2014. Uralkali recently published a development plan to increase production capacity from 11.5 million tons to 15.6 million tons in 2017.

The two local Russian producers Uralkali and Silvinit merged this year.

The anticipated increases in production capacity, as described above, and the dates on which they will be achieved are based on reports from the companies. There is uncertainty in respect of realization of the production capacities as well as the timing for their achievement. The companies periodically update their forecasts for these production capacities and their timing.

2. Fertilizers and phosphates

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

ICL Fertilizers, being a manufacturer of phosphate rock, has a relative advantage with respect to manufacture of most phosphate fertilizers over those manufacturers who must purchase phosphate rock from external suppliers in order to manufacture phosphate fertilizers. With the increase in phosphate rock prices as of the end of 2007, the weight of this factor increased the status of ICL Fertilizers' competitive edge. Due to its geographical location, the logistical synergies with potash operations in Israel and its relative proximity to its customers, ICL Fertilizers has logistical advantages over several other manufacturers. ICL Fertilizers focuses on markets where it has a logistical advantage. ICL Fertilizers is also working towards increasing sales in locations that have opposite agricultural seasons to those in the northern hemisphere, thereby increasing the spread of its sales over the year. ICL Fertilizers' policy is to continue to develop production and sales of downstream products which higher added value, including specialty fertilizers.

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

In the third quarter of 2011, mining, production and marketing of the M'aaden project in Saudi Arabia began. The plant is based on a new phosphate mine and sulfuric acid and phosphoric acid production plants and is designed to produce 3 million tons of DAP.

C. Approach for competing in the market

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

In addition, the combination of production facilities in a number of different locations worldwide and flexible logistics based on the production sites and access to the ports in Israel and Europe, enable ICL Fertilizers to respond to customer needs and to be flexible with regard to delivery timetables and quantities.

4.1.7 Seasonality

The seasonal nature of demand for ICL Fertilizers' products gives rise generally to quarterly sales volatility, as sales levels in the second and third quarters are generally higher than sales in the first and fourth quarters. In recent years, due to various influences, primarily price fluctuations and the effects of negotiations in China and India and changes in the timing of fertilizer imports to Brazil on the timing of sales, the effects of seasonality explained above were not necessarily felt at all.

The following is a breakdown of revenues by quarter for 2009-2011 in millions of dollars:

	<u>Q 1</u>	<u>Q 2</u>	<u>Q 3</u>	<u>Q 4</u>
2011	837	1,101	1,126	1,034
2010	766	822	753	766
2009	371	465	677	633

The decrease in sales in the first quarter of 2011 is due to suspension of shipments from Israel as a result of the strike (see section 4.1.8).

4.1.8 Production¹⁷

The current annual potential production capacity¹⁸ of the potash plants is about 6 million tons, of phosphate rock is about 4.5 million tons and of phosphate fertilizers and compound fertilizers about 1.9 million tons.

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

	2010	2011
Production	4,251	4,261
Sales to external customers	5,266	4,904
Sales to internal customers	292	268
Total sales (including internal sales)	5,558	5,172
Closing stock	1,610	699

Potash production in 2011 was similar to production in 2010. The decrease in production at DSW due to the strike, as set out below, and from malfunctions in production, was fully offset by the increase in production in Europe (mainly in IP).

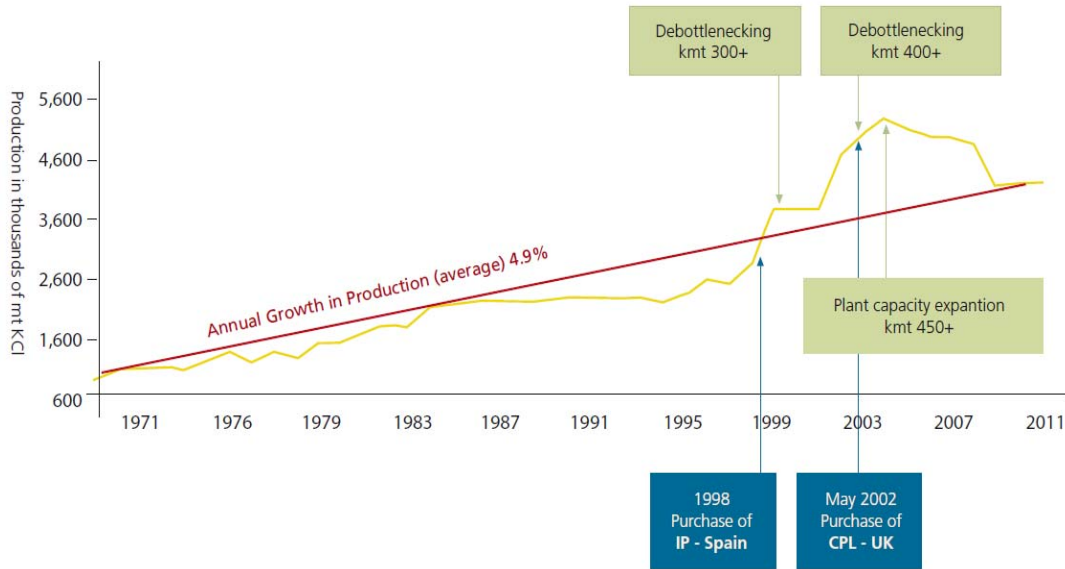
During the first quarter of 2011, the workers' committee of DSW declared a strike, expressed in part in the shutdown of production at the potash plants and in the company's maintenance systems. This strike resulted in immediate production losses of about 450 thousand tons, although it should be noted

¹⁷ The estimates in this section regarding increased production and increased production capacity are forward-looking information based on the estimates available as at the date of publication of this report. Completion of the projects might take longer and there is no certainty that they will be fully successful.

¹⁸ The potential production capacity of the various plants is based on the hourly output of the plants, multiplied by potential hours of operation per year, presuming continuous production over the year, 24 hours a day, with the exception of a few days for planned maintenance and repairs. Actual production is usually lower than potential production capacity, due to unexpected breakdowns, special maintenance operations and market conditions.

that the process of producing and building up stocks of carnallite in the evaporation ponds continued normally. The Company estimates that it will succeed in recovering these stocks through production in the coming years. On the sales side, the high opening inventory of 2011 significantly reduced the effect of lower production due to the strike on the annual sales plan (for further information see section 4.1.18).

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



ICL Fertilizers is advancing a plan for a further, gradual increase of around 500,000 tons per year in potash production capacity at the Sodom facilities, to be implemented by the end of 2014. This investment will create surplus production capacity at the production plants over the production capacity of raw materials at the evaporation ponds.

The investment will add operating flexibility to production, help increase stocks of raw materials in the ponds, and optimize the timing of production and sales over time.

On April 13, 2011, the Board of Directors of ICL approved the consolidation of IP's operations from two sites to one site, as part of the efficiency plan at IP. The Suria production site, including the mine and plant, will be expanded and mining and production at the other production site will be terminated. The first stage of the plan, which has been approved, includes digging of an access tunnel to the mine, expansion of potash production at the mine and granulation capacity, as well as establishment of a production plant for vacuum salt (salt with high chemical purity) at Suria. The second stage, which has not yet been approved, includes further expansion of potash production capacity, to 1.1 million tons, of which 630,000 tons will be granulated potash and 50,000 tons will be technical potash, as well as a production capacity of 1.5 million tons of vacuum salt. The Company believes that implementation of the first stage of the plan, at an estimated investment of € 160 million, will be completed at the beginning of 2014. The Company believes that implementation of the first stage of the plan will reduce expenses and contribute to streamlining, which will reduce potash production costs and contribute to conformity of production with environmental standards. Implementation of the second stage will result in higher potash production at one site compared to production at two separate sites.

Based on these expansions, the potential annual potash production capacity of production plants at the end of 2014 is expected to reach 6.5 million tons.¹⁹

The table below includes details of production and sales of fertilizers and phosphates (thousands of tons)

	2011	2010
<u>Phosphate rock</u>		
Rock production	3,105	3,135
Total sales to customers *	720	636
Total phosphate rock used for internal purposes	2,454	2,584
<u>Fertilizers</u>		
Production	1,570	1,688
Total sales to customers*	1,638	1,735

* To external customers (excluding sales to Group companies)

Phosphate rock is produced according to demand, both for internal uses and for sales to external customers, while maintaining appropriate stock levels. At this stage, ICL Fertilizers is carrying out trial sales of polyhalite, and as from 2012, the Company will begin regular production of the product. For further information, see also 4.1.16(B)(2).

4.1.9 Research and development

¹⁹ The information in this section includes forward-looking information. This information is based on ICL's intention and it may not be realized or realized in part, among other things, due to changes in legislation at the end of the process or its interpretation or application and due to technical requirements or regulatory adjustment costs as will arise during the adjustment attempts.

A. Research and development activities

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

1. Adaptation of types of phosphate rock to production of phosphoric acid and its downstream products as part of an effort to exploit existing phosphate reserves.
2. Development of alternative methods for increasing the production of carnallite, the raw material used to produce potash in Sodom.
3. Improvement of the quality of its offered products.
4. Development of processes for exploiting phosphate deposits, thought till now to be uneconomical and/or inappropriate for the purpose of production of phosphoric acid. In this context, low-organic phosphates have been mapped in order to designate them for sale to acid manufacturers overseas.
5. Research in environmental protection, including development of methods for reducing and treating effluent.
6. Potential impact of the Dead Sea Canal on production of carnallite at Sodom.
7. Development of a process for oxidization of the organic material in 4D phosphoric acid and purified phosphoric acid.
8. Research and laboratory and field experiments to improve processes at the production plants at Sodom and resulting product quality.
9. Development of processes to improve efficiency in phosphate washing and beneficiation processes.
10. Development of high acid products allowing diverse applications in soluble fertilizers
11. Development of controlled release products with coating materials of compositions and thicknesses unlike those currently available in the market
12. Development of controlled release products combined with pesticides - CRC
13. Development of biodegradable coatings for controlled release fertilizers
14. Development of polyhalite-based fertilizers as raw materials for the specialty fertilizer industry

B. Research and development expenses

Total research and development expenses in 2011 amounted to \$14.2 million.

4.1.10 Intangible assets - patents and trademarks

As part of the acquisition of operations from the American company Scotts Miracle-Gro (see section 4.1.17A), ICL Fertilizers acquired the majority of the intellectual property (patents and trademarks), in the acquired business unit. At the same time, a number of agreements were signed, setting out terms for using the intellectual property rights, cooperation in joint R&D and use of know-how. The parties were granted intellectual property rights in accordance with their activities.

In this context, ICL and the American company Scotts signed a cooperation agreement for 10 years, for R&D of innovative biodegradable coating.

4.1.11 Raw materials and suppliers

The main raw materials used in manufacturing the products are as follows:

A. Potash

ICL Fertilizers manufactures and produces the basic raw materials for production of potash – carnallite in Israel and sylvinitite in Spain and England. The other primary components it uses

for production of potash, as noted, are natural gas, industrial water and maintenance supplies.

B. Phosphate rock

ICL Fertilizers mines and produces phosphate rock from open mines in a number of sites in the Negev Desert. Phosphate rock is used as the main raw material in the production of phosphate products and is sold by ICL Fertilizers as an end product.

C. Phosphoric and sulfuric acids

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

At the beginning of 2011, sulfur prices were \$150 per ton FOB. In 2011, prices increased, reaching almost \$240 per ton FOB in the fourth quarter. In recent weeks, and due to the decrease in demand for phosphate fertilizers, sulfur prices also fell below \$200 per ton FOB.

D. Phosphate, compound and liquid fertilizers

Phosphate fertilizers are manufactured from phosphate rock, sulfuric acid and phosphoric acid, which are all produced by the Company. Compound fertilizers are composed of phosphate and potash fertilizers, which are produced by ICL Fertilizers, and from ammonia purchased from external sources.

E. Soluble fertilizers

MAP and MKP are mainly produced from raw materials produced by ICL Fertilizers, such as phosphoric acid, phosphate rock and potash, and from ammonia and potassium hydroxide purchased from third parties. NPK is produced from raw materials produced by ICL Fertilizers, such as MKP and MAP, and from other raw materials purchased from third parties.

F. Controlled release fertilizers

The main raw materials are different compositions of fertilizer and coating materials, purchased mainly from third parties.

4.1.12 Working capital

A. Raw material inventory policy

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

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

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

B. Finished products inventory policy ICL Fertilizers' strategy is to maintain adequate inventory to ensure orderly supply to customers in consideration of the customers' distance from the production sites and their requirements for inventory availability. In Sodom there is a relative advantage of virtually unlimited storage capability. Due to the dry climate in Sodom, potash can be stored in piles in open areas. Therefore the potash production in the production facilities in Sodom is not necessarily dependant on the rate

of sales. Product that is not sold is stored in open areas within the area of the plant in Sodom. This advantage generally enables ICL Fertilizers greater production flexibility in Spain and England as well, by selling from Europe, while the main potash inventory of ICL Fertilizers is held in Sodom. In 2008-2009, due to the effect of the global financial crisis, the consumption of fertilizers dropped in general, and the consumption of potash dropped in particular. As a result, ICL Fertilizers accumulated surplus potash inventory over operating inventory, peaking at 3 million tons. In 2010-2011, the potash inventory that had accumulated during the crisis dropped significantly, and the inventory at the end of 2011 reached to level of operating inventory. Regarding phosphate fertilizers, ICL Fertilizers' strategy is to produce in an optimal manner which enables ICL Fertilizers to choose the preferred alternatives among selling phosphate rock, fertilizer-grade phosphoric acid, phosphate fertilizers, compound fertilizers, or producing pure phosphoric acid. The strategy of maintaining inventories is set accordingly. Average stock days for 2011 and 2010 are 84.4 and 153.4, respectively. The stock days are based on the average amount of stock during the year (average of the quarters) divided by the amount sold during the year. The return to the level of operating inventory led to a decline in stock days in 2011 compared with 2010.

C. Credit policy

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

Credit at the end of 2010 and 2011 was as follows:

December 31, 2011		
	Average credit level (\$ millions)	Average credit days
Customers	729	65
Suppliers	322	63

December 31, 2010		
	Average credit level (\$ millions)	Average credit days
Customers	570	67
Suppliers	250	68

The increase in trade receivables is due to the increase in sales and not from the change in credit days.

4.1.13 Environmental matters

A. Description of environmental risks

The activity of ICL Fertilizers exposes it to the following environmental risks:

Hazardous materials – As part of its activity ICL Fertilizers produces, stores and uses materials that are defined as hazardous materials including fuels, acids, sulfur and ammonia. Factories in the sector store these materials under terms of a poisons permit issued by the Ministry of Environmental Protection. If these materials leak or complete control of them is lost due to a malfunction, they are likely to cause harm to people or the environment. ICL Fertilizers is prepared to treat these conditions with a system that includes neutralizing materials, local and company-wide emergency teams, fire-fighting crews and primary care teams for initial treatment of the injured.

Air – During production processes at ICL Fertilizers' facilities, pollutants are emitted that could be harmful to people or the environment, if there were to be emitted into the environment at concentrations or amounts exceeding the permitted levels. The materials emitted are volatile organic compounds, inorganic compounds and particles. ICL Fertilizers is taking the necessary measures to prevent the uncontrolled emission of these substances, in accordance with provisions of the law and the conditions set in the business licenses, by using the accepted technologies. The use of natural gas, instead of liquid fuels, is leading to a significant reduction in emissions of pollutants.

Liquid waste – During production processes at ICL Fertilizers' facilities, industrial waste water is produced. According to the permit, waste water is allowed to flow into water sources or evaporation ponds. Waste water that is not controlled or treated in accordance with set discharge standards may cause harm to people and/or the environment. ICL Fertilizers takes measures to prevent the flow of untreated waste water, in accordance with the standards. Furthermore, ICL Fertilizers is implementing master plans and projects for treating liquid waste, in order to decrease the amount of waste water. The increased use of natural gas instead of liquid fuels, as mentioned above, contributes to a reduction the amount of industrial waste water.

Land – The use of raw materials that are classified as toxic substances and production of toxic substances can cause soil pollution that might endanger people and/or the environment. As part of its response to this risk, the segment is careful to store hazardous materials in special-purpose systems.

B. Environmental protection actions taken

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

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

1. Air quality

- A multi-year master plan is in place at ICL Fertilizers' facilities in Israel to reduce specific and non-specific emissions into the atmosphere. In this context, systems to reduce emissions of particles into the environment were introduced for ongoing work in the potash compaction plant.
- At ICL Fertilizers' plants in Israel, a master plan is being implemented to install continuous control and detection measures in the stacks. In this context, the environmental monitoring stations of DSW were connected to the National Monitoring Center of Ministry of Environmental Protection.
- At Mishor Rotem, preparations are under way to establish a system of air quality monitoring stations.
- At DSW, projects were implemented for conversion to gas systems (instead of burning liquid fuels).

2. Liquid and solid waste

- In Spain, a multi-year program is underway to restore salt piles while paying close attention to the issue of wastewater drainage and handling of sludge.

- At DSW, a plant for sanitary waste treatment was constructed, using advanced technologies for tertiary treatment of sewage. Effluents are used in the production plants.
- At DSW, a facility was installed to separate oils and fuels from waste from the heavy mechanical equipment garages, through membranes. The facility is being run in.
- At the Rotem site, a waste water project is being implemented with the principal aims of reducing effluent quantities, recycling waste water, reducing water consumption and treatment of waste water at the start of the flow. Since 2005, when the project was commenced, the quantity of effluents has been reduced by about 56%. The master plan outline is being prepared in conjunction with the environmental authorities.
- At DSW, a principle plan was prepared for restoration of the landfill at the plant site, which has been approved by the authorities. The Company has started detailed planning for restoration of the site.

3. Hazardous substances

- Continued implementation of a master plan for methods of collecting liquid hazardous substances at Rotem.
- Continued implementation of a multi-year master plan to prevent ground pollution by fuels or oils at Rotem sites. The plan includes steps to prevent soil pollution at fuel stations and systems are being constructed to collect run-off and oils at garages.
- Promotion of computerized systems for control and monitoring of quantities, and permits regarding hazardous substances.
- Computerization of toxins permit on the SAP system, including introduction of barriers to prevent deviations from the quantities set out in the permit.

C. Material consequences of environmental laws

1. For the implications of the Clean Air Law, 5768-2008, see section 4.4 C.
2. The Sodom site has an area with a history of fuel oil contamination. In coordination with the Ministry of Environmental Protection, a land survey was carried out to assess the extent of contamination, which was submitted to the Ministry of Environmental Protection. The Company is waiting for the instructions of the Ministry of Environmental Protection regarding treatment of the contaminated area.

D. Material legal proceedings related to environmental issues

1. In February 2004, the Company learned that the Prosecutor of Environmental Crimes in Catalonia, Spain had initiated a criminal proceeding against a subsidiary of ICL Fertilizers that operates mines in Spain. During this proceeding, he submitted a report to the Magistrate's Court in Manresa, Spain citing current and former managers of the subsidiary. It claims that in 1996 the managers violated local legislation and that brine seepage from the salt heaps, which are a byproduct of potash plants, caused groundwater pollution over the course of many years, some even before they were acquired by ICL Fertilizers. A request for an order prohibiting the continued dumping of salts was set aside by the Court in 2007. The criminal proceedings pending against the managers are pending. The Company estimates, based on the opinion of its legal advisors, that the subsidiary's exposure is not material.
2. The production site of Fertilizers and Chemicals Ltd. a company in the ICL Fertilizers sector company (hereinafter, "F&C") borders on the Kishon River. For decades, F&C, the local authorities, and many other organizations and plants allowed waste water to flow into the Kishon.

Between 2001 and 2005, several monetary suits were filed in Haifa District Court against F&C and other defendants (including the State of Israel). The plaintiffs are 50 individuals (or their heirs and dependents), mostly fishermen, who allegedly worked at one time in the Kishon fishing harbor. According to the plaintiffs, the flow of sewage that each of the chemical plants on the banks of Kishon allowed to run into the river caused the cancer (and other illnesses) from which they suffer.

Based on the assessment of its legal counsel, given the complexity of cases, both factual and legal, and the many parties involved, the company cannot assess its exposure in these cases and, therefore, no provision has been made in this respect in the financial statements.

Between 2000 and 2007, former soldiers (and their heirs and dependents) filed a number of suits in Haifa District Court against several defendants. They claim that they contracted cancer and other diseases as a result of contact with the toxic waters in the Kishon River and its environs.

Based on the assessment of its legal counsel, given the complexity of cases, both factual and legal, the early stage of the proceedings and the many parties involved, the company cannot assess its exposure in these cases and, therefore, no provision has been made in this respect in the financial statements.

For more information about the fishermen's and soldiers' pending suits regarding the Kishon River, see Note 24.c to the Financial Statements.

E. Environmental risk management policy

Regarding, risk management policy, see section 3.3.

F. Future material capital expenditures for environmental matters

During 2011, ICL Fertilizers invested a total of \$19 million in the acquisition of property, plant and equipment for the prevention of environmental hazards and recorded \$26 million as a current expense. During 2012, ICL Fertilizers is expected to invest approximately \$36 million in property, plant and equipment and to incur current expenses of approximately \$30 million. In ICL Fertilizers' estimation, there is not expected to be a decrease in the level of these expenses in subsequent years.²⁰ All of the amounts invested, and expected to be invested in the future, are for prevention or reduction of environmental damage. ICL Fertilizers was not required to invest in the repair of damage caused to the environment.

²⁰ The Company's estimates regarding the projected costs and/or expenses in the area of environmental matters constitute forward-looking statements, and are based on legislation and regulation currently in effect, on governmental requirements known to ICL Fertilizers and on investment estimates made by Company engineers. The realization of these estimates cannot be certain. Any change in these estimates, including changes in the estimates made by the Company's engineers or changes in adoption of governmental requirements or legal rulings may cause different results than those stated above.

4.1.14 Limitations on and regulation of the Corporation

A. Concessions and permits

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

1. Dead Sea Concession Law 5721-1961

According to the Dead Sea Concession Law 5721-1961 (the "Concession Law"), as amended in 1986, and the concession note attached as an annex to the Concession Law, DSW of ICL Fertilizers was granted a concession to commercially exploit the resources of the Dead Sea and to lease the ground required for its plants at Sodom for a term that will expire on March 31, 2030, with right of precedence to receive the concession after the concession's expiration. As consideration for the concession, DSW paid royalties to the Israeli government, calculated at the rate of about 5% of the value of the products ex works, excluding certain expenses²¹, as well as leasing fees. The state was entitled to demand another hearing in respect of the rate of royalties for the surplus amount over three million tons of potash that will be produced in any year from 2010 onwards, provided that the rate of royalties on the surplus does not exceed 10% of the value of the product ex-factory, less certain expenses. In December 2010, a letter was received from the Accountant General with a request to discuss an increase in royalties through arbitration between the parties.

At the beginning of 2012, as part of the agreement with the Israeli government for implementing and financing the harvest of salt, as set out in section 4.1.18 A, it was determined that DSW will pay royalties for potash sales as from 2010, over an annual amount of three million ton at a rate of 10%, and as from 2012, royalties of 10% for annual potash sales over the amount of 1.5 million tons. It was further determined that subsequent to the amendment to the rate of royalties, the state does not recognize a need for additional changes to the specific fiscal policy towards mining activities in the Dead Sea including the commercial activities. If there is a change in fiscal policy, the increase in the royalty rates will be canceled and the state may demand renegotiation of the rate of royalties in respect of potash sales exceeding three million tons a year.

DSW granted a sub-concession to Dead Sea Bromine to produce bromine and its compounds from the Dead Sea. This concession is due to expire at the same time as the concession of DSW. DSW collects the royalties for the products produced by the bromine company and pays them to the state. There is also an arrangement regarding the payment of royalties by Dead Sea Magnesium for the production of metal magnesium by virtue of a specific arrangement with the state that is prescribed in a government decision from September 5, 1993. According to the arrangement, Dead Sea Magnesium pays royalties on the basis of carnallite that is used to produce magnesium. The arrangement with Dead Sea Magnesium prescribes that the State may, during the course of 2006, request a renegotiation of the level of the royalties and method of calculating them in respect of 2007 onwards. The State's request for renegotiation was first received at the end of 2010.

In 2006, a letter was received from the incumbent Accountant General alleging that there had been a deficiency in the payment of royalties of hundreds of millions of shekels.

Under the concession, disputes between the parties relating to the concession, including royalties, are to be decided through arbitration with three arbitrators (each party appoints one arbitrator and the two parties together appoint the third arbitrator). On January 9, 2011, the State and DSW resolved to refer to arbitration for the purpose of making a decision about the method of calculating the royalties under the concession, as well as royalties that are to be paid in respect of metal magnesium and payments or refunds (if there are any) resulting from these issues. The parties each appointed an arbitrator and they appointed the third arbitrator.

²¹ The concession prescribes a mechanism for calculating the value of potassium chloride, bromine and magnesium chloride as follows – sale price less adequate expenses for packaging, sales commission and insurance, less a further 10% of the sum after the reduction. A similar method of calculation was prescribed for other products on which royalties are owed to which an additional 15% will be added to the adequate expenses deducted from the sale price. The precise mechanism for the calculation is set out in section 15 of the concession agreement, and the above is only a general summary.

On March 14, 2011, a written claim by the State of Israel against DSW was received as part of the arbitration process. In the claim, the State demands \$265 million, for deficient payments of royalties in 2000-2009, plus interest and linkage differentials plus the change in the method of calculating royalties for metal magnesium. Following the agreement with the state in respect of the Permanent Solution and the change in the rate of royalties, the section in the statement of claim referring to the rate of royalties for potash sales exceeding three million tons per year in a specific year from 2010 onwards was deleted.

After studying the State's claims regarding past years, DSW believes, based on a legal opinion it received, that the royalties it paid and the manner in which they were calculated are consistent with the provisions of the concession. This calculation method was applied consistently from the time in which DSW was a government company and the government was aware of and accepted this method. Based on the legal opinion received by DSW, no provision was made in the financial statements for the amounts of royalties that the state alleges were deficient.

2. Phosphate mining concessions

Rotem has mined phosphate in the Negev Desert for over fifty years. This mining is done through concessions for mining phosphate, granted from time to time by the Minister for National Infrastructure by authority of the Mining Ordinance by means of the Supervisor of Mines (the "Supervisor" in his ministry, along with mining permits issued by the Israeli Lands Administration ("the ILA"). The concessions relate to the mineral (phosphate rock) while the permits relate to the use of the land as an active mining site.

Mining concessions:

Rotem has the following concessions:

1. Rotem Field - valid until the end of 2021;
2. Tzafir (Oron-Zin) Field - valid until the end of 2021;
3. Effeh Field - valid until the end of 2013;
4. Hatrurim Field –The Supervisor has decided to extend the area of the Rotem Field concession (valid until the end of 2021) so that it covers Hatrurim Field. The area of the Rotem concession has been so extended, and the matter has been transferred to the ILA to deal with the extension of the area of the mining permit for the Rotem Field, in line with the extension of the concession area.

Royalties:

With respect to its mining of phosphate, Rotem is obligated to pay royalties to the State according to the formula set forth in the Mining Ordinance. The formula for calculating royalties was updated in February 2010 in the framework of a compromise which encompassed all the disagreements concerning past royalties and the formula for future royalties.

Planning and building:

Mining and quarrying activities require a permit specific to a given area, according to the Planning and Construction Law, 5725-1965. These plans are updated, as needed, from time to time. At the date of this report, various applications are in different stages of hearing by the planning authorities.

At the end of 2009, at the recommendation of the team which is handling the preparation of the new plan for the Oron-Zin area, applications by Rotem to extend the implementation stages relating to a plan from 1991 that zones the Tzafir area (Zin – Oron) for mining and quarrying, were approved by the district committee and implementation was extended for another four years, until 2013.

The plan for mining phosphate rock in the Barir field (South Zohar) is in the process of obtaining planning approvals and the decision to file has not yet been taken. The residents of Arad and the Bedouin settlements in the area oppose the filing of the plan and the continuation of planning actions in connection to this field, because of concern about environmental and health hazards that they claim will be caused by operation of the mine. The

Company is of the opinion that mining activity in the Barir field does not pose any risk to the environment or people. Therefore, the company has proposed the appointment of an independent expert who will examine the contrary opinions on the subject. After an expert appointed by the Prime Minister's office determined that mining activity in the Barir field does not pose a health hazard, the Ministry of Health appointed a committee on its behalf to assess the issue before formulating the Ministry's position. The first stage will include monitoring of the Company's active mine. Residents in Arad continue to oppose the advance of the mining plan.

3. ICL Fertilizers' European concessions

In Spain, ICL Fertilizers has been granted mining concessions based on Spanish legislation enacted in 1973. Pursuant to the legislation, the regional government in Catalonia issued special mining regulations, which granted IP, an ICL Fertilizers company, separate concessions for each of the 126 different sites relevant for its current and future mining operations. Some of the concessions are in force until 2037 and the rest of them are in force until 2067. In 2011, mining royalties amounted to EUR 0.2 million. In respect of another area beyond the areas listed above, Reserva Catalana, an application was submitted to extend the concession period as from October 2012 for 30 years. At this stage, there is no mining in this region.

CPL's mining concession is based on approximately 113 mining leases and concessions for extracting various minerals, in addition to numerous easements and rights of way from private owners of land under which CPL operates or, in the case of mining underneath the North Sea, granted by the British Crown. The terms of all of these leases, concessions, easements and rights of way extend until 2015-2038. The lease fees in 2011 amounted to approximately £2.8 million.

Specialty Fertilizers mines peat (a raw material for production of growing media to improve soil and used as soil substitutes in growing media) in the Company's mines in the UK (Nutberry, Creca, and Douglas Water). The Nutberry and Douglas Water sites are owned by ICL Fertilizers and Creca is held by a long-term lease. The local authorities grant mining permits for predefined periods of 14 years, which are renewed after a review.

4. Well production permits

The supply of water to the ICL Fertilizers plants at the Dead Sea is via a series of wells that the Company operates, both within and outside of the concession area. ICL Fertilizers has lease agreements and production permits for these wells²².

B. Business licenses and toxic substance permits

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

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

Segment companies operate in accordance with terms set out in licenses and permits. If there is any discrepancy in respect of the requirements of these terms, the companies take immediate action to remedy the discrepancy in coordination with the Ministry of Environmental Protection.

C. Outline plan and building permits

²² In respect of the wells at Ein Ofarim, the lease from the ILA expired in February and March 2009. A preliminary application to extend the lease period was submitted to the ILA, but it was not accepted. ICL Fertilizers are taking action to change the ILA's decision. The Company believes that the ILA will extend the lease. If the lease is not extended, this will not have a material effect on the Company's operations.

Pursuant to special legislation with respect to the Dead Sea concession²³, enacted in 1994 and -1995, the provisions of the Planning and Building Law were applied to the DSW under the concession, subject to special provisions set out in the aforesaid legislation. These laws stated that any work done by March 1994 would be deemed to have been performed in accordance with the Planning and Building Law, and they also defined a list of specific projects which could be set up under a special brief procedure, and which would be deemed to have been approved under planning and building laws. The Company is operating to receive approval for the outline plan and the detailed plans for its activities in the concession area at Sodom. ICL is in the process of legalizing its outline plans for its various areas of operation at Sodom. Several of the areas already have approved plans, and as far as the other areas, the plans are in the negotiation and approval process with the planning and construction bodies. In addition, as the outline plans for the facilities are approved, there is ongoing activity to obtain approval for the buildings constructed since 1994 which could not be approved as long as there was no approved outline plan.

For planning procedures with respect to Pond 5, see section 4.1.18 A below.

As to Rotem's mining and quarrying works, see section 4.1.14 A (2) above.

At several of Rotem's sites, there are structures and land usages that do not have building permits or in respect of which the building permits that existed have expired. In most cases, these are old buildings or land uses in respect of which the opinion was, in the past that they did not require building permits. Rotem is constantly working to fill in the existing licensing gaps.

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

1. The prices of fertilizer-grade phosphoric acid for local Israeli customers are regulated under the Supervision of Prices for Commodities and Services Law 5756-1996. The quantity of these products sold in Israel by ICL Fertilizers is not material to ICL.
2. For further information regarding the declaration of ICL and its subsidiaries as a monopoly in certain fields in Israel see section 5.5.1 below.

E. Standards and Quality Control

There are no binding standards for the manufacture of fertilizers²⁴. However, ICL Fertilizers has a comprehensive quality control system. The central common issues are as follows:

- All ICL Fertilizer plants in Israel are participants in the international Responsible Care program;
- In most of ICL Fertilizers' plants advanced quality control methodologies are implemented, such as: authorization under quality control standards, as set out below, deployment of quality improvement staff, deployment of Six Sigma staff, and information management. Its principal facilities also have a comprehensive internal and external quality assurance system.
- Most production facilities have ISO 9001 quality management certification, ISO 14001 environmental quality management certification and OSHA 18001 safety and health management certification.

F. Limits on cadmium in phosphate fertilizers

Phosphate rock, which ICL Fertilizers mines, contains cadmium in various concentrations. Cadmium is considered to have a harmful effect on the environment. Most countries to which ICL Fertilizers sells phosphate fertilizers do not presently limit quantities of cadmium in fertilizer. The European Union has been conducting, for some time, a series of public hearings prior to enacting regulations, limiting the maximum concentration of cadmium permitted in phosphate fertilizers anywhere within the countries that are European Union members. According to a draft of these regulations published as part of the hearing, the regulations

²³ The Dead Sea Concession (Planning and Building) (Temporary Provisions for Particular Works) Law, 5754-1994 and the Dead Sea Concession (Legislative Amendments) Law, 5755-1995.

²⁴ In some countries, there are provisions that restrict the content of certain substances for certain uses. See for instance, re cadmium in phosphate fertilizers – section F below.

would come into effect gradually over a period of five to fifteen years after being approved. A number of European countries have already imposed limits on quantities of cadmium in fertilizer. However, these cadmium limitations generally do not currently prohibit sales of phosphate fertilizers containing cadmium above such limits. Instead, they require payment of a penalty for selling nonconforming products. Some of ICL Fertilizers' fertilizer products currently exceed these cadmium limits. ICL Fertilizers intends to adapt its use of raw materials in fertilizer production to concentrations that will comply with the cadmium limits imposed by the proposed European Union regulations at an insubstantial cost²⁵.

G. Salt accumulation at mines in Spain

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

With regard to the environmental license, the sites have received licenses that are valid until 2015 and 2016.

As to the license for salt heaps on the sites: for the first site, there is a permit to heap on the site sufficient for about 20 years (until 2026) at current production levels. For the second site, where ICL Fertilizers intends to shut down mining (see section 4.1.8), there is a heaping license on the site sufficient, at current production rates for another one and a half years. ICL Fertilizers is acting to extend the license until the end of mining in 2014.

4.1.15 Legal proceedings

For details of the contingent claims against the Company, see Note 24C(3) to the financial statements.

4.1.16 Goals and business strategy²⁶

A. The main growth engines of ICL Fertilizers are primarily related to continue growth in the demand for grains, which is the basis for growing demand for fertilizers. ICL has no impact on the demand for grains; however there is a long-term trend of increase in worldwide consumption of grains. Accordingly, the Company is taking steps to increase the production capacity of potash, phosphates and fertilizers whether by organic growth or acquisitions, as set out below:

1. Expansion of potash production capacity in all sites in order to take advantage of the inherent advantages of this market and to participate in this market's growth.
2. Broadening production of downstream products based on phosphate rock, while utilizing existing infrastructure and improving utilization of the current plants.
3. Continuation of expansion and development of specialty fertilizers through organic growth, acquisition of additional companies and expansion of the product range through development of advanced technologies
4. Development of markets for polyhalite sales as a direct application and development of downstream fertilizers based upon polyhalite as a raw material
5. Diversification of market destinations.
6. Increasing logistic transportation capability in Israel.
7. Constant improvement of product quality.

²⁵ The information contained in this section includes forward-looking information. This information is based on ICL's intentions and might not occur or might occur only in part, *inter alia* due to changes in legislation that will be passed at the end of the process, or in the interpretation or implementation thereof, and due to technical requirements or the costs of adjustment to standards, as may become apparent during the course of the adjustment attempts.

²⁶ ICL Fertilizers' plans and strategies, as described in this section, reflect the strategies of ICL Fertilizers as of the date of this report, and are forward-looking statements and are based on ICL Fertilizers' projections. These plans and projections may change, in whole or in part, from time to time. There can be no certainty regarding the accomplishment of these plans or the success of these strategies.

8. Compliance with binding environmental standards whilst implementing the best and most available techniques and improving environmental performances at production sites, and throughout all production and marketing processes.
9. Responsible and sensible use of natural resources such as soil, landscape and water.
10. Constant and continual improvement in the field of safety and implementation of a "zero accidents" policy.

B. Principal projects planned or undertaken by the Corporation

1. ICL Fertilizers today operates a power plant for producing electricity at Sodom, and purchases electricity from the Israel Electric Corporation. At this stage, ICL Fertilizers is looking into the possibility of setting up a natural gas-based power station with a production capacity of approximately 250 megawatts, which should supply the electricity requirements of the production plants in Sodom.
2. CPL is considering constructing a plant to produce specialty fertilizers and industrial products based on polyhalite in the Tees Valley area, near its potash mine in the UK. Geological studies performed by CPL indicate that there more than one billion tons of polyhalite ore beneath the potash layer in the Company's mine. ICL Fertilizers has completed the access tunnels to the polyhalite ores and is carrying out trial sales of polyhalite, and as from 2012, will start regular production of the product.
3. ICL Fertilizers has started to construct a new partition in the middle of the dike surrounding Pond 5, to minimize seepage from the dike. This project includes raising the dike by another one meter. For further information see section 4.1.18(C).
4. ICL Fertilizers has approved full harvest of salt from Pond 5 ("the permanent solution") designed for ongoing transfer of the salt precipitated in Pond 5, totaling 20 million tons a year, to the northern basin of the Dead Sea. For further information see section 4.1.18(A).
5. ICL Fertilizers plans to build a new pumping system from the northern basin to the evaporation ponds, as part of the preparations for the receding level of the Dead Sea and the removal of pumping station P-88 from service.
6. ICL Fertilizers is advancing a plan for a further gradual increase of the production capacity in Sodom plants (stage 11). The investment includes upgrading and addition of equipment in plants to open the bottlenecks in the production process. See also section 4.1.8.
7. ICL Fertilizers approved a plan to close one of its two production sites in Spain, while expanding production at the other site (for further information, see 4.1.8).
8. ICL Fertilizers plans to upgrade the logistics system in Sodom and Eilat in order to increase the effective logistic capacity according to the Company's growth and sales plans. The project includes upgrading and adding logistics systems in Sodom and Eilat.

4.1.17 Acquisition of new companies [

- A. On February 28, 2011, a transaction was completed for the acquisition of the companies, assets and operations of a specialty fertilizers business unit owned by the US company, Scotts Miracle-Gro (the name was subsequently changed to Everris).

The business unit is engaged in the manufacture and sale of specialty fertilizers, growing media, plant protection products, grass seeds for commercial nurseries, public parks, sports fields, and intensive agriculture. For further information, see Note 11B to the financial statements.

- B. In April 2011, a subsidiary in Spain acquired the full ownership in A. Fuentes Mendea SA ("the Acquired Company"), which manufacture and marketing specialty fertilizers in Spain. for approximately \$122 million. T For further information, see Note 11B to the financial statements.
- C. ICL entered into an agreement with Chile's SQM, a partner in the Belgian holding company Nutrisi Holdings, for the acquisition of all the shares (50%) that SQM holds in this company. Following this transaction, ICL will hold 100% of the shares of Nutrisi Holdings.

Nutrisi Holdings and Norway's Yara are equal partners in NU3, which owns two large production plants for soluble NPK and liquid fertilizers, one in northern Belgium and the other in the southern Netherlands. NU3 is the largest company of its kind in the world for production of soluble NPK fertilizer compounds, and it sells its products worldwide, with the bulk of its operations focused on Europe.

4.1.18 Other matters

A. Increase in water level in Pond 150

Dead Sea minerals are extracted through a solar evaporation process during which salt precipitates into the bed of one of the evaporation ponds at Sodom²⁷, in one of the sites of DSW, of ICL Fertilizers. The precipitate salt creates a layer on the pond bed of approximately 20 cm in height annually. The process of production of the raw material requires that a fixed brine volume is preserved in the pond. To this end, the water level of the pond is raised by approximately 20 centimeters annually.

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

As far back as 1971 it was widely known, including to the various authorities that the water level in Pond 150 was rising annually by approximately 20 centimeters. Most of the hotels signed a document in which they acknowledge their awareness of the rising water level and that they will take this matter into account in the planning and construction of the hotels, and that they will bear the costs of building barriers and they shall have no claim against DSW with respect to the raising of the water level. The above-mentioned situation requires the establishment of defenses for the relevant objects. Such protections are divided into two stages. The first is the stage of **temporary defenses**, which are supposed to provide protection pending the implementation of a **permanent solution**. The second stage is that of the **permanent solution** which is supposed to provide protection until the end of the current concession period (i.e. until 2030)²⁸.

Temporary defenses: Temporary defenses have been implemented for several years, by constructing a dike along the western shore of the pond near the relevant hotel and in some places, together with a system for lowering the groundwater. These protective dikes are raised from time to time, taking into account the water level in the pond. At the date of the report, there is an agreement between DSW and the state that DSW will finance 39.5% of the costs of financing the temporary protections and the state will cover the remaining costs.

Permanent solution: The permanent solution for the rising level of the Dead Sea is full salt harvesting for Pond 5 of DSW ("the salt harvesting project") such that it will not be required to raise the water level of the pond after completion of the harvesting system. In December 2011, ICL reached an agreement with the Ministry of Finance for an outline of principles for a permanent solution. The main points of the outline are:

1. DSW will plan and implement the salt harvesting project.
2. The government will declare that the salt harvesting project and building of the new pumping station are national infrastructure projects that will be expedited by the National Infrastructures Committee (the NIC). The government will instruct the NIC and DSW, as the project developer, to focus their full efforts on the matter to ensure that all related planning is effected by June 30, 2013.
3. From the beginning of 2017, the water level in Pond 5 will not exceed 15.1 in the DSW network. If there is a substantial deviation from the schedules for implementing the salt harvest project due to changes required by the planning institutions, because the plan was not approved on time, without DSW breaching its obligations, DSW may request to raise the

²⁷ Pond 150, also known as Pond 5

²⁸ The division into two stages stems from the fact that since the level of the pond continues to rise annually by 20 cm, protections are required at the interim stage, until the permanent solution is in place.

water level beyond the provisions of this section. DSW will be required to compensate for any damage that may be caused as a result of the rise in the water level.

4. According to DSW calculations made in October 2010, the total cost of salt harvesting is estimated at NIS 3.8 billion, assuming a real discount rate of 7%. The government will bear 20% of the expense of the salt harvesting project but no more than NIS 0.76 billion. The government's maximum commitment is linked to the CPI and bears interest at a rate of 7%. The government's portion of the financing for the salt harvest project includes \$30 million that it received in 1992, as a one-time dividend, as the share of DSW in the permanent solution for the Dead Sea level.
5. DSW agrees to increase the rate of royalties on potash sales exceeding 1.5 million for any given year, so that instead of the 5% royalty currently stipulated in section 15(a) of the concession agreement, DSW agrees to pay a 10% royalty. The adjusted rate of royalties will apply to sales from January 1, 2012, except for annual sales in excess of three million tons, for which the rate of royalties will be adjusted for sales subsequent to January 1, 2010. The part in the statement of claim being arbitrated between the State of Israel and DSW regarding royalties for annual sales in excess of three million tons will be canceled.
6. The government will resolve that, for the time being, it does not recognize a need for further changes in its specific fiscal policies in respect of mining at the Dead Sea, including commercial activities, therefore, at this time, it will not initiate and will oppose legislation that might be proposed. The agreement of DSW to increase the rate of royalties, as set out in section 5 above, is subject to implementation of the government decision, as set out in this section.
7. The Company and the Israeli government will sign a detailed agreement.

In January 2012, the government approved the outline plan and made the decisions arising from the outline, as set out above.

Until the harvesting system is completed, the construction of additional interim defenses is required.

There is no certainty as to whether the construction of these defenses will finish on the dates dictated by the height of the level of the pond, since there might be delays caused, inter alia, from the need to receive the permits required by law (which are subject to complex and lengthy proceedings), and for other reasons. Delays in constructing the interim defenses could cause significant damage to the hotels and/or to DSW.

The Dead Sea Hotel Association filed a petition with the High Court of Justice in 2006 to order the state to declare a decision regarding the permanent solution for the level of the Dead Sea. On February 1, 2012, the court ruled that in view of the outline agreement between DSW and the government, the petition is redundant therefore it is dismissed.

In January 2012, Adam Teva v'Din, the Israel Union for Environmental Protection, and the Movement for Quality Government in Israel ("the petitioners") filed a petition with the High Court Justice ("the High Court") to issue an order nisi and request for an interim order against the Government of the State of Israel, the Ministry of Finance and DSW ("the respondents") regarding the decision of the government on January 1, 2012 regarding a permanent solution for the level of the Dead Sea level and the royalties ("the petition"). In the request, the petitioners petitioned the High Court to order the cancellation of the government resolution and instruct the government that the agreement, will not be valid until the petition is heard. In February 2012, the court dismissed the petition for the interim order and ruled that the case be transferred to the panel of judges. The hearing for the case was set for May 2012.

Outline plan:

As part of the previous government decision to declare the defense project a national infrastructure project, it was resolved to expedite a special infrastructure plan in the National Infrastructures Committee. The most recent government decision requires DSW to advance the plan for the permanent solution, which includes salt harvesting and the replacement of DSW's existing pumping station. NIP 35, which relates to the urgent interim protections that are also intended to allow raising the dike at Pond 5 to a certain height, is pending government approval. Approval of all stages of the plan by the relevant dates is critical for the continuation of DSW's production process and any delay could disrupt the process and cause damage or loss.

Tama 13, a national outline plan for the Dead Sea area (including the concession area) is being prepared. The National Council has recently approved the policy statement of the outline plan.

The document presents a vision according to which the region where the Company's operates will continue to serve industry, tourism and the communities, while preserving environmental aspects. The next stage will be to prepare the regional outline plan based on the policy document.

B. The Dead Sea water level and the sea canal

The water level of the Dead Sea (its northern section) drops about one meter each year. The decreasing water level is accompanied by a shrinking of the sea area and other phenomena such as creation of sinkholes, underground cavities and deepening of the river courses that flow to the Dead Sea. The falling water level stems from the policies of the Jordanian, Syrian and Israeli governments to utilize the water resources of the Dead Sea catchment area. The extraction of the Sea's salts by plants in Israel and Jordan also contributes somewhat to the drop in the water level in the northern section. According to a study performed on behalf of the government²⁹ (the "Default Choice Report"), utilizing the water sources prevents approximately 1.25 billion cubic meters annually of water which used to flow into the Dead Sea from flowing into it, being exploited instead. Maintaining the current depth and surface area of the water would require an additional inflow of more than 700 million cubic meters per year.

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

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

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

A drop in the water level means that the Company is required to draw the water from a greater depth, which requires investment and increased electricity expenses for DSW. According to the Default Choice Report, it is estimated that even if it will be decided to build a Sea Canal, it will take more than 10 years for its construction to be completed³⁰.

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

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

Parallel to the World Bank project, according to publications, Jordan is also advancing a project for a desalination plant near Aqaba, with water from the plant flowing to the Dead Sea. Even if the quantities are relatively small, this project could affect the sea, and accordingly, the operations of DSW.

C. Cracks in the evaporation pond dike

²⁹ Policy Paper for the Future of the Dead Sea, March 2004.

³⁰ A drop in water level of 15-20 additional meters is therefore the minimum projection. This is because of the timetable required to understand environmental implications, and collect data, for project planning and approval (specific to a multi-lateral project), raising funds and realizing the broad range of activities required by this matter. See the Default Choice Report, p. 4.

Brine seepage in one of the dikes enclosing ICL Fertilizers' evaporation ponds has caused damage to the layer sealing the dike. As a result, holes have been found in the dike itself and cracks have appeared along its length. Under certain circumstances, these holes and/or cracks might endanger the stability of the dike.³¹ ICL Fertilizers, based on consultations with international experts in the field, has been taking and continues to take a variety of maintenance steps to maintain the stability of the dike and to reinforce it, and is continually checking these steps in order to detect the development of malfunctions in the dikes. Measures that were implemented include dynamic compression of the dike as part of a comprehensive engineering plan to reinforce the stability of the dike. In addition, a new partition is being built to minimize seepage from the dike. The scope of the partition project is estimated at \$470 million and includes raising the dike by one meter. The project is expected to be completed in 2014.

D. Dead Sea sinkholes

The phenomenon of sinkholes, which is attributed mainly to a lowering of the level of the Dead Sea, is increasing in the Dead Sea area. Most of the sinkholes develop near the northern section of the Dead Sea, where there is little operation by ICL Fertilizers. Sinkholes have also appeared near the evaporation ponds and in other places in the DSW area. Development of a sinkhole under a dike could cause the dike to burst, causing loss of the solutions in the pond. ICL Fertilizers is working to locate the development of sinkholes in the area of the plant and along the dikes, and to fill them in when they appear.

E. Gas supply agreement

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

Under the Agreement, the ICL Group undertakes to purchase from the Yam Tethys partnership a total quantity of 2 billion cubic meters (BCM) of natural gas, subject to adjustments under the terms of the agreement (the "contractual quality of gas").

The supply of gas will be discontinued on the earlier of the following (subject to adjustments):

- (1) Five years from the date of completion of the running in period, but no later than September 2015 (subject to extension);
- (2) Purchase of the entire contractual quantity of gas.

The price of gas is based on the price of fuel oil, with a discount that includes maximum and minimum prices. The ICL Group has a take or pay agreement to purchase minimum annual quantities, according to conditions set out in the agreement.

On 26 January 2012, the Yam Tethys partnership announced that it is forced to reduce the volume of gas it produces, due to dilution of the gas in the well, citing "force majeure", and that, ostensibly, according to the information in the announcement to ICL, the gas in the Yam Tethys deposit will run out during 2013. Between December 2011 and February 2012, there was a reduction of 30% in gas supply from Yam Tethys to ICL plants. At the approval date of the reports, the extent of the expected reduction in the future is unknown. ICL informed Yam Tethys that its announcement is not in compliance with the contractual requirements for the declaration of a force majeure, that it demands full information and data, in accordance with its contractual right, about the depletion of the reservoir and that it expects the Yam Tethys partners to supply gas from other sources that they own. On December 12, 2010, DSW entered into a conditional agreement with East Mediterranean Gas SAE for the supply of 0.2 BCM of natural gas to a power station that DSW is considering establishing at Sodom. Pursuant to the agreement, DSW has an option to purchase an additional quantity of up to 0.53 BCM of natural gas. According to the agreement, the option expired on March 31, 2011. The exercise period of the option was extended several times, the last being up to June 30, 2012.

- F. On September 30, 2010, the collective labor agreement at DSW expired. On January 4, 2011, the workers' committee of DSW declared a strike, reflected in work sanctions that restricted production and maintenance activities, which affected the operations of DSW and other plants on the DSW site. These sanctions disrupted production processes to the extent of suspension of plant production and potash shipments to the Company's customers. On February 16, 2011, the management of DSW and the workers' committee reached a memorandum of understanding

³¹ For additional information on the danger of seepage through the dike, see section 5.18.5 on the topic "

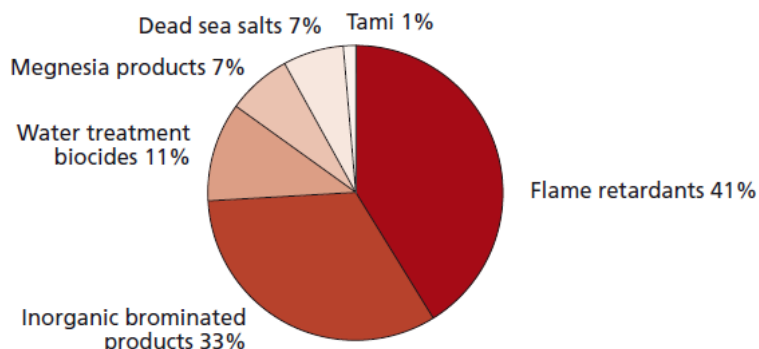
regarding the labor agreement for the coming years and the sanctions came to an end. On April 14, 2011, a new collective agreement for five years was signed, ending in September 2015.

4.2 ICL-Industrial Products

4.2.1 General information on the area of operations

The following chart details the external sales³² of the Industrial Products business segment according to product areas:

External sales for 2011 – \$1,498 million



A. Description of the area of operations

ICL-IP develops, manufactures, markets and sells industrial chemicals, principally based upon bromine, magnesia, chlorine and salts from the Dead Sea and phosphorus and chlorine purchased from third parties. In 2011, the net sales of the Industrial Products segment (including sales to other companies in the Company) totaled approximately \$1,513 million. ICL-IP sales constituted approximately 21.4% of ICL's total sales (including sales to other segments in the Company) in this year. Most of ICL-IP's sales are of bromine and phosphorus based flame retardants, bromine compounds for industrial use and agricultural use, and clear bromine-based solutions for the oil and gas drilling industry. Other products sold by ICL-IP are biocides based on chlorine and bromine for water treatment, products based on magnesia (oxide, hydroxide and carbonate), and calcium compounds, phosphorus-based functional fluids and other products based on the Dead Sea salts. During 2011, ICL-IP used internally approximately 76% of its annual elemental bromine production and sold the remainder in global markets.

ICL-IP's major manufacturing facilities are located in Israel in Sodom (production of bromine, Dead Sea salts and bromine compounds), in Ramat Hovav (production of bromine compounds), and in Mishor Rotem (magnesia production) in Terneuzen, the Netherlands (production of bromine compounds), in Germany at Bitterfeld (production of phosphorus compounds) near Calais in France (production of specialty magnesia products and calcium compounds used as raw material in functional foods), in the Wexford region in Ireland (production of biocides for water treatment) in the United States in West Virginia (one factory for the production of chlorine-based biocides for water treatment, and another factory for production of phosphorus

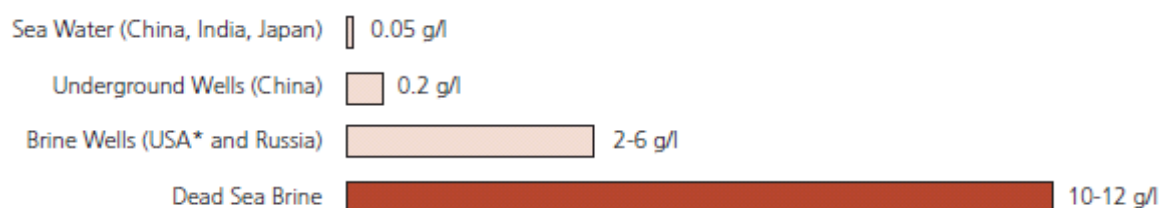
³² The term "external sales" refers to the segment's sales to customers outside of the ICL Group (customers that are not other segments of ICL).

compounds), in China through a joint venture in Liang Yong Yang (production of bromine compounds) and a joint venture in Shan Dong (production of bromine compounds), and a new plant for production of bromine compound in Jiangyin which is under construction and will be operational in 2012, as shown in the map below.



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

The Dead Sea is the source of the most highly-concentrated bromine³³



* Arkansas – brine wells of Chemtura & Albemarle. Source: ICL Estimates

** For details of extraction process from Dead Sea brines, see section 4.2.12 (1) below.

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

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

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

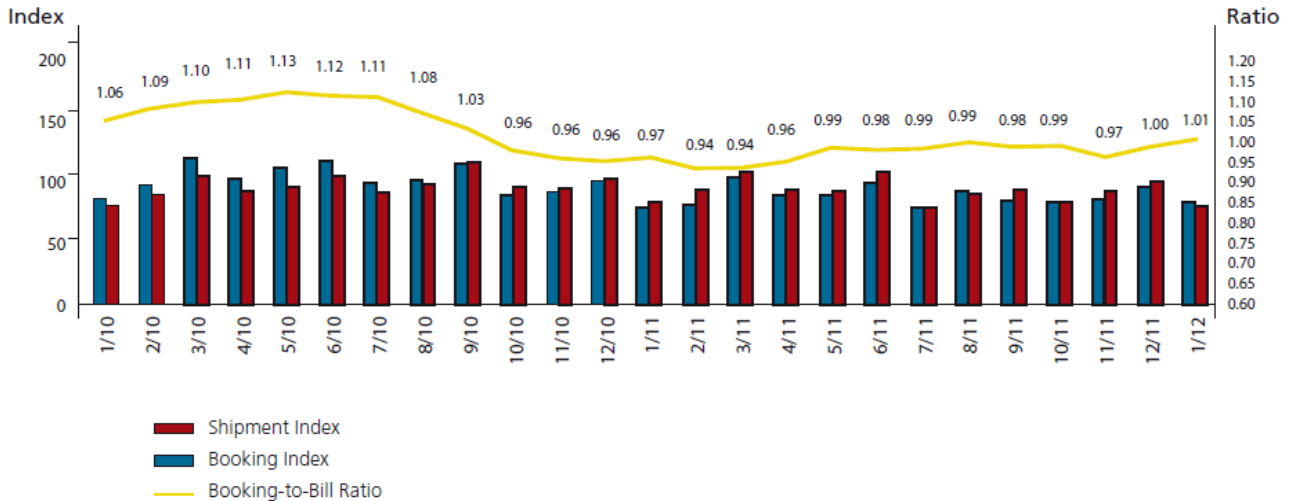
B. Market trends and developments

The operations of ICL-IP are largely affected by the level of operations in the electronics markets, construction, automotive, oil drilling, furniture, pharma, agro, textile and water treatment. The growing demand and declining supply of bromine in China led to an increase in selling prices of elementary bromine this year compared to last year. The increase in demand for segment products, which continued for most of the year, slowed down towards the fourth quarter, mainly for products intended for the electronics market. The demand for flame retardants for insulation in the construction industry was not affected, mainly due to insulation and energy saving regulations in Europe.

The "green organizations" are increasing their pressure to reduce the use of bromine-based flame retardants. On the other hand, other and new uses for bromine and bromine compounds have been developed.

³³ The information in this graph is based on the Company's internal estimates.

Below is a description of the printed circuit market in recent years:



Source: IPC – Association connecting electronics industries, Jan. 2012

The ratio between the order backlog and actual supply of printed circuits in the United States and Canada is an indication of the forecasted demand in the electronics market and indirectly, the forecasted demand of fire retardants. A ratio that is higher than 1 indicates a forecast of higher production in the future. During most of 2011, the ratio between the order backlog and the actual supply of printed circuits was lower than 1. Towards the end of the year, the ratio increased to 1 and in January 2012, stabilized at 1.01. This increase could indicate an expected increase in the forecasted demand of flame retardants.³⁴

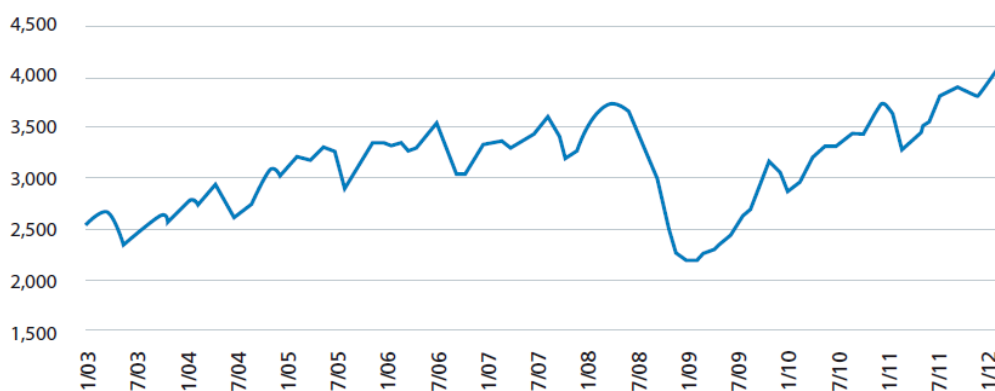
In April 2010, a drilling rig exploded in the Gulf of Mexico, which is a key sales territory for some of the Company's products. As a result of the disaster, the United States government announced a suspension of deep water drilling activity in this region. In March 2011, the United States government announced the end of this suspension and started granting permits for deep water drilling in this region, resulting in an increase of sales of clear brines for oil drilling in the Gulf of Mexico in the second half of 2011.

The higher demand, as aforesaid, and a reduction in the supply of clear brines by Chinese producers following an increase in the price of elemental bromine in China, also resulted in higher prices in 2011.

³⁴ Estimates regarding future trends in this paragraph are forward-looking information and there is no certainty as to whether, if and at what pace they may be realized. They could change due to fluctuations in global printed circuit markets, including changes in the level of supply and demand and product prices and they could also be affected by actions taken by manufacturers and consumers. The financial markets could also have a possible effect, including changes in exchange rates, the credit situation and interest costs.

Details of the number of oil drillings in the world

Worldwide Rig Count



Source: Baker Hughes, February 2012

In the field of chlorine-based biocides, ICL-IP continued the direction of recent years to conduct sales that are closer to the end user. In 2011, the market for swimming pool chemicals continued to be affected by the increase in activity by competitors, which led to lower prices for most products.

In the field of bromine-based biocides, ICL-IP continued to supply its products mainly to the paper industry. In addition, sales of bromine and chlorine-based biocides increased for the treatment of water in cooling towers and power stations.

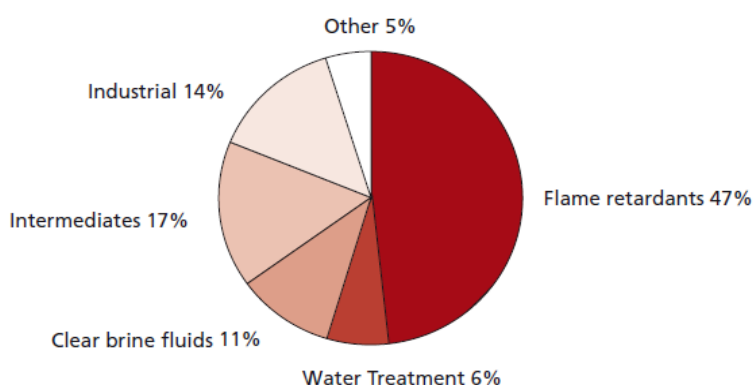
4.2.2 Products and Services

Below is a description of the main products developed, produced and sold by ICL-IP, and their uses:

- A. **Bromine- and phosphorus-based flame retardants** are part of the polymer additives family and are used in many areas of the electronics industries, primarily for printed circuit boards in the electronics industry, electronic cables and plastic housings of electronic equipment. Moreover, flame retardants are increasingly being used in the automotive, construction, furniture and textile industries.
- B. **Elemental bromine**, transported mainly in isotanks to customers worldwide, is used mainly in the rubber industry to manufacture one of the layers of tires, and as a reagent in the pharma and agro industries.
- C. **Organic bromine compounds**, used mainly as a reagent in the pharma and agro industries
- D. **Bromine based heavy drilling liquids ("clear brines")** are part of the chemicals used in oil drilling. Clear brines are mainly used to balance pressures at the end of drilling stage of oil and gas wells with high operating pressures.
- E. **Bromine and chlorine-based biocides** are used primarily for various types of water treatment. Use of these products has grown annually, driven by increased pollution of worldwide water sources and adoption of environmental regulations for purifying and disinfecting sewage. Bromine- and chlorine-based biocides produced by ICL-IP are used to treat water in swimming pools and spas, cooling towers, paper production systems (patented), the cleaning and sanitizing markets, and for disinfecting drinking water.
- F. **Calcined and specialty magnesia products** are used in various industries, primarily in the steel transformer industry, rubber, and as a mineral supplement in pharmaceutical and food products.

- G. **Salts based on chlorine from the Dead Sea** include primarily magnesium chloride (flakes and pellets), used for de-icing roads and dust control on dirt roads, as well as in the textile and cosmetics industries. ICL-IP manufactures a wide range of types of sodium chloride used for food, as salt for water softening, electrolysis for the electrochemical industry, de-icing roads and other uses. Another product is pure potash, which is high-quality potash used for metal coating processes and in the food and pharmaceutical industries.
- H. **Functional fluids are** fluids used in lubricants (flame retardants) for use in power stations (gas and steam turbine systems), the field of aviation and industrial systems in which lubricant oils are used for electro-hydraulic systems. In a wide range of these uses, the hydraulic systems work at high pressures and require a high level of safety and avoiding any risk of fire.
- I. **Inorganic bromides for neutralization of mercury** – for the efficient neutralization of mercury emitted to the atmosphere during industrial production processes. For details see section 4.2.4 below.

Worldwide uses of bromine for production of bromine compounds in 2011:



Source: Estimates of ICL-IP

4.2.3 Revenue and profitability

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

	Revenues* (\$ millions)	% of ICL Revenues*	Gross profit (\$ millions)	Gross profit margin as a % of revenues
2011	1513.0	21.4	547.0	36.1
2010	1,313.2	21.9	428.9	32.7
2009	1,015.1	21.0	263.5	25.9

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

The increase in revenues in 2011 compared to the previous year is mainly due to the increased prices of most of the segment's products. This increase was partially offset by the decrease in sales of flame retardants.

The increase in profits and profitability stem mainly from the increase in product prices.

4.2.4 New Products

- A. ICL-IP is involved in the development of innovative products in its areas of activity and discovery of new applications for existing products. During the period of this report, ICL-IP spent approximately \$27 million on new product development and support and improvement of existing manufacturing processes (see also section 4.2.10 below).

Inorganic bromides for neutralization of mercury

Mercury emitted to the atmosphere mainly by coal-fueled power stations or industrial boilers, has been proven to be detrimental to health. In February 2009, the United States announced a change in policy and joined an initiative of about 140 countries to sign a binding international charter for the reduction of mercury emissions. In December 2011, the law passed by the United States Environmental Protection Agency (EPA) which requires significant reduction of mercury emissions, was approved. In addition, the reduction of mercury emissions is still being encouraged by granting tax rebates, particularly in the United States. The delay in granting emission permits in the United States in 2011 caused a delay in penetrating the United States market this year. In the United States, many technologies have been developed, most of which use bromine-based products, which are designed to contribute to reduction of mercury to the required level. At the end of 2008, ICL-IP launched a new product line, Merquel™, based on inorganic bromides, which together with the technologies mentioned above is targeted to enable efficient neutralization of the mercury to the limits of the standard determined by the authorities (a 91% reduction in mercury emissions). Full application of the standards in all the coal-fired power stations would require use of significant quantities of bromine compounds. In the company's estimation, the potential market for products to reduce mercury emissions could reach hundreds of millions of dollars in the coming years³⁵. ICL-IP has invested in an extensive logistics system in the United States to allow ongoing supply to the United States market and is making preparations to build the production and logistics capacity required for reliable supply to this market and for other countries which adopt similar legislation. Product sales in 2010 amounted to approximately \$23 million. Sales of this product in 2012 are expected to increase significantly with the introduction of additional power plants in the United States that use Merquel™³⁶.

Bromine-based environmentally friendly polymer flame retardant

In January 2012, an agreement was signed with the chemistry giant Dow Global Technologies to use its patent to produce an innovative bromine-based polymer flame retardant, which is considered especially effective and environmentally friendly. The FRP122 flame retardant will be a substitute for the HBCD flame retardant which is currently used in the construction insulation industry in an annual volume of 30,000 tons, which is subject to restrictions in use (for further information see section 4.2.15 2A). ICL Industrial Products has started to plan a plant with an annual production capacity of 10,000 tons of the new flame retardant and is expected to start to supply the product to its customers in 2014. At this stage, ICL Industrial Products is examining the preferred location to build the plant.

4.2.5 Customers

- A. Dependence on single customer

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

- B. Breakdown of sales according to geographical market

³⁵ The information in this section is forward-looking information. It may not be realized in whole or in part, or be realized in later years than forecast, because, *inter alia*, of non-adoption of the charter or failure to apply it in various countries through legislation, its postponement or the setting of more lenient transitional standards, as well as the possible development of alternative products or technologies based on other raw materials. There is no way of knowing what ICL Industrial Products' share of this market could be where there are or could appear competing producers.

³⁶ The information in this section is forward-looking information. It may not be realized in whole or in part, or be realized in later years than forecast, because, *inter alia*, of changes in policy in the relevant countries or changes in the levels of standards which will be established by the countries. In addition, there is no way of knowing what ICL Industrial Products share of the market could be where there are or could appear a number of competing producers.

	2011		2010		2009	
	\$ millions	%	\$ millions	%	\$ millions	%
Israel	35	2	29	2	27	3
North America	450	30	406	31	371	37
South America	37	3	29	2	27	3
Europe	514	34	408	32	332	33
Asia	439	29	402	31	230	23
Rest of World	24	2	25	2	17	1

C. Developments in the geographical areas

In 2011, sales of ICL-IP to all geographical destinations increased, particularly, to Europe due to a sharp increase in sales of flame retardants and inorganic bromine products in this market. The increase in sales in the geographic destinations is mainly due to an increase in prices.

4.2.6 Marketing and distribution

ICL-IP's principal markets are Western Europe, USA, China, Japan and Taiwan. ICL-IP sells its products primarily through a network of marketing companies, agents and distributors throughout the world. Commissions are paid to agents as is customary in the market. In 2011, ICL-IP paid commissions amounting to about \$9 million. Most of ICL-IP's sales are not transacted by means of long-term contracts or orders, but rather via current orders close to the date of supply. Consequently, the concept of a backlog is irrelevant for ICL-IP.

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

4.2.7 Competition

A. Competition and main entry barriers

The main competitors of ICL-IP in the bromine-based flame retardant market are two American producers (Albemarle Corporation ("Albemarle") and Chemtura Corporation ("Chemtura")³⁷ and a number of producers in China. In China, the quantity of brine available for producing bromine continues to decline. Likewise, the depleted bromine content of these brines has led to reduced capacity to produce bromine in China resulting in a shortage of bromine in China.

The main entry barrier into the bromine and bromine compound market is the access to an economically viable source of bromine. The higher the bromine concentration, the greater is the competitive advantage. In addition, the bromine business requires a complex logistics system based on special containers (isotanks) for transporting the bromine. The need for the logistics system is a barrier to entry to competitors in the global trade in bromine.

In the phosphorus-based flame retardants market, competition is mainly from Chinese manufacturers operating in the local market and in markets outside of China, mainly Europe and the United States. Access to a source of high-quality, low-cost phosphorus improves the capacity to compete in this market.

There are many competitors in the market of biocides for water treatment and entry barriers are mainly related to the process for obtaining a sales registration.

There are several competitors in the magnesium chloride industry. The entry barrier to this market is low, as any company with access to magnesium chloride can produce the solution.

³⁷ In 2005, Great Lakes Chemicals Corporation merged with Crompton, a chemicals company traded in the United States, forming Chemtura, a company operating in the field of additives for plastics and fuels, chemicals for water treatment and agricultural products. Chemtura is a leading company in the plastics additives market. In March 2009, Chemtura's request to freeze proceedings against the Company was accepted (Chapter 11).

There are a number of small competitors in the pure potash market. The main entry barrier is access to potash and the technological knowledge required for its crystallization.

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

ICL-IP is the world's leading producer of elemental bromine, accounting for approximately a third of total international production of bromine. ICL-IP estimates that it and its two main competitors, Chemtura and Albemarle, accounted in 2011 for approximately 77% of the worldwide production of bromine and approximately 65% of the production of bromine compounds. Chemtura and Albemarle produce bromine primarily from underground brine sources in the U.S. Albemarle also has a joint venture with a Jordanian company to produce bromine and bromine compounds. This joint venture that started operations in November 2002 is located on the Jordanian side of the Dead Sea that has access to the same source of raw materials that ICL-IP has. In 2011, Albemarle started to double the production capacity of bromine produced in the joint venture, and announced its intention to expand its fleet of isotanks used to transport bromine and to expand its production capacity of bromine compounds it produces at its site in Jordan. Chemtura purchases mainly bromine and some other bromine compounds from ICL-IP under long-term contracts.

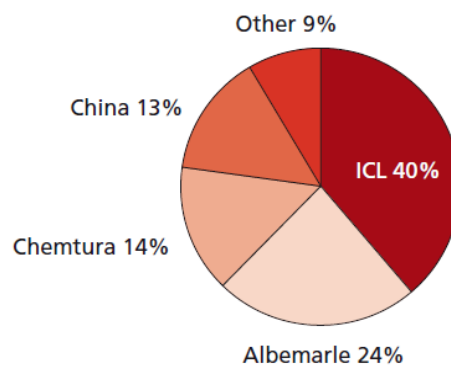
In January 2010, Chemtura and Albemarle signed a long-term strategic agreement. Under the agreement, Albemarle will supply Chemtura with a number of principal products, including flame retardants, and organic and inorganic bromine-based compounds ICL estimates that the agreement is not expected to have a negative effect on ICL-IP³⁸.

Prior to 2006, Albemarle also purchased bromine from ICL-IP for one of its plants under a long-term agreement. At the end of 2006, Albemarle sold the facility, including the bromine purchase agreement, and it now operates as an independent company. In China, there are dozens of small manufacturers of bromine which, cumulatively, manufactured approximately 16% of worldwide bromine in 2011. Production of bromine in China is on the decline due to a depletion of China's bromine as explained above. All of the bromine manufactured in China is consumed in the Chinese market. Production of bromine in limited quantities is known to take place in Japan, India and the Ukraine. The segment does not have confirmed information about the quantities of bromine produced in these places. It should be noted that the Dead Sea is a source of relatively low-cost bromine and, from the practical perspective, is considered an unlimited source of bromine. Most of ICL-IP's competitors use brines with a relatively low bromine concentration, therefore production costs are higher, since the bromine concentration is depleted as it is used.

ICL-IP is the world leader of elemental bromine and clear solutions for oil drilling. ICL-IP also produces and sells flame retardants and other phosphorus based products and is the world leader in this field. The main competitors in this field are a several Chinese manufacturers competing with ICL-IP in the Chinese market as well as in Europe and in the US.

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

Production capacity of bromine manufacturers in 2011



³⁸ The information in this section is forward-looking information and is based on the Company's best understanding of the agreement between Albemarle and Chemtura. The Company's estimation may not be realized, in whole or in part, because, *inter alia*, of changes to the agreement or due to resolutions of the bankruptcy court in this matter.

C. Approach for competing in the market

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

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

4.2.8 Seasonality

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

4.2.9 Production

Potential annual production capacity of the main products:³⁹

Elemental bromine:	approximately 280,000 tons
Bromine compounds:	approximately 400,000 tons ⁴⁰
Chlorine-based biocides:	approximately 37,000 tons
Phosphorus compounds:	approximately 150,000 tons
Magnesia:	approximately 53,000 tons

In 2011, the Company produced 202,000 tons of bromine and 254,000 tons of bromine compounds. In 2011, production of chlorine-based biocides reached 22,000, production of phosphate compounds reached 97,000 tons and production of magnesia products reached 40,000 tons.

4.2.10 Research and Development

A. Research and development operations and results

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

1. Development of polymer flame retardants (Polyquel series) for plastic surfaces and other plastic resins, as a substitute for the use of DECA. In addition, there is emphasis on the development of new polymers with high bromine content for diverse uses.

³⁹ The potential production capacity of the various plants is based on the hourly output of the plants, multiplied by potential hours of operation per year, presuming continuous production over the year, 24 hours a day, with the exception of a few days for planned maintenance and repairs. Actual production is usually lower than potential production capacity, due to unexpected breakdowns, special maintenance operations and market conditions.

⁴⁰ In some plants, more than one product is produced; therefore, the production capacity depends on all the compounds manufactured in each plant from time to time.

2. Textiles: TexFron, a series of textile flame-retardant products, has been launched. TexFron is an effective and environmentally-friendly solution for diverse textile products, replacing DECA and offering a transparent and durable solution for laundry that is not currently available on the market.
3. Further research into new uses for existing products (such as the use of sodium bromide and calcium bromide in coal-powered power stations with the aim of reducing emissions of metal mercury from stacks), and looking for new uses for bromine compounds (such as storing energy and extraction of precious metals) in an effort to increase the production of bromine from the Dead Sea. Much work has been invested in the Merquel series as support for the marketing and development of the sales of these products.
4. In the biocides sector, new materials have been developed and tested for water treatment and prevention of biofilm (algae) in irrigation systems and industrial cooling water. In addition, there is extensive research activity for polymer synthesis with biocidal activity.
5. Improving product quality and lowering production costs by changing and improving processes, while using the principles of green chemistry (for example, reduction of use of organic solvents in production processes). A "sustainability index" model was developed for new products, which includes various parameters relating to product properties.
6. Ecologic research for improvement of the wastewater treatment system, reduction of airborne emissions and solid waste
7. Research in the area of construction materials in order to overcome problems of accelerated wear and tear of building materials, corrosion prevention, equipment adaptation, and tests in accelerated aging.
8. Development of new phosphorus-based products and/or integration of phosphorus/bromine chemistry mainly in the polyurethane field – flexible and rigid foam. A common application is fire retardants for polyurethanes used as insulation in the building, furniture and automobile industry.

B. Research and development expenses

ICL-IP's total research and development expenses for 2011 were approximately \$26.6 million..

4.2.11 Intangible assets – patents and trademarks

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

The Company has approximately 304 patents that have been registered over the years and an additional 258 patent applications that are in various stages of evaluation around the world. As at the date of this report, these patents protect a relatively small portion of ICL-IP products. During 2011, 50 new patent applications by ICL-IP were approved.

4.2.12 Raw materials and suppliers

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

A. Bromine and bromine compounds

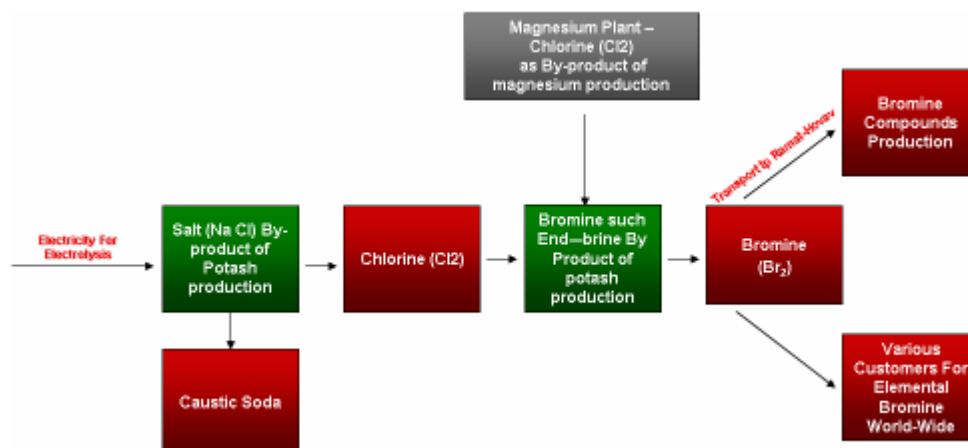
Elemental bromine is produced from the end brines (salt solutions) that result from the processes carried out to produce potash from carnallite. The brine is pumped to ICL-IP's plant in Sodom, where bromine is produced in an oxidation process using chlorine.

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

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

flame retardants. Furthermore, ICL-IP purchases many other raw materials required for the production of the various products.

The following is a graphic representation of the production process:



B. Magnesia

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

C. Chlorine-based biocides

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

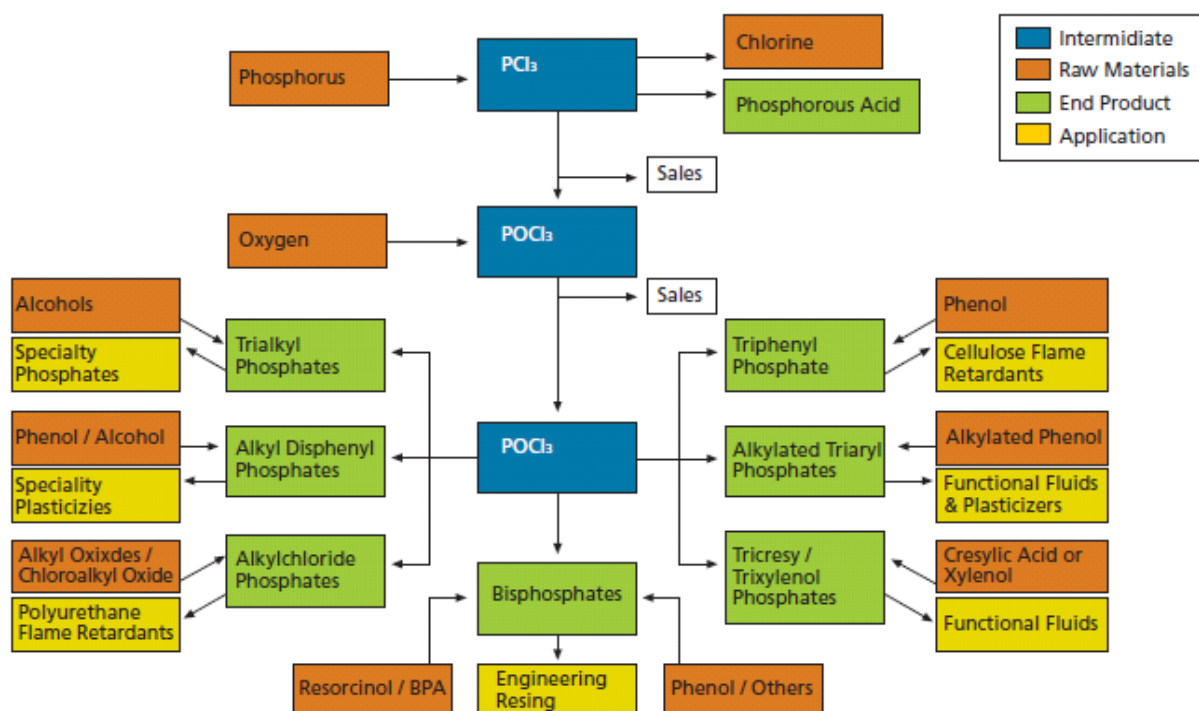
D. Dead Sea salts

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

E. Phosphorus-based products

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

The following is a graphic representation of the production process:



4.2.13 Working capital

A. Raw material inventory policy

ICL-IP itself produces the bromine used in its bromine compound production and also acquires a small amount of the bromine required for these compounds from China. It acquires the Dead Sea brines used as central raw materials in its production of bromine, magnesia and Dead Sea salts from ICL Fertilizers. Chlorine is acquired from DSM, from ICL-IP's chlorine facility and in the United States, is purchased on the free market. ICL-IP also purchases raw materials from external suppliers, such as: Bisphenol A, elementary phosphorus (P4), methyl chloride, caustic soda, urea, propylene oxide and other chemicals required for production processes among other raw materials.

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

B. Finished product inventory policy

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

The average stock days in 2011 and 2010 are as follows:

	<u>2011</u>	<u>2010</u>
Elemental bromine	15	12
Bromine compounds	169	160
Chlorine-based biocides	245	220
Phosphorus compounds	35	37
Magnesia	213	173

The stock days are based on the average amount of stock during the year (quarterly) divided by the amount sold during the year. The average stock days for most of ICL-IP's products increased due to the slump in sales in the last quarter of 2011, which led to an increase in the level of inventory at the end of the period.

C. Credit policy

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

	December 31, 2011	
	Average credit level (\$ millions)	Average credit days
Customers	258	59
Suppliers	115	53

	December 31, 2010	
	Average credit level (\$ millions)	Average credit days
Customers	226	63
Suppliers	100	52

The decrease in customer days is due to the change in the sales mix and relative increase in sales to customers with fewer credit days.

4.2.14 Environmental matters

A. Description of Environmental Risk

The activities of ICL-IP expose it to environmental risks as detailed below:

Hazardous materials- ICL-IP plants produce products some of which are categorized as hazardous materials and use raw materials some of which fall under the category of "hazardous substances". The main materials are bromine, chlorine, acids and various organic compounds. These materials are store in the various plants in systems specially designated for these materials and are transported via land transportation, sea and air transportation in accordance with international regulations. Leakage of these materials or loss of control of them could cause an environmental incident and damage to people or to the environment. ICL-IP is prepared and takes steps to prevent these occurrences by means of emergency teams and appropriate equipment to deal with these types of events.

Air - At the plants of the segment there are specific and non-specific sources of emissions, from which if there were to be emissions in concentrations or quantities higher than that permissible could cause harm to people or to the environment. The materials emitted are volatile organic compounds, inorganic compounds and particles. ICL-IP operates advanced monitoring methods to identify deviations and prevent their occurrence and takes steps to prevent uncontrolled emissions according to the laws and the conditions set out in its business license using accepted technology. Leak detection and repair (LDAR) methodologies are also applied. LDAR provides guidance for monitoring components to detect non-specific emissions and IPCC (see sections 4.2.14C(3)) to prevent emission of hazardous substances into the air.

Effluents – The segment's plants produce liquid effluents as part of their activities. The effluents are allowed to flow into water sources or evaporation ponds. Effluents which are not controlled or treated according to effluent standards that have been defined could cause harm to people or to the environment. These effluents are treated in appropriate treatment systems to ensure compliance with the defined effluent standards. The flow of the effluents is monitored by monitoring stations and periodic sampling to ensure meeting the various parameters.

Land - the use of raw materials classified as toxic substances and the production of toxic materials may cause ground pollution which would endanger people and/or to the environment. As part of its

method of dealing with this risk, the segment is careful to use impermeable operating surfaces and to keep toxic substances in designated closed systems. Additionally, IPPC and LDAR methodologies are applied to prevent leakage of hazardous substances to the ground.

B. Actions taken in the Field of Environment

During the past few years ICL-IP has focused on research and engineering activities and projects to create new ecological systems and improve existing ones. Under the auspices of the Board of Directors of the segment, a special committee of the Board of Directors for ecological, safety and occupational hygiene matters oversees ICL-IP's wide range of activities regarding environmental quality and directs the segment's environmental policies.

At the beginning of 2011, the segment appointed a Vice-president for sustainability who serves as a member of the management of the sector.

Below is a list of principal actions taken by ICL-IP in the field of environmental protection:

1. Air quality

- Investments were made in the production facilities in order to improve recycling of solvents and other organic materials, and absorption via active charcoal, in order to achieve reduction of the amount of these materials emitted into the air.
- Investment was made in monitoring and detection systems, in order to ascertain that there are no deviations in the plant's operation and emission systems. Furthermore, these systems were connected to the facilities' production control systems such that before any deviation the facility's production process is terminated.
- The system for collection and treatment of emissions from the plants' stacks has completed the running-in and regular operation has begun. This system carries out additional treatment on the volatile organic emissions using a catalytic oxidizing technology.
- On-going work is taking place for the control and treatment of diffused emissions with the assistance of a European company.
- Joint Work has been commenced by the Mishor Rotem factories including Periclase together with the Ministry for the Environment and the Environmental Unit of the Eastern Negev Council to set up a regional air monitoring system. The scope of the system and the investments derived from such are not known at this stage.
- In 2009, continuous monitoring systems for the stack of the Periclase plant were purchased. These systems were installed in 2010 and are still being run-in.

2. Wastewater

- ICL-IP operates a facility in Ramat Hovav for biological treatment of the facilities' wastewater.

Biological wastewater treatment is the most prevalent technology for reducing organically degradable substances in wastewater. The biological treatment is done using micro-organisms that feed on the organic substances found in the wastewater, and thereby cause them to substantially decrease in quantity. The process is limited to bio-degradable substances.
- ICL-IP operates a special laboratory for monitoring and analyzing wastewater quality.
- ICL-IP operates a sanitary facility was activated at the Bromine Compounds factory for the independent treatment of sanitary effluent at the factory. The facility was set up and is being operated by GES.
- ICL-IP is currently planning and constructing an independent wastewater removal system at the Bromine Compounds plant, at an estimated cost of approximately \$36 million. The system will include a piping system and the plant's own evaporation ponds. The system will be built according to US standards including leakage monitoring and air monitoring.
- ICL-IP is in the process of establishing a thickening and filtration facility to treat solid waste at the Periclase plant. The project is expected to be completed in 2013.

3. Waste

The plant for treatment of hazardous waste was erected at the Bromine Compounds plant. This plant recovers bromine from the waste and will recover energy as steam. The plant meets the standards of the relevant European directive. The plant was run in during 2011 and waste treatment should start in 2012.

C. Material impact of environmental regulations

1. In December 2007, updated business license conditions were issued to the Bromine Compounds plant under which the treatment of effluent will be under the exclusive responsibility of each plant (including the removal stage). Under the conditions of the license, the wastewater from the facilities will be removed to the evaporation pools and holding ponds that are operated and managed by the Council, until the end of 2009. After that date, independent removal systems will be operated under the management of each facility, and wastewater pumping into the current system shall be prohibited.

Works to construct the ponds have started and there is no change in the schedule dictated by the Ministry of Environmental Protection for completion of the ponds. There are indications of a delay of several months in the schedule to complete the evaporation ponds, for statutory reasons and the plant has applied for an extension to complete the ponds.

2. In December, 2006, an agreement was signed between the Ministry of Environmental Protection, the Manufacturers' Association, plants at Ramat Hovav (including ICL-IP's plant) and the Sustainable Negev Association, which was authorized by the District Court, according to which the Ministry and the plants agreed to commence accelerated negotiations for a period of half a year (which ended in June, 2007) regarding air emissions both from new and existing facilities, as well as diffused emissions, and prevention of pollution and odor hazards, on the basis of international standards. In April, 2007, the government resolved, as part of a decision to move a conglomeration of IDF training bases to the Negev Junction near to Ramat Hovav, that government ministries would act to improve the air quality around the Ramat Hovav Industrial Zone, in accordance with an outline agreed upon by the Ministry of Health, the Ministry of Environmental Protection and the Israel Defense Forces. In March 2008, the ICL-IP company that operates the plant at Ramat Hovav received conditions of the business license relating to air emissions. Under the conditions of the license, the plant must conduct surveys of emissions of any kind from the plant into the environment. The Ministry will determine the measures to be used for treating emissions and pollution on the basis of the results of these surveys. ICL-IP has conducted these surveys and submitted them to the Council and the Ministry of Environmental Protection. The surveys indicated compliance with the comparative values in the factory environment. In addition, a work program was submitted to achieve the specifications which were set for the plant. The response of the Ministry has not yet been received by the plant. Furthermore, the plant shall be required to measure and treat the non-point emissions of substances emitted during the production process. This activity is being carried out on an ongoing basis and is also planned for the coming years.
3. As described in section 4.2.14 B.3, ICL-IP has built a plant for waste treatment. This plant is designed to treat the waste created in the production processes as well as the historic waste stored in barrels in a designated area of the plant. This activity is carried out in coordination with the Ministry of Environmental Protection. The cost of building the plant is approximately \$32 million. At the date of preparing these reports, most of the construction work has been completed and the plant is at the running-in stage. Operation of the plant is planned for 2012.
4. For the implications of the Clean Air Law, 5768-2008, see section 4.4 C.
5. Subsequent to the balance sheet date, in January 2012, the conditions of a business permit relating to air quality were received by the Bromine Compounds plant. These terms are being studied and a work plan is being prepared for its implementation, Discussions are also being held with the authorities to amend a number of sections.

D. Events or subjects relating to the environment

There have been recent discussions between the Ministry of Environmental Protection and the ICL-IP regarding bromine export shipments in isotanks through Haifa Port. About 29% of the bromine produced by ICL-IP is for export. The discussion with the Ministry of Environmental Protection has been completed and a draft of additional conditions in the poisons permit has been submitted to Dead Sea Bromine, with provisions for gradual reduction of elemental

bromine shipments through Haifa Port to a level of 30% of the total bromine for export in 2015. ICL-IP has submitted its comments to the draft to the Ministry. A final poisons permit has not yet been received for this matter. ICL-IP is preparing to comply with the new conditions, including finding alternatives for bromine export from Israel.

E. Significant legal matters related to the environment

1. Three claims were filed with the District Court at Beer Sheba in March and June, 2007 against the State of Israel and the Industrial Local Council at Ramat Hovav, in whose jurisdiction the main plant of Bromine Compounds operates (hereafter "the Authorities"). The plaintiffs argue that various pollutants in the vicinity of Ramat Hovav have caused the illnesses from which they suffer. In December 2011, the evidentiary stage was completed and the parties are expected to submit summary arguments by the end of June 2012. At this stage, ICL is unable to assess the success of neither the claim nor the extent to which the Company is exposed to compensating the plaintiffs, compared with the rest of the defendants. However, it would appear that the chances of the claim being upheld in full against all of the parties and the imposition of the entire sum of the claim on the Company are low. For additional details, see Note 24 C3(c) to the Financial Statements.
2. A claim was filed in November 2008 against a plant of Bromine Compounds Ltd in Ramat Hovav and against several of its managers. The claim was in respect of violations of the business license according to the Business License Law, 5728-1968, heavy or unreasonable air emissions and causing strong or unreasonable odors according to the Nuisance Act, 5721-1961. The claims regarding violation of the business license conditions and causing air pollution are based on three instances which occurred in 2004 where samples were taken at the plant and deviances were allegedly found in methylene chloride and volatile organics. The claim about causing a noxious odor is based on a single sample taken in Beer Sheba. In July 2011, case was heard and the evidentiary stage is expected to begin in 2012. Prior to hearing the evidence, the case was submitted to the Magistrates Court in Beer Sheba for judicial arbitration. The case is currently in arbitration.
3. A claim and motion to certify it as a class action was filed with the District Court in Beer Sheva in November 2007 against a company in the ICL-IP segment ("the subsidiary of the segment"). The plaintiffs claim that the defendant's factory emitted hazardous substances into the air. The sum claimed in the class action is \$288 million.

During 2010, the parties started arbitration and on January 3, 2011, the parties signed a settlement to end the legal proceedings and submitted the agreement for approval of the court. The subsidiary of the segment will commit to take various actions that will reduce the quantity of the different substances emitted from its factory and will fund educational activity regarding the environment. The agreement will represent the full extent of the relief granted to the class action group. In January 2012, the Court recommended that the Company amend the settlement to provide additional weight, from the aspect of investment of funds, in educational and other activities aimed at increasing the awareness of students and adults in the area regarding environmental issues and participation in educational program

For further details, see Note 24 C 3 d of the Financial Statements.

4. In 1994 and thereafter the Company received third-party and fourth-party notifications against it and against two of its subsidiaries by American companies that had been sued in the United States and other countries by approximately 30,000 plaintiffs from various countries. The plaintiffs mostly worked as plantation workers and they claim to have been injured by exposure to chemical substances produced by a number of manufacturers, including large chemical companies. Most of these claims have already been concluded.

As at the date of approval of the Financial Statements, the subsidiaries are parties to one legal proceeding, including 9 plaintiffs who are requesting certification of their claim as a class action. The above-mentioned claim is pending in Hawaii, no hearing has yet been held with respect to it and it is currently dormant.

In the estimation of the Company and the subsidiaries, the amount of material supplied by them to the relevant countries in the relevant periods was, if at all, small compared with the amount of material supplied by other manufacturers.

The dormant claim involves claims for bodily injury and, therefore, the amount of the claim has not been stated. Additionally, in August 2011, 2,430 banana plantation workers from the Philippines filed a claim in the court in California against various defendants, including the Company and two subsidiaries, for bodily injury allegedly caused to them, from exposure to the

chemical substance. According to the claim, the defendants distributed the chemical substance in the Philippines, knowing that is harmful and after it was forbidden for use in the United States in 1979.

In respect of these claims, since the claims are carried out in different forums in different jurisdictions and the plaintiffs are from different countries, it is not clear which law will apply to each of these claims. In addition, in respect of the new claim filed in August 2011, the claim is in the preliminary stages and applications for summary dismissal have yet to be filed, documents have yet to be disclosed and rulings have yet to be handed down, which will shed light on the chances of the claim. Therefore, the management of the Company believes, based on the opinion of its legal counsel, that the outcome of these claims cannot be assessed. However, it is estimated that the exposure against the Company and the subsidiaries for these claims, in an amount exceeding USD 20 million, is low. For further information see Note 24 C.2 to the financial statements.

G. Environmental risk management policy

Regarding, risk management policy, see Section 3.3 above.

H. Future material capital expenditures for environmental matters

During 2011, ICL-IP invested a total of approximately \$14 million in the acquisition of property, plant and equipment to improve environmental quality and recorded approximately \$38 million as a current expense for issues related to improvement of environmental quality.

In 2012, ICL-IP expects to invest approximately \$22 million in property, plant and equipment and record approximately \$34 million as a current expense for similar purposes⁴¹. All of the amounts invested, and expected to be invested in the future, are for prevention or reduction of environmental damage. ICL-IP has not invested in the repair of damage caused to the environment.

4.2.15 Limitations and supervision on the corporation's operations

A. Subjection of activities to specific laws

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

1. Sub-concession

The Bromine Company is the holder of a sub-concession granted under the Concession Law. The primary concession granted by the Concession Law is held by DSW (for details regarding this concession see section 4.1.14 above). This sub-concession was granted to the Bromine Company in 1962 and as of today, is valid until 2030.

Pursuant to the sub-concession:

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

For the arbitration with the state regarding calculation of royalties, see section 4.1.14 above.

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

⁴¹ Estimates of expected investments and expenses are forward-looking information and are based on current legislation and standards, on demands of the authorities known today to ICL-IP and on estimates made by the Company's engineers. Realization of these estimates is not certain. Any change in these estimates, including changes in the estimates of the Company's engineers or changes in application, in the requirements of the authorities or in legislation may change the results from the above-mentioned.

Various countries are assessing possible limitations on the use of chemicals, and this assessment includes bromine-based flame retardants. Below are details resulting from the main proceedings known to the business segment as of the date of this report.

- HBCD was defined under new regulations for REACH chemicals as a Substance of Very High Concern (SVHC) which means a non-biodegradable substance that accumulates in tissue and is toxic (PBT). As a result of this decision, the European Chemicals Agency (ECHA) recommended the inclusion of HBCD in the list of materials requiring authorization. This recommendation came into effect after publication of the final list in February 2011. The implication of this decision is that approval for use in specific applications will only be given if, on the basis of a socio-economic evaluation, it is proven that the need for the product for a particular use is greater than the risk, and that there are no alternatives to using the product. The results of the authorization process are expected in 2015. In addition, HBCD was classified at two UN conventions (UNEP and UNECE) as a persistent organic pollutant (POP). The implication of the classification is that the process for taking the substance off the market could occur earlier than expected under the REACH directive (towards the beginning of 2014).
- Norway has imposed restrictions on the use of the flame retardant HBCD, and the flame retardant DECA, which is one of the most common flame retardants on the market, is banned for use other than for use in the automotive industry.
- The flame retardant DECA, is banned for use in Europe in electrical and electronic applications from July 1, 2008. This restriction does not prevent the continued use of DECA in other applications such as construction and textiles.
- The three large bromine compound manufacturers (Albemarle, Chemtura and ICL-IP) signed a memorandum of understanding with EPA, undertaking to gradually phase out DECA in the US market until termination of sales at the end of 2013. At the end of each year, a report is submitted to EPA on sales of DECA in that year.
- Following the agreement with EPA in the United States to limit the use of DECA, a similar agreement was signed with the Canadian Environmental Protection Authority (CEPA). According to the agreement, sales of DECA or DECA-based products will be banned in the Canadian market from January 2014.

DECA and HBCD sales are not substantial at the ICL level.

- In October 2011, the phosphate-based flame retardant TDCPP was included in the list of carcinogens in California. This requires a change in the substance labels and is not expected to affect the volume of product sales.

B. Business license

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

Segment companies operate in accordance with terms set out in licenses and permits. If there is a discrepancy in relation to the requirements of these conditions, the companies take immediate action to remedy the discrepancy in coordination with the Ministry of Environmental Protection.

C. Product regulation and registration

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

1. Insecticides (including soil fumigation): In most countries, this material and any product containing this material must be registered prior to import or sale in that country. Sale is restricted according to the level of hazard (disease / organism) and the crop / yield for

which the permit was granted in that country. The permit is generally for a limited time and needs to be renewed in order to continue selling.

2. Water treatment (biocides): In a number of countries, this material and any product containing this material, must be registered prior to import or sale in that country. Sale is limited to those commercial uses for which the permit is received in a given country. The permit is generally for a limited time and needs to be renewed in order to continue selling. In 2000, the Biocide Directive went into effect in the European Community (EC), which requires licensing of every new biocide before it starts to be sold, and also implemented a process of re-licensing every existing biocide on the market. ICL-IP submitted files for renewing licenses for existing biocides for uses in industrial water and in water in paper mills, according to the timetable set in the Law, and is communicating with the authorities in the framework of the assessment and examination process of the files. Under the Directive, during the course of the licensing process, it is permitted to continue selling the products for the uses sold to date, on condition that a licensing file is submitted for the use and for the active substance in the product.
3. Chemicals: In some countries of the world (such as the EU, USA, Canada, Japan, Korea, China and others), chemicals may be sold only after registration and authorization by the authorities. Trade restrictions for use apply to some of the products of Bromine Compounds stemming from the requirements of international treaties. ICL-IP registers the products that it develops and sells as required under local laws.
4. Provisions of the framework law for registration, evaluation, authorization and restriction of chemicals (REACH) of the European Union. See section 4.4 below.

D. Standards and quality control

ICL-IP has a comprehensive and advanced quality control system that encompasses, among other things, the following:

- All production plants and departments of the management offices of ICL-IP have ISO 9001 quality management certification.
- All plants of ICL-IP in Israel and its plant in the Netherlands are members in the international Responsible Care program.
- The plants of ICL-IP in Ramat Hovav, Sodom, Mishor Rotem and Haifa in Israel, Terneuzen in the Netherlands, the plants in China and plants for production of phosphorus-based products in the United States and Germany have ISO 14001 environmental management certification.
- The plants in Ramat Hovav and Mishor Rotem have IS 10000 corporate responsibility certification.
- Bromine Compounds applies advanced quality control methodologies such as deployment of quality improvement teams, Six Sigma, information management and Hazard Analysis Critical Control Point (HACCP), which is a methodology adopted to prevent intrusion of contaminants into a product. The main plants of ICL-IP have a comprehensive system of internal quality audits, in which there are also various competitions between units.
- The magnesia plant at Mishor Rotem and the pure potash production plant at Sodom have GMP food certification from the Ministry of Health in Israel.
- The magnesia plant has GMP pharma certification from the Ministry of Health in Israel.
- The plants of ICL-IP at Ramat Hovav, Sodom, Mishor Rotem and Haifa in Israel have IS 18001 occupational safety and health certification. The other plants at Terneuzen in the Netherlands, Clearon in the United States, the LYG plants in China and plants for phosphorus-based products in the United States and Germany have OSHAS 18001 certification.
- An internal standard for certification as a green plant has recently been written. The Company's plants in Israel have certification for this standard, some with honors.

- The management offices of the segment in Beersheba, Israel have a green building standard.

4.2.16 Legal proceedings

For details of the contingent claims against the Company, see Note 24C to the financial statements.

4.2.17 Business goals and strategy⁴²

The following sets forth the primary goals and business strategy of ICL-IP:

1. Leveraging and reinforcement of core businesses in existing areas of activity, including:
 - Strengthening and reinforcement of ICL-IP's business status in the bromine and bromine compounds field, and preserving its leading status in other business areas that are not based on bromine.
 - Achievement of operational excellence and improvement of competitive capability through operational efficiencies throughout the supply chain.
 - Reinforcement and deepening of business relationships with customers in this sector.
 - Development of management resources and global, high-quality manpower operating in this sector.
2. Development of markets and operating segments, based on the sector's raw materials.
3. Increasing the weight of specialty products in the mix of products sold by ICL-IP, including:
 - The development of new products and applications and market-specific substitutes for existing products that contain bromine so that the new products can serve as growth engines to generate worldwide demand for bromine.
 - The development of polymer and/or reactive flame retardants as the next generation of products in this sector.
 - Combining bromine-based flame retardants with phosphorus-based flame retardants to achieve a competitive advantage for the company and its customers.
 - Acceleration of environmental activity and the penetration of bromine compounds for treating the prevention of emissions from coal-powered power stations.
4. Maintaining current products while gradually adapting them to regulatory requirements that change from time to time.
5. Review of mergers and acquisitions of companies in the industry, including the option of expanding horizontally.

4.2.18 Other subjects

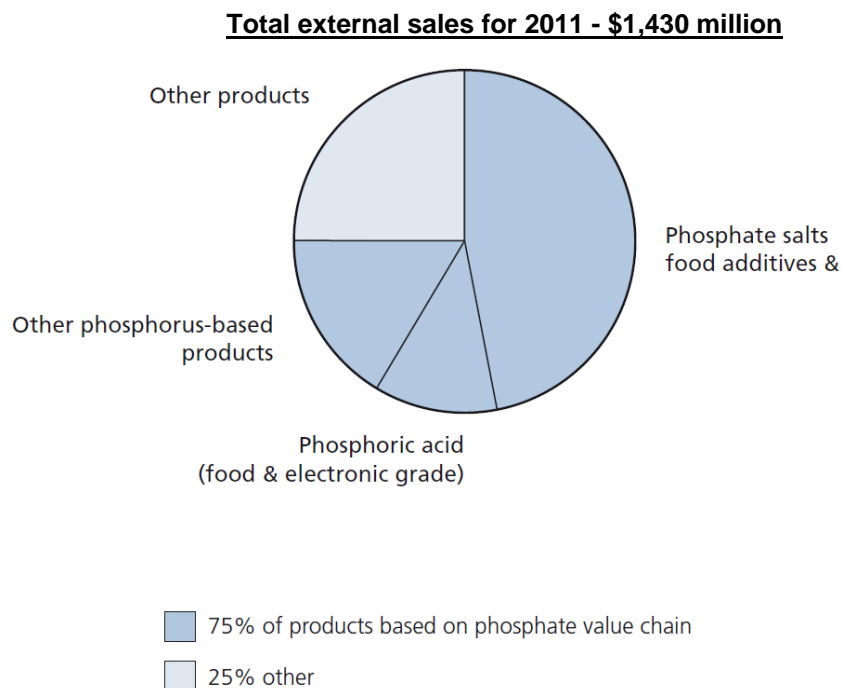
In the last quarter of 2011, the acquisition was completed of 50% of the shares of Tetrabrom Technologies Ltd. (TBT) from Chemtura, which held the remaining 50% of the shares. Subsequent to the acquisition, ICL-IP holds 100% of the shares of TBT. TBT manufactures flame retardants (TBBA) and has an annual production capacity of 44,000 tons. Following the acquisition, the annual production capacity of ICL-IP increased by 22,000 tons of TBBA (see also Note 11 D__ to the Financial statements).

⁴² ICL Industrial Products' plans and strategies, as described in this section, reflect the strategies of ICL Industrial Products as of the date of this report, are based on the projections of ICL Industrial Products as of the date of this report, and are in part forward-looking statements. It should be noted that if the Company's projections or strategies change regarding its area of activity, legislation and regulation or requirements of the authorities, these plans and projections may change, in whole or in part, from time to time and that these can be no certainty regarding the realization of these plans or the success of these strategies.

4.3 ICL Performance Products

4.3.1 General information about the area of operations

The following chart details the external segment sales⁴³ of ICL-PP according to product group:

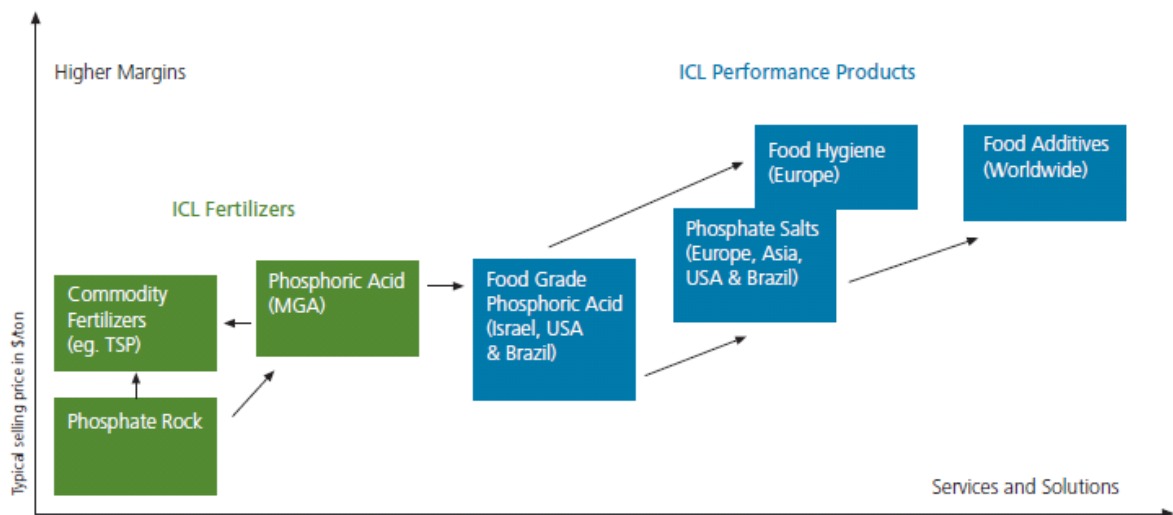


A. Description of activity

ICL-PP develops, produces, markets and sells a broad range of phosphate-based products as part of ICL's strategy of increasing its production of downstream products with higher added value. ICL-PP also develops, produces, markets and sells alumina-based products and other industrial performance products. In 2011, ICL-PP revenues totaled approximately \$1,495 million (including sales to other business segments at ICL), representing approximately 21.1% of ICL's revenues in that year. Approximately 75% of ICL-PP external sales are of phosphoric acid of various grades (technical, food, electronics and poly phosphoric acid) and its downstream products. These products are based partially on phosphate rock that is mined by ICL Fertilizers in the Negev Desert in Israel and partially on phosphorus (P4) and phosphoric acid that is purchased from third parties.

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

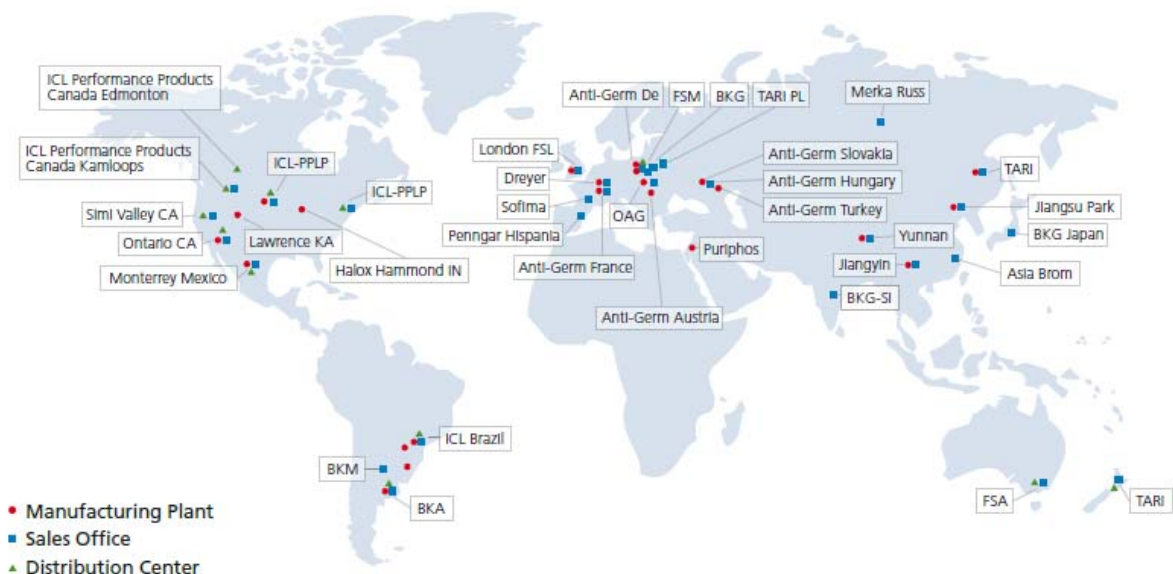
⁴³ The term "external sales" refers to the segment's sales to customers outside of the ICL Group (customers that are not other segments of ICL).



ICL-PP products are designed for a wide range of uses and industries, and primarily for the food, detergent, metallurgy, electronics, footwear, paper, and pharmaceutical industries and for water treatment, for the concrete industry and fire fighting worldwide.

ICL-PP manufactures its products in its facilities in Germany, the United States, Israel, Brazil, France, China, England, Argentina, Austria, Australia and Mexico. In Mishor Rotem in Israel, ICL-PP manufactures pure phosphoric acid by means of purifying fertilizer-grade phosphoric acid produced by ICL Fertilizers. ICL-PP also manufactures “thermal” phosphoric acid in the US by utilizing elemental phosphorous and the segment also purchases purified phosphoric acid from third parties. ICL-PP plants outside of Israel utilize raw materials obtained from the ICL Group’s operations in Israel and other sources. For details regarding ICL-PP products see section 4.3.2 below.

Geographic distribution of the production plants of ICL-PP



B. Trends and developments in the markets

Most ICL-PP products are affected, to a considerable extent, by the global economic situation, competition in the target markets, price fluctuations in the fertilizer market, which affect the price of the main raw materials of ICL-PP, and fluctuation in energy prices.

After the global economic crisis of 2009 which led to a decrease in demand for most products manufactured by ICL-PP, the markets gradually recovered in 2010. This was reflected in an increase in demand for most of ICL-PP's products. The increased demand can be attributed primarily to customers' needs to replenish stocks that had fallen to historically low levels.

The upswing in the global market came to an end starting from the second half of 2011. The credit crisis in Europe and the United States has created uncertainty in those markets and caused a slump in demand. There was also uncertainty in Middle Eastern and North African markets.

During the year, the gradual increase in fertilizer prices continued, which affected the competition in markets for phosphate-based products, compared to products based on thermal phosphoric acid.

4.3.2 Products and services

The main products of ICL-PP are as follows:

- 1. Pure phosphoric acid - technical grade, food-grade acid, electronics-grade acid and poly phosphoric acid:** The acid is used as raw material in the food, metal treatment, detergents, electronics and construction industries. ICL-PP is the world's leading manufacturer of pure phosphoric acid. ICL-PP manufactures and markets phosphoric acid of varying grades, primarily for the food industry. The product mix of ICL-PP includes specialized acids with high added value that are used in the electronics and construction industries.
- 2. Phosphate salts and food additives:** These products are designed for diverse uses, including treatment of metals, paints and coating, detergents, toothpastes, and food additives. ICL-PP manufactures and markets products with high added value, including phosphate salts, produced in Germany, the United States, Brazil and China, which are primarily based on phosphoric acid. ICL-PP uses much of the phosphate salts that it produces as raw material to manufacture food additives in many countries in the world. The food additives of ICL-PP target the processed meat, fish and seafood markets, the cheese and milk products markets and the baked goods industry.
- 3. Other phosphate- and phosphorus-based products:** The primary market for these products are:
 - Hygiene products:** a range of disinfectant and cleaning materials for various uses in the foodservice industry, including products for cleaning dairies, farms, industrial kitchens and other types of food facilities. ICL-PP maintains manufacturing facilities in France, Germany and Austria. Some of these products are based primarily on pure phosphoric acid that is produced in Israel.
 - Fire prevention and retardant products (fire safety):** Fire safety products prevent fires, mainly in forests and open areas, by spraying products from an aircraft. The Company is one of the world's leading manufacturers of phosphate-based fire retardant products, which are used primarily to fight forest fires. These materials are produced in North America and France.
 - P₂S₅:** used as a primary ingredient in lubricating oil additives and insecticides.
- 4. Other products:** ICL-PP manufactures a wide range of specialized products that are not phosphate-based and which require special competencies. Among these are the following products:
 - Thermoplastic products (Rhenoflex):** Thermoplastic materials are plastic materials that can be molded with heat. ICL-PP develops, manufactures and markets unique, environmentally-friendly, patent-protected thermoplastic products for reinforcing the toes and heels of shoes and for the production of other leather goods such as handbags and suitcases. Among ICL-PP customers are some of the leading manufacturers of quality footwear in the world. Production facilities are based in Germany and China.
 - Chemicals for water and paper (APW – alumina compounds, paper and water chemicals):** ICL-PP manufactures and markets a wide range of alumina compounds and other chemicals (polymers) for the paper industry and other industries, cement additives and chemicals for treatment of industrial and drinking water. In 2008, ICL-PP expanded its water-treatment operations by acquiring the water treatment business of the German company Henkel. This business includes the production of performance products for treating water used in cooling towers, by power stations, heating systems, drinking water, sewage treatment and purification. Most of the production facilities are in Germany.

Pharma, cosmetics and gypsum (PCG): ICL-PP manufactures and markets active materials and other products for the pharmaceutical and cosmetics industries and also manufactures synthetic plaster for the medical, dental and hobby industries. Production facilities are based in Germany and China.

4.3.3 Detail of sales and profitability of products and services

Analysis of the revenue and gross profit according to segment:

	Revenues (\$ millions)*	% of ICL Revenues*	Gross profit (\$ millions)	% of gross profit as a % of revenues
2011	1,496.9	21.1	484.1	32.3
2010	1,340.0	22.3	451.5	33.7
2009	1,328.0	27.5	439.2	33.1

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

4.3.4 Customers

A. Dependence on single customer

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

B. Breakdown of sales according to geographical markets

	1-12/2011		1-12/2010		1-12/2009	
	\$ millions	%	\$ millions	%	\$ millions	%
Israel	8	1	4	1	4	1
North America	516	36	463	36	521	40
South America	72	5	69	5	67	5
Europe	622	43	551	43	531	41
Asia	168	12	156	12	130	10
Rest of world	44	3	41	3	40	3

The increase in sales in North American in 2011 was mainly due to an increase in selling prices of all products sold in this area. There was also an increase in sales of fire retardant and fire control products, due to several fires in the southwestern United States. The increase in sales in Europe is mainly due to the increase in prices of phosphate-based products and an increase in the sales quantities of these products.

4.3.5 Marketing and distribution

ICL-PP sells its products mainly to industrial and commercial customers in Europe, North America, South America and Asia. ICL-PP's marketing network is based primarily on an extensive internal marketing organization and, to a lesser extent, on external distributors and selling agents. The commissions paid to the agents are customary in the industry. In 2011, ICL-PP paid commissions amounting to approximately \$7.6 million.

To market and sell many of its performance products effectively, ICL-PP's marketing personnel work closely with customers in order to tailor the products to the customers' needs. ICL-PP is not dependent on external marketing forces.

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

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

Most sales of performance products do not take place according to long-term orders or contracts, but are regularly ordered close to the time of supply. The term "order backlog" therefore has no significance for ICL-PP.

4.3.6 Competition

A. Conditions of competition in areas of activity

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

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

B. Significant competitors

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

Among the primary competitors of ICL-PP in each field are:

1. Phosphate based products

A. Pure phosphoric acid, phosphate salts and food additives: ICL-PP's main competitors are: Thermphos International BV, Chemische Fabrik Budenheim KG, Innophos Inc., Prayon, PCS, Adithya Birla, Haifa Chemicals Ltd. and various Chinese producers.

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

C. P₂S₅: ChemTrade Logistics Company

2. Other products

A. Chemicals for water and paper: The primary competitors of ICL-PP are BASF AG, Hercules- Ashland, Kemira Oy, Nalco, GE Water Technologies and Eka Nobel.

B. Pharma, cosmetics and gypsum: The primary competitors of ICL-PP are Reheis Inc. and Summit in the area of antiperspirant, SPI Pharma in the area of pharmaceutical products, and GC Corporation in the field of gypsum.

C. Thermoplastics: The primary competitors of ICL-PP are the Italian Tecno-Gi (SPA) and local manufacturers in China and Taiwan.

C. Approach for competing in the market

ICL-PP addresses competition through the following activities:

- Maintaining a close connection with customers, over many years, in order to respond to unique customer needs.
- Technical support and service.

- In certain cases, by tailoring specialty formulations to customer needs and in other cases manufacture of a wide range of products in order to create differentiation between segment's products and those of its competitors.
- Establishment and acquisition of manufacturing and marketing networks in various countries in order to reap the special benefits of being a local producer.
- Development of specialty markets in which ICL-PP has a relative advantage.
- Filing of patents and trademarks for specialty products.
- Reduction of production costs.
- Using purified and thermal phosphoric acid from own production and third parties.
- Developing and providing technical expertise in its areas of activity.

4.3.7 Production

Potential production capacity of the main products:⁴⁴

Pure phosphoric acid (in terms of phosphoric oxide): approximately 352,000 tons⁴⁵

Phosphate salts and food additives: approximately 497,000, tons

Other phosphate-based products: approximately 133,000 tons

Other products at ICL-PP: approximately 463,000 tons

Production of principal products in 2011:

	Production in 2011 (thousands of tons)
Pure phosphoric acid (in terms of P ₂ O ₅)	140
Phosphate salts and food additives	381
Other phosphate-based products	70
Other products	278

During the fourth quarter of 2009, ICL-PP announced the closure of one of the production plants in the US, as part of the Company's efficiency plan. As part of the efficiency plan, it was decided that production of phosphoric acid and phosphate salts that were produced at this plant, will be transferred to ICL-PP's other production plants. The closure process is planned for the second half of 2012. Output is not expected to be damaged by the efficiency plan.

In 2011 a production facility in Mexico was acquired which increased the production capacity of food additives and specialty chemicals of ICL-PP. In addition, in the fourth quarter, ICL-PP acquired a company that manufactures corrosion-resistant phosphate-based specialty products for the paints and coatings industry.

⁴⁴ The potential production capacity of the various plants is based on the hourly output of the plants, multiplied by potential hours of operation per year, presuming continuous production over the year, 24 hours a day, with the exception of a few days for planned maintenance and repairs. Actual production is usually lower than potential production capacity, due to unexpected breakdowns, special maintenance operations and market conditions.

⁴⁵ Part of the use of the production capacity of thermal phosphoric acid depends of the economic feasibility of purchasing phosphorus (P₄), which is a raw material in the production of thermal phosphoric acid. The potential production capacity for phosphoric acid includes the production capacity of Fosbrasil, a Brazilian company, 44% held by ICL Performance Products, and which is approximately 70,000 tons a year. ICL-PP also acquires phosphoric acid from third parties.

4.3.8 Research and development

A. Research and development activities and results

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

Pure phosphoric acid, phosphate salts and food additives:

1. Development of innovative products (mainly specialty products) in the area of phosphate salts and food additives in order to strengthen ICL-PP's position in the markets in which it is active, including mainly:
 - A. Components that improve the characteristics of food products and contribute to prolonging the shelf life of these products
 - B. Low-sodium products based on raw materials from the Dead Sea
 - C. Unique phosphate salts for lithium-metal batteries
 - D. Calcium phosphate for removal of fluorides from surface water sources
 - E. New formulations for control of forest fires
 - F. Ammonium polyphosphate products for paints and coatings
2. Improving the quality and properties of specialty acids for the electronics and construction markets, mainly by improving production processes based on green phosphoric acid, including in particular:
 - A. Development of a production process based from green acid for poly-phosphoric acid used in asphalt.
 - B. Development of a production process based from green acid for phosphoric acid with particularly clean electronic quality.
 - C. Adaptation of existing products to new laws (BIOCISE and the REACH directive)
3. Development of innovative products that address new customer needs.

In other fields:

1. Adapting the use of thermoplastic materials for uses outside the footwear industry and developing new material mixes in an effort to reduce the dependence on one raw material and development of new materials based on recycling waste from major customers.
2. Expansion and adjustment of the water treatment product line to new markets and fields.
3. Development of innovative products for the paper industry and adapting the products to the Asian countries.
4. Development of new products compatible with new dental technologies and new applications.
5. Improvement of pharmaceutical and cosmetics products.
6. Development of additives for building industry.

B. Investment in research and development

ICL-PP's total research and development expenses in 2011 were approximately \$19.7 million.

4.3.9 Intangible assets – patents and trademarks

ICL-PP believes that protecting its intellectual property is one of the methods of protecting and developing its business activities. ICL-PP has, in various countries, approximately 1,510 registered trademarks and approximately 510 registered patents.

4.3.10 Raw materials and suppliers

The primary raw material for manufacture of phosphate salts and food additives is pure phosphoric acid, which is produced by purifying fertilizer-grade phosphoric acid as well as via a

thermal process from elemental phosphorus (P₄). ICL-PP obtains fertilizer-grade phosphoric acid from ICL Fertilizers and also obtains P₄ and purified phosphoric acid from external manufacturers.

ICL-PP has a long-term supply contract with a supplier of phosphoric acid that guarantees regular supply of this raw material. The supply agreement for P₄ ends in December 2022.

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

4.3.11 Working capital

A. Raw material inventory policy

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

B. Finished product inventory policy

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

Average stock days in 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Pure phosphoric acid and phosphate salts	68	58
Food additives	55	54
Other	62	59

The stock days are based on the average amount of stock during the year (quarterly) divided by the amount sold during the year.

C. Credit policy

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

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

	December 31, 2011	
	Average credit level (\$ millions)	Average credit days
Customers	233	56
Suppliers	119	28
	December 31, 2010	
	Average credit level (\$ millions)	Average credit days
Customers	202	55
Suppliers	92	25

4.3.12 Environmental matters

A. Description of environmental risks

The activity of ICL-PP exposes it to the following environmental risks:

Hazardous materials – As part of its activity, ICL-PP produces, stores and uses materials that are defined as hazardous materials including phosphoric acid, thermal acid and elemental phosphorus. If these materials leak or complete control of them is lost due to a malfunction, they are likely to cause harm to people or the environment. ICL-PP maintains ways to treat these conditions with a system that includes emergency teams and appropriate equipment to deal with these incidents.

Air – During production processes at ICL-PP facilities, pollutants are emitted that could be harmful to people or the environment, if there were to be emitted into the environment at concentrations or amounts exceeding the permitted levels. The materials emitted are volatile organic compounds, inorganic compounds and particles. ICL-PP is taking the necessary measures to prevent the uncontrolled emission of these substances, by using the accepted technologies.

Liquid waste – During production processes at ICL-PP' facilities, industrial waste water is produced. Waste water is allowed to flow into water sources or evaporation ponds. Waste water that is not controlled or treated in accordance with set discharge standards may cause harm to people and/or the environment. The plants in this sector have ongoing activities to reduce the volume of wastewater.

Land – The use of raw materials that are classified as toxic substances and production of toxic substances can cause soil pollution that might endanger people and/or the environment. As part of its response to this risk, the segment is careful to store hazardous materials in closed special-purpose systems.

B. Material consequences of environmental laws

For the implications of the Clean Air Law, 5768-2008, see section 4.4.

C. Events or subjects relating to the environment

In the Report period there were no significant events in ICL-PP relating to the environment.

D. Significant legal matters related to the Environment

As at the date of the approval of the financial statements, ICL-PP was not a party to any significant legal proceedings related to the environment.

E. Environmental risk management policy

Regarding, risk management policy, see section 3.3 above.

F. Future material capital expenditures for environmental matters ⁴⁶

During 2011, ICL-PP invested approximately \$4 million in property, plant and equipment for maintaining the environment, and ICL-PP expended approximately \$8 million in current expenses in environmental matters.

According to ICL-PP estimates, the total capital expenditures and current expenses relating to environmental matters in 2012 are anticipated to be approximately \$7 million and \$9 million, respectively. The scope of these expenses is expected not to decline in the years 2013 and onward. There might be an increase which cannot be estimated.

The main investments expected in the area of environment of ICL-PP are in the subject of water in Ludwigshafen and Ladenburg in Germany, sewage at SJDC in Brazil and Lawrence in the US, treatment of sludge in Ludwigshafen, integration of ISO 14001 in Ludwigshafen and Ladenberg and integration of RC 14001 in the US.

⁴⁶ Projections regarding the projected costs and expenses in 2011 onwards constitute forward-looking statements, and are based on legislation and regulation currently in effect, on governmental requirements known to ICL-PP and on investment estimates made by Company engineers. The realization of these estimates cannot be certain. Any change in these estimates, including changes in the estimates made by the Company's engineers or changes in adoption of governmental requirements or legal rulings may cause different results than those stated above.

The Kansas Department of Health and Environment (KDHE) renewed the discharge permit at Lawrence in the US with a requirement to submit a detailed evaluation by mid 2010 for reducing phosphate in the discharge. A similar request was sent to the City of Lawrence so the City is requiring the company to prepare detailed evaluation for reducing the phosphate in the discharge to the City treatment plant.

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

4.3.13 Limitations on and supervision of the Corporation

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

A. Subjection of activities to specific laws

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

B. Business licenses

ICL-PP's plants have valid business licenses in accordance with legal requirements in their jurisdictions.

C. Quality control

ICL-PP has a comprehensive and advanced quality control system.

- All of its plants have ISO 9001 management certification. The plant at Ladenburg in Germany, the plants at Sao Bernado do Campo and San Jose dos Campos in Brazil and Lawrence, Carondelet and Monterrey in North America have ISO 22001 certification commencing from 2009. In addition, the purified acid production plant at Mishor Rotem has ISO 22001 certification from 2011. ICL-PP's plants at Ladenburg and Ludwigshafen in Germany and Lawrence and Carondelet in North America have ISO 14001 and OSHAS 18001 certification.
- ICL-PP meets the requirements of GMP in its facilities for food products (pure phosphoric acid, phosphate salts, and food additives) and hygiene products for the food industry and in its facilities for products for the pharmaceutical industry.

4.3.14 Goals and business strategy

ICL-PP seeks to increase its revenues, profitability and cash flow primarily through the following⁴⁷:

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

4.4 Issues Common To The Operating Segments

A. Chemical licensing in Europe (REACH)

⁵² ICL Performance Products' plans and strategies, as described in this section, reflect the strategies of ICL Performance Products as of the date of this report, are based on the projections of ICL Performance Products as of the date of this report, and are in part forward-looking statements. It should be noted that if the Company's projections or strategies change regarding its area of activity, legislation and regulation or requirements of the authorities, these plans and projections may change, in whole or in part, from time to time and that these can be no certainty regarding the realization of these plans or the success of these strategies.

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

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

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

All ICL segments are preparing to implement REACH and have registered products in of the segments as required by law. In this context, registration portfolios were prepared and submitted to the European authorities.

Likewise, all the chemicals have been reclassified products in line with the CLP regulations (Classification, labeling and packaging of substances and mixtures), that took effect in Europe in December 2010.

All ICL segments have submitted applications for permits for all the chemicals relevant for their businesses in Europe (production and sale) within the first timetable set in the law, during November 2010. ICL-IP has also volunteered to lead and prepare a number of leading files for the entire industry (leader registrant). ICL-IP is preparing to develop or purchase data and to prepare files for the second target date, set for up to the middle of 2013. Up to this target date, ICP-IP will lead (lead registrant) a large number of materials on behalf of the industry

Under the law, ECHA published two lists of substances defined as "substances of very high concern". These lists include two products of ICL-IP. One is a substance that had already been reduced to a minimum prior to publication. ICL-IP complies with the provisions of the law for these substances, while developing substitutes.

B, The Clean Air Law

On July 31, 2008, the Clean Air Law, 5768-2008 ("The Clean Air Law") was enacted to regulate the treatment and control of air pollution in Israel. The law is effective as from 2011. In accordance with the law, the Ministry of Environmental Protection ordered ICL plants in Israel, similar to the other chemical plants in Israel, to apply for an emissions permit by March 31, 2014. Up to this date, the provisions of the law will not apply to ICL plants in Israel.

The Clean Air Law addresses, inter alia, fixed sources (including the Company's plants) and is intended to serve as a platform for implementing the Integrated Pollution Prevention and Control (IPPC) directive ("the Directive"), which was adopted by the EU in 1996.⁴⁸

The Clean Air Law differentiates between plants defined in the Directive as having significant environmental impact (IPPC plants), which include ICL plants in Israel, and the other plants. In accordance with the Clean Air Law, operations of IPPC plants are subject to a valid emissions

⁴⁸ It is noted that in practice, the Ministry of Environmental Protection started to apply the policy in the Directive in Israel three years ago at Ramat Hovev (through other conditions in the business license). See also section 4.2.14B

permit. The emissions permit should include specific instructions based on best available technologies (BAT).

On June 22, 2010, the Minister of Environmental Protection enacted the Clean Air Regulations (Emission Permits), which set requirements for applying for and obtaining an emission permit. To determine the best technique available, the regulations refer to the European BAT Reference Documents (BREF) and require selection of best available techniques from those technologies known (BAT)(except in special circumstances that require specific explanations).

Upon receipt of an emissions permit, an emissions levy will be imposed on the plants. Regulations regarding how the emission levy will be determined have not yet been published, and at this stage there is no way of knowing when the levy will be imposed and what the rate will be.

Since specific requirements have yet to be determined for the Company's plants that constitute sources of emissions requiring a permit and because the rate of levy has yet to be determined, ICL is unable, at this time, to estimate costs of complying with the new legislation. Accordingly, at this stage, ICL cannot assess the effect of the Clean Air Law on its operations.

B. Patents

ICL does not have a patent for which its expiry or violation by any entity is expected to have a material effect on the Company's operations and its financial results.

4.5 Other Activities

- A. ICL holds 50% of I.D.E. Technologies Ltd. "IDE"). IDE is active in the following fields: erecting and selling water desalination plants, selling water, operating and maintaining water treatment and desalination plants and development and production of industrial evaporators and heat pumps, all these in Israel and worldwide. IDE built and operates a desalination facility for the Cyprus government with a yearly capacity of about 21.5 million cubic meters. The original agreement with the Cyprus Water Authority expired in July 2011 and was extended until June 2012 (the Cyprus Water Authority was given the option to extend the agreement until September 2012). IDE signed agreements with the State of Israel to construct and operate desalination plants in Ashkelon, Hadera and Soreq. The agreements were signed by special purpose companies held 50% at Ashkelon and Hadera and 51% at Soreq.

The Ashkelon facility produces at an annual rate of over 120 million cubic meters of desalinated water. The term of the agreement ends in June 2027. The Hadera plant is producing water at a rate of approximately 127 million cubic meters of desalinated water per year. The period of the agreement ends in August 2013.

The seawater desalination plant in Soreq is under erection and should produce, at a volume of 150 million cubic meters of desalinated water per year. The agreement is for a period of 26.5 years, starting from November, 2010. The plant is expected to begin operations in 2013.

The plants are transferred to the state at the end of the agreement period.

- B. Dead Sea Magnesium deals in the production, marketing and sale of pure magnesium and magnesium alloys. The company also produces dry carnallite and byproducts including chlorine and sylvinitite.

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

Chapter 5 – Additional General Information about the Corporation

5.1. Property, real estate, plant and equipment

Under the Concession Law, ICL has leasing rights until 2030 for the salt and carnallite ponds, pumping facilities and production plants at Sodom. ICL has other production facilities in Israel,

situated on land with a long-term lease, including the plants at Mishor Rotem (mainly leased until 2028-2040), the Oron and Zin sites of ICL Fertilizers (leased until 2017-2024), production and transportation facilities at Ramat Hovav of ICL-IP (leased until 2024-2048), as well as production, storage and transportation facilities and chemicals and research laboratories at Kiryat Ata (leases until 2046 to 2049) that belong to ICL Fertilizers and ICL-IP. ICL also has warehouses and loading and unloading sites at the Ashdod and Eilat ports that belong to ICL Fertilizers. Part of the lease agreements at the ports expired in 2008 and have not yet been extended and part of the lease agreements of these ports are due to expire between 2014 and 2016. The Company is in discussions with the Israel Port Company to extend these leases. In the assessment of ICL, these lease agreements in the ports will be extended for further periods or an alternative solution will be found for loading and unloading operations⁴⁹.

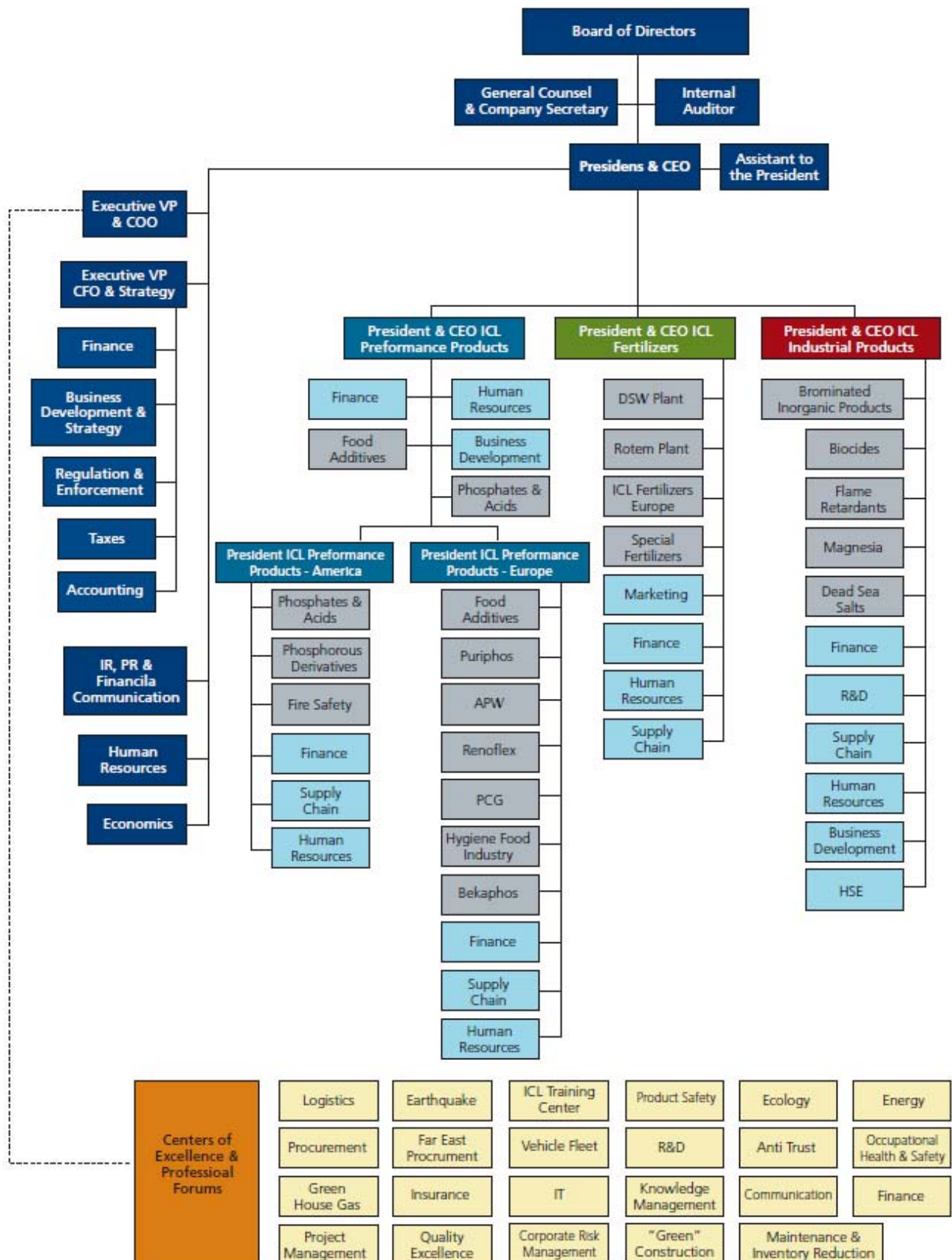
ICL has additional production facilities abroad, the main ones being:

- A. Germany: production plants of ICL-PP at Ludwigshafen and Ladenburg, The main facilities at these sites are owned by the ICL Group.
- B. Holland: production plants of ICL-IP at Terneuzen that are owned, a facility of ICL Fertilizers in Amsterdam with a lease which is in force until 2034 and a production facility in the southern Netherlands on land that is partially owned and partially under a long-term lease.
- C. Spain: the concessions at the potash and salt mines arise from the concession agreements described in section 4.1.13 (3) above. The potash and salt production plants, and warehouses and loading and unloading facilities of ICL Fertilizers at Catalonia, are owned by the ICL Group. ICL Fertilizers also has a liquid fertilizer and soluble fertilizer production plant in Totana, another plant for mixing solid fertilizers in Cartagena and a concession on two ports in Cartagena and Almeria until 2024 and 2014, respectively.
- D. UK: the rights to the potash and salt mines arise from the concession agreements described in section 4.1.13 (3) above. The potash and salt and production plants of ICL Fertilizers in Cleveland are owned by the ICL Group. The warehouses and loading and unloading facilities at the port are leased until 2014.
- E. United States: production plants of ICL-IP in West Virginia, mainly owned by the ICL Group, production plants of ICL-PP in Lawrence and St. Louis in Kansas, owned by the ICL Group, and production plants of ICL Fertilizers in South Carolina under a lease ending in 2015.

⁴⁹ The evaluations in this section are forward-looking statements and are based upon the Company's past experience, the existing legislation and regulations. Realization of these evaluations is not certain and is dependent on changing market conditions and on coordinating negotiations with a third party.

5.2. Human resources

A. Organizational structure of ICL



The Board of Directors of ICL sets and directs the Company's policy and supervises the CEO's execution of his duties. The CEO heads the Company, assisted by a management team that also includes the managers of ICL Fertilizers and ICL-IP. Each segment has its own management team.

In addition, within the Group there are inter-company centers of excellence which are professional forums for cooperation between the various segments in various fields headed by experts in each field from the various segments, who manage these centers of excellence at the Group level in addition to their ongoing responsibilities. These centers assist the ICL headquarters and its segments with management, coordination and supervision of their professional fields of responsibility.

On December 7, 2011, Yossi Shahar, Executive Vice President, Corporate Development and Strategy announced his intention to resign after 37 years with the Company. The retirement date is March 31, 2012.

On January 5, 2012, the CEO of the Company, Akiva Mozes, informed the Board of Directors that he intends to resign from his position as CEO of the Company after 37 years with the Company and 13 years as CEO. The resignation date has yet to be set. This date will be set by Akiva Moses together with the Company's Board of Directors.

On March 4, 2012 the Board of Directors resolved to establish a Board committee to appoint a new CEO. The chairman of the committee is Nir Gilad, chairman of the Board of Directors and the committee members are Yossi Rosen and Yaacov Dior, an external director. The committee members were appointed, in part because of their long-term familiarity with the Company and their extensive experience in similar processes. Akiva Mozes was appointed as an observer in the committee meetings. The committee began its work shortly after the decision of the Board of Directors and in the first stage, will determine criteria for candidates. In the second stage, the committee will assess the suitability of various candidates according to the criteria determined by the committee. The committee may use independent consultants when fulfilling its duties.

On March 4, 2012, Nathan Dreyfuss, VP Finance, announced his intention to retire after 18 years with the Company. The retirement date is April 30, 2012.

On March 4, 2012, the Board of Directors resolved the following:

- To expand the authority of the CFO and Executive VP, CPA Avi Doitchman, to include strategy
- To appoint Adv. Yakir Menashe, Assistant to the CEO, as VP Regulatory Affairs and Compliance
- To appoint CPA Amir Benita, ICL Controller, as VP Accounting
- To appoint Michael Hazzan, Finance manager, as VP Finances
- To appoint Hezi Israel, VP Strategy and Business Development for ICL-IP, as VP Business Development
- The four vice-presidents report to Mr. Doitchman.

B. Breakdown of employees

As at December 31, 2011, ICL had a workforce of 11,910 employees. Of these, 44 are employees of ICL headquarters and the balance are employed by the various subsidiaries.

Details of the Company's employees*

1. Breakdown of employees by area of activity:

	2011	2010
Production	8,915	8,367
Marketing and sales	1,402	1,174
Management & administration	1,159	1,099
Research and development	434	395
Total employees	11,910	11,035

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

2. Breakdown of employees by segment:

	2011	2010
ICL Fertilizers	5,777	5,096
ICL-IP	2,681	2,619
ICL-PP	2,834	2,733
Other (includes employees of IDE, DSM and ICL management)	618	587
Total employees	11,910	11,035

3. Geographic breakdown of employees:

	2011	2010
Israel	5,306	5,200
Germany	1,270	1,237
Spain	1,160	1,023
UK	1,037	955
Netherlands	435	243
USA	1,040	942
China	654	584
France	358	333
Brazil	102	106
Other	548	412
Total employees	11,910	11,035

C. Significant changes in the number of employees

The total number of employees at ICL at December 31, 2011 is 11,910, compared to 11,035 employees at December 31, 2010, an increase of 875 employees. The increase in the number of employees is due mainly to additional manpower in respect of acquiring companies around the world, completing the investments in the new plants and increased production as well as an increase in IDE operations.

D. Investment in employee development, training and education

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

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

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

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

During 2010, a leadership profile of ICL's senior manager was mapped out. This profile was prepared for developing, training and promoting ICL's senior managers. Based on this profile, organizational development plans were formulated and are applied that include: the absorption and screening of senior managers, executive development programs for managerial positions, plans for management training, and management evaluation.

E. Employee incentive program

On January 28, 2007, the board of directors of ICL approved the allotment of 11,800,000 non-marketable options, for no consideration, to 90 officers and senior employees in Israel and in other countries, of which 2,200,000 were allotted to the CEO. Each option confers the right to receive from the Company, by way of transfer or allotment, one ordinary share of the Company for an exercise price of NIS 25.59 (the base price of the shares at the beginning of the trading day on which the decision was made), linked to the CPI and subject to adjustments. At the date of the report all the options granted according to the plan had been exercised or expired. For exercise of the options, see section 2.3 above.

On January 7, 2010, the board of directors of ICL approved the allotment of up to 11,000,000 unmarketable options, for no consideration, to 318 officers and senior employees at ICL in Israel and other countries. Of these, at February 16, 2010, 10,930,500 stock options were actually allotted. The allotment includes a substantial private offering of 1,100,000 options to the CEO of ICL and 800,000 options to the chairman of the Company's board of directors. The options are exercisable into ICL shares for NIS 53.1 each (the base price of the shares at the beginning of the trading day on which the decision was made), linked to the CPI and subject to adjustments. The options vest in three equal lots starting from January 7th, 2011, 2012 and 2013. The options for employees in Israel are held by a trustee in a capital track under section 102 of the Income Tax Ordinance.

For additional details, see section 25C of the financial statements.

F. Employment benefits and agreements

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

DSW signed a collective employment agreement in April 2011, in effect until the end of September 2015.

Rotem Amfert Negev signed a collective employment agreement in August 2011, in effect until the end of July 2016.

Fertilizers and Chemical Materials signed a collective employment agreement in December 2011 for seven years until the end of 2018.

Dead Sea Magnesium signed a collective agreement in principle in December 2011, in effect until the end of 2017.

Dead Sea Bromine Compounds in the ICL-IP segment has a collective employment agreement, in effect until the end of June 2012.

On the subject of a strike by DSW employees, see section 4.1.8 above.

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

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

A relatively limited number of the employees at ICL sites in Israel are employed by outsourced personnel agencies for short terms. In addition, the Group has contracted in Israel with subcontractors for various outsourcing services such as security, packaging, maintenance,

catering, cleaning etc. In accordance with the decision of the Board of Directors of ICL and its Israeli subsidiaries in October 2004, contractors who employ workers at ICL's plants in Israel are required to give employees working on a regular basis for ICL, salary terms beyond those required by law. Pursuant to this decision, the employers are obligated to grant these employees, in addition to current salary that must be at least 5% higher than the minimum wage stipulated by law, pension contributions, severance fund contributions, vacation funds, uniforms and meals.

On October 24, 2004 the Board of Directors established supervision procedures for its subcontractors in order to ascertain whether they are granting their employees the conditions described above. The supervision is partially conducted by an external CPA company.

After the Balance sheet date, on February 9, 2012, an agreement was signed between the Coordination office of the Economic organizations and the General Labor Union which set out three principles:

1. The working conditions, and in a workplace where there is a labor agreement, the terms of the agreement as well, will be in effect, as relevant, upon the service subcontractor employees stationed at that workplace. A service subcontractor is according to the agreement, someone engaged in providing services, through his employees to another party.
2. Service subcontractor employees engaged in cleaning, who work more than 170 monthly hours, will be taken in as employees of the employer after nine months.
3. Subcontractor employees in a critical position or profession at the employer will be taken in as employees of the employer after nine months.

This agreement will come into force if and only after the Minister of Industry, trade and employment will issue an expansion order on this agreement, so that from that time onwards, the agreement, in full or in part, will apply to employers in the private sector. This expansion order has not yet been issued and there is resistance from various parties to this order. Therefore, at present, there is no certainty whether the agreement will come into force, in whole or in part.

In the event that the expansion order is issued and becomes valid, the agreement will affect the labor costs of ICL. At the time of the approval of the reports, the Company cannot evaluate the extent of the effect and it is checking the effects of the agreement on ICL, if it comes into force.

For details regarding the severance fund, pension and early retirement see Note 22 to the financial statements as at December 31, 2011.

5.3. Finance

5.3.1. Financial situation and sources of financing

ICL's policy is to secure sources of financing for its operating activities and investments, while diversifying the sources of finance among various financial instruments, and between local and international financing entities.

During the course of 2011, an increase of approximately \$781 million was recorded in the Company's net financial liabilities and at the end of the period the net financial liabilities of the Company amounted to \$1,440 million⁵⁰. For further information see section 4 of the Directors Report.

ICL's sources of finance are short- and long-term bank loans mainly from international banks, bonds issued to institutional investors in the USA, customer securitization in which some of the companies in the Group sell their customer debts in return for cash payment, and debentures listed on the Tel Aviv Stock Exchange. The Company's policy is to exploit the different financing facilities according to cash flow requirements, alternative costs and market conditions

⁵⁰ Net financial liabilities – credit, long-term and short-term undertakings from banks and other credit providers, less cash and long- and short-term deposits in financial and government institutions.

5.3.2. Credit facilities and their terms

ICL's credit facilities and loans are as follows:

- Long-term loans and credit facilities

In 2007, ICL entered into a loan agreement for \$725 million for five years. In the fourth quarter of 2011, ICL repaid the loan. On March 14, 2011, ICL entered into an agreement with a consortium of 17 international banks for a credit facility of \$675 million. The credit facility is for five years, and is repayable in full at the end of the period.

In December 2011, ICL entered into an agreement with a consortium of seven international banks for a credit facility of \$650 million. The credit facility is for five years, and is repayable in full at the end of the period.

In December 2010, the Company received a loan from the European Investment Bank (EIB) for EUR 100 million. The loan is repayable on December 15, 2015.

In the second half of 2011, ICL entered into an agreement a European bank for a credit facility of EUR 100 million. The credit facility is for six years, and is repayable in full at the end of the period. At the balance sheet date, the credit facility was not used.

For further information, see Note 18 J to the Financial Statements for 2011.

- Securitization transaction

In 2010, some of the Group companies signed a securitization transaction for customers with Rabobank and Credit Agricole, whereby the companies will sell all of their trade receivables to a foreign company. The securitization withdrawal limit is \$350 million. At the balance sheet date, the utilization of the securitization was approximately USD 310 million.

For further information about the securitization transactions, see Note 18E to the financial statements.

- Debentures

Unlisted debentures amounting to \$87 million were issued to foreign institutional investors, at fixed interest. The repayments dates of the debentures and interest rates are as follows:

Total (\$ millions)	Repayment dates	Interest rate
20	March 3, 2012	5.3
67	March 3, 2015	5.72

- On April 27, 2009 the Company issued three series of debentures in a private offering by way of tender to institutional investors, for a consideration of NIS 695 million (approximately \$167 million). In August 2009, debentures were issued for trade on the TASE.

On September 9, 2009 the Company issued three series of debentures (including one new series and expansion of two existing series) in a form of public tender for a consideration of NIS 898 million (approximately \$235 million).

For further details about the debentures that were issued, see Note 18F to the financial statements.

5.3.3. Average interest rates

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

Part of ICL's loans bear variable interest rates based on LIBOR for short terms of one to six months, plus a premium as defined in each loan agreement. Therefore, ICL is exposed to changes in the cash flows arising from changes in these interest rates. Some of the loans and debentures issued by the Company bear fixed interest for the entire loan period. Therefore, the Company is exposed to changes in the fair value of these loans. ICL partially reduces this exposure by floating fixed interest rates and by hedging against variable rates reaching certain levels, to adjust its actual interest rate structure to match its projections regarding anticipated developments in interest rates.

For further information about these transactions, see Note 28 to the financial statements.

5.3.4 Limitations of the Company's ability to receive credit

The loan agreements signed by the Company set various limitations that include financial covenants, a cross default mechanism and a negative pledge.

The table below presents the financial covenants for the Company in respect the terms of the loan agreements and the Company's compliance with them:

Financial covenants *	Financial ratio required according to the agreement	Financial ratio at December 31, 2011	Financial ratio at December 31, 2010
The Company's equity shall not be less than \$700 million plus 25% of annual net profit from 2005 onwards.	Equity in excess of \$2,365 million	\$3,077 million	\$2,620 million
Ratio of EBITDA to net interest expenses	Higher than or equal to 3.5	83.81	46.44
Ratio of net financial debt to EBITDA	Less than 3.5	0.52	0.43
Ratio of financial liabilities of the subsidiaries to total assets of the reporting company	Less than 10%	4.3%	3.49%
Ratio of net financial debt to equity	Less than 2.1	0.37	0.38

- Compliance with the above financial covenants is reviewed as required, based on information from the Company's consolidated financial statements

5.3.5 Credit rating of the Corporation

The Company has a credit rating of iIAA+ from S&P Maalot – the Israel Securities Rating Company Ltd. S&P Maalot also confirmed a rating of AA+ for the debentures issued by the Company. On November 2, 2011 the Company's credit rating was confirmed with a stable outlook.

5.4. Taxation

Most of the Group's taxable income and tax expenses in 2011 are from the Group companies in Israel.

5.4.1 Corporate tax in Israel

The tax basis in Israel is territorial and personal, therefore companies that are defined as domiciled in Israel under the Income Tax Ordinance (New Version), 1961 ("the Ordinance" or the "Income Tax Ordinance")

Under the provisions in section 1 of the Income Tax Ordinance, a company is considered as domiciled in Israel for income tax purposes if it was incorporated in Israel or if it is controlled and managed from Israel. The term "control and management" is not defined in the Income Tax Ordinance. To the best of the Company's knowledge, the foreign companies held by the Company are not managed from Israel, therefore, they are not considered as domiciled in Israel for tax purposes. It is noted that the tax authorities in Israel and/or in foreign countries might not accept the tax results as they are described below.

The income of the Company and its subsidiaries in Israel includes revenue taxable at regular tax rates and revenue from approved and beneficiary enterprises (as described below). The balance of the Company's income is taxable at the regular tax rate. On July 14, 2009, the Knesset passed the Economic Arrangements Law (Amendments for the Implementation of the 2009 and 2010 Economic Plan), 5769-2009. According to the Law, the corporate tax rate in 2011 is 24%. On December 5, 2011, the Knesset passed the Law for Amending the Tax Burden (Legislative Amendments), 5771-2011. According to the Law, the tax reduction set in the Economic Arrangements Law will be cancelled, and the corporate tax rate as from 2012 will be 25%. For further information about the tax rates applicable to ICL and the companies operating in Israel, see Note 21A.2 to the financial statements.

Tax benefits under the Law for the Encouragement of Capital Investments, 1959 ("the Law")

The Law encourages the establishment and expansion of industrial plants and other projects, by granting "approved enterprise" or "beneficiary enterprise" status to investment plans. Prior to Amendment 60 to the Law, the general guidelines for granting approved enterprise status were whether it is feasible for the national economy, competitive ability in international markets, use of innovative technologies, generation of employment, high added value and an appropriate solution for the special requirements of the country's economy.

Amendment 60 to the Law includes several preconditions for receiving approved enterprise or beneficiary enterprise status. The production facilities of several companies in Israel (in this section - "the Companies") received approved enterprise or preferred enterprise status under the Encouragement Law, including under Amendment 60 of the Law, which was published in April 2005.

The benefits for the Company are mainly reduced tax rates and accelerated depreciation. For further details see Note 21 C.1 to the financial statements.

The aforementioned benefits are contingent upon fulfillment of the conditions set out in the law, the directives thereunder, and in the letters of approval under which investments in the approved enterprise were carried out. Failure to comply with the conditions may result in a cancellation of the benefits, in full or in part, and in the refunding of the amounts received in respect of the benefits, plus interest.

On December 29, 2010, the Knesset approved the Economic Policy Law for 2011 and 2012, in which context the Law for the Encouragement of Capital Investments, 5719-1959 was amended (In this section - "Amendment to the Law"). The Amendment to the Law is effective as of January 1, 2011 and its provisions shall apply with respect to preferred income produced from or generated by a preferred enterprise (an industrial plant to which the provisions of the law apply that it is a viable enterprise which contributes to the Gross Domestic Product or a viable plant in the area of renewable energy) as defined in the Amendment to the Law, in 2011 onwards. As part of the Amendment to the Law, existing tax benefit tracks (tax exempt track, the Ireland track, and the "strategic track") were abolished, and they were replaced with two new tracks, the preferred enterprise and the special preferred enterprise, the main points of which are a standard and reduced tax rate on all the company's revenues that are entitled to benefits.

For further information about the benefits in accordance with the Law, see Note 21D to the financial statements.

The Amendment to the Law does not apply to an industrial enterprise that is a mine, another plant for the extraction of minerals, or an oil exploration enterprise. Consequently, the operations of ICL's plants which will be defined as mining and mineral extraction operations will be unable to benefit from the incentives of the Law.

At the same time, the Amendment to the Law does not eliminate tax benefits to which a preferred enterprise was entitled in respect of investments up to December 31, 2012. Therefore, even after the law is amended, those plants defined as mining operations will continue to enjoy the tax benefits in respect of entitlement investments made by the plants in Israel up to December 31, 2012, within the framework of the old law. The Amendment to the Law requires the Company to waive the benefits from an approved enterprise and a beneficiary enterprise if it selects the preferred enterprise track.

As at the date of the approval of the periodic reports, the Company is studying the impact of the Amendment to the Law and its application on the Companies operating in Israel.

The Law for the Encouragement of Industry (Taxation), 1969 ("Law for the encouragement of Industry")

Some of the Company's subsidiaries in Israel are "industrial companies", a defined by the Law for the encouragement of Industry. As such, these companies are entitled to claim depreciation at increased rates for equipment used in industrial activity, as stipulated by regulations published under the Inflationary Adjustments Law.

The industrial plants owned by some of the subsidiaries in Israel have a common production line and therefore are entitled to file consolidated tax returns in accordance with section 23 of the Law for the Encouragement of Industry. Accordingly, the Company is entitled to offset the tax losses of the subsidiary against the taxable income of another subsidiary. The position of the tax assessor is that the industrial plants in some of the subsidiaries in Israel do not have one production line, therefore these companies are not entitled to file a consolidated tax report under this law. ICL disagrees with the position of tax assessor.

Taxes on capital gains in Israel and on dividends

Real capital gains (other than from marketable securities) are taxed at a rate of 25%.

The Company is not taxed at the corporate tax rate for dividends received by the Company, from revenue generated in Israel and received directly or indirectly from another entity that is taxed at the corporate tax rate.

Dividends deriving from income generated outside of Israel, as well as dividends that are not from Israel, are taxed at the corporate tax rate of 25%. Alternately, if the Company decides to receive indirect tax credit (as described below) for the dividend, the grossed-up dividend will be taxed at the regular corporate tax rate. In some countries where companies are incorporated, tax is deducted at source for payment of a dividend.

5.4.2 Foreign taxes

The Group develops, acquires, produces and markets its products through many companies around the world. 95% of the Group's sales are in international markets outside of Israel, therefore the Group operates through numerous subsidiaries, which, to the best of the Company's knowledge, are incorporated and managed outside of Israel and are taxed according to the tax laws in the countries in which they are domiciled. Some of the foreign subsidiaries were established by the Company, and others are foreign companies that were acquired. For the tax rates application to the main companies operating abroad, see Note 21B to the financial statements.

5.4.3 Taxation in Israel on foreign revenue

Revenue from distribution of a dividend from foreign companies abroad is taxed in Israel at a rate of 25%, less the tax paid abroad. Alternately, the Company may choose an indirect credit track. In this track, instead being taxed at a rate of 25%, the Israeli company may choose to be taxed at the corporate tax rate in Israel. For the full income from which the dividends were distributed, provided the Israeli company holds at least 25% of the means of control in the foreign subsidiary distributing the dividends. Should the company choose this option, the Israeli company will be entitled to an indirect tax credit for the corporate tax applicable to the foreign subsidiary or sub-subsidiary, if the Israeli company holds at least 25% of the means of control in the foreign subsidiary, and the foreign subsidiary directly holds the revenue-generating sub-subsidiary from which dividends were distributed, at a rate of at least 50%.

If most of the income of foreign companies held by the Company (directly or indirectly) is passive income, for which a tax rate of less than 20% is paid, the foreign companies could be considered as a "foreign-controlled company". In this case, under section 75B of the Ordinance, the Company holding control in the foreign company will be taxed as if it received its share in the non-distributed profits of the foreign-controlled company in the tax year in which they were accrued. The provisions of the section refer to profits deriving from passive income by the foreign company (such as revenue from interest or a dividend). In 2011, none of ICL's consolidated subsidiaries abroad is considered as a foreign-controlled company.

Transfer pricing

On November 29, 2006, section 85A of the Income Tax Ordinance came into effect, with the publication of the Income Tax Ordinance (Determining Market Conditions), 2006 ("the Transfer Pricing Regulations"). Under this section and the Transfer Pricing Regulations, an international transaction (in which one of the parties is not domiciled in Israel) where there are special relations between the parties, as defined in the Ordinance, will be reported in accordance with market conditions and will be taxed accordingly. The Transfer Pricing Regulations apply to various international transactions, including the various stages of manufacturing a product until it is sold, which were made on or after the publication date of the Transfer Pricing Regulations. The Regulations also set provisions for current reporting and authorizes the tax assessor to demand a market survey.

Section 85A of the Ordinance and the Transfer Pricing Regulations adopt the principle of the market price and prescribe that the appropriateness of the price and conditions of the international transactions between the parties that have special relations will be examined by comparing them to similar transactions between parties that do not have special relations. If there is no transaction with similar characteristics, the international transaction will be compared to a transaction with the same or similar characteristics as a transaction carried out by the assessed party.

Under section 2(A) of the Transfer Pricing Regulations, to determine whether an international transaction that was made is a transaction under market conditions, a study of market conditions will be conducted to compare the international transaction with similar transactions of the assessed party as defined in the Transfer Pricing Regulations.

The international transaction will be considered as a transaction made under market conditions, if the result of the study conducted under the accepted methods described in the Transfer Pricing Regulations do not deviate from the inter-quartile range received in a comparison to similar transactions. For a transaction that cannot be considered as a transaction under market conditions, the transfer price will be reported in accordance with the value in the range of values when compared to similar transactions.

As set out above, the Group develops, acquires, produces and markets its products through many companies around the world. Each of the companies, which are taxable in different regions, has a role in the comprehensive system of the international business operations of the Company. Accordingly, some of the Group companies serve as production companies, some serve as logistics centers and others serve as marketing companies.

The prices of products or services (in the different production stages), which are sold by companies operating in Israel to subsidiaries operating in other countries are based on transfer pricing surveys that were conducted to determine the relative contribution and risks of each relevant company in the world in the Group's operations system, in order to attribute the market price that was determined for these services or products, had they been given to foreign parties that are not part of the Group. Accordingly, the pre-tax profit is divided among several countries at different tax rates. Materially different classification or attribution of the consideration for value components of each of the Group companies in the different countries or of the characteristics of these companies, could affect the amount of profit generated and taxed in each of the countries, and this could affect the tax aspects of the Group and its results.

5.4.4 Effective tax rate

The effective tax rate (consolidated) was 18.6% in 2011 and 20.6% in 2010.

For a review of the differences between the main statutory tax rates of the Company and the actual tax rate in 2011 and 2010, see Note 211.2 to the financial statements.

5.4.5 Tax from distribution of a dividend to the shareholders

Part of the Company's retained earnings as at the date of the balance sheet are derived from income from approved and beneficiary enterprises in Israel and from foreign subsidiaries abroad. Distribution of the retained earnings could, in certain conditions, create a tax liability when distributed. According to Company policy, dividends are not distributed from past profits, which will result in further tax liabilities; therefore the Company does not usually create deferred taxes for profits generated in the past. The temporary difference attributed to distribution of a dividend out of the revenue with an approved enterprise and beneficiary exemption as at December 31, 2011, amounts to about \$1,261 million.

5.5. Limitations and supervision of the Corporation's operations

5.5.1 Restrictive trade practices

ICL and some of its subsidiaries have been declared a monopoly in Israel in the following areas: potash, phosphoric acid, sulfuric acid, ammonia, chemical fertilizers, phosphates, bromine and bromine compounds. In light of their declarations as monopolies, the companies are subject to limitations set forth in Chapter 4 of the Restrictive Trade Practices Law, 1968, most significantly its prohibition to abuse their positions as monopolies. In 2011, approximately 5% of ICL's revenues derive from Israeli sales and therefore, in the Company's estimation, the abovementioned declaration does not have a material impact on ICL. ICL also has an internal antitrust compliance program (see also section 3.3.11 above).

5.5.2 Special State share

The State of Israel holds a nontransferable Special State Share in ICL on order to preserve vital State interests. Any change in provisions of ICL's articles of association, referring to the rights attached to the special state share, requires approval of the State. The Special State Share grants the following rights:

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

B. **Limitations on acquiring shares:**

- (1) Any acquisition or holding of 14% or more of the issued share capital of the Company will not be valid with regards to the company without the approval of the holder of the Special State Share. In addition, any acquisition or holding of 25% or more of the issued share capital of the company (including increase of its holdings to 25%) will not be valid with regard to the company without the approval of the holder of the Special State Share, and even if in the past the approval of the holder of the Special State Share had been received for a ownership percentage less than 25%.
- (2) In addition to the above, the approval of the holder of the Special State Share will be required for any percentage of ownership of any shares whereby the holder is granted the right, ability or practical potential, to appoint, directly or indirectly, a number of directors of the company that represent half or more of the directors of the company, and will not be valid regarding the company as long as that approval has not been obtained, as noted above.

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

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

The articles of association further impose a periodic reporting obligation to the holder of the Special State Share, regarding all transactions pertaining to assets approved by the board of directors during the three months prior to the date of the report, any changes in capital ownership and any voting agreements among the company's shareholders signed during that period.

- D. The following are "**vital State interests**" as defined in the Articles of Association for purposes of the Special State Share:

1. To preserve the character of the company and its subsidiaries Dead Sea Works Ltd., Rotem Amfert Negev Ltd., Dead Sea Bromine Company Ltd., Bromine Compounds Ltd. and Tami (I.M.I.) Research and Development Institute Ltd. (the Company and these subsidiaries are referred to here and hereinafter the "Companies") as Israeli companies for whom the center of business and management is Israel. In the Company's estimation, this condition is being upheld.
2. To monitor the control over minerals and natural resources, for purposes of their efficient development and utilization, including maximum application in Israel of the results of investment, research and development.
3. To prevent acquisition of a position of influence in the Companies by hostile entities or entities likely to harm foreign relations or security issues of the State.
4. To prevent acquisition of a position of influence in the Companies or management of the Companies, whereby such acquisition or management will create a situation of significant conflicts of interest likely to negatively impact one of the vital interests enumerated above.

- E. **ICL as an Israeli company:** The ongoing management and control over the business activities of the company must be in Israel. The majority of the members of the Board of Directors must be Israeli citizens and residents. In general, meetings of the Board of Directors must take place in Israel.

- F. **Full extent of rights:** Other than the rights enumerated above, the Special State Share will not grant the holder any rights pertaining to voting or capital.

The State of Israel also holds a Special State Share in the following ICL subsidiaries: Dead Sea Works Ltd., Dead Sea Bromine Company Ltd., Rotem Amfert Negev Ltd., Bromine Compounds Ltd., Tami (I.M.I.) Research and Development Institute Ltd. and Dead Sea

Magnesium Company Ltd. The rights granted by these shares according to the articles of association of these subsidiaries are identical to those rights enumerated above. The full provisions governing the rights of the Special State Share appear in the articles of association of ICL⁵¹ and the Companies enumerated in subsection (d) above, and are available for the public's review. The Company reports to the State on an ongoing basis in accordance with the provisions of its articles of association. Certain asset transfer or sale transactions which in ICL's opinion require approvals, have received the approval of the holder of the Special State Share.

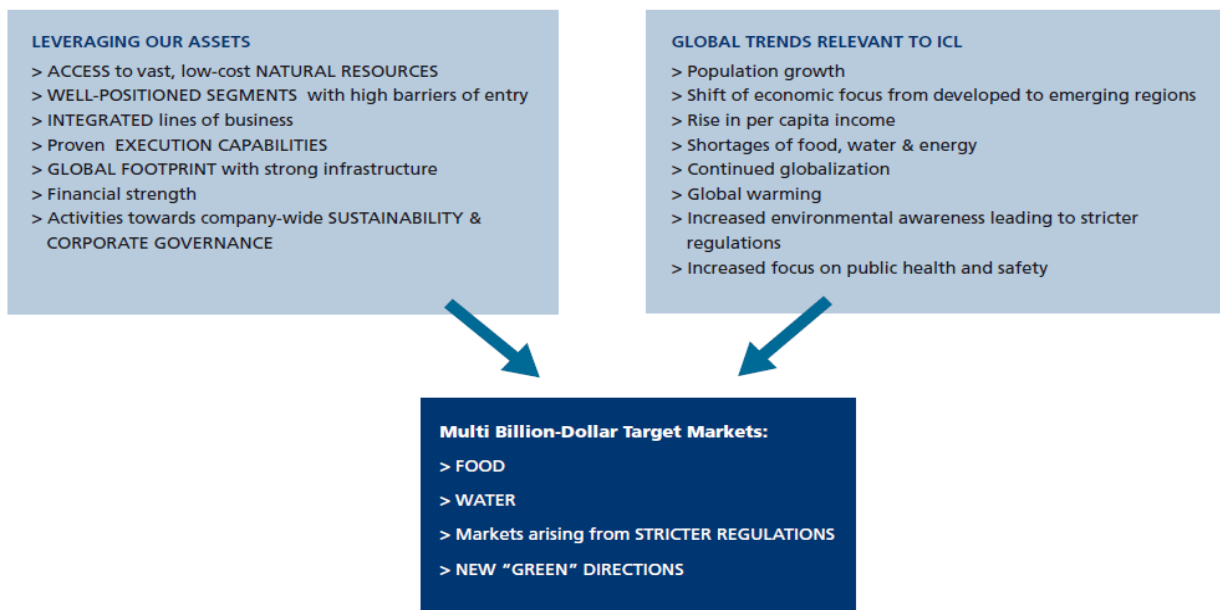
5.5.3 ICL and its subsidiaries do not have any contact, direct or indirect, with Iran or with the enemy (as defined in the Trading with the Enemy Ordinance, 1939).

5.6 Business goals and strategy⁵²

The Company's goal is to maximize shareholder value over time, taking into account the expectations and rights of the stakeholders in the Company (employees, residents, customers etc.) as well as requirements for safety and conservation of the environment. The Company's strategy for achieving this goal was updated in 2010.

In order to realize this strategy, ICL depends on its strengths while capitalizing on the global megatrends which are appropriate to its abilities, its strengths and to the infrastructure that ICL has developed. This activity is in addition to growth in ICL's traditional areas, as shown in the diagram below.

Capitalize on Opportunities and Meet Challenges



⁵¹ ICL's Articles of Association are available on the website of the Israel Securities Authority (<http://www.magna.isa.gov.il>) and TASE (<http://maya.tase.co.il/bursa>) under "Company reports."

⁵² The Company's plans and strategies, as described above, reflect the strategies of the Company as of the date of this report, are based on its current evaluations of its various eras of activity of the Company and the Company's current situation, and may change, in whole or in part, from time to time. There can be no certainty regarding the realization of these plans or strategies.

A. Focus on managerial operational segments

ICL is based on a segmented management structure: Today, ICL is comprised of three segments - ICL Fertilizers, ICL-IP and ICL-PP. These segments correspond to the ICL's management approach and do not necessarily reflect the legal-juridical structure of the Company.

B. Increasing penetration into international markets

ICL focuses on strengthening its market position by increasing its global distribution and by adding products and services that are synergetic with its existing operations. This strategy is implemented through joint ventures and acquisition of companies in these sectors. In 2010, the Company acquired a company in the hygiene sectors, which is a growing sector. ICL's policy strives to balance between its diverse areas of activities and puts emphasis on growing directions that contribute to improving the quality of life in the world. These activities are a continuation of the activities recorded in prior years, such as acquisition of the potash mines in the UK and Spain, acquisition of Astaris in the United States and Brazil, Supresta in the United States and Germany, acquisition of all the water businesses of Henkel in Europe, acquisition of the specialty fertilizers operations of Scotts Miracle-Gro Company and acquisition of Fuentes in Spain, which manufactures and markets specialty fertilizers.

ICL also has logistic advantages and options for operational optimization, compared to most of its competitors, due to the location of ICL plants in Israel and Europe.

ICL is acting to build up its presence in growth markets by setting up ICL centers in main target locations – this year an ICL India office was established in addition to the existing offices in Brazil, China and North America.

C. Expanding the range of higher value-added product offerings

ICL is working to expand the production and sales of higher value added products through vertical and horizontal integration. This enables growth whilst strengthening existing capabilities within the ICL segments and utilizing significant business synergy advantages. In addition, ICL is expanding its product offering by adding new products and applications and by custom-designing existing products to conform to unique customer requirements, for new purposes (such as those flowing from an update of environmental standards) and the replacement of competing products for existing applications, while giving priority to growing regions and environmentally-friendly activities.

D. Taking full advantage of synergies

ICL takes advantage of potential synergies among its plants in an effort to increase its efficiency and competitiveness and reduce its costs of production, marketing and logistics. The synergies also become the basis for further growth and expansion of ICL. For these purposes, during 1999-2001, ICL acquired the minority stakes in its publicly-traded subsidiaries, which enabled it to exploit these synergies between the companies. The Company dedicated much of its attention to identifying potential synergies among its various plants and business segments. Synergy is manifested, among other things, by using waste and by-products of one process as raw material for another process. Decisions regarding investments or changes in manufacturing methods require evaluation of their impact on the abovementioned synergies.

ICL has Centers of Excellence (special professional forums set up for formulating policy for the uniform synergetic treatment of a given professional area) in Israel and around the world, for the purpose of better promoting and exercising potential synergies.

E. Improving cash flow

ICL is focused on improving its cash flow as part of its strategic approach. In this context, cash flow is a central determinant in ICL and the segments' considerations in making management decisions.

F. Diversifying sources of financing

ICL seeks to diversify its sources of financing between bank and non-bank sources in order to increase the relative share of non-bank sources. The Group also seeks to diversify among domestic (Israeli) and international (non-Israeli) financing sources.

G. Expansion of core activities

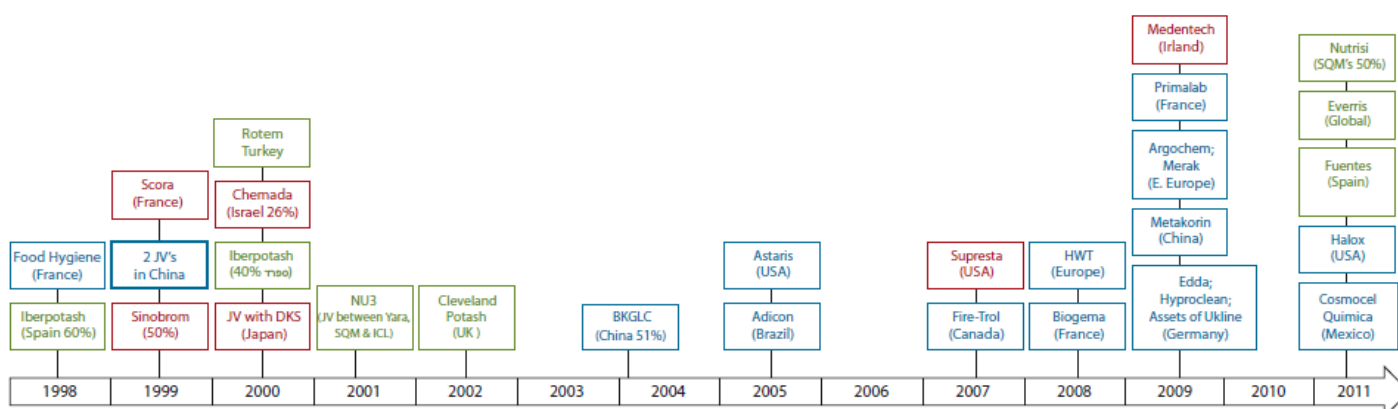
ICL is working on continued investment in the areas of potash, bromine and phosphate, in order to expand its market share and reduce its production costs. For example, in the past three years, ICL has invested approximately \$235 million increasing raw material production capacity in maintaining and expanding DSW's potash production capacity and in . The specialty fertilizers market is an important component in ICL's growth strategy and global expansion. In 2011, there was a significant expansion in specialty fertilizer operations with the completion of the acquisition of Everris (formerly Scotts Global Pro), a multinational company, whose core activity is the manufacture and sale of high-quality specialty fertilizers, including controlled release, slow release and soluble fertilizers, the acquisition of Fuentes Fertilizantes, a leading company in Spain that manufactures and distributes liquid and soluble fertilizers, NPK compounds and conventional fertilizers, and acquisition of all the shares of Nutrisi Holdings, a partner in one of the largest manufacturers of soluble compound fertilizers. In the industrial products segment, bromine production capacity in Sodom was expanded. Also, in 2007, ICL-IP purchased Supresta, which is the largest manufacturer of phosphorus based flame retardants in the world. In January 2012, an agreement was signed with the chemistry giant Dow Global Technologies to use its patent to produce an innovative bromine-based polymer flame retardant, which is considered especially effective and environmentally friendly. For this purpose, a designated plant will be constructed to manufacture the product. In 2011, the acquisition was completed of 50% of the shares of Tetrabrom Technologies Limited. Following the acquisition, the production capacity for the fire retardant TBBA increased by 22,000 tons. ICL-PP acquired most of the assets and operations of Astaris (in 2005) and Fire-Trol (in 2007) which manufacture products based on phosphates and upon phosphorus, ICL acquired the activities and assets for water treatment via specialty chemicals of the German Henkel Group (in 2008) and expanded the product basket and geographical spread of the areas of hygiene, pharma-cosmetics-gypsum (PCG) and water treatment by making a number of acquisitions (in 2009). ICL plans to increase its production capacity in other areas as well, while reducing production costs.

H. Mergers, acquisitions and joint ventures

ICL strives to locate and identify business acquisition opportunities, in order to expand and strengthen its core business through acquisitions of complementary technologies and auxiliary businesses. Thus, for instance, the Company purchased subsidiaries in Spain and the UK – IP and CPL – in 1998 and 2002 respectively, and the assets and operations of Astaris in North and South America in 2005. To this should be added the acquisition of Supresta in August 2007, the acquisition of Biogema and the water treatment unit of the Henkel Group in January 2008. In 2009, ICL completed five acquisitions, mainly in the fields of food hygiene and potable water. In 2010 another acquisition in the field of hygiene was completed. In 2011 ICL completed the acquisition of the business unit for production of specialty fertilizers Scotts and Fuentes in Spain, which is also a specialty fertilizer company, with the aim of expanding and developing this field of activity. ICL is also looking into expanding its holdings of strategic raw materials in order to improve its ability to compete. Since 1998, ICL has invested in mergers and acquisitions and has invested in joint ventures in the total sum of approximately \$1.6 billion. ICL is interested in continuing to leverage its technological and operational know-how and other capabilities acquired by the Company for acquisition of other businesses in order to maximize competitive advantages, synergies and growth potential. At the same time, ICL has divested non-core companies and business in the amount of \$265M.

Focus on the core business

Acquisitions and JV's ~ *\$ 1.6 billion worth



* Including liability due to Buy-back of Company shares in 2000-1999 in the amount of \$250M

I. Measurements and benchmarking

ICL utilizes advanced benchmarks when evaluating management performance of ICL and its segments. These benchmarks are set in accordance with the Company's strategy to focus on increasing shareholder value and improving cash flow. Management's compensation takes into account their achievement of the milestones set in accordance with these benchmarks. In addition and in order to balance between management incentives and Company performance, the Company maintains management compensation programs based on option and share grants. These options and shares are "locked up" for various periods of time so that the managers' benefit is tied to the Company's performance during such periods.

As of the date of the balance sheet, ICL had taken various steps in furtherance of its strategy, including:

- In the field of fertilizers, the network of management, marketing, ground transportation, sea shipping and loading facilities at the ports in Israel and Europe

were consolidated, and ICL Fertilizers Europe was established in order to coordinate ICL Fertilizers' activities in Europe.

- In the framework of ICL-IP, the management and marketing in areas of industrial chemicals were consolidated in Israel and worldwide and ICL's research institute, Tami, was transferred into the management of ICL-IP.
- Responsibility was transferred to ICL-PP for the general operations relating to food-grade phosphoric acid, which is manufactured in Israel. In addition, a unit was established that coordinates all of the Company's activities with regard to specialty phosphates.
- Management teams were established for these segments that are responsible for the management of the business units in the segments. At the same time, in regions where ICL has broad operations, a regional manager is also appointed to coordinate operations and exploit synergies between the segments (in China, Brazil and North America). In these places, ICL is in the process of consolidating management of its various operations into a single headquarters. (For instance, Supresta's headquarters was merged and transferred to St. Louis, together with the North American Performance Products headquarters).
- Two executive vice-presidents have been appointed: An Executive Vice-president for Business Development, Mergers and Strategy and an Executive Vice-president and Chief Operations Officer (COO). The Board of Directors has appointed Mr. Asher Grinbaum the COO as the chief risks officer (CRO) for the Company.

5.7 Financial information on geographic segments

For information regarding geographical segments see Note 5 to the Financial Statements for 2011.

5.8 Risk factors

Macroeconomic risks

5.8.1 Currency exchange rate fluctuation

The multinational nature of ICL's activities exposes the Company to the impact of currency exchange rate fluctuation. ICL's financial statements are prepared in dollars. ICL's sales are made in a variety of currencies, primarily in dollars and Euros. The portion of ICL's sales made in currencies other than the dollar exposes ICL to fluctuations in currency exchange rates of these currencies versus the dollar. Revenue and expenses of consolidated companies overseas, in the local non-dollar currency which is their functional currency, do not represent exposure. On the other hand, revenue and expenses of these companies in dollars expose these companies to fluctuations in currency exchange rates of the dollar versus their functional currencies.

A portion of ICL's expenses in Israel are incurred and paid in NIS. Therefore, ICL is exposed to strengthening of the currency exchange rate of the NIS relative to the dollar (appreciation of the NIS). Some of ICL's expenses outside of Israel are incurred and paid in the local currency, specifically the euro. Therefore, ICL is exposed to strengthening of the currency exchange rate of the various currencies, specifically the Euro, relative to the dollar. ICL's strategy is to partially hedge against this exposure according to market conditions and projections regarding currency exchange rate developments.

For additional details regarding exposure to currency exchange rate volatility and the Company's hedging strategy see section 9 of the Board of Directors' report.

5.8.2 Interest rate increase and banking legislation

A portion of the Company's liabilities bear interest at variable rates. The Company is exposed to the cash flow risk of rising interest rates, which would increase its financing expenses and adversely affect its results.

The directives of the Supervisor of Banks regarding individual borrowers and borrowing groups may set limitations on the amounts of loans that the Company can receive from Israeli banks. The Supervisor of Banks established limitations regarding the amount of credit of a group of borrowers relative to the banks' capital. ICL, the Israel Corporation, and the

Ofer Group are considered one borrowing group. ICL today has the ability to borrow from overseas banks, and from non-bank institutions in Israel and overseas.

5.8.3 Crisis in the financial markets

A crisis in financial markets could cause a reduction in the international sources of credit available for the purpose of financing commercial operations. The impact of such a crisis might be expressed in terms of availability of credit to the Company and its customers, and of the price of credit.

5.8.4 War or acts of terror

War or acts of terror in the locations where the Company operates are likely to negatively impact the Company. This impact may manifest itself in production delays, distribution delays, loss of property, injury to employees, and appreciation of insurance premiums. In addition, the Company's plants are likely to be targets of terrorist acts due to the chemicals they store. The Company does not have property insurance against war or acts of terror, other than the State's insurance which covers only physical property damage, without accounting for reinstatement values.

It should be noted that since the construction of the Company's initial facilities in the 1950's, the Company has never suffered from any disturbances as the result of war or acts of terror mentioned above.

ICL's computer network and production technologies constitute a basic platform for operational continuity and are also exposed to acts of terror. Potential cyber threats can cause damage to systems, data loss, software vulnerability and external and internal access to sensitive and confidential information. ICL implements a program to protect information systems, including separation of information systems network from process systems, physical protection of computer rooms and terminals, and employee training.

5.8.5 Activities in various countries around the world

The Company is a multinational company exposed to economic, political and legislative conditions and risks in the countries in which the Company maintains facilities. The Company is exposed to a range of business risks and its success is dependent on, among other things, the Company's ability to contend with changes in these economic, political and social conditions. Legislative changes may increase the Company's expenses or may influence demand for its products.

Industry risks

5.8.6 Sales of fertilizer products are subject to the influence of many factors that are beyond ICL's control, including the entire economic environment, prices of agricultural products, government policies, weather and others.

1. Most of the fertilizer products of the Company are sold to growers of agricultural products. Fertilizer sales may be harmed as a result of decline in agricultural produce prices, availability of credit, or other events that cause farmers to plant less and consequently reduce their use of fertilizers. Agricultural produce price decline leads to a drop in produced quantities and can cause a decrease in demand for fertilizers and lower prices. These phenomena are likely to affect the Company's business, its economic condition and the success of its future plans.
2. Government policies, and specifically, subsidy levels, may affect the amount of agricultural crops and as a result, sales of fertilizer products. As a rule, reducing agricultural subsidies or increasing subsidies to local fertilizer manufacturers, in a country to which ICL sells its products will likely have a negative impact on ICL Fertilizers' business.
3. Weather may negatively impact sales of ICL Fertilizers' products. The agricultural industry is strongly affected by local weather conditions. Conditions such as heavy storms, long periods of drought, floods, or extreme seasonal temperatures are likely to affect the local crop's quality and yield and cause a reduction in the use of fertilizers. Loss of sales in an

agricultural season in a target country as a result of weather-related events can cause sales to be lost for the whole year.

Reduction in crops due to price decline or changes in subsidy levels as stated above, are likely to have a short-term effect on consumption of fertilizers in some country or another. In the long term, the need to increase agricultural yields and particularly grains in order to feed the population requires a policy that supports the agricultural sector and encourages this trend.

- 5.8.7 Sales of ICL-IP products are affected by various factors that are not within its control, including dependence upon electronics markets and legislative amendments in the areas of use of its products. For instance, a large proportion of ICL-IP's products are sold for use as flame retardants. This area is subject to legislative amendment around the world, which can restrict certain uses of flame retardants. In this regard, see also section 4.2.15A (2) above. Sale of oil drilling products depends on the extent of operations in the oil drilling market, mainly in deep drillings in the high seas, and on the decisions of oil companies regarding rates of production and areas of production of oil and gas. For example, in April 2010, a drilling rig in the Gulf of Mexico exploded, the gulf being a major sales territory for the company's products. In light of the accident, the American government announced a moratorium on drilling activity in the area for six months. As a result, sales of the company in this area were very low during the rest of the year.

Sale of products for use in swimming pools is influenced by weather. Cold weather during the pool season of April through September affects the level of consumption and supply of chemicals for the treatment of swimming pools.

A large portion of ICL-IP's products are used as intermediaries for end-products; for example a significant portion of the company's flame retardants are added to plastic components in electronic devices, including personal computers and televisions. Decline in demand for these consumer devices will likely negatively impact the sales of ICL-IP.

- 5.8.8 Sales of ICL-PP products are influenced by factors that are outside of its control, including a recession or slow-down in the global economy. The Company has a high production component in Europe, and a large portion of its sales are effected in Europe in Euros. Some of the Company's competitors are local manufacturers outside of Europe. The revaluation of the euro exchange rate vis-à-vis the dollar increases the competitive edge of these competitors.

5.8.9 **Subjection to legislative and licensing restrictions**

1. ICL, as a company active in the field of industrial chemicals, is significantly affected by legal rulings and licensing authorities in the areas of environmental protection and safety. In recent years, there has been a significant increase in stringency of legislative directives and regulatory requirements in these areas, in Israel and throughout the world. Standards that will be adopted in the future are likely to affect ICL and change its methods of operation. In addition, some of the Company's licenses, including business licenses and mining permits, are for limited periods and require renewal from time to time. These permit renewals is not certain and it is possible that their renewal will be made dependent upon additional conditions. For further details see the subsections titled "Limitations on and regulation of the Corporation" in sections 4.1.14, 4.2.15, 4.3.13 and 5.5.
2. Legislative changes throughout the world may prohibit or restrict use of the Company's products, due to environmental protection, health or safety considerations.

5.8.10 Exposure relating to environmental protection and safety

From time to time the Company is exposed to legal proceedings, both civil and criminal, as a result of alleged environmental contamination caused by certain ICL facilities.

In addition, from time to time examinations and investigations are conducted by enforcement authorities in Israel and throughout the world. As at the date of this report, in the Company's estimation, material impacts on the Company's results are not anticipated from any of the examinations currently being conducted.

Furthermore, the Company is from time to time exposed to claims alleging physical or property damage, which may cause the Company financial harm. In addition, some of the manufacturing or marketing activities (and sometimes transportation and storage as well)

entail safety risks that ICL attempts to minimize, but is not able to eliminate. In various countries, such as the State of Israel, legislation exists which can impose liability on the Company irrespective of its actual intent or negligence. Other laws place responsibility on defendants jointly and severally, and sometimes retroactively, and therefore can cause the Company to be liable for activities done jointly with others and at times by others. The Company may also be found liable for claims regarding land that it mined or activities that the Company conducted within its premises, after such activities have ceased. With regard to environmental matters, the Company has \$100 million in insurance coverage for certain exposures.

5.8.11 Third party liability and product liability

The Company is exposed to risk of liability related to damage caused to third parties by its own operations or by its products. The Company has insurance coverage for its operations in the amount of up to \$350 million per incident and for product liability in the cumulative amount of up to \$350 million per insurance year. There is no certainty that this insurance will fully cover all damage for such liability. Likewise, sale of faulty products by the Company might give rise to recall of products by the Company or by its customers which used the products.

5.8.12 Pensions and health insurance

Some of the Company's employees in Israel and overseas have pension and health insurance arrangements that are the Company's responsibility. Against some of these liabilities, the Company has monetary reserves that are invested in financial channels. Changes in life expectancy, changes in the capital market or changes in other parameters by which undertakings to employees and retirees are calculated, and statutory amendments could increase the Company's net liability for this item.

5.8.13 Volatility

A portion of the activities of ICL are characterized by volatility. This volatility is caused by entry of new products into the market, vendors exiting the market, changes in supply of the product and changes in demand. These fluctuations may harm the Company's profitability.

Risks unique to the Company

5.8.14 Concessions and permits

ICL extracts potash and sodium chloride in Israel, Spain and England pursuant to permits and concessions in those countries. Furthermore, the Company mines phosphate rock from phosphate deposits in the Negev Desert in accordance with a concession from the State of Israel. Loss or impairment of these concessions or permits would cause harm to the Company. For details regarding these concessions and permits see section 4.1.14(A) above.

5.8.15 Natural disasters

The Company is exposed to natural disasters such as flooding, earthquake, and other natural disasters that may cause material damage to its business. The Company has insurance covering this exposure.

Some of ICL's plants in Israel are located are located on the African-Syrian Rift, a seismically active area.

In recent years sinkholes and underground cavities have been discovered in the area of the Dead Sea, which could cause harm to the plants.

In the dike which surrounds the evaporation pond of ICL Fertilizers, there is seepage of brine from the pond and cracks have appeared in the dike. There is also a concern that cavities might develop under the dike. If the dike is breached, the Company could lose the solutions in the large evaporation pond and in a very extreme scenario, it could lose production of up to one million tons of potash, over two production years, representing about 17% of the present potash capacity. For further details see section 4.1.18(C) above.

In the area of Sodom, where many of ICL's plants are located, there are occasional flash floods in the stream-beds. Heavy flash floods occurred in October 2004, causing property damage and loss of profits. The Company has insurance coverage that covers these types of damage, subject to payment of deductibles.

The Company has underground mines in England and Spain. Water leakages into these mines might cause disruptions to mining, and loss of the mine. The Company does not have property insurance for the underground property of the mine in England.

5.8.16 Water level in Pond 150

In conjunction with the evaporation process, salt is precipitating in evaporation pond number 150 at the Dead Sea (which is the central evaporation pond in the solar evaporation pond system) in a layer growing by approximately 20 centimeters per year. The precipitated salt causes a reduction in the volume of brine in the pond. In order to overcome this phenomenon, the water level of the pond must be raised. Failure to raise the water level as stated above will cause a reduction in the production capacity of ICL Fertilizers. For further details regarding the water level in pond 150 see section 4.1.18(A) above.

5.8.17 New pumping station at the Dead Sea

As part of the production process, DSW pumps water from the Dead Sea through a special pumping station and delivers it to the salt and carnallite ponds. Due to the receding water level of the Dead Sea, the water line is receding from the current pumping station and construction of a new pumping station is necessary. Failure to construct the new pumping station on time may impair the Company's ability to pump the required amount of raw material from the Dead Sea. Construction of the new station depends, inter alia, on statutory approvals. The Company has established a dedicated administration to advance the required processes and monitor the developments that may affect the receipt of statutory approvals.

5.8.18 Price of water and electricity

The Company's phosphate facilities use large quantities of water purchased from the Mekorot Company at prices set by the State. If these prices rise significantly, the Company's costs will rise as well.

In Sodom, the Company obtains water from an independent system that is not part of the national water system. A shortage of water in the water sources in proximity to the plants, will force ICL Fertilizers to seek water sources located further away at higher cost.

The Company's plants in Israel and overseas consume large amounts of energy. Significant price increases for energy, or energy shortages, in Israel will affect production costs and/or quantities.

The production processes and facilities at the magnesium plant require a continuous supply of electricity. The magnesium plant has two power supply sources. Nevertheless, there is a concern that power supply from these two sources will both be damaged. Prolonged damage to the regular supply of electricity may damage the plants and the environment.

The current supply of gas to ICL companies in Israel is dependent on a single supplier and also on a single transport system. ICL plants are prepared for the use of alternative energy (fuel oil and / or diesel).

5.8.19 The Sea Canal

The State of Israel and the Kingdom of Jordan occasionally evaluate the possibility of constructing a canal from the Red Sea or the Mediterranean Sea to the Dead Sea, for purposes of energy production, desalination and raising the Dead Sea's water level. Such a canal would likely change the composition of the Dead Sea. Such a change in water composition might negatively impact the production of ICL plants. For further information, see also section 4.1.18(B) above.

5.8.20 Labor disputes

ICL from time to time experiences labor disputes, slowdowns and strikes. Most of ICL's employees are subject to collective agreements. Lengthy slowdowns or strikes at any of ICL's plants would likely cause non-supply of products that had already been ordered. In addition, due to the interdependency of the ICL plants, slowdowns or strikes in any one ICL plant is likely to have a material impact on ICL. The Company has insurance coverage against part of the cost of labor stoppages in the context of the Strike Fund of the Manufacturers' Association (the "Mutual Employers Fund").

5.8.21 Dependence on seaports, transportation and loading in Israel

Approximately one-half of the net sales of the Company are sales of bulk products characterized by large quantities. Most of this production quantity is shipped from two seaports in Israel from dedicated facilities. It is not possible to ship large quantities in bulk from other facilities. In addition, most of the bromine exported from Israel is transported through Haifa Port (see also section 4.2.14 D). Any significant mishap with regard to the seaport facilities, a strike of port workers or regulatory restriction, would likely create difficulties in exporting goods overseas and harm sales.

The following are the Company's estimates of level of impact of these risk factors on the activities of ICL.

It should be noted that the Company's estimations of level of influence of a risk factor on the Company below reflect the level of influence of that risk factor assuming the risk factor occurs, and does not reflect any estimation of or give weight to the likelihood of occurrence of that risk factor. In addition, the order of appearance of the risk factors above and below is not according to the inherent risk of each factor or the likelihood of its occurrence.

	Level of influence of the risk factor on the Company		
	Low influence	Medium influence	High influence
Macroeconomic risks			
Currency exchange rate fluctuation (section 5.8.1)	V		
Increase in interest rate and restrictions on credit (section 5.8.2)	V		
Crisis in financial markets (section 5.8.3)		V	
War or terror operations (section 5.8.4)		V	
Activities in various countries around the world (section 5.8.5)	V		
Industry risks			
Impacts on sales of fertilizers (product prices, government policies and weather) (section 5.8.6)		V	
Impacts on sales of products of ICL-IP (such as product prices and government policies relating to use of flame retardants) (section 5.8.7).	V		
Impact on sale of products of ICL-PP (section 5.8.8)	V		
Subjection to legislative and licensing restrictions (section 5.8.9)		V	
Exposure relating to environmental protection and safety (section 5.8.10)		V	
Third party liability and product liability (section 5.8.11)		V	
Changes in pension and health insurance	V		

calculation coefficients (section 5.8.12)			
Volatility (section 5.8.13)		V	
Special Risks			
Concessions and permits (section 5.8.14)			V
Natural disasters (section 5.8.15)			V
Water level in Pond 150 (section 5.8.16)		V	
New pumping station at the Dead Sea (section 5.8.17)			
Price of water and energy (section 5.8.18)	V		
The Sea Canal (section 5.8.19)	V		
Labor Disputes (section 5.8.20)	V		
Dependence on seaports, transportation and loading in Israel (section 5.8.21)		V	



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 December 31, 2011

1. Introduction

Below is the Directors' Report of Israel Chemicals Ltd. ("ICL" or "the Company"). The report is submitted as part of the Periodic Report for 2011, and assumes that the reader has the other chapters of the Periodic Report.

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.

	1-12/2011		1-12/2010		10-12/2011		10-12/2010	
	<u>USD</u> <u>millions</u>	<u>% of</u> <u>sales</u>	<u>USD</u> <u>millions</u>	<u>% of</u> <u>sales</u>	<u>USD</u> <u>millions</u>	<u>% of</u> <u>sales</u>	<u>USD</u> <u>millions</u>	<u>% of</u> <u>sales</u>
Sales	7,067.8		5,691.5		1,712.4		1,420.6	
Gross profit	3,155.7	44.6	2,432.1	42.7	775.4	45.3	627.0	44.1
Operating income	1,926.0	27.2	1,346.1	23.7	466.5	27.2	339.1	23.9
Pre-tax income	1,871.7	26.5	1,295.4	22.8	461.5	27.0	332.2	23.4
Net profit to Company shareholders	1,511.8	21.4	1,024.7	18.0	369.6	21.6	245.4	17.3
EBITDA*	2,190.2	31.0	1,572.1	27.4	528.6	30.9	407.9	28.0
Cash flow from current operations	1,269.4		1,537.0		344.4		428.8	
Investment in property, plant and equipment, less grants	494.9		333.4		134.1		96.4	

* Calculated as follows, in millions of dollars:

	<u>1-12/2011</u>	<u>1-12/2010</u>	<u>10-12/2011</u>	<u>10-12/200</u>
Net profit to Company shareholders	1,511.8	1,024.7	369.6	245.4
Depreciation and amortization	267.4	217.4	69.8	59.1
Finance expenses, net	62.3	53.2	1.7	7.4
Taxes on income	348.7	266.8	87.5	86.0
One-time expenses	=	<u>10.0</u>	=	<u>10.0</u>
Total	<u>2,190.2</u>	<u>1,572.1</u>	<u>528.6</u>	<u>407.9</u>

2.2 Results of operations for the period January-December 2011

Sales

Sales of ICL in the reporting period amounted to approximately USD 7,068 million, compared with USD 5,692 million in the corresponding period last year, an increase of about 24.2%. This increase is due to a rise in selling prices, which led to an increase of about USD 964 million, from the first-time consolidation of the financial statements of companies acquired during the reporting period, which increased sales by USD 363 million, and from the positive impact of a change in exchange rates which resulted in an increase of about USD 71 million. The increase was partially offset by a decrease in quantities sold, which resulted in a decrease of about USD 21 million in sales. The smaller quantities sold stems, inter alia, from interruption of potash shipments from Israel during a strike in the first quarter of the year, as described later in this report.

Below is a geographical breakdown of sales:

CIF sales	1-12/2011		1-12/2010	
	USD millions	%	USD millions	%
Israel	376.9	5.3	313.3	5.5
North America	1,362.0	19.3	1,052.0	18.5
South America	665.9	9.4	620.0	10.9
Europe	2,418.6	34.2	1,886.2	33.1
Asia	2,093.6	29.6	1,680.4	29.5
Rest of the world	150.2	2.1	139.6	2.5
Total	7,067.8	100.0	5,691.5	100.0

The breakdown of sales indicates an increase in sales in all geographical destinations. In Europe and North America an increase in the percentage of sales is also apparent. The increase stems primarily from the increase in sales of fertilizers and of bromine and bromine products in these regions, and from first-time consolidation of companies and operations acquired during 2011.

Gross profit

Gross profit amounted to approximately USD 3,156 million, compared with a profit of USD 2,432 million in the corresponding period last year, an increase of approximately USD 724 million. The gross profit margin out of sales amounted to about 44.6%, compared with about 42.7% in the corresponding period last year.

The increase in the gross profit margin compared to the corresponding period last year is mainly due to a rise in selling prices, which resulted in an increase of approximately USD 934 million, and to USD 84 million from the inclusion of the results of companies and operations acquired during the year and consolidated for the first time. This increase was partially offset by the effects of a decrease in quantities sold, as noted above, resulting in a decrease of about USD 73 million, and by a rise in the prices of raw materials, which resulted in a decrease of about USD 190 million, and an increase in other operating expenses resulting in a decrease of USD 45 million. .

Sales and marketing expenses

Expenses for this item amounted to approximately USD 871 million, compared with USD 780 in the corresponding period last year. The increase stems mainly from the first-time consolidation of the results of companies acquired during the reporting period, which increased sales and marketing expenses by USD 54 million, an increase of USD 17 million in transportation expenses, and approximately USD 12 million from the effects of changes in exchange rates.

General and administrative expenses

These expenses amounted to approximately USD 277 million, compared with USD 246 in the corresponding period last year. The increase in general and administrative expenses was mainly the result of the first-time consolidation in the reporting period of companies and operations acquired.

Research and development expenses

R&D expenses (net of grants from the Chief Scientist) amounted to approximately USD 72 million, an increase of about USD 8 million compared with the corresponding period last year. The increase in these expenses was affected mainly by the first-time consolidation in the reporting period of companies and operations acquired.

Operating income

Operating income amounted to approximately USD 1,926 million, an increase of USD 580 million compared with the corresponding period last year. The increase in operating income stems mainly from the increase in gross profit net of the increased sales and marketing expenses and general and administrative expenses, as noted above.

Operating income as a percentage of sales turnover is about 27.2%, compared with 23.7% last year. The increase in the operating income margin stems mainly from the rise in selling prices.

Finance income/expenses

Net finance expenses amounted to approximately USD 62 million, compared with expenses of approximately USD 53 million in the corresponding period last year. The change in finance expenses in the reporting period compared with the corresponding period is mainly due to the following factors:

- a. Expenses in the period from transactions in financial derivatives and from revaluation of net short-term financial liabilities amounting to about USD 34 million, compared with income of USD 25 million last year.
- b. A decrease of about USD 42 million in finance expenses due to the effect of exchange rate differences on the provisions for employee benefits.
- c. A decrease in net interest expenses, which were USD 26 million in the reporting period compared with USD 34 million in the corresponding period last year.

(See also Section 9 below.)

Tax expenses

Expenses amounted to USD 349 million, compared to USD 267 million last year. The pre-tax profit rate is 18.6% compared to 20.6% last year. The lower tax percentage in the reporting period compared with the corresponding period was affected by the following factors:

- a. The corporate tax rate was reduced from 25% in 2010 to 24% in 2011.
- b. On December 5, 2011 the Knesset approved the Tax Burden Amendment (Legislative Amendments) Law, 2011. The law cancels the tax deductions laid down in the Economic Efficiency Law, and the corporate tax rate from 2012 onwards will be 25%. As a result of this change in the tax rate, one-time tax expenses of approximately USD 38 million were recognised.
In 2010, one-time expenses amounting to USD 40 million in respect of closing assessments for 2004-2008 were recognised.
- c. A decrease in 2011 in the amount of expenses not recognised for tax purposes, stemming from the rescheduling of expenses in respect of options granted to employees under a plan from January 2010.
- d. An additional deduction for tax purposes in respect of investments made by a foreign company.

Net profit

Net profit for the shareholders of the Company amounted to approximately USD 1,512 million, compared with USD 1,025 million in the corresponding period last year, an increase of USD 487 million, representing an increase of 48% in the net profit.

2.3 Results of operations for the period October-December 2011

Sales

Sales of ICL in the reporting period amounted to approximately USD 1,712 million compared with USD 1,421 million in the corresponding period last year, an increase of about 20.5%.

The increase stems from a rise in selling prices which resulted in an increase of about USD 245 million in sales, and from the first-time consolidation of the results of companies acquired during the quarter, which increased sales by about USD 84 million. Conversely, the increase was partially offset by a decrease in quantities sold, which decreased sales by USD 38 million.

Below is a geographical breakdown of sales:

	10-12/2011		10-12/2010	
	\$ millions	%	\$ millions	%
Israel	111.0	6.5	69.9	4.9
North America	301.2	17.6	259.7	18.3
South America	134.3	7.8	131.0	9.2
Europe	491.1	28.7	471.4	33.2
Asia	652.2	38.1	451.2	31.8
Rest of the world	22.5	1.3	37.5	2.6
Total	1,712.4	100.0	1,420.6	100.0

The breakdown of sales indicates an increase in sales in all geographical markets. The rise in sales and percentage of sales in Asia stems mainly from the increase in quantities sold and the price rises in potash sales to India and China.

Gross profit

Gross profit amounted to about USD 775 million, compared with USD 627 million in the corresponding period last year, an increase of USD 148 million. The gross profit margin out of sales turnover is about 45.3%, compared with about 44.1% in the corresponding period.

The improvement in the margin compared with last year stems mainly from the rise in selling prices of most of the Company's products, and from the effects of first-time consolidation of the results of companies and operations acquired during 2011, which contributed to an increase of about USD 229 million and USD 14 million respectively. Conversely, the increase was partially offset by a decrease in quantities sold and a rise in the prices of raw materials, which resulted in a decrease of about USD 32 million and USD 52 million, respectively.

Sales and marketing expenses

Sales and marketing expenses amounted to about USD 227, an increase of USD 25 million compared with the corresponding period of the previous year. The increase stems primarily from the first-time consolidation of the results of acquired companies, and the effect of the changes in exchange rates.

General and administrative expenses

Expenses for this item amounted to USD 74 million, an increase of USD 9 million compared with the corresponding period last year. This increase was affected primarily by the first-time consolidation of companies and operations acquired in the reporting period.

Research and development expenses

R&D expenses (net of grants from the Chief Scientist) amounted to USD 18 million, similar to the corresponding period last year.

Operating income

Operating income increased by USD 127 million compared with the corresponding period last year, reaching USD 476 million. The increase stems from the above-mentioned increase in gross profit, which was partially offset by an increase in sales and marketing expenses.

Operating income out of sales turnover is 27.2%, compared with 23.9% in the corresponding period of the previous year.

Finance expenses

Net finance expenses in the quarter amounted to about USD 2 million, compared with about USD 7 million in the corresponding quarter last year. The decrease in net finance expenses in the quarter compared with the corresponding quarter last year stems primarily from the effect of the change in the shekel/dollar exchange rate on employee benefit liabilities, which contributed about USD 8 million in the quarter, compared with an expense of about USD 11 million in the corresponding period last year (a total decrease of about USD 19 million).

Conversely, the decrease in net finance expenses was offset by an increase of USD 14 million in expenses from transactions in financial derivatives and from revaluation of short-term net finance liabilities.

Tax expenses

The tax expenses amounted to USD 88 million, compared with USD 86 million in the corresponding period last year. The tax rate on profit is approximately 19.0%, compared with about 25.9% last year. The decrease in the tax rate was affected primarily by one-time expenses of USD 40 million

recognised in 2010 in respect of closing assessments for 2004-2008 (an increase of about 10% in the tax rate in 2010 by a reduction in the tax rate from 25% in 2010 to 24% in 2011 and by an additional deduction for tax purposes in respect of investments made by a foreign company). The rise in the tax rate was offset by recognition of deferred tax expenses of USD 38 million as a result of enactment of the Tax Burden Amendment Law mentioned above (a rise of about 6% in the tax rate in 2011).

Net profit

Net profit to the shareholders of the Company amounted to approximately USD 370 million, compared with USD 245 million in the corresponding quarter last year, an increase of USD 124 million.

3. Segments of Operation

The segments of operation of ICL are presented below according to the management of segments described in The Description of the Corporation's Operations.

CIF sales by segment of operation	1-12/2011		1-12/2010		10-12/2011		10-12/2010	
	\$ millions	% of sales	\$ millions	% of sales	\$ millions	% of sales	\$ millions	% of sales
ICL Fertilizers	4,097.6	55.0	3,107.3	51.7	1,034.2	57.4	766.4	51.0
ICL Industrial Products	1,513.0	20.3	1,313.2	21.9	335.0	18.6	346.6	23.1
ICL Performance Products	1,494.8	20.1	1,340.0	22.3	333.3	18.5	327.1	21.8
Others and setoffs	(37.6)		(69.0)		9.8		(19.5)	
Total	7,067.8		5,691.5		1,712.4		1,420.6	

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	1-12/2011		1-12/2010		10-12/2011		10-12/2010	
	\$ millions	% of sales	\$ millions	% of sales	\$ millions	% of sales	\$ millions	% of sales
ICL Fertilizers	1,403.4	34.2	965.1	31.1	364.6	35.3	244.4	31.9
ICL Industrial Products	297.7	19.7	206.6	15.7	63.5	18.9	66.8	19.3
ICL Performance Products	192.9	12.9	185.1	13.8	26.8	8.1	32.7	10.0
Others and setoffs	32.0		(10.7)		11.5		(4.8)	
Total	1,926.0		1,346.1		466.5		339.1	

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

3.1 ICL Fertilizers

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):

	<u>1-12/2011</u>	<u>1-12/2010</u>	<u>9-12/2011</u>	<u>9-12/2010</u>
<u>Sales</u>				
Potash	59%	67%	66%	70%
Phosphate	41%	33%	34%	30%
<u>Operating income</u>				
Potash	84%	89%	92%	94%
Phosphate	16%	11%	8%	6%

3.1.1. Results of operations for the period January-December 2011

Sales

Sales in the reporting period amounted to approximately USD 4,098 million, an increase of USD 990.4 million compared with the corresponding period last year, representing an increase of about 31.9%.

The increase in sales stems mainly from an increase in the selling prices of potash, phosphate fertilizers and phosphate rock, which led to an increase of approximately USD 736 million, and also follows the first-time inclusion of the results of the companies acquired in the reporting period, which increased sales by USD 353 million. This increase was partially offset by a decrease in the quantities of potash and phosphate fertilizers sold, which resulted in a decrease in sales of approximately USD 110 million. The decrease in sales quantities stems, inter alia, from interruption of shipments of potash from Israel during the strike in the first quarter (describe below).

Operating income

Operating income in the segment in the reporting period amounted to USD 1,403 million, an increase of about USD 438 million compared with the corresponding period last year. The margin of operating income out of sales was about 34.2%, compared with about 31.1% last year.

The increase in operating income stems mainly from a rise in the selling prices of potash, phosphate fertilizers and phosphate rock, which increased operating income by USD 658 million. This increase was partially offset by an rise in the prices of inputs and other operating costs, which resulted in a decrease of about USD 112 million. There was also a decline in quantities of potash and phosphate fertilizers sold, which reduced operating income by USD 90 million, and the change in the shekel-dollar exchange rate, which decreased operating profit by USD 12 million.

Potash

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

Potash – Revenue and profit

\$ millions	1-12/2011	1-12/2010
Revenue *	2,506.2	2,140.7
Operating income	1,182.0	857.9

* Including revenue from inter-segment sales

The increase in revenues in the reporting period compared to the corresponding period of the previous year stems from the rise in potash prices which increased revenues by about USD 453 million. This increase was partially offset by a decrease in quantities of potash sold, which reduced sales by about USD 94 million. The decrease in quantities sold stems, inter alia, from the interruption of shipments of potash from Israel during the strike in the first quarter of the year, and from delay in signing an agreement for the sale of potash to India.

The increase in operating income is mainly due to the effects of the rise in selling prices of about USD 409 million. This was partially offset by the decrease in quantities of potash sold, which reduced the operating income by USD 78 million, and by the effects of the change in the shekel-dollar exchange rate, which reduced income by USD 10 million.

In the first quarter of 2011, the Dead Sea Works workers' union announced a strike which was expressed, inter alia, by disruption of potash production and maintenance activities. The strike caused immediate production losses of approximately 450 thousand tons, while the production and stock accumulation of carnallite in the evaporation ponds continued normally. The Company believes that it will succeed in recovering this inventory in its production over the coming years.

Potash – Production, sales and closing inventories

Thousands of tons	1-12/2011	1-12/2010
Production	4,261	4,251
Sales to external customers	4,904	5,266
Sales to internal customers	268	292
Total sales (including internal sales)	5,172	5,558
Closing inventory	699	1,610

At the beginning of 2011, potash supply contracts were signed for the first half of the year between Chinese importers (Sinofert, CNAMPGC) and a number of potash manufacturers, at USD 400 per ton CFR, which is an increase of USD 50 per ton compared with 2010 prices. This is the first time that contracts with China are for six months rather than a year. A further price rise was set mid-year, when the contracts for potash sales for the second half of the year set a price of USD 470 per ton CFR. ICL Fertilizers' contracts for sales of potash to China were signed on similar terms, and the quantity for the first half and the second half of the year were set at 500,000 and 750,000 tons respectively. At the balance sheet date, the entire quantity per the agreements had been supplied. On March 20, 2012 BPC and Canpotex announced that they had signed contracts to sell potash to China for the second quarter of the year in the amount of 400 thousand tons (with an option for a further 100 thousand tons) and 500 thousand tons (with an option for a further 200 thousand tons), respectively, at a price of \$470 per ton CFR. ICL Fertilizers is also negotiating with its customers in China to close contracts.

In the Indian market, a change in the subsidy policy for fertilizers that resulted in a rise in the retail price of potash and phosphate for the farmer, as well as a depreciation in the value of the local currency against the dollar, which also led to a rise in the price to the farmer, caused an extended delay in the renewal of potash supply contracts. The contracts for the 2011/12 agricultural year were signed in August 2011 (the agricultural year starts in April) at an average price of USD 490 per ton CFR. ICL Fertilizers signed potash sales contracts of 1,390,000 tons with an option for another 125,000 tons for the period from the date of signing the contracts through March 31, 2012. Towards the end of the year, due to accumulated stocks in their ports, the Indian importers requested to defer the Q1 2012 shipments by two or three months. In the Company's estimation, the term of the agreement that should end at the end of March 2012, will be extended by a few months.

CPL is checking the possibility of setting up a plant to produce specialty fertilizers and industrial products based on polyhalite found in the Tees valley, adjacent to the potash mine in England. Polyhalite is a mineral used in its natural form as fertilizer for organic agriculture, but may also be used as a raw material for production of specialty fertilizers. Geological studies performed by CPL indicate the existence of large polyhalite deposits in quantities of over one billion tons of polyhalite ore beneath the potash layer in the Company's mine. ICL Fertilizers has completed the digging of the access tunnel to the polyhalite and has started to conduct trial sales of the natural product. As from 2012, ICL Fertilizers is expected to increase polyhalite production and sales.

On April 13, 2011, ICL's board of directors, as part of its streamlining plan for Iberpotash s.a., the Spanish subsidiary of ICL Fertilizers, approved the merger of two sites into one site. The Suria production site, mine and plant, will be expanded while mining and production at the other site (mining and plant) will be terminated. The first stage of the plan, which has been approved, involves expansion of potash production and granulation capacity, as well as the establishment of a production plant for vacuum salt (salt with high chemical purity) at Suria. The second stage, which has not yet been approved, involves further expansion of potash production capacity, to 1.1 million tons, of which 630,000 tons will be granulated potash and 50,000 tons will be technical potash, as well as a production capacity of 1.5 million tons of vacuum salt. The Company believes that implementation of the first stage of the plan, which will require investment of an estimated EUR 160 million, will be completed at the beginning of 2014 and will reduce expenses and contribute to streamlining, thereby reducing potash production costs and contribute to conformity with sustainability principles related to environmental protection. Implementation of the second stage is expected to result in higher potash production at one site compared to production at two separate sites. The impact of closing the second site on the Company's results in the reporting period, is not material.

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, as well as slow-release and controlled-release fertilizers), phosphoric acid used as a raw material for fertilizer production (green acid), and other products.

Fertilizers and phosphates – Revenue and profit

\$ millions	1-12/2011	1-12/2010
Revenue *	1,705.9	1,056.3
Operating income	221.3	108.6

* Including revenue from inter-segment sales

The increase in revenues in the reporting period, compared to the corresponding period last year, is mainly due to the rise in the selling prices of phosphate fertilizers and phosphate rock, which increased sales by USD 308 million dollars and to the inclusion of the results of companies consolidated for the first time which increased revenue by about USD 346 million dollars. In addition, appreciation of the shekel against the dollar added approximately USD 11 million to sales. This increase was partially offset by a decrease in the quantity of phosphate fertilizers sold, which reduced sales by about USD 16 million.

The increase in operating income in the reporting period compared with last year is mainly due to the increase in the selling prices of phosphate fertilizers and phosphate rock, which contributed approximately USD 274 million to profit. This increase was partially offset by an increase in input prices and other operating costs, which resulted in a decrease of USD 136 million, by a decrease in the quantity of phosphate fertilizers sold, which reduced operating income by USD 12 million, and by the effects of a change in the shekel/dollar exchange rate, which reduced operating income by USD 2 million.

Fertilizers and phosphates – Production and sales

Thousands of tons	1-12/2011	1-12/2010
<u>Phosphate rock</u>		
Production	3,105	3,135
Sales*	720	636
For internal uses	2,454	2,584
<u>Fertilizers</u>		
Production	1,570	1,688
Sales*	1,638	1,735

* 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.

On February 28, 2011, a transaction was completed to acquire the companies, assets and operations of a specialty fertilizer business unit owned by the American company Scotts Miracle-Gro Company (see note 11B to the Financial Reports).

At the beginning of April, a subsidiary in Spain acquired 100% of the interests in A. Fuentes Mendez s.a., which manufactures and markets specialty fertilizers in Spain (see note 11C to the Financial Reports).

3.1.2. Results of operations for the period October-December 2011

Sales

Sales in the quarter amounted to USD 1,034 million, an increase of USD 268 compared with the corresponding quarter last year, which is about 34.9%.

The increase in sales stems mainly from a rise in the selling prices of the segment's products, resulting in an increase of USD 197 million, and the first-time inclusion of the results of companies acquired during the reporting period, which contributed USD 78 million. This increase was offset by a decrease in quantities of potash and phosphate fertilizers sold, which reduced sales by USD 8 million.

Operating income

Operating income in the segment amounted to USD 365 million, an increase of USD 120 million compared with the corresponding quarter. The margin of operating income out of sales was about 35.3%, compared with about 31.9% last year.

The increase in operating income stems mainly from a rise in the selling prices of the segment's products, which increased operating income by USD 174 million, and from the effect of the change in the shekel-dollar exchange rate, which contributed USD 5 million. The increase was partially offset by a rise in the prices of inputs and other operating costs, which resulted in a decrease of USD 43 million.

Potash

Potash – Revenue and profit

\$ millions	10-12/2011	10-12/2010
Revenue *	695.3	554.1
Operating income	336.9	232.4

* Including revenue from inter-segment sales

The increase in revenues and operating income in the quarter compared with the corresponding quarter last year, stems from the rise in potash prices, which increase revenues by USF 139 million, and operating income by USD 116 million.

Potash – Production, sales and closing inventory

Thousands of tons	10-12/2011	10-12/2010
Production	1,191	1,184
Sales to external customers	1,327	1,326
Sales to internal customers	52	89
Total sales (including internal)	1,379	1,415
Closing inventory	699	1,610

Production in the fourth quarter of 2011 was adversely affected by malfunctions in production facilities and by temporary unavailability of equipment.

Fertilizers and phosphates

Fertilizers and phosphates – Revenue and profit

\$ millions	10-12/2011	10-12/2010
Revenue *	361.7	235.3
Operating income	28.9	15.1

* Including revenue from inter-segment sales

The increase in revenues in the quarter compared with the corresponding quarter last year, stemmed mainly from a rise in the selling prices of phosphate fertilizers and phosphate rock, which increased sales by USD 59 million, and from the inclusion of the results of companies consolidated for the first time, which contributed USD 75 million to revenues. This increase was partially offset by the decrease in quantities of phosphate fertilizers sold, which reduced sales by USD 7 million.

The increase in operating income in the quarter compared with the corresponding quarter stemmed primarily from the rise in the selling prices of phosphate fertilizers and phosphate rock, which contributed USD 58 million to operating income. This increase was partially offset by a rise in the prices of inputs and other operating costs, which resulted in a decrease of about USD 30 million in operating income. The decrease in the quantities of fertilizers sold reduced the operating profit by about \$2 million.

Fertilizers and phosphates – Production and sales

Thousands of tons	10-12/2011	10-12/2010
Phosphate rock		
Production	776	780
Sales*	205	133
For internal uses	618	647
Fertilizers		
Production	342	415
Sales*	260	321

* To external customers

Production of phosphate fertilizers in the fourth quarter of 2011 was 17.6% lower than in the fourth quarter of 2010, mainly due to slower demand.

3.2 ICL Industrial Products

The markets of ICL Industrial Products are influenced to a large extent by the level of activity in the electronics, construction, automotive, oil drilling, furniture, textiles and water treatment markets. Strengthening demand and diminishing supply of bromine in China led to higher selling prices of elementary bromine that in the corresponding period last year. The increase in demand for the segment's products, which characterized most of the period, slowed towards the end of the period, mainly products for the electronic products market. The demand for fire retardants for insulation in construction was unaffected, largely as a result of Europe enacting new insulation and energy saving regulations.

The reporting period saw an increase in sales and in the prices of clear solvents for oil drilling compared with the corresponding period, as a result of increased sales in some regions of the world stemming from higher demand and the decrease in the supply of Chinese clear brine manufacturers following the rise in the prices of elementary bromine in China.

In April 2010, a oil rig exploded in the Gulf of Mexico, an important sales territory for clear brines. Following this event, the American Administration announced the suspension of deep-water drilling operations in the area. In March 2011 the Administration announced that the suspension was lifted and it renewed the grant of deep-water drilling permits for the area. As a result, sales of clear brine for deep-water drilling in the Gulf of Mexico increased in the second half of the year.

3.2.1. Results of operations for the period January-December 2011

Sales

Sales of ICL Industrial Products in the reporting period reached approximately USD 1,513 million, an increase of about USD 200 million compared with the corresponding period last year. The increase is due mainly to a rise in selling prices, which contributed USD 196 million to the increase in sales, primarily due to the rise in the selling prices of flame retardants amounting to USD 103 million, and the effects of the changes in the dollar exchange rate, notably the euro, amounting to USD 23 million. Conversely, the decrease in quantities sold decreased sales by USD 19 million.

Operating income

Operating income in the reporting period reached a record USD 298 million, compared with USD 207 million in the corresponding period last year.

The margin of operating income out of sales was 19.7%, compared with 15.7% last year.

The operating profit increased because of the rise in selling prices which contributed about \$196 million to the profits. The rise in profits was somewhat offset by the rise in the prices of raw materials and energy in the amount of about \$48 million, a decrease in quantities sold which reduced profits by about \$ 7 million and a rise in other operating expenses which reduced profits by about \$46 million.

3.2.2. Results of operations for the period October-December 2011

Sales

Sales of ICL Industrial Products in the quarter amounted to USD 335 million, a decrease of USD 12 million compared with the corresponding period last year. The decrease in sales stemmed primarily from a decrease in quantities sold, resulting in a decrease of USD 43 million in sales. The decrease was partially offset by the rise in the selling prices amounting to USD 30 million.

Operating income

Operating income in the reporting period amounted to USD 64 million, compared with USD 67 million in the corresponding period.

The margin of operating income out of sales was 18.9%, compared with 19.2% last year.

Operating income decreased mainly as a result of the decrease in quantities sold, amounting to USD 15 million, the rise in the prices of raw materials, accounting for USD 11 million, and the increase of

USD 6 million in other operating expenses. The decrease was partially offset by a rise in selling prices, which contributed USD 30 million to operating income.

3.3 ICL Performance Products

3.3.1 Results of operations for the period January-December 2011

Sales:

Sales in this segment amounted to approximately USD 1,495 million, an increase of USD 155 million compared with the corresponding period last year.

The increase stems from a rise in the selling prices of some of the segment's products, which resulted in an increase of about USD 76 million in sales, and an increase of about USD 31 million in quantities sold, the inclusion of a company acquired during the reporting period, which led to an increase in sales of USD 10 million, and as a result of the weakening of the dollar-euro exchange rate amounting to USD 37 million.

Operating income

Operating income in the segment in the reporting period amounted to approximately USD 193 million, an increase of about USD 8 million compared with the corresponding period last year. The increase is mainly due to the effects of the increase in selling prices, which contributed about USD 76 million, and an increase in quantities sold, which contributed USD 5 million to the increase in operating income. The increase was partially offset by the rise in the prices of raw materials, which reduced operating income by approximately USD 63 million, and an increase in other expenses, mainly transportation expenses, which contributed to a decline of about USD 11 million.

3.3.2 Results of operations for the period October-December 2011

Sales

Sales amounted to USD 333 million, an increase of USD 6 million compared with the corresponding period last year. The increase stems from a rise in the selling prices of some of the segment's products, which increased sales by USD 23 million, and the inclusion of the results of a company acquired during the reporting period, which accounted for an increase of USD 6 million. This rise was offset by a decrease in quantities sold, leading to a decrease of USD 21 million.

Operating income

Operating income in the segment in the quarter amounted to USD 27 million, a decrease of USD 6 million compared with the corresponding period. The decrease stems from a decrease in quantities sold, leading to a decrease of USD 12 million, a rise of USD 13 million in the prices of raw materials and energy, and an increase of USD 4 million in other operating expenses. The decrease was partially offset by a rise in the selling prices of some of the segment's products, which accounted for an increase of USD 23 million in sales.

4. The Financial Position and Sources of Financing of ICL

At December 31, 2011, an increase of USD 781 million was recorded in the net interest-bearing financial liabilities of ICL compared with the balance at the end of 2010, bringing the total to approximately USD 1,440 million. For details of the increase in financial liabilities, see section 5 below.

ICL's sources of finance are short- and long-term bank loans, mostly from international banks, debentures issued to the public and to institutional investors in Israel and the USA, and customer securitization, in which some of the companies in the Group sell customer receivables in return for a credit facility. The total amount of the securitization framework and credit facility amounts to USD 350 million. At December 31, 2011, ICL had used USD 310 million of the securitization facility.

In 2007, ICL entered into a loan agreement for USD 725 million for 5 years. ICL repaid the loan during the fourth quarter of 2011. On March 14, 2011, ICL entered into an agreement with a group of 17 international banks, in which those banks granted ICL a credit facility of USD 675 million. The credit facility is for 5 years, and will be repaid in full at the end of the period. On December 31, 2011, the facility had been fully utilized.

In December 2011 ICL entered into an agreement with a group of seven international banks, in which those banks granted ICL a credit facility of USD 650 million. The credit facility is for 5 years and will be repaid in full at the end of the period. This credit facility was not utilized in the reporting period.

In the second half of 2011, ICL entered into an agreement with a European bank, in which the bank will grant a credit facility of EUR 100 million. The credit facility is for 6 years, and will be repaid in full at the end of the period. At the balance sheet date, this facility has not been utilized.

At December 31, 2011, ICL has unutilized long-term credit facilities of USD 780 million.

For additional details, see Note 18 to the 2011 Financial Statements.

See also section 5.3 of Chapter A of the Periodic Report.

5. Cash Flow

Cash flow generated by operating activities in the reporting period amounted to approximately USD 1,269 million, compared with USD 1,537 million in the corresponding period last year. The decrease in cash flow from operating activities is mainly due to a one-time payment of USD 165 million in income tax as part of the assessment agreement for 2004-2008, which was paid in 2011, and to an increase in working capital, which was partially offset by an increase in profit in the reporting period compared to last year.

Cash flow from operating activities and the increase of USD 781 million in financial liabilities were the principal source of net financing of investments of USD 496 million in property, plant and equipment, financing the consideration of USD 437 million for acquisition of the companies and operations in the reporting period (see Notes 11B and 11C to the Financial Statements for acquisition of operations of specialty fertilizer operations), and distribution of a dividend of USD 1,131 million.

6. Insurance

ICL Group has insurance for property, physical damage and consequential loss, on standard policy terms for the sector. The sum of insurance also takes into account the maximum expected loss to the Company as a result of earthquake damage to property in the Dead Sea region, based on an assessment solicited from expert consultants. Cover at the date of the report is USD 750 million. The Group's property in Israel is insured, in accordance with the Property Tax and Compensation Fund Law, against physical damage as a result of a terror event.

Cleveland Potash Ltd. does not purchase insurance for underground property damage, since its management has found that the cost of the premium required for the proposed cover does not justify it. From inquiries, the Company has learned that a similar line is taken by other companies in the industry around the world.

ICL Group has product liability, third party and employers' liability insurance in the amount of USD 350 million, on standard policy terms for the sector. The Group also purchases other insurances, such as credit insurance, cargo insurance, insurance against ongoing ecological damage, third party insurance, insurance to cover officially-ordered cleaning of contaminated ground, officers insurance, and fidelity insurance.

ICL Group has a captive insurance company that purchases from insurance companies that insure part of the risk of ICL companies, in consideration of a premium at the standard rate in the insurance market for the risk acquired. In this way, ICL Group increases the deductible at the group level beyond the deductible at the individual company level, so as to reduce the cost of the premium paid to the external insurance market and the cost of the risk to the Group. At the date of this report, the captive company participates in the deductible in property, product liability and third party, credit, employers liability and ecological insurances. In ecological insurance the deductible is USD 5 million any one event and \$15 million cumulatively for the period of the policy of three years; in all the other insurances there is also a limitation on the maximum annual exposure. In property insurance the maximum deductible for each year of insurance is USD 20 million, and in the other insurances it is in varying amounts depending on the type of insurance, and ranges from USD 3 million to USD 6 million.

7. Investments

In the reporting period, investments in property, plant and equipment amounted to approximately USD 496 million, compared with about USD 334 million in the corresponding period last year. Most of the increase in investments stems from dynamic compacting of the dyke surrounding the evaporation pond of ICL Fertilizers at the Dead Sea (see section 4.1.8C to the Description of the Corporation's Operations), and the purchase and refurbishing of isotanks for transporting bromine in the Industrial Products segment.

8. Human Resources

The total number of employees in ICL at December 31, 2011 was 11,910 compared with 11,035 on December 31, 2010, an increase of 875 employees. For additional details, see section 5.2 of Chapter A of the Periodic Report.

9. Market Risk – Exposure and Management

9.1 Market Risks Officer

CPA Avi Doitchman, the Deputy CEO and CFO and Strategy of ICL, is responsible for managing the market risks to which ICL is exposed. For details of his education, qualifications, business experience and positions in ICL, see the chapter "Additional details" in section 26A in the Periodic Report.

9.2 Description of market risks

A. Prices – Selling prices of certain products and prices of certain inputs

Some of ICL's products and of some of its inputs are characterized by a given price which ICL has limited ability to affect. The Group is exposed to changes in the prices of these products and inputs.

The prices of ICL's products have no hedging instruments.

B. Exchange rates and the CPI

The dollar is the principal currency of the business environment in which most of the Group's companies operate. The majority of operations – sales, purchase of materials, selling, marketing expenses and finance expenses, as well as the purchase of property, plant and equipment – are transacted in foreign currency, mainly dollars, and so the dollar is used as ICL's functional currency of measurement and reporting.

ICL has a number of consolidated subsidiaries overseas and one local subsidiary, whose currency of operations is their local currency – the shekel, the euro, the pound sterling and the Brazilian real.

The principal exposures of ICL in respect of changes in exchange rates:

- 1) Transactions made by ICL companies in currencies that are not their functional currency, expose ICL to changes in the exchange rates of those currencies compared with their functional currencies.
Measurement of this type of exposure is based in net income/expenses in each currency that is not the reporting currency of that company.
- 2) Part of the costs of ICL's inputs in Israel are denominated and paid in shekels. Thus, ICL is exposed to a strengthening of the shekel exchange rate against the dollar (shekel appreciation). This exposure is identical in its nature to the exposure described in section 1), but is of much greater volume than the other currency exposures.
- 3) The results for tax purposes of the Company and some of the ICL subsidiaries are measured in a currency other than the dollar – in Israel, the shekel, and abroad, the local currency. As a result, ICL is exposed to the difference between the percentage of the change in the dollar exchange rate and the measurement base for tax purposes.

- 4) ICL companies have severance pay commitments which are made in the local currency, and in Israel they are sometimes also affected by rises in the CPI. The ICL companies in Israel have reserves to cover part of these commitments, which are denominated in shekels and affected by the performance of the funds in which the sums are invested. As a result, ICL is exposed to changes in the dollar – local currency exchange rate in respect of net severance pay commitments.
- 5) The Group companies have monetary assets and liabilities which are denominated in or linked to currencies other than their functional currencies. A surplus of the assets over the liabilities denominated in currencies which are not the functional currency, create exposure for the Group in respect of exchange rate volatility.
- 6) Investment in subsidiaries whose functional currency is not the dollar – The end-of-period balance-sheet balances of these companies are translated into dollars at the end of the period at the exchange rate of the dollar and the currency in which these companies report. The beginning-of-period balance-sheet balances, as well as capital changes during the period, are translated into dollars at the exchange rate at the beginning of the period or on the date of the change in capital, respectively. The differences arising from the effect of the change in the exchange rate between the dollar and the currency in which the companies report, create exposure. The effects of this exposure are charged directly to equity.

C. Interest rates

The Group has variable-interest loans which expose its financial results (finance expenses) and its cash flows to changes in those interest rates.

For the Group's fixed-interest loans, exposure is to changes in the fair value of the loans in respect of changes in the market interest rate.

9.3 The Corporation's market risk management policy

For financial assets and financial liabilities in currencies which are not the functional currency of the companies of the Group, ICL's policy is to minimize this exposure as far as possible by the use of various hedging instruments.

The Company does not hedge against severance pay liabilities and the tax results of ICL, since the exposure is long term.

For hedging against the prices of heavy fuel, marine transportation prices and projected income and expenses in currencies which are not the functional currency of the companies, and interest rate, the Company's policy is to hedge at varying rates, as described below:.

A. Exchange rates

ICL's Finance Forum (whose members are the senior financial managers of ICL and the segments) periodically examines the extent of the hedging implemented for each of the exposures described above, and decides on the required scope of hedging. ICL uses various financial instruments for its hedging activity, including derivatives.

B. Interest rates

The Finance Forum of ICL examines the extent of the hedging in order to adjust the structure of the actual interest to the Company's expectations with regard to expected developments in the interest rate, taking into account the cost of the hedging. The hedging is implemented by floating fixed interest and by hedging variable interest.

C. Energy prices

Hedging is in the hands of the Group's Energy Forum. The extent of the hedging is determined after consultation with Israeli and foreign energy experts.

D. Marine transportation prices

ICL purchases hedging on part of the exposure to marine bulk transportation prices. The hedging is in the hands of the Group's Energy Forum. The manner and extent of the hedging is determined after consultation with overseas experts.

9.4 Control of market risk management policy and implementation

ICL's companies regularly monitor the extent of the exposure and hedging in the various areas. The hedging policy for all types of exposure is discussed by the boards of directors of the Company and of ICL's companies as part of the annual budget discussions. Together with the presentation of quarterly financial results, ICL's finance committee receives quarterly reports on exposures and hedging as a control device for the existing policy and for its revision and update if necessary. The managements of the companies implement the policy with reference to actual developments and to expectations in the various markets.

ICL uses financial instruments and derivatives (hedging instruments) for hedging purposes only. These hedging instruments reduce ICL's exposure as described above. Most of the transactions made do not meet the hedging conditions laid down in international standards, and therefore they are measured at fair value and changes in the fair value are charged immediately to profit and loss. Some of the transactions in derivatives for hedging exposure in respect of shekel debentures issued, do meet the conditions for hedging cash flow according to the international standards. Some of the changes in the fair value of these derivatives are charged directly to equity.

The derivatives transactions are made with banks. ICL believes that the subsequent credit risk is negligible.

9.5 Sensitivity analyses

Market risks carry the potential for changes in the fair value of the financial instruments made up of the following types of risks:

1. Currency risk – the risk that the fair value or the future cash flows of a financial instrument will change as a result of changes in exchange rates of a foreign currency.
2. Interest rate risk – the risk that the fair value of future cash flows of a financial instrument will change as a result of changes in market interest rates.

At the balance sheet date, the Company conducted sensitivity analyses in respect of changes in the upper and lower ranges of 5% and 10% in exchange rates. The tests were run according to the model selected.

Base rates at December 31, 2011:

<u>Currency</u>	<u>Exchange rate</u>
NIS/USD	0.26171
EUR/USD	1.29236
GBP/USD	1.54195
JPY/USD	1.29016
BRL/USD	0.53447
CNY/USD	0.15841

Update of sensitivity to changes in the exchange rates of balances in the statement of financial position at December 31, 2011:

USD/NIS	Increase (decrease) in fair value		Fair value (USD millions)	Increase (decrease) in fair value	
	(USD millions) Increase of 10%	(USD millions) Increase of 5%		(USD millions) Decrease of 5%	(USD millions) Decrease of 10%
Type of instrument					
Cash and cash equivalents	(9.7)	(4.9)	97.3	4.9	9.7
Short-term deposits and loans	(2.4)	(1.2)	24.3	1.2	2.4
Trade receivables	(2.2)	(1.1)	21.5	1.1	2.2
Receivables and debit balances	(4.2)	(2.1)	42.0	2.1	4.2
Long-term deposits and loans	(25.1)	(12.6)	251.4	12.6	25.1
Credit from banks and others	0.2	0.1	(2.5)	(0.1)	(0.2)
Trade payables	24.6	12.3	(246.0)	(12.3)	(24.6)
Other payables	16.6	8.3	(165.9)	(8.3)	(16.6)
Bank loans	6.5	3.3	(65.1)	(3.3)	(6.5)
Debentures	36.5	18.3	(365.1)	(18.3)	(36.5)
Options	(61.7)	(28.1)	(14.5)	21.5	48.2

Forward	(15.9)	(8.2)	(1.8)	9.5	19.7
Swap	(31.2)	(16.7)	6.6	16.9	36.5
Embedded derivative	(4.2)	(2.1)	1.1	2.1	4.2
Total	(72.2)	(34.7)	(416.7)	29.6	67.8

	Increase (decrease) in fair value		Fair value (USD millions)	Increase (decrease) in fair value	
	(USD millions)	(USD millions)		(USD millions)	(USD millions)
CPI	Increase of 10%	Increase of 5%		Decrease of 5%	Decrease of 10%
Type of instrument					
Long-term deposits and loans	7.3	3.6	72.9	(3.6)	(7.3)
Credit from banks and others	(0.2)	(0.1)	(2.4)	0.1	0.2
Other payables	(0.1)	0.0	(0.7)	0.0	0.1
Long-term bank loans	(6.5)	(3.3)	(65.1)	3.3	6.5
Fixed-interest debentures	(13.6)	(6.8)	(136.2)	6.8	13.6
CPI/USD swap	4.8	2.4	6.7	(2.4)	(4.8)
Forward	5.7	2.8	(0.3)	(2.8)	(5.7)
Embedded derivative	4.8	2.4	7.7	(2.4)	(4.8)
Total	2.2	1.0	(117.4)	(1.0)	(2.2)

	Increase (decrease) in fair value		Fair value (USD millions)	Increase (decrease) in fair value	
	(USD millions)	(USD millions)		(USD millions)	(USD millions)
EUR/USD	Increase of 10%	Increase of 5%		Decrease of 5%	Decrease of 10%
Type of instrument					
Cash and cash equivalents	(5.3)	(2.7)	53.2	2.7	5.3
Short-term deposits and loans	(0.6)	(0.3)	6.3	0.3	0.6
Trade receivables	(29.3)	(14.6)	292.9	14.6	29.3
Receivables and debit balances	(0.1)	(0.1)	1.1	0.1	0.1
Long-term deposits and loans	(0.4)	(0.2)	3.8	0.2	0.4
Credit from banks and others	10.5	5.2	(104.6)	(5.2)	(10.5)
Trade payables	21.4	10.7	(214.4)	(10.7)	(21.4)
Other payables	8.6	4.3	(85.6)	(4.3)	(8.6)
Long-term bank loans	24.2	12.1	(242.0)	(12.1)	(24.2)
Options	11.3	5.2	6.3	(4.3)	(7.9)
Forward	17.0	8.1	0.2	(7.3)	(13.9)
Embedded derivative	(6.1)	(3.0)	4.2	3.0	6.1
Total	51.2	24.7	(278.6)	(23.0)	(44.7)

	Increase (decrease) in fair value		Fair value (USD millions)	Increase (decrease) in fair value	
	(USD millions)	(USD millions)		(USD millions)	(USD millions)
GBP/USD	Increase of 10%	Increase of 5%		Decrease of 5%	Decrease of 10%
Type of instrument					
Cash and cash equivalents	(0.2)	(0.1)	2.0	0.1	0.2
Short-term deposits and loans	(3.3)	(1.7)	33.3	1.7	3.3
Trade receivables	(3.7)	(1.9)	37.2	1.9	3.7
Receivables and debit balances	(0.3)	(0.2)	3.2	0.2	0.3
Credit from banks and others	0.8	0.4	(7.7)	(0.4)	(0.8)
Trade payables	1.9	0.9	(19.0)	(0.9)	(1.9)
Other payables	0.8	0.4	(8.4)	(0.4)	(0.8)
Forward	(4.5)	(2.1)	(1.3)	1.9	3.7
Total	(8.5)	(4.3)	39.3	4.1	7.7

	Increase (decrease) in fair value		Fair value (USD millions)	Increase (decrease) in fair value	
	(USD millions)	(USD millions)		(USD millions)	(USD millions)
JPY/USD	Increase of 10%	Increase of 5%		Decrease of 5%	Decrease of 10%
Type of instrument					
Cash and cash equivalents	(0.4)	(0.2)	4.3	0.2	0.4
Trade receivables	(2.2)	(1.1)	22.5	1.1	2.2

Receivables and debit balances	0.1	0.0	0.8	0.0	0.1
Long-term deposits and loans	0.0	0.0	0.2	0.0	0.0
Trade payables	0.5	0.2	(4.5)	(0.2)	(0.5)
Other payables	0.1	0.0	(0.8)	0.0	(0.1)
Long-term loans from banks	0.0	0.0	(0.1)	0.0	0.0
Options	1.4	0.6	0.0	(0.8)	0.0
Forward	1.3	0.7	0.0	(0.7)	(1.6)
Total	0.6	0.2	22.4	(0.4)	(1.6)

	Increase (decrease) in fair value		Fair value (USD millions)	Increase (decrease) in fair value	
	(USD millions)	(USD millions)		(USD millions)	(USD millions)
Type of instrument	Increase of 10%	Increase of 5%		Decrease of 5%	Decrease of 10%
Cash and cash equivalents	(0.3)	(0.1)	2.7	0.1	0.3
Trade receivables	(0.8)	(0.4)	7.9	0.4	0.8
Receivables and debit balances	(0.1)	0.0	0.8	0.0	0.1
Trade payables	0.6	0.3	(5.9)	(0.3)	(0.6)
Other payables	0.1	0.0	(0.6)	0.0	(0.1)
Total	(0.5)	(0.2)	4.9	0.2	0.5

	Increase (decrease) in fair value		Fair value (USD millions)	Increase (decrease) in fair value	
	(USD millions)	(USD millions)		(USD millions)	(USD millions)
Type of instrument	Increase of 10%	Increase of 5%		Decrease of 5%	Decrease of 10%
Cash and cash equivalents	(1.8)	(0.9)	17.7	0.9	1.8
Short-term deposits and loans	(0.3)	(0.1)	2.5	0.1	0.3
Trade receivables	(2.2)	(1.1)	22.4	1.1	2.2
Receivables and debit balances	(0.3)	(0.2)	3.4	0.2	0.3
Credit from banks and others	0.3	0.2	(3.1)	(0.2)	(0.3)
Trade payables	0.7	0.3	(7.0)	(0.3)	(0.7)
Other payables	0.6	0.3	(6.4)	(0.3)	(0.6)
Total	(3.0)	(1.5)	29.5	1.5	3.0

Update of sensitivity in instruments to hedge marine transportation and energy to changes in the prices of marine transportation and energy as at December 31, 2011.

	Increase (decrease) in fair value		Fair value (USD millions)	Increase (decrease) in fair value	
	(USD millions)	(USD millions)		(USD millions)	(USD millions)
Type of instrument	Increase of 10%	Increase of 5%		Decrease of 5%	Decrease of 10%
Marine transportation and energy	4.0	2.0	(14.7)	(2.0)	(4.0)

Update of sensitivity to changes in the LIBOR interest rate at December 31, 2011:

	Increase (decrease) in fair value		Fair value (USD millions)	Increase (decrease) in fair value	
	(USD millions)	(USD millions)		(USD millions)	(USD millions)
Type of instrument	Increase of 1%	Increase of 0.5%		Decrease of 0.5%	Decrease of 1%
Fixed-interest debentures	2.1	1.0	(93.7)	(1.1)	(2.1)
Collar transactions	3.9	1.9	(5.3)	(2.2)	(3.3)
Swap transactions	5.9	3.0	(11.4)	(3.1)	(6.0)
NIS/USD swap	4.4	2.2	(0.1)	(2.3)	(4.6)
Total	16.3	8.1	(110.5)	(8.7)	(16.0)

Update of sensitivity to changes in the index interest rate at December 31, 2011:

<u>Sensitivity to changes in the index interest rate</u>	Increase (decrease) in fair value		Fair value (USD millions)	Increase (decrease) in fair value	
	(USD millions)	(USD millions)		(USD millions)	(USD millions)
Type of instrument	Increase of 1%	Increase of 0.5%		Decrease of 0.5%	Decrease of 1%
Fixed-interest debentures	3.0	1.5	(136.2)	(1.5)	(3.1)
Long-term bank loans	3.6	1.9	(65.1)	(1.9)	(4.0)
CPI/USD swap	(1.0)	(0.5)	6.7	0.5	1.0
Total	5.6	2.9	(194.6)	(2.9)	(6.1)

Update of sensitivity to changes in the shekel interest rate at December 31, 2011:

<u>Sensitivity to changes in the shekel interest rate</u>	Increase (decrease) in fair value		Fair value (USD millions)	Increase (decrease) in fair value	
	(USD millions)	(USD millions)		(USD millions)	(USD millions)
Type of instrument	Increase of 1%	Increase of 0.5%		Decrease of 0.5%	Decrease of 1%
Fixed-interest debentures	3.4	1.7	(202.2)	(1.7)	(3.5)
NIS/USD swap	(6.3)	(3.2)	1.8	3.2	6.5
Total	(2.9)	(1.5)	(200.4)	1.5	3.0

Update of positions in derivatives at December 31, 2011

Hedging transactions against the effect of changes in exchange rates on cash flow USD 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 USD thousands				
Forward	153,186		188	
Call options	78,426		(658)	
Put options	79,593		6,933	
JPY/USD in USD thousands				
Forward	14,161		(16)	
Call options	30,500		345	
Put options	30,500		(381)	
NIS/USD in USD thousands				
Forward		177,938		(1,838)
Call options		631,355		(20,214)
Put options		647,305		5,752
GBP/USD in thousands				
Forward		40,185		(1,282)
GBP/EUR in USD thousands				
Forward	8,274		(81)	
Other currencies				
Forward	10,919		177	
Hedging transactions against rise in marine transportation and energy prices – up to one year				
	34,066		(12,200)	
Hedging transactions against rise in marine	13,954		(2,533)	

transportation and energy prices More than one year				
Swap contracts and futures contracts for the Company's liabilities				
Israeli fixed to variable interest swap contract		68,228		1,936
Fixed interest dollar liability to variable interest dollar liability swap contract from CPI-linked fixed interest liability		38,892		6,662
Fixed interest shekel to dollar liability fixed-interest swap contract from fixed-interest shekel liability – not recognized		91,782		1,274
Cash flow swap contract from fixed-interest shekel liability to fixed-interest dollar liability – recognized for accounting		178,553		(1,385)
Futures contract for CPI purchase – more than one year	52,342		(279)	

For the principal terms of the material derivative instruments used for financial hedging of foreign currency risk, see Note 28 E (2) (b) to the Financial Statements :

Interest-hedging transactions – for hedging against changes in variable interest rate (LIBOR) on dollar loans (in USD 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	25,000	20,000	336,262	48,000	(336)	399	(17,704)	6,287
Collars	50,000		170,000		(1,539)		(3,732)	

In swap transactions, the Company replaces the variable interest rate paid on loans received with fixed interest at rates between 2.5% and 4.3%. In cap and floor transactions, the Company fixes the float of variable interest loans in the range of 2.25% to 5.25%.

In 2009, the Company issued listed NIS 1.6 billion of debentures. Some of the series are denominated in shekels, some are linked to the CPI and bear fixed interest, and some are linked to the dollar (see section 5.3.2 in Chapter A of the Periodic Report – Description of the Corporation's Operations).

For the CPI-linked shekel liabilities, the Company made swap transactions in derivatives from shekel to dollar cash flows. In addition, the Company made transactions in derivatives to hedge most of the exposure to changes in the CPI.

In addition, during the third quarter of 2009 the Company invested in derivatives for hedging the exposure to changes in the cash flows of the expanded series 2 debentures, in respect of changes in the exchange rates of the shekel against the dollar. This hedging transaction was treated as accounting hedging in the financial statements. As a result of the accounting hedging, the Company charged some of the changes in the fair value of the derivatives (loss of USD 2.3 million) to a capital reserve.

None of the other hedging transactions made by the Company are treated as an accounting hedge in the financial statements.

10. Critical accounting estimates

Preparation of the financial statements in conformity with international accounting standards requires management to use estimates that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results might differ from these estimates.

The preparation of accounting estimates used in the preparation of the Company's financial statements requires management to make assumptions regarding circumstances and events that involve considerable uncertainty. In exercising its judgment when making the estimates, management relies on past experience, various facts, external factors and reasonable assumptions appropriate to the circumstances of each estimate.

The estimates and assumptions used in the preparation of financial statements are continuously reviewed. Revisions to accounting estimates are recognized as in the period in which the estimates are updated.

For additional information relating to the critical accounting estimates, see Note 2E to the financial statements.

11. Events subsequent to the balance sheet date

- 11.1. For details of dividend distribution in 2011 during the reporting period and after the balance sheet date, see section 2.4.2 of the Description of the Company's Business.
- 11.2. On January 4th, 2011, the worker's council of DSW decided to carry out sanctions which affected production activities in DSW plants and stopped the shipment of potash from Israel. For additional details see section 4.1.8 of the Description of the Company's Business.
- 11.3. On March 14th, 2011, a claim of the State of Israel against a subsidiary (DSW) was received, in the framework of the arbitration according to the Dead Sea Concession Law, 1961. In the claim, the Government demands in respect of royalties not paid for the years 2000 to 2009, as well as a demand to change the method of calculation of the royalties in respect of the sales of metal magnesium. For further details see Section 4.1.14 to the Description of the Company's Business
- 11.4. On January 1, 2012, the Israeli Government approved the Ministry of Finance proposal concerning a permanent solution for the level of the Dead Sea and the royalties that were approved by the Company's Board of Directors on December 28, 2011. On January 3, 2012, Adam Teva V'Din - Israel Union for Environmental Defense, and The Movement for Quality Government in Israel petitioned the High Court of Justice for an order nisi and interim injunction against the Government of Israel, Ministry of Finance and Dead Sea Works with respect to the Government's decision. The Court set a date for a hearing on May 23, 2012, and did not deem it necessary to issue an interim injunction as requested by the petitioners. For further information, see section 4.1.18 A to the chapter, Description of the Company's Business.
- 11.5. On January 26th, 2012, the Yam Tethys partnership announced that it was forced to reduce the quantity of gas supplied by it, because of the dilution of the gas in the well. For additional details, see section 4.1.18 E of the Description of the Company's Business.
- 11.6. For the proposed compromise to end the class action suit brought against a subsidiary in the Industrial Products sector, see Note 24C (3) (D) to the financial statements of the Company
- 11.7. On August 16, 2011, the Board of Directors of the Company approved, after approval by the Audit Committee, renewal of the purchase of policies for the insurance of directors and officers in the Company in accordance with the terms of the "framework decision", as approved by the Board of Directors and the Audit Committee of the Company on August 30, 2001 and amended in a resolution of the general meeting of the Company on November 20, 2008, as well as the how the premium will be divided between ICL and Israel Corporation Group for the joint layer. The cost of the joint layer coverage amounts to USD 220 million. See also the immediate report on August 7, 2011 (Ref. No.: 2011-01-243654).
- 11.8. On October 5, 2011, the Annual General Meeting of the shareholders of the Company approved, subsequent to the approval by the Audit Committee and the Board of Directors, inter alia, the following resolutions:
 - a. To appoint Mr. Ovadia Eli as a director of the Company to the end of the next Annual General Meeting.
 - b. To appoint Mr. Yaakov Dior as an external director in the Company for a three-year term of office commencing October 5, 2011.
 - c. To approve amendment of the Company's Articles of Association, inter alia, so as to add articles whose purpose is to adapt the provisions of the Articles of Association in the matter of indemnity and insurance to the Administrative Enforcement Proceedings Efficiency at the Securities Authority Law (Legislative Amendments), 2011 ("the Administrative Law").
 - d. To approve amendment of the notes for exemption from liability, insurance and undertaking to indemnify which were granted in the past by the Company, in accordance with the resolutions of the general meetings of the shareholders of the Company on November 25, 2011 and August 30, 2007 ("the Indemnity Notes"), for directors in the Company who are serving and will serve from time to time as officers in Israel Corporation, the controlling shareholder in the

Company, and for such directors who will serve in the Company from time to time (directors serving as officers in the controlling shareholder).

- e. To approve amendment of the Indemnity Notes granted in the past by the Company to officers in the Company (including directors), who are not directors serving as officers in the controlling shareholder, and to such officers who will serve in the Company from time to time.
- f. To approve the Company's engagement in an agreement for receipt of management services from Israel Corporation and/or from H.L. Management & Consulting (1986) Ltd.

For further information see the immediate report issued by the Company on October 6, 2011 (Ref. No.: 2011-01-294183).

- 11.9. On November 16, 2011 the Company's audit committee set the period during which the said liability exemption arrangements will be applicable and undertakings of indemnification which were and will be given, periodically, under the existing Company resolutions in this regard with respect to directors who currently serve and may serve, from time to time, as officers in Israel Corporation Ltd., the controlling shareholder of the Company and directors, as aforesaid, who may serve in the Company from time to time. The period set is for nine years commencing from the date of the resolution. See the immediate report issued by the Company on November 17, 2011 (Ref. No. 20096-01-330087).
- 11.10. On December 7 2011, Mr. Yossi Shachar, VP Business Development, gave notice of his intention to take earlier retirement after 37 years of service in the Company. His resignation date is March 31, 2012.
- 11.11. On January 5, 2012, the Company's CEO, Mr. Akiva Mozes, gave notice to the Company's board of directors, in coordination with the Company's Chair, Mr. Nir Gilad, that after 37 years with the Company, 13 of which as CEO, he wishes to resign from his position as CEO of the Company.

Mr. Mozes informed the board of directors that he has not set a date for his resignation in order to allow the Company's board sufficient time to find a replacement and for an overlap period. The resignation date will be coordinated between Mr. Mozes and the Company's board of directors. For further information see the immediate report issued by the Company on January 8, 2012 (Ref. No.: 2012-01-008841).

On March 4, 2012, the Company's board of directors resolved to establish a board of directors committee to find a new CEO. The committee will be chaired by Nir Gilad, the Chair of the board of directors of the Company and the members of the committee are Yossi Rosen and Yaakov Dior who is an external director. The committee members were selected, inter alia, because of their long standing familiarity with the Company and their vast experience in similar processes. Mr. Akiva Mozes was appointed to serve as an observer in the committee's discussions. The committee commenced its duties shortly after the board's decision and the first stage will be to set criteria for finding a CEO. In the second stage the committee will examine the suitability of the various candidates to the criteria it sets. The committee may use the assistance of external advisors for carrying out its duties.

- 11.12. On March 4, 2012, Mr. Natan Dreyfus, VP Finance of the Company, gave notice of his intention to resign after 18 years of service with the Company. The date of his resignation is April 30, 2012.
- 11.13. On March 4, 2012, the Company's board of directors resolved as follows:
 - To expand the authority of the CFO and Executive VP, CPA Avi Doitchman, to include strategy
 - to appoint Atty. Yakir Menashe, assistant CEO, as Vice President of Regulation and Enforcement;
 - to appoint Amir Benita, CPA, the Controller of ICL, as Vice President of Accounting;
 - to appoint Mr. Michael Hazan, CFO, as VP Finance;
 - to appoint Mr. Yehezkel Israel, VP Business Strategie and Developments in the Industrial Products segment, as Vice President of Business Development.
 - The four vice-presidents report to Mr. Doitchman.

12. Further Information

For further information pertaining to:

- A. Directors with accounting and financial expertise;
- B. Independent directors;
- C. Disclosure of proceedings for approval of the financial statements;
- D. Preparations made for applying the requirement to publish a statement concerning the effectiveness of the internal auditing on the financial statements and disclosures;
- E. Auditors' fees;
- F. Intern auditing of the Company;
- G. The Company's code of ethics;
- H. Internal compliance programs

See chapter on Ethical Code, Corporate Governance, Control Procedures and Internal Audit in ICL.

For details of the connection between the executive remuneration and the contribution to the Corporation, see regulation 21 in the Chapter, Additional Details.

For details of the tradeable debentures issued by the Corporation, see Section 5.3.2 to the Description of the Company's Business and notes 18 F and 28 F to the Financial Statements. For details of the corporation's credit rating, see Section 5.3.5 to the Description of the Company's Business and the immediate report of the Company from September 2nd, 2009 (Ref. No. 2009-01-221874.)

13. Social and community involvement of the ICL Group

In 2001, the board of directors of ICL formulated a strategic policy of involvement and investment in the society and the community. Accordingly, the yearly budget of donations to the community is approved. Each investment or donation is reviewed by the donations committee of the board of directors and joint operations teams of ICL and other companies in the Israel Corporation Group which promote joint social activities. ICL focuses its community involvement in the development areas of the Negev, in Dimona, Yerucham, Arad, Beer Sheba and the Bedouin settlements in the Negev, as well as in the North of Israel in Kiryat Ata and Isfiya – all areas where most of the employees live, whose welfare and that of the community is of special importance to ICL.

ICL focuses its activities on children and youth with handicaps, women and children at risk, populations in harsh socioeconomic conditions and populations in need and with special medical needs, as well as on education and excellence of pupils in the fields of chemistry, computing, young entrepreneurship and acquaintance with industry.

The total financial contributions of ICL in 2011 amounted to approximately NIS 18 million. This sum does not include the many volunteer hours donated by its employees.

For information relating to the ICL Group's social and community involvement see section 3.3.2 to the chapter Description of the Company's Business.

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

Date: March 26, 2012

Akiva Mozes, CEO

Nir Gilad, Chairman of the Board

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

Israel Chemicals Ltd.

**Consolidated Financial
Statements**

As at December 31, 2011

Consolidated Financial Statements as at December 31, 2011

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**Auditors' Report to the Shareholders of Israel Chemicals Ltd.
Regarding the Audit of Internal Control Components over Financial Reporting in accordance
with Paragraph 9B(c) of the Israeli Securities Regulations (Periodic and Immediate Reports),
1970**

We have audited internal control components over financial reporting of Israel Chemicals Ltd. and its subsidiaries (hereinafter together – “the Company”) as at December 31, 2011. These control components were determined as explained in the following paragraph. The Company’s Board of Directors and Management are responsible for maintaining effective internal control over financial reporting and for their assessment of the effectiveness of the Company’s internal control components over financial reporting accompanying the Periodic Report as at the above date. Our responsibility is to express an opinion on the Company’s internal control components over financial reporting based on our audit.

Internal control components over financial reporting audited by us were determined in accordance with Auditing Standard 104 of the Institute of Certified Public Accountants in Israel “Audit of Internal Control Components over Financial Reporting” (hereinafter – “Auditing Standard 104”). These components are:

(1) Entity level controls, including controls over the preparation and closure of the financial reporting process and information technology general controls; (2) Controls over sales – pricing and orders, invoicing and receipt of cash and revenue recognition; (3) Controls over purchasing – receipt of services, invoices and payments; (4) Treasury controls – bank reconciliations; (5) Inventory – control of quantities, slow-moving inventory and determination of the cost of the inventory (all these together will be referred to below as – “the Audited Control Components”).

We conducted our audit in accordance with Auditing Standard 104. This Standard requires us to plan and perform the audit in order to identify the Audited Control Components and to obtain reasonable assurance as to whether these control components were effectively implemented in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, identifying the Audited Control Components, assessing the risk that a material weakness exists in the Audited Control Components, and testing and evaluating the design and operating effectiveness of those control components based on the assessed risk. Our audit, regarding those control components, also included performing such other procedures as we considered necessary in the circumstances. Our audit related only to the Audited Control Components, as opposed to internal control over all significant processes related to the financial reporting and, therefore, our opinion refers solely to the Audited Control Components. In addition, our audit did not refer to mutual effects between the Audited Control Components and non-audited control components and, accordingly, our opinion does not take into account such possible effects. We believe that our audit provides a reasonable basis for our opinion in the context described above.

Because of its inherent limitations, internal control over financial reporting as a whole, and internal control components in particular, may not prevent or detect misstatements. Also, projections of any current evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company effectively maintained, in all material respects, the Audited Control Components as at December 31, 2011.

We have also audited, in accordance with generally accepted auditing standards in Israel, the Company’s consolidated financial statements as at December 31, 2011 and 2010 and for each of the three years, the last of which ended December 31, 2011 and our report dated March 26, 2012 expressed an unqualified opinion on those financial statements.

Somekh Chaikin
Certified Public Accountants (Isr.)
March 26, 2012



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Auditors' Report to the Shareholders of Israel Chemicals Ltd.

We have audited the accompanying consolidated statements of financial position of Israel Chemicals Ltd. (hereinafter – “the Company”) as at December 31, 2011 and 2010 and the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows, for each of the three years, the last one of which ended December 31, 2011. These financial statements are the responsibility of the Company’s Board of Directors and of its Management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards in Israel, including standards prescribed by the Auditors’ Regulations (Manner of Auditor’s Performance), 1973. These standards require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Company’s Board of Directors and Management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company and its subsidiaries as at December 31, 2011 and 2010, and their results of operations, the changes in the equity and their cash flows for each of the three years, the last one of which ended December 31, 2011, in accordance with International Financial Reporting Standards (IFRS) and in accordance with the Securities Regulations (Annual Financial Statements) – 2010.

We have also audited, in accordance with Auditing Standard 104 of the Institute of Certified Public Accountants in Israel “Audit of Internal Control Components over Financial Reporting”, components of the Company’s internal control over financial reporting as at December 31, 2011, and our report dated March 26, 2012 expressed an unqualified opinion regarding the effective maintenance of such components.

Somekh Chaikin
Certified Public Accountants (Isr.)

March 26, 2012

Consolidated Statements of Financial Position as at December 31

	Note	2011 US\$ thousands	2010 US\$ thousands
Current assets			
Cash and cash equivalents		268,199	400,914
Short-term investments, deposits and loans	6	206,048	493,201
Trade receivables	7	1,327,513	949,692
Other receivables, including derivatives instruments	8, 17, 28	181,531	*138,070
Income taxes refundable		48,703	27,171
Inventories	9	1,410,930	1,114,134
Total current assets		3,442,924	3,123,182
Non-current assets			
Investments in associated companies	10	29,404	28,124
Long-term deposits and receivables	13	270,732	205,580
Excess of assets over liabilities in respect of defined benefit plan	22	65,365	83,325
Long-term derivative instruments	17, 28	18,229	36,308
Non-current inventories	9	48,795	50,010
Deferred taxes, net	21	85,356	120,305
Property, plant and equipment	14	2,575,988	2,190,594
Intangible assets	15	746,305	543,779
Total non-current assets		3,840,174	3,258,025
Total assets		7,283,098	6,381,207

	Note	2011 US\$ thousands	2010 US\$ thousands
Current liabilities			
Credit from banks and others	18	367,148	53,017
Trade payables	19	665,028	521,258
Provisions	23	47,178	*48,100
Dividend payable		–	169,703
Other payables, including derivative instruments	17, 20, 28	629,385	625,369
Income taxes payable		44,784	41,427
Total current liabilities		1,753,523	1,458,874
Non-current liabilities			
Loans from banks and others	18	1,072,207	981,194
Debentures	18	485,470	528,728
Long-term derivative instruments	17, 28	27,037	24,070
Deferred taxes, net	21	180,826	99,105
Employee benefits	22	579,560	580,503
Provisions	23	79,581	67,503
Total non-current liabilities		2,424,681	2,281,103
Total liabilities		4,178,204	3,739,977
Equity			
	25		
Share capital		542,377	541,858
Share premium		94,798	90,675
Capital reserves		884	37,544
Retained earnings		2,698,856	2,210,143
Treasury shares		(260,113)	(260,113)
Total equity attributable to the equity holders of the Company		3,076,802	2,620,107
Non-controlling interests		28,092	21,123
Total equity		3,104,894	2,641,230
Total liabilities and equity		7,283,098	6,381,207

* Reclassified.

Nir Gilad
Chairman of the Board of
Directors

Akiva Mozes
Chief Executive
Officer

Avi Doitchman
Executive VP, CFO and Strategy

Approval date of the financial statements: March 26, 2012.

The accompanying notes are an integral part of these financial statements.

Consolidated Statements of Income for the Year Ended December 31

	Note	2011 US\$ thousands	2010 US\$ thousands	2009 US\$ thousands
Sales	27A	7,067,834	5,691,537	4,554,316
Cost of sales	27B	3,912,171	3,259,461	2,717,786
Gross profit		3,155,663	2,432,076	1,836,530
Selling, transportation and marketing expenses	27D	870,616	779,809	558,125
General and administrative expenses	27E	276,535	245,614	195,889
Research and development expenses, net	27C	72,195	64,064	53,823
Other expenses	27G	15,391	7,741	94,144
Other income	27G	(5,039)	(11,279)	(3,624)
Operating income		1,925,965	1,346,127	938,173
Financing expenses		104,191	85,604	83,424
Financing income		(41,933)	(32,422)	(89,539)
Financing (income) expenses, net	27F	62,258	53,182	(6,115)
Share in income (losses) of associated companies, net of tax	10B	8,001	2,478	(1,482)
Income before taxes on income		1,871,708	1,295,423	942,806
Taxes on income	21	348,692	266,806	168,492
Income for the year		1,523,016	1,028,617	774,314
Attributed to:				
Equity holders of the Company		1,511,821	1,024,740	770,420
Non-controlling interests		11,195	3,877	3,894
Income for the year		1,523,016	1,028,617	774,314
Earnings per share attributed to the equity holders of the Company:	29	U.S. dollar	U.S. dollar	U.S. dollar
Basic earnings per share		1.193	0.810	0.610
Fully diluted earnings per share		1.188	0.806	0.608

The accompanying notes are an integral part of these financial statements.

Consolidated Statements of Comprehensive Income for the Year Ended December 31

	<u>2011</u>	<u>2010</u>	<u>2009</u>
	<u>US\$ thousands</u>	<u>US\$ thousands</u>	<u>US\$ thousands</u>
Income for the year	1,523,016	1,028,617	774,314
Components of other comprehensive income			
Foreign currency translation differences with respect to foreign operations	(44,309)	(17,709)	26,510
Net change in fair value of financial assets available for sale	(3,756)	(3,324)	6,816
Actuarial gains (losses) from defined benefit plans	(41,460)	(23,463)	368
Change in fair value of derivatives used for hedging cash flows	(15)	(1,097)	(1,230)
Income tax on components of other comprehensive income	10,086	2,676	81
Other comprehensive income (loss) for the year, net of tax	(79,454)	(42,917)	32,545
Total comprehensive income for the year	1,443,562	985,700	806,859
Attributable to:			
Equity holders of the Company	1,432,743	981,660	804,954
Non-controlling interests	10,819	4,040	1,905
Total comprehensive income for the year	1,443,562	985,700	806,859

The accompanying notes are an integral part of these financial statements.

Consolidated Statements of Changes in Equity

	Attributable to equity holders of the Company							Non-controlling interests	Total equity	
	Share capital	Share premium	Translation reserve for foreign operations	Reserve for available for sale assets	Capital reserves	Treasury shares	Retained earnings			Total
	US\$ thousands									
Balance as at January 1, 2011	541,858	90,675	(9,049)	2,427	44,166	(260,113)	2,210,143	2,620,107	21,123	2,641,230
Sale of options granted to employees	519	4,123	-	-	(4,548)	-	-	94	-	94
Share-based payments	-	-	-	-	15,476	-	-	15,476	-	15,476
Dividends to equity holders	-	-	-	-	-	-	(961,330)	(961,330)	(1,169)	(962,499)
Tax benefit in respect of issuance of shares to employees	-	-	-	-	(1,070)	-	-	(1,070)	-	(1,070)
Acquisition of additional rights in subsidiary	-	-	-	-	-	-	(29,218)	(29,218)	-	(29,218)
Change in respect of options of proportionately consolidated company	-	-	-	-	-	-	-	-	(2,681)	(2,681)
Comprehensive income for the year	-	-	(43,933)	(2,427)	(158)	-	1,479,261	1,432,743	10,819	1,443,562
Balance as at December 31, 2011	542,377	94,798	(52,982)	-	53,866	(260,113)	2,698,856	3,076,802	28,092	3,104,894

The accompanying notes are an integral part of these financial statements.

Consolidated Statements of Changes in Equity (cont'd)

	Attributable to equity holders of the Company							Non-controlling interests	Total equity	
	Share capital	Share premium	Translation reserve for foreign operations	Reserve for available for sale assets	Capital reserves	Treasury shares	Retained earnings			Total
	US\$ thousands									
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
Sale of options granted to employees	830	6,616	-	-	(7,112)	-	-	334	-	334
Share-based payments	-	-	-	-	32,518	-	-	32,518	-	32,518
Dividends to equity holders	-	-	-	-	-	-	(1,167,954)	(1,167,954)	(3,788)	(1,171,742)
Tax benefit in respect of issuance of shares to employees	-	-	-	-	(211)	-	-	(211)	-	(211)
Change in respect of options of proportionately consolidated company	-	-	-	-	-	-	-	-	(218)	(218)
Comprehensive income for the year	-	-	(17,872)	(2,993)	(689)	-	1,003,214	981,660	4,040	985,700
Balance as at December 31, 2010	541,858	90,675	(9,049)	2,427	44,166	(260,113)	2,210,143	2,620,107	21,123	2,641,230

The accompanying notes are an integral part of these financial statements.

Consolidated Statements of Changes in Equity (cont'd)

	Attributable to equity holders of the Company							Non-controlling interests	Total equity	
	Share capital	Share premium	Translation reserve for foreign operations	Reserve for available for sale assets	Capital reserves	Treasury shares	Retained earnings			Total
	US\$ thousands									
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
Sale of options granted to employees	244	2,513	-	-	(2,757)	-	-	-	-	-
Self-acquisition of Company shares	-	-	-	-	-	(6,544)	-	(6,544)	-	(6,544)
Share-based payments	-	-	-	-	2,462	-	-	2,462	-	2,462
Dividends to equity holders	-	-	-	-	-	-	(549,037)	(549,037)	(2,488)	(551,525)
Tax benefit in respect of issuance of shares to employees	-	-	-	-	744	-	-	744	-	744
Change in respect of options of proportionately consolidated company	-	-	-	-	-	-	-	-	1,926	1,926
Investment of non-controlling interests in subsidiary	-	-	-	-	-	-	-	-	30,000	30,000
Acquisition of non-controlling interests 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	<u>541,028</u>	<u>84,059</u>	<u>8,823</u>	<u>5,420</u>	<u>19,660</u>	<u>(260,113)</u>	<u>2,374,883</u>	<u>2,773,760</u>	<u>21,089</u>	<u>2,794,849</u>

The accompanying notes are an integral part of these financial statements.

Consolidated Statements of Cash Flows for the Year Ended December 31

	2011	2010	2009
	US\$ thousands	US\$ thousands	US\$ thousands
Cash flows from operating activities			
Income for the year	1,523,016	1,028,617	774,314
Adjustments for:			
Depreciation and amortization	267,440	217,395	204,618
Impairment of property, plant and equipment	–	–	27,043
Interest expenses, net	27,992	36,313	20,368
Share in losses (income) of associated companies	(8,001)	(2,478)	1,482
Gain on sale of property, plant and equipment	(2,396)	(2,712)	(2,550)
Gain on securities classified as held for trading and available-for-sale	(4,535)	(3,244)	(150)
Share-based payment transactions	12,795	33,159	4,388
Revaluation of assets and liabilities denominated in foreign currency	(32,443)	13,394	17,455
Gain on sale of activities	–	(5,587)	–
Income tax expense	348,692	266,806	168,492
	<u>2,132,560</u>	<u>1,581,663</u>	<u>1,215,460</u>
Change in inventory	(221,818)	109,192	62,796
Change in trade and other receivables	(343,553)	*(37,405)	98,303
Change in trade and other payables	182,491	139,647	(100,893)
Change in provisions and employee benefits	(32,320)	*22,642	63,479
	<u>1,717,360</u>	<u>1,815,739</u>	<u>1,339,145</u>
Income tax paid	(422,083)	(240,449)	(111,893)
Interest received	23,699	9,527	5,360
Interest paid	(49,609)	(47,832)	(32,922)
Net cash provided by operating activities	<u>1,269,367</u>	<u>1,536,985</u>	<u>1,199,690</u>
Cash flows from investing activities			
Investment in long-term deposits	(2,147)	(11,009)	(4,605)
Proceeds from sale of property, plant and equipment	5,526	5,618	3,540
Short-term loans and deposits, net	269,067	(329,089)	(34,338)
Business combinations less cash acquired	(437,475)	–	(49,086)
Dividend received from associated companies	8,644	3,661	1,075
Acquisition of property, plant and equipment	(496,102)	(333,752)	(346,443)
Investment grants received	1,194	303	771
Acquisition of intangible assets	(17,983)	(14,944)	(19,556)
Sale of securities classified as available-for-sale	14,421	9,356	–
Proceeds from sale of activities	–	9,426	–
Loans and capital notes to associated companies	(1,617)	–	–
Proceeds from sale of long-term deposits	3,453	1,952	4,647
Net cash used in investing activities	<u>(653,019)</u>	<u>(658,478)</u>	<u>(443,995)</u>
Cash flows from financing activities			
Proceeds from exercise of options allotted to employees	94	334	–
Issuance of debentures	–	–	402,629
Dividend paid to Company's equity holders	(1,131,033)	(998,251)	(549,037)
Dividend paid to non-controlling interests	(1,169)	(3,788)	(2,488)
Receipt of long-term loans	969,174	676,043	24,166
Repayment of long-term loans	(888,068)	(376,451)	(276,499)
Acquisition by the Company of its own shares	–	–	(6,544)
Issuance of non-controlling interests in subsidiary	–	–	30,000
Short-term credit from banks and others, net	308,673	(28,446)	(335,931)
Net cash used in financing activities	<u>(742,329)</u>	<u>(730,559)</u>	<u>(713,704)</u>
Net increase (decrease) in cash and cash equivalents	<u>(125,981)</u>	<u>147,948</u>	<u>41,991</u>
Cash and cash equivalents as at beginning of the year	400,914	257,970	215,154
Effect of exchange rate fluctuations on cash and cash equivalents	(6,734)	(5,004)	825
Cash and cash equivalents as at end of the year	<u>268,199</u>	<u>400,914</u>	<u>257,970</u>

* Reclassified.

The accompanying notes are an integral part of these financial statements.

Notes to the Consolidated Financial Statements as at December 31, 2011

Note 1 - General**A. 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 address of the Company’s registered office is 23 Aranha St., Tel-Aviv, Israel. The Company 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 activity 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 peat mines in the United Kingdom, in accordance with 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.

ICL has a prominent status in the world markets for potash, bromine, clean phosphoric acid, specialty phosphates, flame retardants based on bromine and phosphorous and chemicals for prevention of the spreading of fires. Potash and phosphates are central source nutrients in the fertilizers’ area. The bromine serves for a wide variety of applications, primarily as a basic component of flame retardants. ICL’s products are used mainly in the areas of agriculture, electronics, food, fuel and gas exploration, water purification and desalination, detergents, paper, cosmetics, medicines, vehicles, aluminum and others. ICL has accumulated dozens of years of experience in most of its businesses.

ICL has direct access to most of the raw materials required for its operations, at low costs and high quality, by virtue of an exclusive concession it received from the State of Israel to mine minerals from the Israeli side of the Dead Sea in exchange for payment of royalties to the State.

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

The Company’s overseas operations consist mainly of the production of products that are integrated with or based on the activities of the companies in Israel or in closely related fields. About 95% of the Group’s products are sold to customers outside of Israel.

B. State share

The State of Israel holds a Special State Share in ICL and in some of its subsidiaries, entitling the State the right to safeguard its vital State interests (see Note 25(B)).

Notes to the Consolidated Financial Statements as at December 31, 2011

Note 1 - General (cont'd)

C. Definitions

1. International Financial Reporting Standards (hereinafter – IFRS) – Standards and interpretations that were adopted by the International Accounting Standards Board (IASB) and which include international financial reporting standards and international accounting standards (IAS) along with the interpretations to these standards of the International Financial Reporting Interpretations Committee (IFRIC) or interpretations of the Standing Interpretations Committee (SIC), respectively.
2. Subsidiary – a company over which the Company has control and the financial statements of which are consolidated as part of the consolidated financial statements.
3. Proportionately consolidated company – a company or partnership under common control, none of the shareholders of which holds exclusive control, the financial statements of which are consolidated with those of the Company by the proportionate consolidation method.
4. Associated company - a company which is not a subsidiary or a proportionately consolidated company, over whose financial and operational policy the Company exerts significant influence, the investment in which is presented by the equity method. Significant influence is deemed to exist when the holding percentage in the said company is 20% or more, unless there are circumstances that contradict this assumption.
5. Investee company a subsidiary – a proportionately consolidated company or an associated company.
6. Interested parties – within the meaning thereof in Paragraph 1 of the definition of an “interested party” in a company, in Section 1 of the Securities Law, 1968.
7. Related party – within the meaning thereof in IAS 24, “Related Parties”.
8. CPI – the Consumer Price Index as published by the Central Bureau of Statistics.
9. Dollar – US Dollar.

Note 2 - Basis of Preparation of the Financial Statements

A. Statement of compliance with International Financial Reporting Standards

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs). The Group adopted IFRSs for the first time in 2008, with the date of transition to IFRS being January 1, 2007 (hereinafter – “the date of transition”). The financial statements have been prepared in accordance with the Securities Regulations (Preparation of Annual Financial Statements), 2010.

The consolidated financial statements were approved for publishing by the Company’s Board of Directors on March 26, 2012.

B. Functional and presentation currency

The 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.

Notes to the Consolidated Financial Statements as at December 31, 2011

Note 2 - Basis of Preparation of the Financial Statements (cont'd)**C. Basis of measurement**

The consolidated financial statements have been prepared on the historical cost basis except for derivative financial instruments, securities held for trade and financial instruments classified as available for-sale that are stated at fair value.

Deferred tax assets and liabilities are provided for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The deferred taxes are measured at the tax rates expected to apply to the temporary differences when they reverse, based on the laws that have been enacted or effectively enacted as at the reporting date.

Provisions are recognized according to the best estimate at the end of the reporting period of the outflow required to settle the obligation presently. When the value of time is material, the future cash flows are discounted at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

For information regarding the measurement basis of assets and liabilities in respect of employee benefits – see Note 3J.

D. Operating cycle

The Company's regular operating cycle is one year. As a result, the current assets and the current liabilities include items the realization of which is intended and anticipated to take place within the Company's regular operating cycle.

E. Use of estimates and judgment

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

At the time of formulating the accounting estimates used in preparation of the Company's financial statements, Company Management is required to make assumptions regarding circumstances and events involving significant uncertainty. When using its judgment in determining the estimates, Company Management uses past experience, various facts, outside experts and reasonable assumptions in accordance with the circumstances appropriate to each estimate.

The estimates and the assumptions used for preparing the financial statements are reviewed continuously. Changes in accounting estimates are recognized in the period during which the estimate was revised and in all future periods affected.

Notes to the Consolidated Financial Statements as at December 31, 2011

Note 2 - Basis of Preparation of the Financial Statements (cont'd)**E. Use of estimates and judgment (cont'd)**

Presented hereunder is information with respect to critical estimates, made while implementing the accounting policies which have a material impact on the financial statements:

1. Employee benefits

According to International Standard IAS 19, some of the Group's employee benefit plans constitute a defined benefit plan as defined in IAS 19. Such plans include principally, liabilities for pension and severance benefits.

In computing the pension liability, the Company uses various assessments. These assessments include, among other things, the interest rate for discounting the Company's pension liability, the return expected in the long-term on the pension fund assets, assessments regarding the long-term increase in wages and an assessment of the life expectancy of the group of employees entitled to a pension. The assessment of the interest rate for the purpose of discounting the Company's liability for pension is based on the return on bonds of corporations operating in countries where an active market exists for corporate bonds, and on the return on government bonds for companies operating in countries where there is no active market for corporate bonds. The rate of return on long-term bonds changes according to market conditions. As a result the discount rate will also change as will the pension liability. The assessment of the long-term return on the pension fund's assets is based on the rate of return expected from the assets' portfolio over the long-term, in accordance with the composition of the pension fund's assets. Changes in the conditions in the capital market or in the composition of the pension fund's asset portfolio may bring about a change in the assessment of the return on the fund's assets and accordingly to a change in the pension fund. The assessment regarding the increase in wages is based on the Company's forecasts in accordance with past experience and existing labor agreements. Such assessments may be different than the actual wage increases. The life expectancy assessment is based on actuarial research published in each country. This research is updated every several years, and accordingly the life expectancy assessment may be updated.

Measurement of the liability for severance pay is based upon an actuarial assessment, which takes into account various assessments, among others, the future increase in employee wages and the rate of employee turnover. Measurement is made on the basis of discounting the expected future cash flows according to the interest rate of high ranking government bonds. In addition, the severance pay deposits are measured according to their fair value. Changes in the assumptions used for the calculation of the liability for severance pay and the related plan assets for severance pay could increase or decrease the net liability for severance pay recognized.

2. Environmental and contingent liabilities

The Israel Chemicals Group produces fertilizers and chemical products and therefore is exposed in its ordinary course of business to obligations and commitments under environmental and related laws and regulations. The Israel Chemicals Group invests significant amounts in order to comply with the requirements of the law. The Company recognizes a liability in its books when such liability is expected, is derived from a liability event that occurred in the past and can be reliably measured. Assessment of the liability is based mostly on past experience, familiarity with the legal requirements concerning the areas of operation of the Company, as well as assessments regarding contingent claims existing against the Company based on opinions of legal advisors and other experts. As explained in Note 24 to the financial statements, a number of lawsuits are pending against the Company, the results of which may have an impact on its results.

Notes to the Consolidated Financial Statements as at December 31, 2011

Note 2 - Basis of Preparation of the Financial Statements (cont'd)**E. Use of estimates and judgment (cont'd)**2. Environmental and contingent liabilities (cont'd)

When assessing the possible outcomes of legal claims that were filed against the Company and its investee companies, the companies relied on the opinions of their legal counsel. The opinions of their legal counsel are based on the best of their professional judgment, and take into consideration the current stage of the proceedings and the legal experience accumulated with respect to the various matters. As the results of the claims will ultimately be determined by the courts or as part of a compromise, they may be different from such estimates.

3. Property, plant and equipment

Property, plant and equipment items are depreciated using the straight-line method over their estimated useful lives.

Every period, the Company examines the estimated useful lives of the property, plant and equipment by means of a comparison to the sector in which the Group operates, the level of upkeep of the facilities and the performance of the facilities over the years. Changes in these estimates in succeeding periods could increase or decrease the rate of depreciation of the facilities.

4. Impairment of assets

The Company examines at every reporting date where there have been events or changes in circumstances indicating that there has been an impairment of one or more non-monetary assets. When there are indications of impairment, an examination is made as to whether the carrying amount of the investment can be recovered from the discounted cash flows anticipated to be derived from the asset, and if necessary, it records an impairment provision up to the amount of the recoverable value. Assessment of the impairment of goodwill and of other intangible assets having an indeterminable lifespan is performed once a year or more frequently when indications of impairment exist.

The recoverable value of the asset or the cash-producing unit is determined based on the higher of the fair value of the asset less selling expenses and the present value of the future cash flows expected from the continued use of the asset in its existing state, including the cash flows expected upon removing the asset from service and its eventual sale (value in use).

The future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. The estimates regarding cash flows are based on past experience with respect to this asset or similar assets, and on the Company's best assessments regarding the economic conditions that will exist during the asset's remaining useful life. With respect to a provision for impairment for property, plant and equipment in prior periods – see Note 16B of the financial statements.

The estimates of the future cash flows are based on the Company's forecasts. Since the actual cash flows could be different than the Company's forecasts, the amount of the realizable value determined in the examination of impairment in value may change in succeeding periods, such that in the future an additional reduction of the value of the assets may be required or elimination of the reduction recorded in prior periods.

Notes to the Consolidated Financial Statements as at December 31, 2011

Note 2 - Basis of Preparation of the Financial Statements (cont'd)**E. Use of estimates and judgment (cont'd)**5. Business combinations

The Company is required to allocate the cost of acquiring companies and operations in business combinations on the basis of the estimated fair value of the assets and liabilities acquired. The Company uses the valuations of external independent appraisers and internal valuations for purposes of determining the fair value. The valuations include assessments and estimates of Management concerning expected cash-flow forecasts from the acquired business, and models for calculating the fair value of the acquired items and their depreciation period. Management's estimate has an impact on the balance of assets and liabilities acquired and the depreciation and amortization in the statement of income. Management's estimates of the forecasted cash flows and useful lives of the acquired assets may differ from the actual results.

6. Taxes on Income

The Company and the Group companies are assessed for income tax purposes in many jurisdictions and, therefore, Company Management is required to exercise considerable judgment in order to determine the aggregate provision for taxes. The deferred taxes are computed according to tax rates expected to apply when the timing differences are realized, as stated in Note 30. The tax rate expected to apply upon the realization of the timing differences applying to Approved Enterprises in Israel entitled to tax benefits is based on forecasts of future revenues to be earned by such Approved Enterprises in proportion to the Company total revenues. Changes in these assessments could lead to changes in the book value of these tax assets, tax liabilities and the results of operations.

On December 29, 2010, the Knesset passed the Economic Policy Law for 2011-2012, wherein the Law for Encouragement of Capital Investments was amended. As part of the amendment, new tax tracks were determined providing a uniform and reduced tax rate to all the Company's revenues entitled to benefits. The amendment to the law does not apply to an industrial plant that is a mine or a quarrying plant.

The balance of the deferred taxes as at December 31, 2011 was not adjusted as a result of the amendment to the Encouragement Law.

As at the approval date of the financial statements, the Company is examining which Group companies operating in Israel may utilize the tax benefits provided by the new law.

The balance of the deferred taxes for these companies will be adjusted in successive periods.

7. Inventories

Inventory is measured in the financial statements at the lower of cost and net realizable value. The net realizable value is an estimate of the selling price during the ordinary course of business, less the estimate of the cost of completion and the estimate of the costs needed for effecting the sale. The selling price is estimated on the basis of the selling price expected at the time of realization of the inventory; a decrease in the expected selling price could cause a decrease in the book value of the inventory and the results of operations accordingly. Raw materials are written down to realizable value only when the finished products in which they are included are expected to be sold at prices below cost. The realizable value of raw materials is based on the realizable values of the finished goods in which they are included.

Notes to the Consolidated Financial Statements as at December 31, 2011

Note 2 - Basis of Preparation of the Financial Statements (cont'd)**E. Use of estimates and judgment (cont'd)**7. Inventories (cont'd)

In cases where the replacement value of raw materials serves as the best available evidence for realizable value, the measurement of realizable value is based on the replacement price. A decline in the expected replacement value could give rise to a decline in the value of the inventory of raw materials in the books and the results of operations, respectively.

Part of the raw materials, work in process and finished goods are in bulk. The quantities are based on estimates made, for the most part, by outside experts who measure the volume and density of the inventory. Variances in the estimates used in determining the assessments may cause a change in the value of the inventory in the books.

Note 3 - Significant Accounting Policies

The accounting policies in accordance with IFRS have been implemented by the Group companies.

A. Basis for Consolidation1. Subsidiaries

Subsidiaries are entities that are controlled by the Group. Control exists when the Group has the ability to determine the financial and operational policy of the entity in order to derive benefit from its activities. When examining control, account is taken of potential voting rights that may be exercised immediately. The financial statements of the subsidiaries are included in the consolidated financial statements from the date control was acquired until the date control ceases to exist.

2. Associated companies

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

Notes to the Consolidated Financial Statements as at December 31, 2011

Note 3 - Significant Accounting Policies (cont'd)**A. Basis for Consolidation (cont'd)**3. Jointly controlled entities

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

4. Intercompany balances and transactions eliminated in the consolidation

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

5. Non-controlling interests

The non-controlling interests represent the interest in the net assets of subsidiaries that are allocated to rights not owned by the Company, whether directly or indirectly through subsidiaries. The non-controlling interests are presented in the consolidated statement of financial position in the equity section, separate from the equity attributable to the Company's shareholders. The share of the non-controlling interests in the Group's results are presented in the consolidated statement of income as an allocation of the total income or loss for the period between the non-controlling interests and the Company's shareholders.

Transactions with non-controlling interests where control is retained, are accounted for as an equity transaction. Every difference between the consideration paid and the change in the non-controlling interests is recorded to the share of the Company's equity holders directly to the retained earnings.

6. Business combinations

The Group implements the "acquisition method" for all business combinations. The acquisition date is the date on which the acquiring entity obtains control over the acquired entity.

The Group recognizes goodwill as at the acquisition date based on the fair value of the consideration paid less the net amount attributed in the acquisition to the identifiable assets acquired and the liabilities undertaken. The consideration paid includes the fair value of contingent consideration. Subsequent to the acquisition date, the Group recognizes changes in the fair value of the contingent consideration in the statement of income.

Costs related to the acquisition incurred by the purchaser in respect of the acquisition such as: brokers' commissions, consultants' commissions, legal fees and valuations, are recorded as an expense in the period the services are received.

Notes to the Consolidated Financial Statements as at December 31, 2011

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

Transactions in foreign currency are translated into the Group's functional currency based on the exchange rate in effect on the dates of the transactions. Monetary assets and liabilities denominated in foreign currency on the report date are translated into the Group's functional currency based on the exchange rate in effect on that date. Exchange rate differences in respect of monetary items is the difference between the net book value in the functional currency at the beginning of the period plus the payments during the period and the net book value in foreign currency translated based on the rate of exchange at the end of the period. Exchange rate differences deriving from translation into the functional currency are recognized in the statement of income, except for differences deriving from translation of non-monetary equity instruments classified as "available for sale" or cash flow hedges in respect of the effective part, which are recognized in other comprehensive income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate in effect on the date of the transaction.

2. Foreign activities

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

Exchange rate differences in respect of the translation are recorded in other comprehensive income commencing from January 1, 2007, the transition date to IFRS, as part of the reserve for translation of foreign activities. When a foreign activity is realized that causes a loss of control, the accumulated amount in the translation reserve of foreign activities is transferred to the income statement as part of the gain or loss on realization of the investment.

Gains and losses from exchange rate differences deriving from loans received from or granted to foreign activities, the settlement of which is not planned and is not expected to take place in the foreseeable future, are included as part of the net investment in the foreign activities and are recognized in other comprehensive income in a reserve for translation of foreign activities.

C. Financial Instruments1. Non-derivative financial instruments

Non-derivative financial instruments include investments in shares and debt instruments, including a financial asset as part of concession arrangements, trade and other receivables, cash and cash equivalents, loans and credit received, and trade and other payables.

The initial recognition of non-derivative financial instruments is according to fair value, with the addition of, for instruments not presented at fair value through the statement of income, all related direct transaction costs.

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

Notes to the Consolidated Financial Statements as at December 31, 2011

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

A financial asset and a financial liability are offset and the amounts are presented on a net basis in the statement of financial position where the Group has a currently enforceable legal right to offset the amounts recognized and the intention is to settle the asset and liability on a net basis or to realize the asset and settle the liability concurrently.

Cash and cash equivalents

Cash includes cash balances that are available for immediate use and deposits at call. Cash equivalents include short-term investments, where the period of time from the original deposit and up to the redemption date is up to three months, having high liquidity that can be easily converted into known amounts of cash and that are subject to an insignificant risk in connection with changes in value.

Financial assets available for sale

After the initial recognition, these investments are measured based on fair value, where the changes therein, except for losses from impairment and gains or losses from changes in the exchange rate, are recorded directly in other comprehensive income and presented in the reserve for assets available for sale. A dividend received in respect of financial assets available for sale is recorded in the statement of income at the time of entitlement to the payment. When the investment is eliminated, the gains or losses accumulated in equity are transferred to the statement of income.

Loans and receivables

Loans and receivables are non-derivative financial instruments having fixed payments or payments that can be fixed that are not traded on an active market. After the initial recognition, the loans and debit balances are measured based on amortized cost using the effective interest rate method while taking into account transaction costs and net of a provision for impairment.

2. Derivative financial instruments

The Group holds derivative financial instruments for the purpose of economic (non-accounting) hedging against foreign currency risks, risks with respect to commodity risks and interest risks. The Company also holds derivative financial instruments for hedging exposure to changes in the cash flows from debt instruments issued, for purposes of an accounting hedge.

Derivatives are initially recognized according to fair value and the attributable transaction costs are recorded in the statement of income as incurred. After the initial recognition, the derivatives are re-measured at fair value, where the changes in the fair value are recorded in the statement of income, except for derivatives used to hedge cash flows, as detailed below.

Cash flow hedges

At the time of the initial designation of the accounting hedge, the Group formally documents the relationship between the hedging instrument(s) and hedged item(s), including the Group's risk management objectives and strategy in undertaking the hedge transaction, together with the methods that will be used to assess the effectiveness of the hedging relationship.

Notes to the Consolidated Financial Statements as at December 31, 2011

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

The Group makes an assessment, both at the inception of the hedge relationship as well as on an ongoing basis, whether the hedging instruments are expected to be “highly effective” in offsetting the changes in the fair value or cash flows of the respective hedged items during the period for which the hedge is designated, and whether the actual results of each hedge are within a range of 80-125 percent.

Regarding a cash flow hedge, a forecasted transaction that constitutes a hedged item must be highly probable and give rise to exposure to changes in cash flows that could ultimately affect profit or loss.

Changes in the fair value of derivatives used to hedge cash flows, in respect of the effective portion of the hedge, are recorded through other comprehensive income directly in a hedging reserve, to the extent that the hedge is effective. With respect to the non-effective part, changes in the fair value are recognized in the statement of income. The amount accumulated in the hedging reserve is removed and included in the statement of income in the same period as the hedged cash flows affect profit or loss under the same line item in the statement of income as the hedged item.

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, then hedge accounting is discontinued. The cumulative gain or loss previously recognized through other comprehensive income and presented in the hedging reserve in equity remains there until the forecasted transaction occurs or is no longer expected to occur. If the forecasted transaction is no longer expected to occur, then the cumulative gain or loss previously recognized in the hedging reserve is recognized immediately in profit or loss.

Economic hedge that does not meet the conditions of an accounting hedge

Changes in the fair value of derivatives that do not meet the conditions of an accounting hedge in accordance with IFRS, after the date of the initial recognition thereof, are recorded in the statement of income as financing income or expenses.

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

The value of index-linked financial assets and liabilities, which are not measured based on fair value, are revalued every period in accordance with the actual rate of increase in the CPI.

Notes to the Consolidated Financial Statements as at December 31, 2011

Note 3 - Significant Accounting Policies (cont'd)**D. Property, plant and equipment****1. Recognition and measurement**

Property, plant and equipment are presented at cost after deducting the related amounts of investment grants and less accumulated depreciation and provision for impairment.

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

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

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

Changes in a commitment to dismantle and remove items and to restore their location, except for changes stemming from the passage of time, are added to or deducted from the cost of the asset in the period in which they occur.

Gains and losses on disposal of a property, plant or equipment item are determined by comparing the proceeds from disposal with the carrying amount of the asset, and are recognized net in the income statement in the "other income" or "other expenses" category, as applicable.

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

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

3. Depreciation

Depreciation of an item of property, plant and equipment begins when it is available for use, that is, when it has reached the place and condition required in order that it can be used in the manner contemplated for it by Management.

Depreciation is recorded in the statement of income according to the straight-line method over the estimated useful life of each significant component of the property, plant and equipment items. Leased assets are depreciated over the shorter of the lease period or the useful life of the asset. Owned land is not depreciated.

Notes to the Consolidated Financial Statements as at December 31, 2011

Note 3 - Significant Accounting Policies (cont'd)

D. Property, plant and equipment (cont'd)

3. Depreciation (cont'd)

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

	<u>In Years</u>
Land development, roads and structures	10–30
Facilities, machinery and equipment	8–25
Dams and ponds	6–25
Heavy mechanical equipment, train cars and tanks	5–10
Office furniture and equipment, motor vehicles, computer equipment and other	3–20

E. Intangible Assets

1. Goodwill

Goodwill is created as a result of acquisition of subsidiaries or proportionately consolidated companies. Acquisition of non-controlling interests are transactions with equity holders and goodwill is not recognized on such acquisition.

Acquisitions before January 1, 2007

Regarding business combination transactions, acquisitions of jointly-controlled companies, and acquisitions of non-controlling interests that occurred before January 1, 2007, the goodwill reflects the amount recognized by the Group, in accordance with accounting principles that were generally accepted in Israel. For these acquisitions, the classification and accounting treatment was not adjusted to IFRS.

Acquisitions after January 1, 2007

Regarding acquisitions after January 1, 2007, the goodwill reflects the excess of the acquisition cost over the Group's rights in the net fair value of the identified assets, liabilities and contingent liabilities of the acquired entity.

Subsequent measurement

Goodwill is measured according to cost after deduction of accumulated losses from impairment.

2. Research and development

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

Development activities relate to a plan for the production of products or new processes or significant improvement of existing products and processes. Costs of development activities are recognized as an intangible asset only if it is possible to reliably measure the development costs; it is technically and commercially possible to implement the product or process; future economic benefit is expected from the product and the Group has intentions and sufficient resources to complete development of the asset and then use it or sell it. The costs recognized as an intangible asset include the cost of materials, direct payroll and overhead expenses, which may be directly attributed to the preparation of the asset for its intended use. Other costs in respect of development activities are charged to the income statement as incurred.

Notes to the Consolidated Financial Statements as at December 31, 2011

Note 3 - Significant Accounting Policies (cont'd)

E. Intangible Assets (cont'd)

2. Research and development (cont'd)

Capitalized development costs are measured at cost less accumulated amortization and impairment.

3. Costs of exploration and evaluation of resources

Costs incurred in respect of exploration of resources and the evaluation thereof are recognized as intangible assets. The expenditures are recognized on the cost basis less a provision for impairment.

The cost includes, among other things, costs of performing research studies, drilling costs and activities in connection with assessing the technical feasibility with respect to the commercial viability of extracting the resources.

4. Other intangible assets

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

Intangible assets with indefinite useful lives are measured according to cost less accumulated losses from impairment.

5. Subsequent costs

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

6. Amortization

Amortization is recorded in the statement of income according to the straight-line method from the date the assets are available for sale, over the estimated useful economic life of the intangible assets, except for agreements with customers and geological surveys, which are amortized according to the rate of consumption of the economic benefits expected from the asset on the basis of cash flow forecasts. Goodwill and intangible assets having an indefinite lifespan are not amortized on a systematic basis but, rather, are examined at least once a year for purposes of impairment in value.

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

	<u>In Years</u>
Concessions – over the balance of the concession granted to the companies	
Software costs	3–10
Trademarks	5–30
Agreements with customers	15–25
Agreements with suppliers	5
Patents	7–20
Non-competition agreement	5

Deferred expenses in respect of geological surveys are amortized over their useful life based on a geological estimate of the amount of the material that will be produced from the mining site.

Notes to the Consolidated Financial Statements as at December 31, 2011

Note 3 - Significant Accounting Policies (cont'd)**E. Intangible Assets (cont'd)**6. Amortization (cont'd)

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

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

F. Leased Assets

Leases, where the Group assumes substantially all the risks and rewards of ownership are classified as financing leases. Upon initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are classified as operating leases where the leased assets are not recognized in the Group's statement of financial position. Payments under an operating lease are recorded in the statement of income on the straight-line method, over the period of the lease.

G. Inventories

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

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

Inventory the sale of which is expected to take place in a period of more than 12 months from the date of the report is presented as non-current inventory, as part of non-current assets.

H. Capitalization of Borrowing Costs

Borrowing costs are capitalized to qualifying assets (assets that require a significant period of time to prepare them for their intended use or sale) during the period required for completion and establishment until the time when they are ready for their intended use. Non-specific borrowing costs are capitalized to the investment in qualifying assets using an interest rate that is the weighted-average of the cost rates in respect of those same credit sources that were not capitalized specifically. Other borrowing costs are charged to the statement of income as incurred.

Notes to the Consolidated Financial Statements as at December 31, 2011

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

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

Objective evidence that financial assets have been impaired can include a contractual default by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, or the disappearance of an active market for a security.

As part of the examination of impairment of “available for sale” financial assets that constitute equity instruments, the Company also examines the difference between the fair value of the asset and its original cost, while taking into account the volatility of the instrument and the length of time the asset’s fair value is lower than its original cost.

The loss from impairment in the value of a financial asset measured according to depreciated cost is calculated as the difference between the book value of the asset and the present value of the estimated future cash flows, discounted using the original effective interest rate. A loss from impairment of a financial asset classified as “available for sale” is calculated based on the asset’s present fair value. For material financial assets, the need to reduce the value of the asset is examined for each asset individually.

Losses from impairment in value, except for losses relating to a financial asset classified as “available for sale”, are recorded in the statement of income. The cumulative loss relating to a financial asset classified as “available for sale” that was previously recorded in equity, is transferred to the statement of income when there is a significant or continuing decline in the fair value below the original cost.

The Group examines evidence of impairment for receivables and loans on a specific basis.

An impairment loss is cancelled if the cancellation can be related objectively to an event occurring after the impairment loss was recognized. Cancellation of an impairment loss for financial assets is recorded in the statement of income, except for cancellation of an impairment loss for financial assets classified as “available-for-sale” that are equity instruments, which are recognized directly in other comprehensive income.

2. Non-financial assets

The book value of the Group’s non-financial assets, other than inventory and deferred tax assets is examined in each reporting period in order to determine if there are signs indicating an impairment in value. If such signs exist, the estimated recoverable amount of the asset is calculated. The Group conducts an annual examination of the recoverable amount of goodwill and intangible assets with indefinite useful lives or that are not available for use, or more frequently if there are indications of impairment.

Notes to the Consolidated Financial Statements as at December 31, 2011

Note 3 - Significant Accounting Policies (cont'd)

- I. Impairment (cont'd)**
2. Non-financial assets (cont'd)

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

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

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

J. Employee Benefits

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

1. Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which the Group pays fixed contributions into a separate entity and has no legal or constructive obligation to pay further amounts if the fund does not have sufficient assets to pay all the employee benefits relating to the employee's service in the current and prior periods.

The Group's obligation to make deposits in a defined contribution plan is recorded as an expense in the statement of income in the periods during which the employees provided the services.

Notes to the Consolidated Financial Statements as at December 31, 2011

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

Defined benefit plans are retirement benefit plans that are not defined contribution plans.

The Group's net obligation, regarding defined benefit plans for post-employment benefits, is calculated for each plan separately by estimating the future amount of the benefit to which an employee will be entitled as compensation for his services during the current and past periods. The benefit is presented according to present value after deducting the fair value of the plan assets. The discount rate for the Group companies operating in countries having a market wherein there is a high level of trading in corporate bonds is in accordance with the yield on the corporate bonds. The discount rate for the Group companies operating in countries not having a market wherein there is a high level of trading in corporate bonds, including Israel, as stated above, is in accordance with the yield on government bonds – the currency and redemption date of which are similar to the terms binding the Group. The calculations are performed by a licensed actuary using the "predicted eligibility unit" method.

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

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

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

The movement in the net liability in respect of a defined benefit plan recognized in every accounting period in the statement of income is comprised of the following:

- (i) Current service costs – the increase in the present value of the liability deriving from employees' service in the current period;
- (ii) Current interest costs – the increase in the present value of the liability deriving from the passage of time;
- (iii) Anticipated yield on the Fund's assets;
- (iv) Exchange rate differences; and
- (v) Past service costs and plan reduction – the change in the present value of the liability in the current period as a result of a change in post-employment benefits attributed to prior periods.

The difference, as at the date of the report, between the net liability as at the beginning of the period plus the movement in profit and loss as detailed above, and the actuarial liability less the fair value of the fund assets at the end of the period, reflects the balance of the actuarial income or expenses recognized in other comprehensive income and is recorded in retained earnings.

Notes to the Consolidated Financial Statements as at December 31, 2011

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

Present service costs are recognized in the statement of income as part of the cost of the employees' wages.

The current interest costs and expected return on plan assets are recognized as expenses and interest income in the respective financing category.

3. Other long-term employee benefits

Some of the Company's employees are entitled to other long-term benefits that do not relate to a post-retirement benefit plan.

Actuarial gains and losses are recorded directly to the statement of income in the period in which they arise.

In cases where the amount of the benefit is the same for every employee, without taking into account the years of service, the cost of the benefit is recognized when the benefit is actually provided. The amount of these benefits is discounted to its present value in accordance with the actuarial evaluation method.

4. Early retirement pay

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

5. Short-term benefits

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

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

6. Share-based payment transactions

The fair value on the grant date of share-based payment awards granted to employees is recognized as a salary expense, with a corresponding increase in equity, over the period that the employees become unconditionally entitled to the awards. The amount recognized as an expense in respect of share-based payment awards that are conditional upon meeting service and non-market performance conditions, is adjusted to reflect the number of awards that are expected to vest.

Notes to the Consolidated Financial Statements as at December 31, 2011

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

A provision is recognized when the Group has a present legal or implied obligation as the result of an event that occurred in the past, that can be reliably estimated and when it is expected that a flow of economic benefits will be required in order to settle the obligation. The provisions are made by means of discounting of the future cash flows at a pre-tax interest rate reflecting the current market estimates of the time value of money and the risks specific to the liability. The book value of the provision is adjusted in every period in order to reflect the amount of time that has elapsed and is recognized as financing expenses. In rare cases where it is not possible to estimate the outcome of a potential liability, no provision is recorded in the financial statements.

1. Warranty

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

2. Restructuring

A provision for restructuring is recognized when the Group approves a formal detailed plan for the restructuring and such restructuring has effectively begun or where a notification in respect thereof has been given to the employees. The provision includes the direct expenses deriving from the restructuring, which are necessarily involved in the restructuring and which are not attributed to the Group's continuing operations.

3. Provision for environmental costs

The Group recognizes a provision for an existing obligation for prevention of environmental pollution and anticipated provisions for costs relating to environmental restoration stemming from current or past activities.

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

4. Legal claims

A provision for legal claims is recognized when the Group has an express or implied legal obligation as a result of an event that occurred in the past, if it is more likely than not that an outflow of economic resources will be required to settle the obligation and it can be reliably estimated. Where the time value is significant, the provision is measured based on its present value.

Notes to the Consolidated Financial Statements as at December 31, 2011

Note 3 - Significant Accounting Policies (cont'd)**L. Revenue Recognition**1. Sale of goods

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

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

2. Construction contracts

Revenues and expenses from construction contracts are recorded in the statement of income, in proportion to the percentage of completion of the contract, where it is possible to reliably estimate its results. Revenues from a construction contract include the original amount included in the contract plus amounts relating to changes in the work order, claims and incentives, provided income is expected and it can be reliably measured. The contract costs are recognized as they are incurred, except where they create an asset relating to future activities provided in the contract.

The percentage of completion of the contract is determined based on the percentage of the contract costs incurred in respect of the work performed from the total estimated contract costs. When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognized only to the extent of contract costs incurred that are likely to be recoverable. An expected loss on a contract is recognized immediately in the statement of income.

3. Concession arrangements

Income from provision of operating services or income from provision of other services is recognized in the period in which the services are provided by the Group. Where the Group provides more than one type of service in accordance with a concession agreement, the consideration received is allocated proportionally, in accordance with the fair value of the services provided.

As part of concession agreements for provision of services with governmental entities for construction and operation of water desalination facilities in exchange for fixed and variable payments, the Group recognizes a financial asset in the financial statements from the date of commencement of construction of the facilities. The financial asset reflects the unconditional payments to be received in the future from the government and it bears interest that is determined based on the customer's risk-free interest rate plus a premium reflecting the appropriate risk.

Notes to the Consolidated Financial Statements as at December 31, 2011

Note 3 - Significant Accounting Policies (cont'd)**L. Revenue Recognition (cont'd)**

The facility's operating and maintenance costs are recorded on the statement of income as incurred. The operating revenues were calculated based on the amount of the expenses recorded on the statement of income plus a fixed margin.

M. Treasury stock

Where share capital recognized as equity has been reacquired by the Group, the amount of the consideration paid including direct expenses, is deducted from equity.

N. Financing Income and Expenses

Financing income includes income from interest on amounts invested (including financial assets available for sale), gains from exchange rate differences, gains from derivative financial instruments recognized in the statement of income, and gains from available-for-sale financial assets. Interest income is recognized as accrued, using the effective interest method.

Financing expenses include interest on loans received, changes in the time value of provisions, securitization transaction costs, losses from impairment of value of financial assets available for sale, losses from derivative financial instruments, changes due to the passage of time in liabilities in respect of defined benefit plans for employees less income derived from the expected return on assets of a defined benefit plan for employees and losses from exchange rate differences. Borrowing costs, which are not capitalized, are recorded in the income statement using the effective interest method.

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

O. Taxes on Income

Taxes on income include current and deferred taxes. Current and deferred taxes on income are recorded in the income statement unless the tax originated in a business combination, or are charged directly to equity or to other comprehensive income.

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

A provision in respect of uncertain tax positions is recognized when it is more likely than not that an outflow of economic resources will be required to settle the obligation.

Notes to the Consolidated Financial Statements as at December 31, 2011

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

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

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

The Group could become liable for additional taxes in the case of distribution of intercompany dividends between the Group companies. These additional taxes are not included in the financial statements in light of the policy of the Group companies not to cause distribution of a dividend that involves additional taxes to the company that pays in the foreseeable future. In cases where an investee company is expected to distribute a dividend involving additional tax, the Company records a reserve for taxes in respect of the said additional tax it is expected to incur due to distribution of the dividend.

Deferred taxes in respect of intra-company transactions in the consolidated financial statements is recorded according to the tax rate applicable to the buying company.

P. Earnings per share

The Group presents basic and diluted earnings per share data for its ordinary share capital. The basic earnings per share are calculated by dividing the income or loss attributable to the holders of the Company's ordinary shares by the weighted-average number of ordinary shares outstanding during the year, after adjustment in respect of treasury shares. The diluted earnings per share are determined by adjusting the income or loss attributable to the holders of the Company's ordinary shares and the weighted-average number of ordinary shares outstanding for the effect of options for shares granted to employees.

Notes to the Consolidated Financial Statements as at December 31, 2011

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

An operating segment is a component of the Group that meets three conditions as follows:

1. It engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses relating to transactions between the Group companies;
2. Its operating results are reviewed regularly by the Group's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and
3. Separate financial information is available in respect thereof.

Inter-segment pricing is determined based on transaction prices in the ordinary course of business.

Segment results, assets and liabilities include items that are directly attributable to the segment and items that can reasonably be attributed to it. Asset and liability items that were not allocated consist primarily of investments, loans and credit, assets of the Company's headquarters, as well as tax assets and liabilities.

Unallocated items of revenue and expense include financing income and expenses on investments, loans and credit, administrative and general costs attributed to the Company's headquarters and taxes.

Capital expenses of the segment are the total costs that were incurred during the period for purchasing property, plant and equipment and intangible assets.

R. New Standards and Interpretations not yet Adopted

IFRS 11 *Joint Arrangements* (hereinafter – “the Standard”). The Standard replaces the requirements of IAS 31 *Interests in Joint Ventures* (hereinafter – “IAS 31”) and amends part of the requirements in IAS 28 *Investments in Associated Companies*.

The Standard defines a joint arrangement as an arrangement over which two or more parties have joint control, and divides them into two categories: joint operations and joint ventures. A distinction exists in the standard between joint operations and joint ventures.

Joint operations – are arrangements wherein the parties having joint control have rights in the assets relating to the arrangement and obligations to discharge the liabilities relating to the arrangement, regardless of whether or not the joint arrangement is structured in a separate vehicle. The accounting treatment of joint operations is similar to the accounting treatment in IAS 31 for jointly controlled assets and operations, that is, the assets, liabilities and transactions are recognized and accounted for according to the relevant standards.

Joint ventures – all joint arrangements which are structured in a separate vehicle in which the parties having joint control have rights to the net assets of the joint arrangement. Joint ventures are to be accounted for using the equity method only (the option to apply the proportionate consolidation method has been removed).

Notes to the Consolidated Financial Statements as at December 31, 2011

Note 3 - Significant Accounting Policies (cont'd)**R. New Standards and Interpretations not yet Adopted (cont'd)**

This Standard will be applied for annual periods beginning on or after January 1, 2013. Early adoption is permitted subject to making early adoption of other new standards, in their entirety.

As a result of adoption of the standards, jointly-controlled companies presently included in the consolidated financial statements using the proportionate consolidation method, will be accounted for after adoption of the standards using the equity method of accounting. The rest of the provisions of the standards will not have a significant impact on the financial statements.

Amendment to IAS 19, *Employee Benefits* (hereinafter – “the Amendment”). Pursuant to the Amendment costs in respect of past service are to be recognized immediately without reference to whether or not these benefits have vested. Calculation of the net financing income or expenses will be made by multiplying the defined benefit liability (asset) by the discount rate used to measure the defined benefit obligation. Accordingly, calculation of the actuarial gains or losses will also change. In addition, the Amendment changes the definitions of short-term employee benefits and of other long-term employee benefits, so that instead of determining the classification as short-term or long-term based on the date of eligibility, the classification will depend on the dates when the entity expects the benefits to be fully utilized.

The Amendment will apply to annual periods beginning on or after January 1, 2013 and is to be applied retroactively (except for certain relief enumerated in the Amendment). Early adoption is permissible provided disclosure is provided.

The Group is assessing the effects of adopting the Amendment on the financial statements, with no intention of early adoption.

S. Indices and exchange rates

Balances in or linked to foreign currency are included in the financial statements at the representative exchange rate on the date of the report. Balances linked to the Consumer Price Index (hereinafter – “the CPI”) are included on the basis of the index relating to each linked asset or liability.

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

	CPI (points)	Exchange rate of the US dollar relative to the shekel	Exchange rate of the US dollar relative to the euro
December 31, 2011	116.0	3.821	0.774
December 31, 2010	113.5	3.549	0.749
December 31, 2009	110.6	3.775	0.694
Changes during the year ended:			
December 31, 2011	2.2%	7.7%	3.3%
December 31, 2010	2.6 %	(6.0%)	8.0 %
December 31, 2009	3.9 %	(0.7%)	(3.3%)

Notes to the Consolidated Financial Statements as at December 31, 2011

Note 4 - Determination of Fair Values

As part of the accounting policies and disclosures, the Group is required to determine the fair value of both financial and non-financial assets and liabilities. The fair values have been determined for measurement and/or disclosure purposes based on the methods described below. Further information about the assumptions made in determining the fair values is disclosed in the notes specific to that asset or liability.

A. Property, plant and equipment

The fair value of property, plant and equipment recognized in a business combination is based on a cost model or on a market value model. According to the cost model, the fair value of the property, plant and equipment is based on the depreciated replacement price of the item measured. The depreciated replacement price takes into account adjustments in respect of physical wear and tear and obsolescence of the property, plant and equipment item. According to the market value model, the fair value is based on the selling price determined in sale transactions of similar assets, while making adjustments to the asset items sold and the asset item acquired in the business combination.

B. Intangible assets

The fair value of patents and trademarks acquired in a business combination is based on the discounted estimated royalty payments that would be required to be paid if the patent or trademark was not owned. The fair value of customer relationships acquired in a business combination is determined using the multi-period excess earnings method, whereby the fair value of the asset is estimated after deducting a fair return on all other assets that are part of creating the related cash flows.

The fair value of other intangible assets is based on the discounted cash flows expected to be derived from the use and eventual sale of the assets.

C. Inventories

The fair value of inventories acquired in a business combination is determined as follows:

- (1) Finished goods inventories – on the basis of the estimated selling price of the products in the ordinary course of business, less the estimated selling costs as well as a reasonable margin in respect of the efforts required for completion and sale of the inventories.
- (2) Inventory of work-in-progress – determined on the basis of estimates described in Section 1 above, less costs required for its completion.
- (3) Inventory of raw materials – based on replacement value.

D. Investments in securities

The fair value of financial assets classified as available-for-sale and as held-for-trading are determined based on their market price at date of the report.

Notes to the Consolidated Financial Statements as at December 31, 2011

Note 4 - Determination of Fair Values (cont'd)**E. Derivatives**

The fair value of forward contracts on foreign currency is determined by using trading software based on their market price. The market price is determined by averaging the exchange rate and the appropriate interest coefficient for the period of the transaction and the relevant currency index.

The fair value of currency options is determined by using trading software based on the Black and Scholes model, taking into account the intrinsic value, standard deviation and the interest rates.

The fair value of interest rate swap contracts is determined by using trading software based on the market price determined by discounting the estimated amount of the future cash flows on the basis of the terms and length of period to maturity of each contract, while using market interest rates of similar instruments at the date of measurement.

Future contracts on energy prices are presented at their fair value, which are determined by using trading software that quotes the prices of products on an ongoing basis.

The reasonableness of the market price is examined by comparing it to quotations by banks.

For further information regarding the fair value hierarchy – see Note 28(G) regarding financial instruments.

F. Liabilities in respect of debentures

The fair value of marketable debentures is determined based on stock market prices as at the date of the report.

The fair value of the liabilities and debentures is determined for disclosure purposes only. The fair value of the rest of the liabilities is calculated based on the present value of future cash flows in respect of the principal and interest components, discounted at the market rate of interest as at the reporting date.

G. Share-based payment transactions

The fair value of employee share options and of share appreciation rights is measured using the Black and Scholes model. The model's assumptions include the share price on the measurement date, exercise price of the instrument, expected volatility (based on the weighted-average historic volatility adjusted for changes expected due to publicly available information), the weighted-average expected life of the instruments (based on historical experience and general option-holder behavior), expected dividends, and the risk-free interest rate (based on government debentures).

H. Contingent consideration in respect of business combinations

The fair value of contingent consideration is calculated at the time of the business combination using the income approach based on the expected payment amounts and their associated probabilities. When the contingent consideration is long-term in nature, the liability is discounted to present value using the market interest rate as at the reporting date.

Notes to the Consolidated Financial Statements as at December 31, 2011

Note 5 - Operating Segments**A. General:****1. Information on business segments:**

ICL is a multi-national enterprise, which operates mainly in the fields of fertilizers and specialty chemicals, in three reporting segments – fertilizers, performance products and industrial products. The segments are described below:

ICL Fertilizers – ICL Fertilizers extracts potash from the Dead Sea and mines and produces potash and salt from subterranean mines in Spain and in the UK. ICL Fertilizers processes the potash into its types and markets it throughout the world. This segment also uses part of the potash to produce complex fertilizers.

In addition, ICL Fertilizers mines and processes phosphate rock in open mines in the South, and produces sulphuric acid in Israel, agricultural phosphoric acid, phosphate fertilizers, compound fertilizers, based mainly on potash and phosphate, liquid fertilizers and soluble fertilizers. ICL Fertilizers also manufactures compound fertilizers in the Netherlands, Germany and Belgium, liquid fertilizers and soluble fertilizers in Spain, slow-release fertilizers and controlled-release fertilizers in the Netherlands and in the United States, and phosphate-based food additives for livestock, in Turkey and in Israel.

ICL Fertilizers markets its products worldwide, mainly in Europe, Brazil, India, China and Israel. The activities of ICL Fertilizers also include the activities of Mifalei Tovala Ltd., which is engaged in the transportation of cargo, mainly of ICL companies in Israel, since a large part of the Company's activities consists of bulk transport of cargo of 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 Sodom, as well as bromine-based compounds. ICL Industrial Products uses most of the bromine it produces for self-production of bromine compounds at production sites in Israel, the Netherlands and China. In addition, ICL Industrial Products extracts salt, magnesia and chlorine from Dead Sea brine, and produces chlorine based products in Israel and the United States. In addition, ICL Industrial Products engages in the production and marketing of flame retardants and additional phosphorus based products.

ICL Performance Products – ICL Performance Products cleans some of the agricultural phosphoric acid manufactured by ICL Fertilizers, purchases clean phosphoric acid from other sources and also manufactures thermal phosphoric acid. The clean phosphoric acid and the thermal phosphoric acid are used to manufacture downstream products with high added value, phosphate salts, which are also used as a raw material for manufacturing, food additives, hygiene products and flame-retardants and fire extinguishment products. ICL Performance Products also manufactures phosphorous derivatives based on phosphorous acquired from outside sources and manufactures specialty products, based on aluminum acids (hereinafter – “Aluminum”) and other raw materials. Manufacture of ICL's performance products is mostly carried out at production sites in Europe, (particularly in Germany), the United States, Brazil, Israel, China, and other countries.

In addition to the segments described above, ICL has other operations, including desalination of water (through a proportionately consolidated company) and production and marketing of pure magnesium as well as magnesium alloys.

Notes to the Consolidated Financial Statements as at December 31, 2011

Note 5 - Operating Segments (cont'd)**A. General: (cont'd)****2. Segment assets and liabilities**

Segment assets include all the operating assets used by the segment and consist principally of cash and cash equivalents, trade and other receivables, inventories, property, plant and equipment and intangible assets, net of allowances and provisions. Most of these assets can be directly attributed to the individual segments. Segment liabilities include all the operating liabilities and consist principally of trade payables and wages, which are scheduled for current payment, for employee benefits and liabilities.

3. Inter-segment transfers

Segment revenues, segment expenses and segment results include transfers between business segments and between geographical segments. Such transfers are accounted for at the normal market prices charged to external customers for similar goods. These transfers are eliminated on consolidation.

Notes to the Consolidated Financial Statements as at December 31, 2011

Note 5 - Operating Segments (cont'd)

B. Operating segment data:

	Fertilizers				Industrial products	Performance products	Other operations	Eliminations	Consolidated
	Potash	Phosphate	Eliminations	Total					
	US\$ thousands	US\$ thousands	US\$ thousands	US\$ thousands					
2011:									
Sales to external customers	2,284,707	1,551,412	-	3,836,119	1,498,482	1,430,345	302,888	-	7,067,834
Inter-segment sales	221,451	154,493	(114,416)	261,528	14,532	64,475	40,992	(381,527)	-
Total revenues	<u>2,506,158</u>	<u>1,705,905</u>	<u>(114,416)</u>	<u>4,097,647</u>	<u>1,513,014</u>	<u>1,494,820</u>	<u>343,880</u>	<u>(381,527)</u>	<u>7,067,834</u>
Operating income	<u>1,181,985</u>	<u>221,264</u>	<u>128</u>	<u>1,403,377</u>	<u>297,712</u>	<u>192,890</u>	<u>38,521</u>		1,932,500
Unallocated expenses and intercompany eliminations									(6,535)
Operating income									<u>1,925,965</u>
Financing expenses									(104,191)
Financing income									41,933
Share in income of associated companies, net of tax									8,001
Income for the year before tax									<u>1,871,708</u>
Other data:									
Segment assets	1,843,665	1,510,908	(74,014)	3,280,559	1,643,301	1,012,983	187,864	487,505	6,612,212
Unallocated assets									670,886
Consolidated total assets									<u>7,283,098</u>
Segment liabilities	636,557	493,252	(48,170)	1,081,639	494,015	317,983	143,470	(72,954)	1,964,153
Unallocated liabilities									2,214,051
Consolidated total liabilities									<u>4,178,204</u>
Capital expenditures	241,707	404,513	-	646,220	117,156	133,782	11,096	-	908,254
Unallocated capital expenditures									701
Total capital expenditures									<u>908,955</u>
Depreciation and amortization	105,935	55,988	-	161,923	58,096	40,397	6,284	-	266,700
Unallocated depreciation and amortization									740
Total depreciation and amortization									<u>267,440</u>

Notes to the Consolidated Financial Statements as at December 31, 2011

Note 5 - Operating Segments (cont'd)

B. Operating segment data (cont'd):

	Fertilizers				Industrial products	Performance products	Other operations	Eliminations	Consolidated
	Potash	Phosphate	Eliminations	Total					
	US\$ thousands	US\$ thousands	US\$ thousands	US\$ thousands					
2010:									
Sales to external customers	1,956,879	931,829	-	2,888,708	1,298,513	1,284,127	220,189	-	5,691,537
Inter-segment sales	183,810	124,511	(89,774)	218,547	14,679	55,901	25,813	(314,940)	-
Total revenues	<u>2,140,689</u>	<u>1,056,340</u>	<u>(89,774)</u>	<u>3,107,255</u>	<u>1,313,192</u>	<u>1,340,028</u>	<u>246,002</u>	<u>(314,940)</u>	<u>5,691,537</u>
Operating income	<u>857,914</u>	<u>108,583</u>	<u>(1,366)</u>	<u>965,131</u>	<u>206,599</u>	<u>185,067</u>	<u>15,192</u>		1,371,989
Unallocated expenses and intercompany eliminations									(25,862)
Operating income									<u>1,346,127</u>
Financing expenses									(85,604)
Financing income									32,422
Share in income of associated companies, net of tax									2,478
Income for the year before tax									<u>1,295,423</u>
Other data:									
Segment assets	1,691,488	852,107	(91,184)	2,452,411	1,540,411	866,191	190,252	490,122	5,539,387
Unallocated assets									848,757
Consolidated total assets									<u>6,388,144</u>
Segment liabilities	552,591	394,348	(67,850)	879,089	458,095	307,321	126,890	(103,244)	1,668,151
Unallocated liabilities									2,078,763
Consolidated total liabilities									<u>3,746,914</u>
Capital expenditures	148,342	59,489	-	207,831	80,173	41,386	15,697	-	345,087
Unallocated capital expenditures									7,475
Total capital expenditures									<u>352,562</u>
Depreciation and amortization	80,285	39,850	-	120,135	51,001	40,148	5,603	-	216,887
Unallocated depreciation and amortization									508
Total depreciation and amortization									<u>217,395</u>

Notes to the Consolidated Financial Statements as at December 31, 2011

Note 5 - Operating Segments (cont'd)

B. Operating segment data (cont'd):

	Fertilizers				Industrial products US\$ thousands	Performance products US\$ thousands	Other operations US\$ thousands	Eliminations US\$ thousands	Consolidated US\$ thousands
	Potash	Phosphate	Eliminations	Total					
	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	<u>1,429,032</u>	<u>787,711</u>	<u>(70,136)</u>	<u>2,146,607</u>	<u>1,015,081</u>	<u>1,328,044</u>	<u>338,949</u>	<u>(274,365)</u>	<u>4,554,316</u>
Operating income	<u>708,071</u>	<u>11,473</u>	<u>3,579</u>	<u>723,123</u>	<u>20,851</u>	<u>162,746</u>	<u>29,294</u>		936,014
Unallocated expenses and intercompany eliminations									2,159
Operating income									<u>938,173</u>
Financing expenses									(83,424)
Financing income									89,539
Share in losses of associated companies, net of tax									(1,482)
Income for the year before tax									<u>942,806</u>
Other data:									
Segment assets	1,904,870	893,906	(75,195)	2,723,581	1,441,332	876,876	228,695	144,587	5,415,071
Unallocated assets									492,518
Consolidated total assets									<u>5,907,589</u>
Segment liabilities	463,865	339,227	(50,526)	752,566	387,632	306,315	137,031	(70,699)	1,512,845
Unallocated liabilities									1,599,895
Consolidated total liabilities									<u>3,112,740</u>
Capital expenditures	179,317	65,459	-	244,776	106,298	59,848	13,514	-	424,436
Unallocated capital expenditures									4,402
Total capital expenditures									<u>428,838</u>
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									<u>231,661</u>

* Depreciation and amortization include impairment of property, plant and equipment. (See Note 16(B)).

Notes to the Consolidated Financial Statements as at December 31, 2011

Note 5 - Operating Segments (cont'd)

C. Information on geographical segments:

Following is data regarding the distribution of the Group's sales by geographical market (based on customer location):

	For the year ended December 31		
	2011	2010	2009
	US\$ thousands	US\$ thousands	US\$ thousands
Europe	2,418,635	1,886,153	1,426,005
Asia	2,093,634	1,680,403	1,148,418
North America	1,362,582	1,052,042	1,013,064
South America	665,879	619,992	542,557
Other	150,227	139,632	140,928
	6,690,957	5,378,222	4,270,972
In Israel	376,877	313,315	283,344
	7,067,834	5,691,537	4,554,316

Following is data regarding the distribution of the Group's sales by geographical market (based on asset location):

	For the year ended December 31		
	2011	2010	2009
	US\$ thousands	US\$ thousands	US\$ thousands
Israel	3,998,286	3,263,297	2,306,660
Europe	2,625,047	1,992,833	1,610,360
United States	1,031,712	847,812	875,340
Other	462,848	372,872	314,700
	8,117,893	6,476,814	5,107,060
Intercompany transactions – mainly from Israel	(1,050,059)	(785,277)	(552,744)
	7,067,834	5,691,537	4,554,316

Following is data regarding the operating income by geographical market location (based on assets' location where the income was produced):

	For the year ended December 31		
	2011	2010	2009
	US\$ thousands	US\$ thousands	US\$ thousands
Israel	1,440,193	997,943	577,864
Europe	330,697	181,548	151,961
United States	142,924	131,848	121,781
Other	54,624	53,287	37,732
Offsets	(42,473)	(18,499)	48,835
	1,925,965	1,346,127	938,173

Notes to the Consolidated Financial Statements as at December 31, 2011

Note 5 - Operating Segments (cont'd)

C. Information on geographical segments (cont'd)

Following is data reflecting the carrying value of segment assets and additions to property, plant and equipment and intangible assets by geographical area in which the assets are located:

	Carrying value of segment assets			Additions to property, plant and equipment, and intangible assets		
	As at December 31			For the year ended December 31		
	2011	2010	2009	2011	2010	2009
	US\$ thousands	US\$ thousands	US\$ thousands	US\$ thousands	US\$ thousands	US\$ thousands
Israel	3,780,506	3,322,662	3,132,047	372,663	222,953	225,552
Europe	1,853,958	1,438,271	1,563,570	356,109	86,856	176,604
United States	969,403	718,691	746,767	162,732	28,629	17,498
Other	395,435	291,578	153,268	16,750	6,649	4,782
Offsets	(387,090)	(231,815)	(180,581)	-	-	-
	<u>6,612,212</u>	<u>5,539,387</u>	<u>5,415,071</u>	<u>908,254</u>	<u>345,087</u>	<u>424,436</u>

Following are data for depreciation and amortization by geographical area:

	Year ended December 31		
	2011	2010	2009
	US\$ thousands	US\$ thousands	US\$ thousands
Depreciation and amortization:			
Israel	118,705	107,524	95,000
Europe	108,252	73,665	71,888
United States	32,200	28,940	57,938
Other	8,283	7,266	6,835
	<u>267,440</u>	<u>217,395</u>	<u>231,661</u>

Note 6 - Short-Term Investments, Deposits and Loans

	As at December 31	
	2011	2010
	US\$ thousands	US\$ thousands
Available-for-sale securities	-	13,661
Held-for-trading securities	36,025	11,278
Deposits in banks and financial institutions and short-term loans	162,130	458,812
Current maturities of long-term deposits and receivables	7,893	9,450
	<u>206,048</u>	<u>493,201</u>

Notes to the Consolidated Financial Statements as at December 31, 2011

Note 7 - Trade Receivables

	As at December 31	
	2011	2010
	US\$ thousands	US\$ thousands
Trade – open accounts:		
Outside Israel	1,264,077	882,791
Domestic (Israel)	74,943	73,149
	1,339,020	955,940
Less – allowance for doubtful debts	11,507	6,248
	1,327,513	949,692

Note 8 - Other Receivables, including Derivative Instruments

	As at December 31	
	2011	2010
	US\$ thousands	US\$ thousands
Government institutions in Israel	23,748	16,341
Government institutions outside Israel	27,642	9,778
Prepaid expenses	25,562	28,667
Income receivable from insurance	625	*1,880
Advances to suppliers	6,304	7,367
Derivative instruments	28,772	27,690
Other	68,878	46,347
	181,531	138,070

* Reclassified.

Note 9 - Inventories

	As at December 31	
	2011	2010
	US\$ thousands	US\$ thousands
Finished products	774,315	618,434
Work in progress	320,045	268,054
Raw materials and supplies	261,070	183,194
Spare parts and maintenance supplies	104,295	94,462
	1,459,725	1,164,144
Less – non-current inventory (presented in non-current assets)	48,795	50,010
	1,410,930	1,114,134

Notes to the Consolidated Financial Statements as at December 31, 2011

Note 10 - Investment in Investee Companies

A. Composition of investment in associated companies

	As at December 31	
	2011	2010
	US\$ thousands	US\$ thousands
Shares:		
Cost of shares, including undistributed earnings up to December 31, 1991*	5,358	5,358
Share in earnings, accumulated since January 1, 1992 less dividends received	16,471	17,114
Differences from translation of financial statements of investees	4,471	4,080
	<u>26,300</u>	<u>26,552</u>
Capital notes and long-term loans	<u>3,104</u>	<u>1,572</u>
	<u>29,404</u>	<u>28,124</u>
* Includes goodwill:		
Original amounts	<u>3,348</u>	<u>3,348</u>
Amount after accumulated amortization	<u>1,674</u>	<u>1,674</u>

B. Movement during the year in investments in associated companies

	US\$ thousands
Balance as at beginning of the year	28,124
Changes during the year:	
Increase in capital notes and long-term loans	1,617
Share in earnings	8,001
Dividend	(8,644)
Financial-statement translation differences	306
	<u>29,404</u>
Balance as at year end	<u>29,404</u>

Notes to the Consolidated Financial Statements as at December 31, 2011

Note 10 - Investment in Investee Companies (cont'd)

C. Condensed data with respect to investee companies accounted for based on the equity method and the proportionate consolidation method of accounting

Set forth below is condensed data with respect to investee companies accounted for based on the equity method and the proportionate consolidation method of accounting, without adjustment for the ownership rates held by the Group.

	As at December 31, 2011								
	US\$ thousands								
	Current assets	Non-current assets	Total assets	Current liabilities	Non-current liabilities	Total liabilities	Revenues	Expenses	Profit
Associated companies	61,665	34,329	95,994	31,354	54,940	86,294	188,675	166,465	22,210
Jointly controlled entities	389,506	515,746	905,252	174,502	454,824	629,326	404,196	348,520	55,676

	As at December 31, 2010								
	US\$ thousands								
	Current assets	Non-current assets	Total assets	Current liabilities	Non-current liabilities	Total liabilities	Revenues	Expenses	Profit
Associated companies	74,483	36,472	110,955	38,039	79,730	117,769	166,410	164,839	1,571
Jointly controlled entities	289,614	384,418	674,032	123,242	299,342	422,584	323,796	256,398	67,398

Notes to the Consolidated Financial Statements as at December 31, 2011

Note 10 - Investment in Investee Companies (cont'd)

D. Consolidated companies

Additional details regarding consolidated companies and proportionately consolidated companies held directly by the Company

	Country of incorporation	Equity Holding	Amounts provided by the Company to the Subsidiary		Investment in the Subsidiary
			Loans	Guarantees	
			US\$ thousands		
2011					
Dead Sea Works Ltd.	Israel	100%	–	–	1,695,069
Dead Sea Bromine Company Ltd.	Israel	100%	–	–	269,567
Rotem Amfert Negev Ltd.	Israel	100%	440,000	517	954,174
Dead Sea Periclase Ltd.	Israel	100%	–	–	58,882
Mifalei Tovala Ltd.	Israel	100%	–	–	39,870
Rotem Amfert Negev B.V., The Netherlands	The Netherlands	*32.60%	–	–	27,647
I.D.E. Technologies Ltd.	Israel	50%	–	14,494	107,058
ICL Financing and Issuing Ltd.	Israel	100%	–	–	4
“Ferson” Chemicals Ltd.	Israel	100%	–	–	1,633
ICL Fine Chemicals Ltd.	Israel	100%	–	–	(97)
Dead Sea Magnesium Ltd.	Israel	100%	–	–	41,196
ICL Finance B.V.	The Netherlands	100%	–	–	81,915
ICL Finance Inc., USA	U.S.A.	100%	–	–	29,263
Twincap Forsakrings AB	Sweden	100%	–	–	6,217
HYB Inc.	U.S.A.	80%	–	–	–
2010					
Dead Sea Works Ltd.	Israel	100%	–	–	1,673,332
Dead Sea Bromine Company Ltd.	Israel	100%	–	–	244,433
Rotem Amfert Negev Ltd.	Israel	100%	440,000	517	798,980
Dead Sea Periclase Ltd.	Israel	100%	–	–	55,921
Mifalei Tovala Ltd.	Israel	100%	–	–	41,361
Rotem Amfert Negev B.V., The Netherlands	The Netherlands	*32.60%	–	–	28,867
I.D.E. Technologies Ltd.	Israel	50%	–	10,746	90,108
ICL Financing and Issuing Ltd.	Israel	100%	–	–	4
“Ferson” Chemicals Ltd.	Israel	100%	–	–	1,540
ICL Fine Chemicals Ltd.	Israel	100%	–	–	(98)
Dead Sea Magnesium Ltd.	Israel	100%	–	–	32,855
ICL Finance B.V.	The Netherlands	100%	–	–	81,386
ICL Finance Inc., USA	U.S.A.	100%	–	–	29,275
Twincap Forsakrings AB	Sweden	100%	–	–	6,407
HYB Inc.	U.S.A.	80%	–	–	2,268

* The balance of the holding is by a subsidiary.

Notes to the Consolidated Financial Statements as at December 31, 2011

Note 11 - Business Combinations

- A.** On July 1, 2009, a compromise agreement was signed between ICL and Volkswagen AG (hereinafter – “Volkswagen”), which held 35% of the share capital of the subsidiary Dead Sea Magnesium Ltd. (hereinafter – “Magnesium”) for acquisition of all of Volkswagen’s shares in Magnesium for no consideration.

Before the business transaction was completed, the parties transferred \$86 million as an equity investment (according to the rates of holdings).

The acquisition transaction of the shares of Magnesium was accounted for as a capital transaction. The impact of the said transaction is an increase in the capital attributed to the holders of the Company’s equity rights, in the amount of about \$78 million.

- B.** On February 28, 2011, ICL completed a transaction for acquisition of the companies, assets and activities of the business unit in the specialty fertilizers area (hereinafter – “the Business Unit”) owned by the U.S. company, Scotts Miracle-Gro Company (hereinafter – “the Seller”).

The consideration for the acquisition reflects a value of about \$271 million for the Business Unit. The acquisition consideration was allocated as follows: about \$120 million to working capital, about \$22 million to property, plant and equipment, about \$102 million to identifiable intangible assets and about \$10 million to long-term liabilities. The balance, in the amount of about \$37 million, was allocated to goodwill.

The acquisition costs, in the amount of about \$9 million, were recorded in other expenses.

The total sales of the Business Unit from the closing date of the transaction and up to December 31, 2011, were about \$229 million.

The Business Unit is engaged in manufacture and sale of specialty fertilizers, growing beds, plant protection products, grass seeds for commercial nurseries, sod for public use, sport surfaces and advanced agriculture. The Business Unit has about 340 employees and it operates three manufacturing facilities located in the Netherlands, the United Kingdom and the United States, and peat mines for growing beds in the United Kingdom. The main markets in which the Business Unit operates are Europe, North America, Asia/Pacific and Africa.

ICL has integrated the activities of the unit acquired into the ICL Fertilizers segment, while taking advantage of the marketing, operational and other synergies with ICL’s specialty fertilizer activities. Integration of the Business Unit expanded the products’ basket of ICL Fertilizers in the area of specialty fertilizers.

Commencing from the acquisition date, the financial statements of the Business Unit are consolidated in the Company’s consolidated financial statements.

Notes to the Consolidated Financial Statements as at December 31, 2011

Note 11 - Business Combinations (cont'd)

- C. In April 2011, a subsidiary in Spain acquired 100% ownership of A. Fuentes Mendea S.A. (hereinafter – “the Acquired Company”), which is engaged in production and marketing of specialty fertilizers in Spain. The acquisition price less the balance of cash in the Acquired Company amounted to about \$122 million.

The acquisition price consideration was as follows: about \$20 million to working capital, about \$62 million to fixed assets, about \$38 million to identified intangible assets and about \$24 million to deferred tax liabilities. The balance, in the amount of about \$26 million, was attributed to goodwill.

The financial statements of the Acquired Company are included in the Company’s consolidated financial statements commencing from the acquisition date.

- D. In December 2011, an option for acquisition of 50% of the shares of Tetrabrom Technologies Ltd. (hereinafter – “Tetrabrom”) was exercised, in exchange for a consideration of about \$38 million.

After completion of the transaction, ICL holds, through a subsidiary, 100% of the share capital of Tetrabrom. The acquisition constitutes a transaction with holders of non-controlling interests and, therefore, the difference between the cost of the net assets of Tetrabrom and the consideration paid, in the amount of about \$29 million, was recognized as a decrease in the balance of the retained earnings.

Note 12 - Investment in Other Company

The investment in shares of “Mekoroth” Israel National Water Company Ltd. (hereinafter – “Mekoroth”), held by Rotem and additional companies in the Group, is presented at a token value. The Company is unable to estimate the fair value of its holding in shares of Mekoroth.

The shares in Mekoroth were allotted to Rotem in respect of investments made by the companies in the past, in water infrastructures. The companies have joined a claim against Mekoroth, which was recognized in part as a class action. The class action includes, among other things, the companies' claim for allotment of additional shares of Mekoroth in respect of investments the companies made in water infrastructures and their demand that the State make a tender offer for acquisition of both their present holdings and their claimed holdings in Mekoroth as well as a request for relief by means of a monetary refund in the event the claim for the share allotment is rejected. On January 28, 2004, the District Court issued a ruling rejecting the application for allotment of additional shares in Mekoroth, however the Court recognized the Company’s right to initiate a class action for the refund of amounts paid by them. The parties have appealed the decision to the Supreme Court. In February 2009, the Government decided to approve the issue of shares in Mekoroth and the State and Mekoroth gave notice of this to the Court. In August 2009, the parties submitted notification to the Court whereby the parties are continuing their efforts to reach a compromise. The parties received several extensions for negotiation, until April 15, 2012.

Notes to the Consolidated Financial Statements as at December 31, 2011

Note 12 - Investment in Other Company (cont'd)

On February 12, 2012 the last amendment was submitted to the Supreme Court which presented a compromise agreement agreed to by both parties (subject to minor corrections) and therefore additional time is required to perform additional procedures which will enable the execution of the agreement.

Note 13 - Long-Term Deposits and Receivables**A. Composition**

	As at December 31	
	2011	2010
	US\$ thousands	US\$ thousands
Deposits in banks	10,559	11,294
Long-term financial asset (1)	251,868	184,886
	<u>262,427</u>	<u>196,180</u>
Less – current maturities	7,893	9,450
	<u>254,534</u>	<u>186,730</u>
Other receivables	16,198	18,850
	<u>270,732</u>	<u>205,580</u>

- (1) A financial asset arising from the construction of desalination plants. The asset is to be paid over the period of the desalination franchise in accordance with the consideration to be received in respect of the plant. See Note 3L(3).

B. Long-term bank deposits and receivables classified by currency and interest rates

	Weighted average interest rate as at December 31	As at December 31	
		2011	2010
		US\$ thousands	US\$ thousands
In Israeli currency	5.2	256,550	193,356
In foreign currency:			
Swiss francs	5.9	–	2,571
US dollar		5,529	–
Other	2.5	348	253
		<u>262,427</u>	<u>196,180</u>

C. The deposits and receivables (net of current maturities) mature in the following years after each reporting date as follows:

	As at December 31	
	2011	2010
	US\$ thousands	US\$ thousands
Second year	9,759	9,480
Third year	9,328	8,589
Fourth year	8,915	8,136
Fifth year	14,177	7,775
Sixth year and thereafter	212,355	152,750
	<u>254,534</u>	<u>186,730</u>

Notes to the Consolidated Financial Statements as at December 31, 2011

Note 14 - Property, Plant and Equipment

	Land, land development, roads and buildings	Installations, machinery and equipment	Dikes and evaporating ponds	Heavy mechanical equipment, railroad cars and tanks	Furniture, office equipment, vehicles, computer equipment and other	Plants under construction (3)	Spare parts for installations	Total
	US\$ thousands	US\$ thousands	US\$ thousands	US\$ thousands	US\$ thousands	US\$ thousands	US\$ thousands	US\$ thousands
Cost (1)								
Balance as at January 1, 2011	560,890	4,031,961	636,256	113,042	215,537	168,984	9,720	5,736,390
Additions	32,283	275,815	100,140	41,626	16,889	78,696	–	545,449
Additions in respect of business combinations	56,682	34,480	3,268	1,610	3,247	1,430	–	100,717
Disposals	(1,683)	(35,828)	–	(6,757)	(8,413)	–	(2,417)	(55,098)
Translation differences	(13,128)	(29,528)	(9,122)	2,513	(4,812)	175	–	(53,902)
Balance as at December 31, 2011	635,044	4,276,900	730,542	152,034	222,448	249,285	7,303	6,273,556
Accumulated depreciation (1)								
Balance as at January 1, 2011	316,781	2,613,349	358,025	90,732	166,909	–	–	3,545,796
Additions	16,829	155,933	37,886	5,404	15,394	–	–	231,446
Disposals	(1,683)	(33,520)	–	(6,188)	(7,540)	–	–	(48,931)
Translation differences	(5,686)	(17,619)	(5,062)	2,649	(5,025)	–	–	(30,743)
Balance as at December 31, 2011	326,241	2,718,143	390,849	92,597	169,738	–	–	3,697,568
Depreciated balance as at December 31, 2011	308,803	1,558,757	339,693	59,437	52,710	249,285	7,303	2,575,988

Notes to the Consolidated Financial Statements as at December 31, 2011

Note 14 - Property, Plant and Equipment (cont'd)

	Land, land development, roads and buildings	Installations, machinery and equipment	Dikes and evaporating ponds	Heavy mechanical equipment, railroad cars and tanks	Furniture, office equipment, vehicles, computer equipment and other	Plants under construction (3)	Spare parts for installations	Total
	US\$ thousands	US\$ thousands	US\$ thousands	US\$ thousands	US\$ thousands	US\$ thousands	US\$ thousands	US\$ thousands
Cost (1)								
Balance as at January 1, 2010	554,444	3,907,027	579,636	115,420	204,075	215,642	11,665	5,587,909
Additions	30,977	249,950	70,675	5,600	16,234	(45,009)	–	328,427
Disposals	(10,557)	(74,053)	–	(7,917)	(5,037)	–	(1,945)	(99,509)
Disposals in respect of sale of activities	(337)	(299)	–	(73)	(136)	–	–	(845)
Translation differences	(13,637)	(50,664)	(14,055)	12	401	(1,649)	–	(79,592)
Balance as at December 31, 2010	560,890	4,031,961	636,256	113,042	215,537	168,984	9,720	5,736,390
Accumulated depreciation (1)								
Balance as at January 1, 2010	318,667	2,580,432	342,654	94,973	158,050	–	–	3,494,776
Additions	14,902	137,748	23,233	3,305	12,062	–	–	191,250
Disposals	(9,031)	(70,812)	–	(7,470)	(5,097)	–	–	(92,410)
Disposals in respect of sale of activities	(122)	(282)	–	(72)	(99)	–	–	(575)
Translation differences	(7,635)	(33,737)	(7,862)	(4)	1,993	–	–	(47,245)
Balance as at December 31, 2010	316,781	2,613,349	358,025	90,732	166,909	–	–	3,545,796
Depreciated balance as at December 31, 2010	244,109	1,418,612	278,231	22,310	48,628	168,984	9,720	2,190,594

Notes to the Consolidated Financial Statements as at December 31, 2011

Note 14 - Property, Plant and Equipment (cont'd)

1. Property, plant and equipment includes assets that have been fully depreciated and which are still in use. The original cost of those assets as of December 31, 2011 is about \$2,334 million (as at December 31, 2010 \$2,236 million).

2. Investment grants

Property, plant and equipment are net of investment grants, as follows:

	As at December 31	
	2011	2010
	<u>US\$ thousands</u>	<u>US\$ thousands</u>
Amount of the grants	930,414	923,252
Less – accumulated depreciation thereon	671,926	651,881
	<u>258,488</u>	<u>271,371</u>

3. Plants under construction – the changes represent additions during the year, net of transfers to property, plant and equipment.

Notes to the Consolidated Financial Statements as at December 31, 2011

Note 15 - Intangible Assets

A. Composition

	Intangible assets acquired					Intangible assets internally developed			Others	Total
	Goodwill	Concessions and mining rights (1)	Trademarks	Technology/ patents	Customer relationships	Exploration and evaluation assets	Technology/ patents	Development costs		
	US\$ thousands	US\$ thousands	US\$ thousands	US\$ thousands	US\$ thousands	US\$ thousands	US\$ thousands	US\$ thousands	US\$ thousands	US\$ thousands
Cost										
Balance as at January 1, 2011	208,458	157,773	54,519	37,273	144,762	28,317	346	6,872	85,219	723,539
Additions	–	942	–	915	–	6,709	–	–	38,693	47,259
Additions in respect of business combinations	74,996	–	60,761	31,736	62,180	–	–	–	920	230,593
Classification of exploration and evaluation assets to property, plant and equipment	–	–	–	–	–	(15,066)	–	–	–	(15,066)
Translation differences	(8,495)	(1,954)	(5,460)	(2,750)	(7,868)	(325)	(5)	29	(1,195)	(28,023)
Balance as at December 31, 2011	274,959	156,761	109,820	67,174	199,074	19,635	341	6,901	123,637	958,302
Amortization and impairment losses										
Balance as at January 1, 2011	23,057	35,297	5,010	12,270	29,021	3,627	128	5,267	66,083	179,760
Amortization for the year	–	3,250	5,461	3,896	13,380	930	52	190	7,847	35,006
Translation differences	(524)	(43)	(949)	(222)	(945)	(32)	(6)	(47)	(1)	(2,769)
Balance as at December 31, 2011	22,533	38,504	9,522	15,944	41,456	4,525	174	5,410	73,929	211,997
Amortized balance as at December 31, 2011	252,426	118,257	100,298	51,230	157,618	15,110	167	1,491	49,708	746,305

Notes to the Consolidated Financial Statements as at December 31, 2011

Note 15 - Intangible Assets (cont'd)

A. Composition (cont'd)

	Intangible assets acquired					Intangible assets internally developed			Others	Total
	Goodwill	Concessions and mining rights (1)	Trademarks	Technology/ patents	Customer relationships	Exploration and evaluation assets	Technology/ patents	Development costs		
	US\$ thousands	US\$ thousands	US\$ thousands	US\$ thousands	US\$ thousands	US\$ thousands	US\$ thousands	US\$ thousands	US\$ thousands	US\$ thousands
Cost										
Balance as at January 1, 2010	209,812	162,656	65,506	35,172	144,635	22,295	359	7,080	80,583	728,098
Additions	6,405	–	–	–	–	6,965	–	–	5,931	19,301
Translation differences	(7,759)	(4,883)	(10,987)	2,101	127	(943)	(13)	(208)	(1,295)	(23,860)
Balance as at December 31, 2010	208,458	157,773	54,519	37,273	144,762	28,317	346	6,872	85,219	723,539
Amortization and impairment losses										
Balance as at January 1, 2010	24,364	32,153	8,153	8,390	19,486	3,276	58	5,347	60,188	161,415
Amortization for the year	–	3,250	836	2,549	9,967	351	71	181	6,849	24,054
Translation differences	(1,307)	(106)	(3,979)	1,331	(432)	–	(1)	(261)	(954)	(5,709)
Balance as at December 31, 2010	23,057	35,297	5,010	12,270	29,021	3,627	128	5,267	66,083	179,760
Amortized balance as at December 31, 2010	<u>185,401</u>	<u>122,476</u>	<u>49,509</u>	<u>25,003</u>	<u>115,741</u>	<u>24,690</u>	<u>218</u>	<u>1,605</u>	<u>19,136</u>	<u>543,779</u>

- (1) A subsidiary in Spain has mining rights intended for future development of new mines for quarrying potash, in the amount of about \$59 million. Part of these rights are effective up to 2037 while the balance is effective up to 2067. Development of the new mines has not yet commenced and, accordingly, amortization of the rights in the real estate has not yet commenced.

Notes to the Consolidated Financial Statements as at December 31, 2011

Note 15 - Intangible Assets (cont'd)

- B. Total book value of intangible assets having defined useful lives and those having indefinite useful lives are as follows:

	As at December 31	
	2011	2010
	US\$ thousands	US\$ thousands
Intangible assets having a defined useful life	458,486	323,934
Intangible assets having an indefinite useful life	287,819	219,845
	746,305	543,779

Note 16 - Impairment Testing for Property, Plant and Equipment and Cash-Producing Units Containing Goodwill

- A. **Impairment testing for cash producing units containing goodwill and intangible assets with an indefinite useful life**

For the purpose of impairment testing, goodwill and intangible assets with an indefinite useful life are allocated to the cash-producing units which represent the lowest level within the Group at which the goodwill is monitored for internal management purposes.

The aggregate carrying amounts of goodwill and intangible assets with an indefinite useful life allocated to each unit are as follows:

	As at December 31	
	2011	2010
	US\$ thousands	US\$ thousands
<u>Goodwill</u>		
Potash, Spain	4,153	4,287
Specialty Fertilizers	60,977	–
Industrial Products, Europe	37,547	41,605
Industrial Products, United States	56,826	56,826
Performance Products, United States	11,638	9,405
Fertilizers, Israel	20,120	20,120
Industrial Products, Israel	3,708	3,708
Performance Products, Europe	45,063	43,535
Performance Products, South America	12,394	5,915
	252,426	185,401
<u>Trademarks</u>		
Industrial Products, United States	13,000	13,000
Industrial Products, Europe	8,522	8,812
Performance Products, United States	13,871	12,632
	35,393	34,444
	287,819	219,845

Notes to the Consolidated Financial Statements as at December 31, 2011

Note 16 - Impairment Testing for Property, Plant and Equipment and Cash-Producing Units Containing Goodwill (cont'd)**A. Impairment testing for cash producing units containing goodwill and intangible assets with an indefinite useful life (cont'd)**

Value in use was determined by discounting the future cash flows generated from the continuing operation of the cash-generating unit and was based on the following key assumptions:

	Discount rate	Average annual growth rate (1-5 years)	Long-term growth rate	Period of projected cash flows
Industrial Products, United States	9.0%	9.7%	2.0%	5 years
Industrial Products, Europe	9.0%	3.2%	2.0%	5 years
Performance Products, United States	8.2%	4.0%	2.0%	5 years
Performance Products, Europe	9.0%	7.4%	1.5%	5 years
Performance Products, South America	9.0%	8.0%	1.5%	5 years
Potash, Spain	9.0%	0.0%	0.0%	5 years
Specialty Fertilizers	9.0%	5.5%	2.0%	5 years

The recoverable value of the above mentioned units is based on their value in use. The value in use of the units examined has been determined by the Company's internal valuation. It has been determined with respect to all cases, that the stated value of the units in the financial statements is lower than their recoverable value, and accordingly no loss for impairment has been recognized in respect of such units.

The estimates and assumptions represent Management's assessment of future trends in the industry and are based on both external sources and internal sources (historical data).

Possible changes by reasonable amounts in the key assumptions, which constituted the basis for determination of the recoverable amount of the units, would not have caused the book value to be higher than the amount of their recoverable value.

B. Examination of impairment of property, plant and equipment items

During 2009, the Board of Directors of a subsidiary, as part of the subsidiary's efficiency plan, approved a plan for shutting down one of the production facilities of ICL Performance Products and transferring of the production to other existing plants.

As a result of the approved plan, the subsidiary examined the need for recognition of a provision for impairment in value of the production facility's property, plant and equipment. The examination included comparison of the discounted value of the expected future cash flows over the remaining useful life of the facility (a period of about two years) with the book value of the facility's assets.

Calculation of the discounted value of the expected future cash flows was made using a pre-tax annual discount rate of 9.5%. As a result of the examination, the subsidiary included a provision for impairment in value of the facility's assets in the amount of about \$27 million, which was recorded in the "other expenses" category in the statement of income.

Notes to the Consolidated Financial Statements as at December 31, 2011

Note 17 - Derivative Instruments

	As at December 31, 2011		As at December 31, 2010	
	Assets	Liabilities	Assets	Liabilities
	US\$ thousands		US\$ thousands	
Among current assets and liabilities:				
Foreign currency derivative instruments	28,001	(25,559)	27,186	(4,843)
Interest derivative instruments	400	(1,875)	–	(1,878)
Commodity and sea freight derivative instruments	371	(13,237)	504	(3,626)
	<u>28,772</u>	<u>(40,671)</u>	<u>27,690</u>	<u>(10,347)</u>
Among non-current assets and liabilities:				
Foreign currency and CPI derivative instruments	10,006	(3,734)	27,828	–
Interest derivative instruments	8,223	(21,436)	8,480	(21,275)
Commodity and sea freight derivative instruments	–	(1,867)	–	(2,795)
	<u>18,229</u>	<u>(27,037)</u>	<u>36,308</u>	<u>(24,070)</u>

Notes to the Consolidated Financial Statements as at December 31, 2011

Note 18 - Credit from Banks and Others

A. Composition

	As at December 31	
	2011	2010
	US\$ thousands	US\$ thousands
Current liabilities		
Short-term credit:		
From financial institutions	<u>329,042</u>	<u>11,282</u>
Current maturities of long-term loans:		
From financial institutions	14,636	38,569
From non-marketable debentures	20,000	–
From others	3,470	3,166
	<u>38,106</u>	<u>41,735</u>
	<u>367,148</u>	<u>53,017</u>
	As at December 31	
	2011	2010
	US\$ thousands	US\$ thousands
Non-current liabilities		
Loans from financial institutions*	1,013,713	998,384
Loans from others	76,600	24,545
	<u>1,090,313</u>	<u>1,022,929</u>
Less – current maturities in respect of loans from financial institutions and others	<u>18,106</u>	<u>41,735</u>
	<u>1,072,207</u>	<u>981,194</u>
Marketable debentures	418,470	441,728
Non-marketable debentures	87,000	87,000
	<u>505,470</u>	<u>528,728</u>
Less – current maturities of debentures	<u>20,000</u>	<u>–</u>
	<u>485,470</u>	<u>528,728</u>
Total non-current liabilities	<u>1,557,677</u>	<u>1,509,922</u>

* The Group has the right to make early repayment of the loans from financial institutions.

Notes to the Consolidated Financial Statements as at December 31, 2011

Note 18 - Credit from Banks and Others (cont'd)

B. Classified by currency and interest rates

	Weighted average interest rate as at December 31	As at December 31	
		2011	2010
		US\$ thousands	US\$ thousands
Current liabilities (without current maturities)			
Short-term credit from financial institutions:			
In dollars	1.3	233,411	966
In Euro	1.5	80,954	15
In other foreign currencies (mainly GBP)	2.0	14,677	10,301
		329,042	11,282
Non-current liabilities (including current maturities)			
Loans from financial institution:			
In dollars (1)	1.5	684,310	714,094
In Israeli currency – unlinked	4.5	72,165	–
In Euro (2)	3.2	243,162	229,165
In Israeli currency linked to CPI (3)	7.8	14,076	55,125
		1,013,713	998,384
Loans from others:			
In dollars		31,862	5,514
In foreign currencies – mainly Euro	3.1	11,173	19,031
In Israeli currency linked to CPI	7.8	33,565	–
		76,600	24,545
		1,090,313	1,022,929
Non-marketable debentures – in dollars	5.6	87,000	87,000
Marketable debentures (4):			
In dollars	3.0	69,612	69,055
In Israeli currency – unlinked	5.0	219,648	237,020
In Israeli currency – linked to CPI	3.4	129,210	135,653
		418,470	441,728
Unutilized long-term credit lines (5):		780,000	375,000

- (1) The interest in respect of most of the dollar debt is determined based on LIBOR + a margin at the rate of about 1.1%.
- (2) The interest in respect of the Euro debt is determined partly based on the Euribor + a margin of at the rate of about 1.2%, and partly based on average annual fixed interest at the rate of about 5.5%.
- (3) A loan received from a proportionately consolidated company.
- (4) See Section F.
- (5) See Sections I and J.

Notes to the Consolidated Financial Statements as at December 31, 2011

Note 18 - Credit from Banks and Others (cont'd)

C. Maturity periods

The credit and the loans from banks and others including debentures (net of current maturities) mature in the years after the date of the report, as follows:

	As at December 31	
	2011	2010
	US\$ thousands	US\$ thousands
Second year	299,000	621,203
Third year	220,026	318,385
Fourth year	202,975	196,537
Fifth year	674,205	231,400
Sixth year and thereafter	161,471	142,397
	1,557,677	1,509,922

D. Restrictions on the Company relating to the grant of credit

In respect of the loans from financial institutions and the debentures the Company issued, the Company undertook to comply with certain covenants in the consolidated statement of financial position. According to these covenants, the ratio of net debt to EBITDA may not exceed 3.5, the ratio of EBITDA to net interest expenses is to be at least 3.5 and the Company's equity may not fall below \$700 million, plus 25% of the cumulative net annual income for 2005 and the subsequent years (the equity restriction as at December 31, 2011 amounts to \$2,365 million) and the ratio of the net financial debt to the equity may not exceed 2.1. In addition, the financial liabilities of the subsidiaries are limited to 10% of the total assets in the Group's consolidated statement of financial position (in certain instances loans to subsidiaries are not included in said restriction). Up to and as at December 31, 2011, the Company is in compliance with the aforementioned financial covenants.

E. Sale of receivables under securitization transaction

On July 2, 2010 the Company and certain Group subsidiaries (hereinafter – “the Subsidiaries”) entered into a number of securitization agreements with Rabobank International and Credit Agricol (hereinafter – “the Lending Banks”) for the sale of their customer debts to a foreign company which was established specifically for this purpose and which is neither owned nor controlled by the ICL Group (hereinafter – “the Acquiring Company”).

The Acquiring Company finances acquisition of the debts by means of a loan received from a financial institution, which is not related to ICL, which finances the loan out of the proceeds from the issuance of commercial paper on the U.S. commercial paper market. The repayment of both the commercial paper and the loan are backed by credit lines from a banking consortium organized by the Lending Banks. The amount of cash that will be received in respect of the initial sale of the customer debts in the securitization transaction will be up to \$350 million.

The acquisition is on an ongoing basis, such that the proceeds received from customers whose debts were sold are used to acquire new trade receivables.

The period in which the Subsidiaries are entitled to sell their trade receivables to the Acquiring Company is five years from the closing date of the transaction, where both parties have the possibility at the end of each year to give notice of cancellation of the transaction. The securitization agreement will expire in July 2015.

Notes to the Consolidated Financial Statements as at December 31, 2011

Note 18 - Credit from Banks and Others (cont'd)**E. Sale of receivables under securitization transaction (cont'd)**

The selling price of the trade receivables is the amount of the debt sold, less the calculated interest cost based on the anticipated period between the sale date of the customer debt and its repayment date.

Upon acquisition of the debt, the Acquiring Company pays the majority of the debt price in cash and the remainder in a subordinated note, which is paid after collection of the debt sold. The rate of the cash consideration varies according to the composition and behavior of the customer portfolio.

The Subsidiaries handle collection of the trade receivables included in the securitization transaction, on behalf of the Acquiring Company.

In the agreement, ICL undertook to comply with certain covenants, according to which the ratio of net financial debt to equity will not exceed 2.1 and the ratio of net debt to EBITDA will not exceed 4.5. If ICL does not comply with the aforementioned covenants, the Acquiring Company is allowed to stop acquiring new receivables (without this affecting existing acquisitions). As at the reporting date, ICL is in compliance with the aforementioned covenants.

In addition, as part of the agreements a number of conditions were provided in connection with the quality of the customer portfolios, which give the Lending Banks the possibility of ending the undertaking or determining that some of the Subsidiaries, the customer portfolios of which do not meet the conditions provided, will no longer be included in the securitization agreement.

The securitization of trade receivables does not meet the conditions for disposal of financial assets prescribed in International Standard IAS 39, regarding Financial Instruments – Recognition and Measurement, since the Group did not transfer all of the risks and rewards deriving from the trade receivables. Therefore, the receipts received from the Acquiring Company are presented as a financial liability in short-term credit. As at December 31, 2011, utilization of the securitization facility and trade receivables within this framework amounted to \$310 million and \$619 million, respectively.

F. Issuance of Debentures

On April 27, 2009, the Company issued three series of debentures in a private offering via a tender to institutional investors, for a consideration of NIS 695 million (about \$167 million). The debentures were issued in the following three series:

1. Series A – approximately NIS 452 million debentures linked to the CPI, to be redeemed at the end of 5 years.
2. Series B – approximately NIS 61 million debentures not linked, to be redeemed at the end of 4.5 years.
3. Series C – approximately NIS 182 million debentures linked to the dollar, to be redeemed at the end of 4.5 years.

In August 2009 the debentures were registered for trading on the Tel-Aviv Stock Exchange. The interest rate determined in the tender after registration of the debentures on the stock exchange is 3.4% per annum for the CPI-linked debentures, 5.25% per annum for the shekel debentures and 2.4% above the six-month dollar Libor rate, for the dollar-linked debentures.

Notes to the Consolidated Financial Statements as at December 31, 2011

Note 18 - Credit from Banks and Others (cont'd)

F. Issuance of Debentures (cont'd)

On September 9, 2009, the Company issued three series of debentures via a tender to the public, for a consideration of NIS 898 million (about \$235 million). The debentures were issued in three series, as follows:

1. Expanded Series B – approximately NIS 696 million debentures not linked, to be redeemed at the end of about 4 years, bearing interest at the rate of 5.25%. The debentures were issued at a price of NIS 1.031 per unit and at an effective interest rate of 5%.
2. Expanded Series C – approximately NIS 102 million debentures linked to the dollar, to be redeemed in about 4 years, bearing interest at the rate of 2.4% above the six-month dollar Libor rate (rate on the issuance date – 4.4%). The debentures were issued at a price of NIS 0.913 per unit and at an effective interest rate of 4.7%.
3. Series D – approximately NIS 100 million shekel debentures not linked, to be redeemed at the end of about 5 years, bearing interest at the rate of 1.45% above the three-month shekel Telbor rate.

In respect of its shekel and index-linked series, the Company has executed transactions in derivatives that swap the NIS cash flows with dollar cash flows. In addition, the Company has executed transactions in derivatives to hedge most of the exposure to changes in the CPI.

- G. In December 2010, the Company took out a loan from a European Bank in the amount of €100 million. Repayment of the loan is on December 15, 2015. The interest rate on the loan is Libor + 1.14%.
- H. On March 14, 2011, ICL signed an agreement with a group of 17 banks from Europe, the United States and Israel whereby these banks made available to ICL credit in the amount of \$675 million. The credit line is for a period of 5 years and will be paid in one lump-sum at the end of the period. On the amount of the credit actually utilized, graduated annual interest will be paid, as follows:
 - Up to 33% of the credit utilized – Libor + 0.8%.
 - From 33% to 66% of the credit utilized – Libor + 0.95% (on the full amount utilized).
 - More than 66% of the credit utilized – Libor + 1.1% (on the full amount utilized).

As of the date of the financial statements the credit facility was fully utilized.

As part of the agreement, the Company undertook to comply with certain covenants in the consolidated statement of financial position. According to these covenants, the ratio of net debt to EBITDA may not exceed 3.5, the ratio of EBITDA to net interest expenses is to be at least 3.5 and the Company's equity may not fall below \$1,700 million, plus 25% of the cumulative net annual income for 2010 and the subsequent years (the equity restriction as at December 31, 2011 amounts to \$2,334 million). In addition, the financial liabilities of the subsidiaries are limited to 10% of the total assets in the Group's consolidated statement of financial position (in certain instances loans to subsidiaries are not included in said restriction). Up to and as at December 31, 2011, the Company is in compliance with the aforementioned financial covenants.

Notes to the Consolidated Financial Statements as at December 31, 2011

Note 18 - Credit from Banks and Others (cont'd)

- I.** In December 2011, ICL entered into an undertaking with 7 international banks whereby the banks will provide the Company a credit line, in the aggregate amount of \$650 million. The credit line is for a period of five years and is to be repaid in full at the end of the period.

On the amount of the credit actually utilized, graduated annual interest is to be paid, based on the amount of the credit line actually utilized, as follows:

- Up to 33% of the credit is utilized: Libor + 1%.
- From 33% up to 66% of the credit is utilized: Libor + 1.2% (on the entire amount utilized).
- From 66% and above of the credit is utilized: Libor + 1.4% (on the entire amount utilized).

The credit agreement does not include a commitment to utilize a minimum amount of the credit line. A non-utilization commission will apply at the rate of 0.35% per year.

This credit agreement replaces a credit facility, dated August 6, 2007, in the aggregate amount of \$725 million, which was repaid early in December 2011.

As part of the credit agreement, the Company undertook to maintain financial covenants identical to those provided in the loan agreement detailed in Section H above. As at the date of the report the credit line had not been utilized.

- J.** In the second half of 2011, the Company signed an agreement with a European bank whereby the bank provided a credit line, in the amount of €100 million. The credit line is for a period of six years and is to be repaid in full at end of the period. The interest rate on the loan is Libor + 1%-1.4%. As at the date of the report, the credit line had not been utilized.

Note 19 - Trade Payables

	As at December 31	
	2011	2010
	US\$ thousands	US\$ thousands
Open accounts	647,030	520,465
Checks payable	17,998	793
	665,028	521,258

Notes to the Consolidated Financial Statements as at December 31, 2011

Note 20 - Other Payables, including Derivative Instruments

	As at December 31	
	2011	2010
	US\$ thousands	US\$ thousands
Israeli Government – mainly in respect of royalties	97,934	55,872
Employees	284,826	259,131
Accrued expenses	120,300	62,371
Derivative instruments	40,671	10,347
Other	85,654	237,648
	629,385	625,369

Note 21 - Taxes on Income

A. Taxation of companies in Israel

1. Measurement of results for tax purposes under the Income Tax (Inflationary Adjustments) Law, 1985 (hereafter – “the Inflationary Adjustments Law”)

The Income Tax Law (Adjustments for Inflation) – 1985 (hereinafter – the Law), which is effective as from the 1985 tax year, introduced the concept of measurement of results for tax purposes on a real (net of inflation) basis. On February 26, 2008, the Knesset enacted the Income Tax Law (Adjustments for Inflation) (Amendment No. 20) (Restriction of Commencement Period), 2008, whereby the effective period of the Adjustments Law ceased at the end of the 2007 tax year.

In accordance with the Amendment, the depreciation of property, plant and equipment, are adjusted up to the end of the 2007 tax year, and from this time forward their linkage will be discontinued.

Adjustments for Inflation Income Tax Regulations (Rates of Depreciation), 1986 that allow depreciation at rates different from those in Section 21 of the Ordinance, apply even after the Adjustments Law is no longer in effect, and therefore the Company continues to claim accelerated depreciation on the basis of these Regulations.

2. Income tax rates

On July 14, 2009, the Economic Efficiency Law (Legislative Amendments for Implementation of the Economic Plan for the years 2009 and 2010), 2009, was passed by the Israel Knesset, which provided, among other things, an additional gradual reduction in the Companies Tax rate to 18% in 2016 and thereafter. Pursuant to the said Amendments, the Companies Tax rates applicable in the 2009, 2010 and 2011 tax years are 26%, 25% and 24%, respectively.

The impact of the change in the tax rates, as stated, was reflected in 2009 by means of a reduction of the balance of the deferred tax liabilities and recognition of a tax benefit, in the amount of about \$26 million.

On December 5, 2011 the Knesset approved the Law for Revision of the Tax Burden (Legislative Amendments), 2011. According to the Law, the tax reduction provided in the Economic Efficiency Law, as stated above, will be cancelled and commencing from 2012 and thereafter the Company Tax rate will be 25%.

The impact of the legislation on the financial statements is expressed by recognition of tax expenses, in the amount of about \$38 million, against adjustment of the deferred tax balances.

Notes to the Consolidated Financial Statements as at December 31, 2011

Note 21 - Taxes on Income (cont'd)

B. Taxation of non-Israeli subsidiaries

Subsidiaries that are incorporated outside of Israel are assessed for tax under the tax laws in their countries of residence. The principal tax rates applicable to the major subsidiaries outside Israel are as follows:

Subsidiary incorporated in the Netherlands – tax rate of 25%.

Subsidiary incorporated in Germany – tax rate of 29%.

Subsidiary incorporated in the United States – tax rate of 40%.

Subsidiary incorporated in Spain – tax rate of 30%.

Subsidiary incorporated in England – tax rate of *26.5%.

* Commencing from April 1, 2012, the tax rate in the United Kingdom will be reduced to 25%.

C. Encouragement laws in Israel

1. Tax benefits under the Law for the Encouragement of Capital Investments, 1959 (hereinafter – “The Encouragement Law”)

The production facilities of certain subsidiaries in Israel (hereinafter – “the Companies”) received the status of “Approved Enterprises” or “Benefited Enterprises” under the Encouragement Law, including amendment No. 60 to the law that was published in April 2005.

The main tax benefits available to the abovementioned companies are:

a) Reduced tax rates

During the benefits period – 10 years commencing in the first year in which the companies earn taxable income from the Approved Enterprises or Benefited Enterprises (provided the maximum period to which it is restricted by law has not elapsed), the following reduced tax rates or tax exemptions apply to such income from the Approved Enterprises or Benefited Enterprises owned by it:

- 1) On Approved Enterprises – Companies Tax of 0% or 25%, instead of the regular tax rate (see A(2) above).
- 2) On Benefited Enterprises – Companies Tax of 0% for the regular track and 11.5% for the Ireland track instead of the regular tax rate (see A(2) above).

The Company has Approved Enterprises, where the tax rates applicable to them are 0% and 25%. In addition, the Company has Benefited Enterprises under the Regular Track (tax rate 0%) and Benefited Enterprises under the Ireland Track (tax rate 11.5%).

In the event of distribution of a cash dividend out of income that was exempt from tax, as stated above, the Company will have to pay tax at the grossed-up rate of 25% in respect of the amount distributed (see also Note 3(O)). The temporary difference related to the dividend from exempt income as of December 31, 2011, in respect of which deferred taxes were not recognized, is in the amount of \$1,261 million.

Notes to the Consolidated Financial Statements as at December 31, 2011

Note 21 - Taxes on Income (cont'd)

C. Encouragement laws in Israel (cont'd)

1. Tax benefits under the Law for the Encouragement of Capital Investments, 1959 (hereinafter – “The Encouragement Law”)

a) Reduced tax rates (cont'd)

The proportion of the Company’s taxable income entitled to benefits at reduced tax rates is calculated on the basis of the ratio between the turnover of the “Approved Enterprise” or the “Benefited Enterprise” and the total turnover of the company. In general, the turnover applicable to the “Approved Enterprise” is calculated, by taking the increase resulting from the comparison of the company’s turnover with its “basic” turnover, which is that attributed to the last year before the activation of the “Approved Enterprise”, or such other basis as is stipulated in the letter of approval.

The turnover attributed to the “Benefited Enterprise” is generally calculated according to the increase in the turnover compared to a “base” turnover, which is the average turnover in the three years prior to the year of election of the “Benefited Enterprise”.

b) Accelerated depreciation

In respect of buildings, machinery and equipment used by the Approved Enterprise, the Company is entitled to claim accelerated depreciation as provided by law, commencing from the year each asset is placed in service.

c) Conditions for entitlement to the benefits

The above-mentioned benefits are contingent on fulfillment of the conditions provided by law, the regulations published thereunder and the Letters of Approval pursuant to which the investments in the Approved Enterprises were made. Non-compliance with the conditions could cause cancellation of the benefits, in whole or in part, along with refund of the benefit amounts with the addition of late payment interest.

d) On December 29, 2010, the Knesset approved the Economic Policy Law for 2011-2012, whereby the Law for the Encouragement of Capital Investments, 1959, was amended (hereinafter – “the Amendment to the Law”). The Amendment to the Law is effective from January 1, 2011 and its provisions will apply to preferred income derived or accrued by a Preferred Enterprise (industrial plant that fulfills the law’s provisions regarding the matter, a competitive plant contributing to the Gross Domestic Product (GDP) or a competitive plant in the area of renewable energy). In 2011 and thereafter, companies may choose to not be included in the scope of the Amendment of the Law and to remain in the scope of the law before its amendment until the end of the benefits period. The 2012 tax year is the last year the Company may choose a Preferred Enterprise as the year of election, provided that the minimum qualifying investment began in 2010.

Notes to the Consolidated Financial Statements as at December 31, 2011

Note 21 - Taxes on Income (cont'd)

C. Encouragement laws in Israel (cont'd)

1. Tax benefits under the Law for the Encouragement of Capital Investments, 1959 (hereinafter – “The Encouragement Law”)

d) cont'd)

As part of the Amendment, the existing tax benefit tracks were eliminated (the tax exempt track, the “Ireland track” and the “Strategic” track) and two new tax tracks were introduced in their place – a Preferred Enterprise and a Special Preferred Enterprise, which mainly provide a uniform and reduced tax rate for all the company’s income entitled to benefits, as follows:

1. For a Preferred Enterprise – in the 2011-2012 tax years – a tax rate of 10% for Development Area A and of 15% for the rest of the country. In the 2013-2014 tax years – a tax rate of 7% for Development Area A and of 12.5% for the rest of the country, and as from the 2015 tax year – 6% for Development Area A and 12% for the rest of the country.
2. A Special Preferred Enterprise – for a period of 10 consecutive years a reduced tax rate of 5% if it is located in Development Area A or of 8% if it is located in a different area.

The Amendment to the Law also provides that no tax will apply to a dividend distributed out of preferred income to a shareholder that is a company –both at the level of the distributing company and at the shareholder level. A tax rate of 15% will apply to a dividend distributed out of preferred income to an individual shareholder or foreign resident, subject to treaties for prevention of double taxation. Furthermore, the Amendment to the Law provides relief with respect to tax paid on a dividend received by an Israeli company from profits of an approved/alternative/beneficiary enterprise that accrued in the benefits period according to the provisions of the law before its amendment, if the company distributing the dividend notifies the Tax Authorities by June 30, 2015 that it is applying the provisions of the Amendment to the Law and the dividend is distributed after the date of the notice.

The Amendment to the law does not apply to an Industrial Enterprise that is a mine, other facility for production of minerals or a facility for exploration of fuel. Therefore, ICL plants that are defined as mining plants and mineral producers will not be able to take advantage of the tax rates proposed as part of the new law.

Nonetheless, the proposal for amendment of the law as worded after the Amendment does not cancel tax benefits to which a Benefited Plant is entitled in respect of investments up to December 31, 2012. Therefore, those plants will be able to utilize the tax benefits in respect of qualifying investments made up to December 31, 2012, in accordance with the provisions of the old law.

As at the approval date of the financial statements, the Company is examining the impact of the law and its application with respect to the companies operating in Israel.

Notes to the Consolidated Financial Statements as at December 31, 2011

Note 21 - Taxes on Income (cont'd)

C. Encouragement laws in Israel (cont'd)

2. The Law for the Encouragement of Industry (Taxation), 1969

- a) The Company and some of its Israeli subsidiaries are "Industrial Companies", as defined by this law. As such, these companies are entitled to claim depreciation at increased rates for equipment used in industrial activities, as stipulated by the regulations published under the Inflationary Adjustments Law.
- b) The industrial enterprises held by the Company and some of its Israeli subsidiaries have a common line of production and are therefore entitled to file consolidated tax returns in accordance with Section 23 of the Law for the Encouragement of Industry. Accordingly, each company is entitled to offset its tax losses against the taxable income of the other.

D. Non-application of International Financial Reporting Standards (IFRS) for tax purposes

On February 4, 2010, the Law for Amendment of the Income Tax Ordinance (No. 174 – Temporary Order for the Tax Years 2007, 2008 and 2009 (hereinafter – "the Amendment to the Ordinance"), 2010 (hereinafter – "the Temporary Order"), whereby in determination of the taxable income for the 2007-2009 tax years, Accounting Standard No. 29 "Early Adoption of International Financial Reporting Standards (IFRS)" (hereinafter – "Standard No. 29") will not apply for purposes of determination of the taxable income in the said years, even if it was applied in preparation of the financial statements. On January 12, 2012, Amendment No. 188 to the Income Tax Ordinance was published whereby the Temporary Order was amended such that Standard No. 29 will also not apply in determination of the taxable income for 2010 and 2011.

The amendment has no impact on the Group's financial statements.

E. Carried forward tax losses

As at December 31, 2011, the balances of the carryforward tax losses of subsidiaries not consolidated for tax return purposes with the Company, for which deferred taxes were created, amount to about \$69 million (December 31, 2010 – about \$63 million).

The balances of the carryforward tax losses of subsidiaries not consolidated with the Company for tax purposes, for which deferred taxes were not created is about \$29 million.

As at the date of the report, the capital losses for tax purposes available for carryforward to future years amount to about \$61 million. In accordance with an assessment agreement with the Israeli Tax Authorities, it will be possible to utilize most of these losses only against capital gains that the Group companies have from the sale of shares of companies in which they hold directly at least 30% to a company they control, directly or indirectly, at the rate of at least 50%. Deferred taxes were not recorded in respect of these capital losses. These losses are linked to the CPI as stated in Paragraph A(1) above.

Notes to the Consolidated Financial Statements as at December 31, 2011

Note 21 - Taxes on Income (cont'd)**F. Temporary Order – Amendment No. 169 to the Income Tax Ordinance**

On January 1, 2009, Amendment No. 169 to the Income Tax Ordinance was passed as a Temporary Order effective only for the 2009 tax year, whereby which a company may elect to pay income tax of 5% on dividend income it received in 2009 that was paid by an Association of Persons, foreign-resident, provided the conditions stated in the Temporary Order have been met.

After the Company examined the means of implementing the said amendment to the Ordinance, the Company's Board of Directors approved a one-time withdrawal of profits from the foreign group of companies in the amount of \$ 209 million.

G. Tax assessments

The Company and its subsidiaries have received final tax assessments for tax purposes up to and including the 2008 tax year.

The rest of the companies in Israel have final tax assessments up to and including the 2006 tax year.

In January 2011, assessment agreements were signed between the Company and the subsidiaries consolidated with it for tax purposes and the Israeli tax authorities for the years 2004–2008.

As a result of the assessment agreements, the Company recorded tax expenses of about \$40 million for the year ended December 31, 2010.

The main subsidiaries outside of Israel have received final tax assessments up to and including the 2007 tax year (for most of the companies).

Notes to the Consolidated Financial Statements as at December 31, 2011

Note 21 - Taxes on Income (cont'd)

H. Deferred income taxes

1. The composition of the deferred taxes and the changes therein, are as follows:

	In respect of financial position				In respect of carryforward tax losses (see E above) US\$ thousands	Total US\$ thousands
	Depreciable property, plant and equipment	Inventories	Provisions for employee benefits	Other		
	US\$ thousands	US\$ thousands	US\$ thousands	US\$ thousands		
Balance as at January 1, 2010	(151,135)	30,681	*96,325	*10,339	*12,276	(1,514)
Changes in 2010:						
Changes in respect of business combinations	–	–	–	(5,210)	–	(5,210)
Amounts recorded to a capital reserve	–	–	1,937	528	25,148	*27,613
Translation differences	*(1,229)	(502)	*(82)	*(2,697)	*307	(4,203)
Amounts recorded in the statement of income	*(11,636)	5,206	*(8,934)	*6,802	*13,076	*4,514
Balance as at December 31, 2010	*(164,000)	35,385	*89,246	*9,762	*50,807	21,200
Changes in 2011:						
Changes in respect of business combinations	(27,665)	(1,418)	4,517	888	359	(23,319)
Amounts recorded to a capital reserve	–	–	8,900	(1,353)	4,027	11,574
Translation differences	2,601	(168)	(3,515)	(1,264)	355	(1,991)
Amounts recorded in the statement of income	(106,921)	8,394	15,648	544	(20,599)	(102,934)
Balance as at December 31, 2011	(295,985)	42,193	114,796	8,577	34,949	(95,470)

* Reclassified.

2. Deferred taxes are presented in the statement of financial position as follows:

	As at December 31	
	2011	2010
	US\$ thousands	US\$ thousands
As part of non-current assets	85,356	120,305
As part of non-current liabilities	(180,826)	(99,105)
	(95,470)	21,200

Notes to the Consolidated Financial Statements as at December 31, 2011

Note 21 - Taxes on Income (cont'd)

H. Deferred income taxes (cont'd)

3. Linkage terms

	As at December 31	
	2011	2010
	US\$ thousands	US\$ thousands
Dollar	15,104	25,483
Euro	(9,434)	23,014
Shekels	(117,308)	(44,730)
Other	16,168	17,433
	(95,470)	21,200

4. For companies in Israel – the deferred taxes as at December 31, 2011 are computed mainly at the weighted-average tax rate of 23% (December 31, 2010 – 17%). Regarding companies outside of Israel – see B above.

I. Taxes on income included in the income statements:

1. Composition

	For the year ended December 31		
	2011	2010	2009
	US\$ thousands	US\$ thousands	US\$ thousands
Current taxes	253,783	216,867	215,036
Deferred taxes	69,052	11,900	(15,713)
Taxes in respect of prior years *	25,857	38,039	(30,831)
	348,692	266,806	168,492

* Including deferred taxes in respect of prior years.

Notes to the Consolidated Financial Statements as at December 31, 2011

Note 21 - Taxes on Income (cont'd)

I. Taxes on income included in the income statements: (cont'd)

2. Following is a reconciliation of the theoretical tax expense, assuming all income is taxed at the regular tax rates (see A(2) above) and the tax expense presented in the consolidated statements of income:

	For the year ended December 31		
	2011	2010	2009
	US\$ thousands	US\$ thousands	US\$ thousands
Income before taxes on income, as reported in the statements of income	1,871,700	1,295,423	942,806
Statutory tax rate	24%	25%	26%
Theoretical tax expense on this income	449,210	323,856	245,130
Less – tax benefits arising from reduced tax rate applicable to an “Approved Enterprise” and “Benefited Enterprise”	127,917	104,198	73,071
	321,293	219,658	172,059
Add (less) – the tax effect of:			
Differences between the basis of measurement for tax purposes and for financial reporting purposes (the dollar)	8,476	(5,051)	888
Difference in respect of foreign subsidiaries	26,256	17,120	17,997
Non-deductible expenses	8,316	14,599	3,509
Additional deduction for tax purposes of foreign subsidiaries	(43,074)	(16,364)	(19,935)
Exempt income	(884)	–	–
Temporary differences in respect of which deferred taxes were not recorded	1,256	–	7,188
Taxes in respect of prior years	25,857	38,039	(30,831)
Elimination of tax calculated in respect of the Company’s share in losses (profits) of associated companies	(1,920)	(620)	385
Tax in respect of dividend from foreign subsidiaries	324	–	14,607
Other differences	2,792	(575)	2,625
Taxes on income included in the income statements	348,692	266,806	168,492

Notes to the Consolidated Financial Statements as at December 31, 2011

Note 21 - Taxes on Income (cont'd)

J. Taxes on income relating to equity items

	For the year ended December		
	2011	2010	2009
	US\$ thousands	US\$ thousands	US\$ thousands
<u>Tax recorded in other comprehensive income</u>			
Actuarial gains from defined benefit plan	8,900	1,937	1,421
Change in fair value of financial assets available-for-sale	1,329	331	(1,660)
Change in fair value of derivatives used for hedging cash flows	(143)	408	320
Taxes in respect of exchange rate differences on equity loan to a subsidiary included in translation differences	4,027	25,148	–
	<u>14,113</u>	<u>27,824</u>	<u>81</u>

	For the year ended December		
	2011	2010	2009
	US\$ thousands	US\$ thousands	US\$ thousands
<u>Tax recorded directly in equity</u>			
Tax benefit in respect of issuance of shares to employees	(1,070)	(211)	744

Note 22 - Employee Benefits

A. Composition

	As at December 31	
	2011	2010
	US\$ thousands	US\$ thousands
Present value of funded obligations	689,814	658,536
Less – fair value of plan assets	610,750	618,014
	<u>79,064</u>	<u>40,522</u>
Present value of unfunded obligations	351,335	352,929
Post-retirement medical benefits	7,143	7,911
	<u>358,478</u>	<u>360,840</u>
Recognized liability for defined benefit obligations	437,542	401,362
Liability for severance benefits	76,653	95,816
	<u>514,195</u>	<u>497,178</u>
Total employee benefits liabilities recognized in the balance sheet		

Notes to the Consolidated Financial Statements as at December 31, 2011

Note 22 - Employee Benefits (cont'd)

A. Composition (cont'd)

The liability in respect of employee benefits is presented in the statement of financial position as follows:

	As at December 31	
	2011	2010
	US\$ thousands	US\$ thousands
As part of non-current assets	65,365	83,325
As part of non-current liabilities	579,560	580,503
	514,195	497,178

Components of the plan's assets:

	As at December 31	
	2011	2010
	US\$ thousands	US\$ thousands
Equity instruments	165,585	168,622
Debt instruments	407,979	408,010
Deposits with insurance companies	37,186	41,382
	610,750	618,014

B. Linkage terms

	As at December 31	
	2011	2010
	US\$ thousands	US\$ thousands
Dollar	15,189	12,956
Euro	132,772	121,179
Shekels	300,454	305,981
Other	65,780	57,062
	514,195	497,178

C. Severance pay

1. Israeli companies

Pursuant to Israeli labor laws and the labor contracts in force, the Company and its Israeli subsidiaries are required to pay severance pay to dismissed employees and employees leaving their employment in certain other circumstances. Severance pay is computed based on length of service and generally according to the latest monthly salary and one month's salary for each year worked.

Notes to the Consolidated Financial Statements as at December 31, 2011

Note 22 - Employee Benefits (cont'd)**C. Severance pay (cont'd)**

1. Israeli companies (cont'd)

The liabilities relating to employee severance pay rights are covered as follows:

- a) Under collective labor agreements, the Group companies in Israel make current deposits in outside pension plans for some of the employees. These plans generally provide full severance pay coverage and, in some cases, 72% of the severance pay liability.

The severance pay liabilities covered by these plans are not reflected in the financial statements, since all the risks relating to the payment of the severance pay, as described above, have been transferred to the pension funds.

- b) The Group companies in Israel make current deposits in Managers' Insurance policies in respect of employees holding management positions. These policies provide coverage for the severance pay liability in respect of the said personnel. Under employment agreements, these insurance policies are, subject to certain limitations, the property of the employees. The amounts funded in respect of these policies are not reflected in the balance sheets since they are not under the control and management of the companies.
- c) As to the balance of the liabilities, which are not funded as above, a full provision is made in the financial statements.

2. Certain subsidiaries outside Israel

Since the countries wherein these subsidiaries operate have no law requiring payment of severance pay, it is not customary to include a provision in their financial statements for possible eventual future severance payments to employees, except in cases where part of the activities of the enterprise is discontinued and, as a result, the employees are dismissed.

D. Pension and early retirement

1. Some of the Group's employees in and outside of Israel (some of whom have already left the Group) have defined benefit pension plans (within the Company) for their retirement. Generally, the terms of the plans provide that the employees are entitled to receive pension payments based on, among other things, their number of years of service (in certain cases up to 70% of their last base salary) or computed, in certain cases, based on a fixed salary.
2. A foreign subsidiary has commitments for pension payments to its employees in respect of which that subsidiary had established a pension fund. The subsidiary is responsible for depositing funds with the pension fund and in case of a shortage in the value of the fund's assets, the subsidiary is responsible for supplementing the difference in accordance with the rules applying in the country in which that subsidiary operates. The subsidiary is not permitted to withdraw monies from the pension fund even if a surplus over the pension liability exists. The subsidiary is also not entitled to liquidate the pension fund.

Notes to the Consolidated Financial Statements as at December 31, 2011

Note 22 - Employee Benefits (cont'd)

D. Pension and early retirement (cont'd)

3. In addition to the above, some Group companies have entered into an agreement with a provident fund – and with a pension fund for some of the employees – under which such companies make current deposits with that fund which releases them from their liability for making a pension payment under the labor agreements to all of their employees upon reaching retirement age. The amounts funded are not reflected in the balance sheets since they are not under the control and management of the companies.
4. Employees of a subsidiary in Sodom are entitled to early retirement if they fulfill certain conditions, including age and seniority at the time of retirement.

E. Post-employment retirement benefits

Some of the retirees of the Group companies receive, aside from the pension payments from a pension fund, benefits that are primarily gifts for the holidays and weekend getaways. The companies' liability for these costs accrues during the employment period. The Group companies include in their financial statements the costs projected in the post-employment period according to an actuarial calculation.

F. (1) Movement in present value of defined benefit plans

	For the year ended December 31		
	2011	2010	2009
	US\$ thousands	US\$ thousands	US\$ thousands
Obligation in respect of defined benefit plan at beginning of the year	1,019,376	942,822	819,980
Current service costs	34,574	31,531	31,292
Interest costs	53,237	49,808	44,687
Employee contributions	649	359	532
Benefits paid	(52,924)	(52,302)	(48,309)
Actuarial losses recognized in equity	15,557	42,873	62,399
Increase in liabilities as part of business combinations	24,912	–	154
Past service cost	115	160	–
Reductions as a result of curtailment of benefits	–	–	(677)
Changes in respect of exchange rate differences	(37,083)	29,286	3,871
Changes in respect of translation differences	(10,121)	(25,161)	28,893
Obligation in respect of defined benefit plan at end of the year	1,048,292	1,019,376	942,822

Notes to the Consolidated Financial Statements as at December 31, 2011

Note 22 - Employee Benefits (cont'd)

F. (cont'd)

(2) Movement in plan assets for defined benefit plans

	For the year ended December 31		
	2011	2010	2009
	US\$ thousands	US\$ thousands	US\$ thousands
Fair value of plan assets at beginning of the year	618,014	578,535	483,202
Expected return on plan assets	34,730	31,621	23,663
Actuarial gains (losses) recognized in equity	(25,903)	19,410	62,767
Employer contributions	21,767	19,244	18,216
Employee contributions	703	239	551
Increase in assets as part of business combination	16,353	–	–
Benefits paid	(27,182)	(32,638)	(36,546)
Changes in respect of exchange rate differences	(22,614)	16,426	1,582
Changes in respect of translation differences	(5,118)	(14,823)	25,100
Fair value of plan assets at end of the year	610,750	618,014	578,535

(3) Expenses recognized in the income statement

	For the year ended December 31		
	2011	2010	2009
	US\$ thousands	US\$ thousands	US\$ thousands
Current service costs	34,574	31,531	31,292
Interest costs	53,237	49,808	44,687
Expected return on plan assets	(34,730)	(31,621)	(23,663)
Reductions as a result of curtailment of benefits	–	–	(677)
Past service cost	115	160	–
Exchange rate differences, net	(14,469)	12,860	2,289
	38,727	62,738	53,928

The expense is recognized in the following line items in the income statement:

	For the year ended December 31		
	2011	2010	2009
	US\$ thousands	US\$ thousands	US\$ thousands
Cost of sales	28,160	25,701	26,104
Selling and marketing and transport expenses	2,827	1,873	1,446
General and administrative expenses	2,484	3,105	3,009
Research and development expenses	1,103	852	733
Other income (expenses)	115	160	(677)
Financing expenses	4,038	31,047	23,313
	38,727	62,738	53,928

Notes to the Consolidated Financial Statements as at December 31, 2011

Note 22 - Employee Benefits (cont'd)

F. (cont'd)

(4) Actual and expected return

	For the year ended December 31		
	2011	2010	2009
	US\$ thousands	US\$ thousands	US\$ thousands
Actual return on plan assets	8,800	51,031	86,430
Expected return on plan assets	34,730	31,621	23,663

(5) Actuarial gains and losses recognized directly in equity

	For the year ended December 31		
	2011	2010	2009
	US\$ thousands	US\$ thousands	US\$ thousands
Cumulative amount (before tax) as at January 1	89,455	65,992	66,360
Actuarial (gains) losses recognized during the period	41,460	23,463	(368)
Cumulative amounts (before tax) as at December 31	130,915	89,455	65,992
Deferred taxes in respect of actuarial gains and losses recognized directly in equity	(34,294)	(25,394)	(23,457)
	96,621	64,061	42,535

(6) Actuarial assumptions

Principal actuarial assumptions at the reporting date (expressed as weighted averages):

	2011	2010	2009
	%	%	%
Discount rate as at December 31	4.9	5.3	5.5
Expected return on plan assets as at January 1	5.6	5.8	5.2
Future salary increases	4.2	4.2	4.0
Future pension increase	2.6	2.8	2.4

The assumptions regarding the future mortality rate are based on published statistics and accepted mortality tables.

A one percentage point change in assumed healthcare cost trend rates does not have a material effect on the Company.

Notes to the Consolidated Financial Statements as at December 31, 2011

Note 22 - Employee Benefits (cont'd)

F. (cont'd)

(7) Historical information

	As at December 31		
	2011	2010	2009
	US\$ thousands	US\$ thousands	US\$ thousands
Present value of the obligation under defined benefit plans	1,048,292	1,019,376	942,822
Fair value of plan assets	610,750	618,014	578,535
Deficit in the plan	437,542	401,362	364,287
Experience adjustments arising on liabilities	(8,713)	(6,929)	(9,347)
Experience adjustments arising on assets	(15,830)	19,570	62,283

G. Early retirement plan

In September 2009, the Board of Directors of a subsidiary approved a plan for early retirement for employees at preferred terms prior to the retirement age provided by law. In 2009, an expense of about \$48 million was recorded in respect of the plan, which was recorded in the "other expenses" category in the statement of income.

H. The amount recognized in respect of defined contribution plans in 2011 is about \$29 million (in 2010, an expense was recognized in the amount of about \$23 million).

Notes to the Consolidated Financial Statements as at December 31, 2011

Note 23 - Provisions

A. Composition and changes in the provision

	Warranties	Site restoration, removal and dismantling of property, plant and equipment items	Legal claims	Other	Total
	US\$ thousands	US\$ thousands	US\$ thousands	US\$ thousands	US\$ thousands
Balance as at January 1, 2011	2,785	* 68,808	2,995	* 41,015	115,603
Provisions made during the period	570	21,495	2,308	178	24,551
Provisions reversed during the period	(1,420)	(722)	–	(2,460)	(4,602)
Time based effects (due to discounting)	–	2,105	–	–	2,105
Payments during the period	(13)	(8,699)	(17)	(784)	(9,513)
Translation differences	(21)	(1,589)	(179)	404	(1,385)
Balance as at December 31, 2011	<u>1,901</u>	<u>81,398</u>	<u>5,107</u>	<u>38,353</u>	<u>126,759</u>

Presentation in the statement of financial position:

	As at December 31	
	2011	2010
	US\$ thousands	US\$ thousands
Among current liabilities	47,178	*48,100
Among non-current liabilities	79,581	67,503
	<u>126,759</u>	<u>115,603</u>

* Reclassified.

B. Restoration of mines and mining sites

The Group companies manufacture, store and sell hazardous chemical products and, therefore, they are exposed to risks deriving from damage to the environment. The companies invest significant amounts in order to comply with the environmental rules and regulations. In the estimation of Company Management and on the basis of information in its possession as at the signing date of the financial statements, the provision existing in the financial statements covers the quantifiable liabilities in respect of costs relating to environmental protection.

- The Group included a provision in the books for restoration of mines and mining sites. The provision is based on the discounted cash flows based on an estimate of the future expenses that will be required to close down the mines and to restore the mining sites. The estimated closing date of the mines is based on a geological evaluation of the quantity of potash remaining in the mines and the resources available to the subsidiaries.

Notes to the Consolidated Financial Statements as at December 31, 2011

Note 23 - Provisions (cont'd)**B. Restoration of mines and mining sites (cont'd)**

2. Pursuant to the provisions of Spanish law covering environmental protection in connection with areas affected by mining activities, a subsidiary in Spain has submitted a plan for site clearance of mining waste adjacent to the subsidiary's two production sites. The plan to clear the waste from the two sites is intended to last for a period of about 24 years and 36 years. According to the subsidiary's estimate, the overall scope of the plan for site clearance of the mining waste will amount to \$26,838 thousand (€20,767 thousand). As at December 31, 2011, a provision has been included in the Spanish subsidiary's books in the amount of \$18,284 thousand (€14,148 thousand). The provision was calculated on the basis of discounting the projected costs of clearing away the waste.
3. At a subsidiary's factory in Ramat Hovav there is solid waste. Pursuant to the requirements of the Ministry of Environmental Protection, the company is required to treat the existing and current waste. The treatment will be through a future facility for restoration of HBr. In Management's assessment, the company has an appropriate provision in the financial statements, which on the basis of information in its possession as at the signing date of the financial statements, covers the estimated cost of treating the historical waste. At this stage, until operation of the waste treatment facility, the barrels are stored on a special site in coordination with the Ministry of Environmental Protection.
4. From time to time, a subsidiary is required to examine various contentions regarding residual waste found in areas surrounding its factories in the Ramat Hovav area or that there is subterranean penetration of waste created during the manufacturing process. The subsidiary may be required to clean up the relevant sites or the subterranean areas if and when it is found that it is responsible for the said contamination as stated. In the past several years, various examinations were performed by various institutions in order to investigate land contamination in this area and in the area surrounding the subsidiary's site in Beer Sheva.

Note 24 - Commitments, Concessions and Contingent Liabilities**A. Commitments**

1. Certain subsidiaries have entered into agreements with suppliers in Israel and abroad for the purchase of raw materials in the ordinary course of business, for various periods ending up to 6 years after the date of the report. The scope of the commitments for all the periods of the agreements is approximately \$660 million.
2. Certain subsidiaries have entered into agreements with suppliers for acquisition of property, plant and equipment. As at December 31, 2011, the subsidiaries had commitments for investments of about \$597 million.
3. A subsidiary in England has entered into several contracts to lease land that is used to mine potash. The lease fees are generally determined based on the quantity of potash mined in each mine. The two major lease contracts are until 2015 and 2035, where the latter could terminate in 2012, subject to serving prior notice of six months. The balance of the contracts are generally for periods of between 35 and 50 years.
4. In September 2003, a long-term (20 year) supply agreement was signed between a subsidiary and a foreign corporation commencing from January 2004, for the supply of bromine and bromine compounds.

Notes to the Consolidated Financial Statements as at December 31, 2011

Note 24 - Commitments, Concessions and Contingent Liabilities (cont'd)

A. Commitments (cont'd)

5. Certain subsidiaries are committed to pay royalties to the State of Israel – computed at rates of 3.5% to 4.5% of the proceeds received on the sale of products, regarding which the Government participated, by way of grants, in the research and development thereof. These commitments are for 100% – 150% of the dollar amounts of the grants received (for products produced in Israel).

At the time the participations from the Government of Israel were received, successful development of the related projects was not assured. In the case of failure of a project that was partly financed by royalty-bearing Government participations, the Group is not obligated to pay any royalties to the Government.

The maximum amount of royalties for which the Company may be liable as at December 31, 2011 is about \$8.2 million.

6. In 2008, a subsidiary in Spain signed an agreement with another company, Petroleum Oil & Gas Espania – ("Petroleum"), for the development of underground natural gas reserves.

Petroleum is interested in the development and utilization of natural gas reserves and plans to develop a production project to create spaces for the storage of natural gas using solution mining.

An initial payment of 2 million euro was paid by Petroleum upon signing the agreement. Company Management believes that the project is feasible and that the gas storage option can be implemented.

7. The Articles of Association of the Company and its subsidiaries include provisions that permit exemption, indemnification and insurance of the liability of officers, all in accordance with the provisions of the Companies Law and the Securities Law.

The Company, with the approval of the Audit Committee, the Board of Directors and the General Meeting of the shareholders, granted its officers an exemption and letters of indemnification, and has also taken out an insurance policy covering directors and officers. The insurance and the compensation do not apply to those cases specified in Section 263 of the Companies Law. The exemption is for damage caused and/or to be caused by such officers, due to a breach of the duty of care to the Company. The amount of the indemnification payable by the Company under the letter of indemnification, in addition to amounts received from an insurance company, if any, for all of the officers on a cumulative basis, for one or more of the events detailed therein, was limited to \$300 million. The insurance is renewed annually. The coverage in effect (including a joint layer with the parent company in the amount of \$20 million) is in the aggregate amount of \$220 million.

8. A proportionately consolidated company – I.D.E. Technologies Ltd. (hereinafter – "I.D.E.") has agreements under the BOT (Build, Operate, Transfer) method in connection with water desalination, based on the "take or pay" principle, as follows:

- a) A proportionately consolidated company of I.D.E. has an agreement from 2001 with the State of Israel for the financing, planning, construction, operation and transfer to the State of Israel of a seawater desalination plant in Ashkelon. The plant produces today a total of 115 million cubic meters of desalinated seawater per year. The agreement is for a period of approximately 25 years. Construction of the plant was completed in 2005 and its commercial operation was commenced in 2006.

Notes to the Consolidated Financial Statements as at December 31, 2011

Note 24 - Commitments, Concessions and Contingent Liabilities (cont'd)

A. Commitments (cont'd)

8. (cont'd)

- b) A consolidated partnership of I.D.E. has an agreement with the Water Authority of Cyprus for the financing, planning, construction and operation of a water desalination plant having a capacity of about 21.5 million cubic meters of water per year. The agreement was for a ten-year period, which commenced upon completion of construction of the project in July 2001 and continued until July 2011. Later, the agreement was renewed until June 2012, including the option for further extension until September 2012.
- c) A proportionately consolidated company of I.D.E. has an agreement from 2006 with the State of Israel for the financing, planning, construction, operation and transfer to the State of Israel of a seawater desalination plant in Hadera. The plant produces today a total production of 127 million cubic meters of desalinated seawater per year. The agreement is for a period of about 25 years.
- d) A subsidiary of I.D.E. held at the rate of 51% has an agreement from January 2010, with the State of Israel for financing, planning, construction, operation and transfer to the State of Israel of a seawater desalination facility in Soreq with an overall scope of 150 million cubic meters of desalinated seawater per year. The agreement is for a period of about 26.5 years.

9. On March 25, 2008, an agreement was signed for the supply of natural gas between the subsidiary Dead Sea Works (hereinafter – “DSW”) and the partners in the Yam Thetys Group for the supply of natural gas to the plants of the ICL Group in Israel. The total quantity of gas that the ICL Group undertook to purchase from the partners in the Yam Thetys Group under the agreement is approximately 2 BCM (2 billion cubic meters), subject to adjustments as set out in the agreement (the “contractual quantity of gas”).

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

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

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

The rate of reduction of the supply of gas from the Yam Thetys Group to ICL’s plants between December 2011 and February 2012 amounted to about 30%.

Notes to the Consolidated Financial Statements as at December 31, 2011

Note 24 - Commitments, Concessions and Contingent Liabilities (cont'd)**A. Commitments (cont'd)**

9. (cont'd)

Subsequent to the date of the financial statements, on January 26, 2012, the Yam Thetys Group notified that it is forced to reduce the amount of gas it is supplying, due to depletion of the gas in the well, which it defined as an "Act of G-d", and therefore, unfortunately according to the details in the said announcement to ICL the gas in the Yam Thetys well will be exhausted during 2013. The rate of reduction of the supply of gas from the Yam Thetys Group to ICL's plants between December 2011 and February 2012 amounted to about 30%. As at the approval date of the financial statements, the amount of the reduction expected in the future is not known. ICL notified Yam Thetys that its notification does not meet the contractual requirements for declaration of an "Act of G-d", and that it demands to receive all the information and data, in accordance with its contractual right, in connection with the depletion in the reserve and that it expects from the partners in Yam Thetys to supply gas from other sources it owns.

On December 12, 2010, DSW signed a conditional agreement with East Mediterranean Gas S.A. E. for supply of a quantity of natural gas of 0.2 BCM for use in a power station DSW is contemplating to construct in Sodom.

The agreement provides that DSW has an option to acquire an additional quantity of natural gas of 0.53 BCM. The expiration date of the option pursuant to this agreement was March 31, 2011. The exercise period of the option was extended several times, where the last such extension is valid up to June 30, 2012.

B. Concessions

1. Dead Sea Works Ltd. (DSW)

Pursuant to the Dead Sea Concession Law, 1961 (hereinafter – "the Concession Law"), as amended in 1986, and the concession indenture attached as an addendum to the Concession Law, DSW was granted a concession to utilize the resources of the Dead Sea and to lease the land required for its plants in Sodom for a period ending on March 31, 2030, accompanied by a priority right to receive the concession after its expiration. In consideration of the concession, DSW pays royalties to the Government of Israel, calculated at the rate of about 5% of the value of the products at the factory gate, less certain expenses, and ICL Fertilizers also pays lease fees. DSW grants a sub-concession to Dead Sea Bromine Ltd. to produce bromine and its compounds from the Dead Sea, the expiration date of which is concurrent with DSW's concession. The royalties for the products manufactured by the Bromine Company are received by DSW from the Bromine Company, which pays them to the State. In addition, there is an arrangement relating to payment of royalties by Dead Sea Magnesium for production of magnesium metals by virtue of a specific arrangement with the State provided in the Government's decision dated September 5, 1993. Pursuant to the arrangement, royalties are paid by Dead Sea Magnesium on the basis of carnallite used for production of magnesium.

As for the royalties payment by DSW, the State was permitted to demand reconsideration with respect to the rate of the royalties relating to the quantity in excess of three million tons of potash manufactured in any year from 2010 and thereafter, provided the rate of the royalties with respect to such excess does not exceed 10% of the value of the product at the factory gate, less certain expenses.

Notes to the Consolidated Financial Statements as at December 31, 2011

Note 24 - Commitments, Concessions and Contingent Liabilities (cont'd)**B. Concessions (cont'd)**

1. Dead Sea Works Ltd. (DSW) (cont'd)

In December 2010, a letter was received from the Accountant General containing a demand for a hearing regarding increasing the amount of the royalties, as part of an arbitration proceeding between the parties.

In the beginning of 2012, as part of an agreement with the State of Israel with respect to performance of the harvesting of the salt and the financing thereof, it was provided that commencing from 2010 DSW is to pay royalties on sales of potash in excess of 3 million tons per year at the rate of 10%, and commencing from 2012 royalties at the rate of 10% are to be paid on sales of potash in excess of 1.5 million tons per year. It was further provided that after revision of the rate of the royalties, at the present time the State sees no need to make changes in its specific fiscal policy regarding mining from the quarries at the Dead Sea, including the commercial utilization thereof. If a change in the fiscal policy is made, the increase in the rate of the royalties will be cancelled and the Government will be permitted to demand a reconsideration of the rate of the royalties to be imposed on annual sales of potash in excess of 3 million tons per year.

The arrangement with Dead Sea Magnesium provides that during 2006 the State may demand a reconsideration in connection with the amount of the royalties and the method or their calculation for 2007 and thereafter. The State's demand for reconsideration, as stated, was first received at the end of 2010.

In 2006, a letter was received from the Accountant General at that time claiming an underpayment of royalties amounting to hundreds of millions of shekels.

Pursuant to the concession, disputes between the parties relating to the concession, including royalties, are to be decided by an arbitration panel of three arbitrators (each side appoints an arbitrator and these two appoint the third). On January 9, 2011, the State and DSW decided to turn to arbitration for purposes of deliberating and deciding the issue of the manner of calculation of the royalties by the concessionaire and royalties to be paid for magnesium metals and payment or refunds (if any) due deriving from these matters. Each of the parties appointed an arbitrator on its behalf and these arbitrators appointed the third arbitrator.

On March 14, 2011, a claim was received that was filed by the State of Israel against DSW in the framework of the arbitration. In the statement of claim, the State demands the amount of \$265 million in respect of insufficient royalty payments for the years 2000 through 2009, with the addition of interest, and the change in the method of calculating royalty payments from the sale of metal magnesium. As a result of the agreement with the State regarding the outline for the permanent solution and change of payment of the royalties, the part of the statement of claim dealing with the rate of the royalties on sales of potash in a given year in excess of 3 million tons, was eliminated.

Notes to the Consolidated Financial Statements as at December 31, 2011

Note 24 - Commitments, Concessions and Contingent Liabilities (cont'd)

B. Concessions (cont'd)

1. Dead Sea Works Ltd. (DSW) (cont'd)

Study of the State's allegations in respect of prior years DSW believes, on the basis of a legal opinion it received, that the royalties it had paid and their manner of calculation are consistent with the provisions of the concession. The same method of calculation was applied consistently since the time DSW was a government company, and was known to the State and accepted by it. Accordingly, and on the basis of the legal opinion DSW received, no provision has been recorded in the financial statements with respect to royalties that the State contends were not paid.

2. Rotem

Rotem has been mining phosphates in the South for the last fifty years. The mining is conducted in accordance with phosphate mining concessions, which are granted from time to time by the Minister of National Infrastructures under the Mines Ordinance, through the Supervisor of Mines in his Office (hereinafter – “the Supervisor”), accompanied by mining authorizations issued by the Israel Lands Administration (hereinafter – “the ILA”). The concessions relate to the quarry (rock and phosphates) whereas the authorizations relate to use of land as active mine sites.

Mining concessions:

Rotem has the following four mining concessions:

- i. Sadeh Rotem – valid up to the end of 2021;
- ii. Sadeh Zafir – (Oron-Zin) – valid up to the end of 2021;
- iii. Sadeh Effa – valid up to the end of 2013;
- iv. Sadeh Hatrurim – The Supervisor has decided to extend the area of the Rotem field concession (valid until the end of the 2021) so that it covers the Hatrurim Field. The area of the Rotem concession has been so extended, and the matter has been transferred to the ILA to deal with the extension of the area of the mining permit for the Rotem Field, in line with the extension of the concession area.

Mining royalties:

In respect of mining of the phosphate, Rotem is required to pay the State royalties based on a calculation format stipulated in the Mines Ordinance. The calculation format for the royalties was updated in February 2010 as part of a compromise agreement that settled all the disputes regarding past royalties and formulas for future royalties.

Rotem paid royalties to Israeli government of approximately \$4,198 thousand and \$12,787 thousand in 2011 and 2010, respectively.

Notes to the Consolidated Financial Statements as at December 31, 2011

Note 24 - Commitments, Concessions and Contingent Liabilities (cont'd)

B. Concessions (cont'd)

3. As to mining rights of a subsidiary in Spain – see Note 15A(1).
4. CPL's mining concession is based on approximately 113 mining leases and concessions for extracting various minerals, in addition to numerous easements and rights of way from private owners of land under which CPL operates or, in the case of mining underneath the North Sea, granted by the British Crown. The terms of all of these leases, concessions, easements and rights of way extend until 2015-2038. In 2011, mining royalties amounted to about £2.48 million.
5. A subsidiary in the United Kingdom, from the ICL Fertilizers segment, mines peat, which constitutes a raw material for production of detached platforms for improvement of land and for use as soil substitutes on growing platforms, in the Company's mines in the United Kingdom (Creca, Nutberry and Douglas Water). The Nutberry and Douglas Water sites are owned by the subsidiary, whereas Creca is held under a long-term lease. The mining permits are granted by the local authorities for time periods fixed in advance of 14 years and are renewed after being examined.

C. Contingent liabilities

1. As at December 31, 2011, the total guarantees provided to external parties amount to \$32 million. The guarantees provided by the Company in respect of loans taken out by the subsidiaries amount to about \$1,185 million.
2. In 1994 and thereafter a subsidiary received third-party and fourth-party notifications against it and against two of its subsidiaries by American companies that had been sued in the United States and other countries by approximately 30,000 plaintiffs from various countries including countries in Central America and the Caribbean. The plaintiffs mostly worked as plantation workers and they claim to have been injured by exposure to chemical substances produced by a number of manufacturers, including large chemical companies, and supplied to banana growing companies (together, the "Defendants"), over the course of approximately thirty years (1960-1990). Most of these claims have already been concluded. As at the date of approval of the financial statements, the subsidiaries are parties to one legal proceeding, including 9 plaintiffs who are requesting certification of their claim as a class action. The above-mentioned claim is pending in Hawaii, no hearing has yet been held with respect to it and it is currently dormant (hereinafter – "the Dormant Claim"). The Dormant Claim is for bodily injury and therefore the amount for the claim has not been stated.

Together with the Dormant Claim, a similar claim was filed in Hawaii from which the Defendants were removed (hereinafter – "the Active Claim"). However, in light of the significant similarity between the two claims, the results of the Active Claim may have an impact on the continued proceedings in connection with the Dormant Claim. Based on the report of the attorneys in the United States, in the Active Claim, a request certification of the claim as a class action was rejected and the individual claims are proceeding. During 2010, the Active Claim was rejected, however appeals have been filed and such appeals are still pending. In the estimation of the Company and the subsidiaries, the amount of material supplied by them to the relevant countries in the relevant periods was, if at all, small compared with the amount of material supplied by other manufacturers.

Notes to the Consolidated Financial Statements as at December 31, 2011

Note 24 - Commitments, Concessions and Contingent Liabilities (cont'd)**C. Contingent liabilities (cont'd)**

2. (cont'd)

On August 8, 2011, 2,430 workers at banana plantations in the Philippines filed claims in the Court in California against several defendants, including the subsidiaries (Dead Sea Bromine and other companies from the bromine group), for bodily injury caused, according to them, from exposure to DBCP. The claim in California is substantially similar to the contingent claims in Hawaii (the subsidiaries are a party to one of them). In each pending lawsuit, the plaintiffs allege essentially similar bodily injury, as a result of the production and use of DBCP by banana plantation workers, albeit in different countries, but similar causes of action and claims.

As the claims are being managed in different forums, in different legal jurisdictions and involve claimants from different countries, it is not clear which law will be applicable to these claims. In addition, with regards to the new claim submitted in August 2011, the claim is still in its early stages and requests to dismiss or disclosure of documents have not yet been submitted, and also no interim decisions have yet been made which could explain the chances of the claim. Based on this, in the opinion of Management of the Company, based on the estimation of its legal advisors, it is not possible to estimate the results of the claims above. Nevertheless, the estimation that the total exposure of the Company and subsidiaries in connection with the existing proceeds will be \$20 million or more is low.

3. Ecology

- a) In December 2007, updated business license conditions were issued to Bromine Compounds Ltd. under which the treatment of effluent was under the exclusive responsibility of each plant (including the removal stage). Under the conditions of the license, the wastewater from the facilities will be removed to the evaporation ponds and reservoirs that are operated and managed by the Council, until the end of 2009. After this date, independent removal systems will be operated under the management of each facility, and wastewater pumping into the current system will be prohibited.

The field work for construction of the ponds has commenced, where there is no change in the timetables provided by the Ministry of the Environment. It appears that there will be a delay of several months beyond the above-mentioned timetables regarding completion of the evaporation ponds as a result of statutory reasons. The factory has submitted a request for additional time to complete the ponds.

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

Notes to the Consolidated Financial Statements as at December 31, 2011

Note 24 - Commitments, Concessions and Contingent Liabilities (cont'd)**C. Contingent liabilities (cont'd)**

3. Ecology (cont'd)

a) (cont'd)

In March 2008, a company from ICL Industrial Products that operates the plant in Ramat Hovav, obtained a list of emission-related conditions for its business license. According to the conditions of the license, the plant must conduct surveys on all types of emissions generated by the plant into the environment. The Ministry will determine the means to address the emissions and pollution on the basis of the results of these surveys. ICL Industrial Products performed the surveys and submitted them to the Council and the Ministry of the Environment. Survey findings indicated compliance with benchmark values in the plant's vicinity. Furthermore, a workplan for the plant's compliance with the specifications determined for the plant was submitted. The Ministry has not yet responded to the plant. The plant is also required to conduct measurements and address diffused emissions of substances generated in the course of the production process. These actions are being performed on an ongoing basis and are planned for the upcoming years as well.

b) Pending proceedings relating to the Kishon River

The production site of Fertilizers and Chemical Materials Ltd., a company in the ICL Fertilizers segment (hereinafter – "FCM") borders the Kishon River. For decades FCM, along with many other entities, municipalities and plants, has diverted wastewater to the Kishon River.

Between 2001 and 2005, a number of claims for monetary damages were filed in the Haifa District Court against FCM and a series of other defendants (including the State of Israel) by 50 individuals (or their heirs or dependants), most of them fishermen who had worked, according to the claims, in the Kishon's fishing harbor. According to the claim, the flow of sewage to the Kishon River by each of the chemical plants operating on the river banks has caused the plaintiffs' cancer and other illnesses. Dozens of factories, local governments and insurance companies were joined as third-party defendants. In the process of examining the claims, ten plaintiffs withdrew their complaints, which were dismissed.

Since these claims are for bodily injury, the plaintiffs are not required to quantify the amounts sought as damages. As at the date of preparation of this report, the damages quantified in the claims amount to approximately NIS 139 million (\$36 million), as valued on the date of filing of the claims, plus linkage differentials and interest from the date of illness or the date of filing of the claim, as well as penal damages and additional costs such as treatments and third party assistance – which, in a small number of cases, were not quantified – fees and costs. Note that this is an arithmetic addition of the sums quantified in the statements of claim, and not a risk evaluation by the defendants nor an evaluation of the risk to which FCM is exposed.

Notes to the Consolidated Financial Statements as at December 31, 2011

Note 24 - Commitments, Concessions and Contingent Liabilities (cont'd)**C. Contingent liabilities (cont'd)**

3. Ecology (cont'd)

b) Pending proceedings relating to the Kishon River (cont'd)

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

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

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

Between 2000 and 2007, a number of claims were filed in the District Court at Haifa against a list of defendants by former soldiers (and their heirs and dependents). The plaintiffs claim that contact with toxic substances in and around the Kishon River caused them cancer and other diseases. Several dozen factories (including FCM), local governments, including the State of Israel, and insurance companies were joined as third-party defendants. As at the date of the Report, 23 plaintiffs withdrew their complaints, and complaints in respect of 87 soldiers (89 plaintiffs) remain.

The complaints involve a total amount of NIS 480 million (US\$126 million), which does not reflect the entire scope of the soldiers' legal suits, which are personal-injury suits. Since these claims are for physical injury, the plaintiffs are not required to precisely quantify the amounts sought as damages. Other primary damages not quantified in the claim include loss of future livelihood, medical expenses, in some cases loss of salary for years lost from work, etc., as well as interest and linkage differentials, attorneys' fees and costs. Note that this is an arithmetic addition of the sums quantified in the statements of claim, and not a risk evaluation by the defendants nor an evaluation of the risk to which FCM is exposed.

Notes to the Consolidated Financial Statements as at December 31, 2011

Note 24 - Commitments, Concessions and Contingent Liabilities (cont'd)

C. Contingent liabilities (cont'd)

3. Ecology (cont'd)

b) (cont'd)

These cases are at various stages of evidentiary hearings. Initially, the court hears the issue of the causal connection, from a narrow perspective, in other words, the connection between the substances that allegedly were contained in the Kishon vicinity, and the plaintiff's illnesses. These actions involve highly complex fact patterns spanning decades and involving hundreds of parties (plaintiffs, defendants and third parties), and constitute a precedent-setting proceeding, both in terms of the nature of the claim and the division of responsibility among the defendants and third parties.

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

- c) Three claims were filed with the District Court at Beer Sheva in March and June 2007 against the State of Israel and the Industrial Local Council at Ramat Hovav, in whose jurisdiction the Ramat Hovav plants operate, including the plants of ICL Industrial Products. The plaintiffs argue that various pollutants in the vicinity of Ramat Hovav have caused their illnesses, including, among other things, respiratory diseases, spontaneous abortion, birth defects, diseases of the nervous system, cancer, and other illnesses. The claims rely, among other things, on results of an epidemiological study. The claims sue for sums for treatment expenses incurred by the plaintiffs, as well as compensation for pain and suffering, distress, and punitive damages. The plaintiffs are suing for a total sum of more than \$62 million.

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

In December 2011, hearing of the proofs was completed and the summations are expected to be submitted by June 2012. In the estimation of Company Management, based on its legal advisors the claim's chances of prevailing are low and, accordingly, no provision has been included in the financial statements.

- d) In November 2007, a claim and request for its certification as a class action were filed in the District Court in Beer Sheva against a company in the ICL Industrial Products segment (hereinafter – "the Subsidiary"). The plaintiffs claim that the defendant's factory emitted hazardous substances into the air. According to the plaintiffs, the defendant must pay Negev residents "financial compensation for harm to autonomy of will and for imposing a health hazard" and to provide "a fund for medical observation purposes". The sum claimed in the class action is US\$288 million.

Notes to the Consolidated Financial Statements as at December 31, 2011

Note 24 - Commitments, Concessions and Contingent Liabilities (cont'd)**C. Contingent liabilities (cont'd)**

3. Ecology (cont'd)

d) (cont'd)

During 2010, the parties started arbitration proceedings and on January 3, 2011, the parties signed a compromise agreement for ending the legal proceedings and submitted the agreement for approval of the Court.

As part of the agreement, it was agreed that a representative process will be approved as a class action, without any admission on the part of the Subsidiary with respect to the correctness of the plaintiffs' contentions and the court will grant the represented group (i.e., all residents of the State of Israel in the seven years preceding the agreement or a part thereof), the following relief, and such relief only:

- (1) The Subsidiary will commit to take various actions that will reduce the quantity of the different substances emitted from its factory, with an aggregate investment estimated at more than \$9 million over 4 years after approval of the agreement, if approved, as detailed in the compromise agreement.
- (2) The Company from the ICL segment will finance educational activities with an estimated value of NIS 450 thousand (about \$125 thousand) for increasing awareness and involvement in the environment for students in the area.

The parties will recommend that the Court shall grant to each of the plaintiffs compensation of NIS 50 thousand, coming to a total of NIS 700 thousand, plus VAT, in favor of fees of their representatives.

The agreement will bring the claim of the group represented to an end. The compromise agreement was accompanied by an opinion of the arbitrator as to the fairness and reasonableness of the agreement.

On April 4, 2011, the State Attorney General submitted his position regarding the compromise agreement in respect of the class action filed against the Subsidiary, whereby he objects to the agreement. The Company submitted its response to the position of the State Attorney General. In its decision on February 6, 2012, the Court rejected most of the contentions raised by the State Attorney General, and partly accepted one contention. The Court recommended to the parties to revise the compromise agreement in such a manner that it will give additional weight, in connection with monetary investments, to the component calling for educational and other activities to increase the awareness of the students in the area, as well as older persons, with respect to environmental protection matters participation in scholastic programs, and provided the parties 30 days to submit notifications regarding the matter. The parties received an additional extension to complete their discussions regarding the Court's proposal until April 5, 2012.

Notes to the Consolidated Financial Statements as at December 31, 2011

Note 24 - Commitments, Concessions and Contingent Liabilities (cont'd)

C. Contingent liabilities (cont'd)

3. Ecology (cont'd)

- e) On July 31, 2008, the Clean Air Law, 2008 (hereinafter – “the Clean Air Law”), was enacted, which is intended to govern the treatment and supervision of air pollution in Israel. The Law entered into effect commencing from 2011. Pursuant to the Law, the Ministry of the Environment instructed that ICL’s factories in Israel, along with the rest of the factories in Israel’s chemical industry, are required to submit a request for an emissions’ permit no later than March 31, 2014. Up to this date, the provisions of the Law will not apply to ICL’s factories in Israel.

The Clean Air Law addresses, among other things, fixed sources (including the Company’s factories) and is intended to serve as a platform for implementation of the Integrated Pollution Prevention and Control (IPPC) directive (hereinafter – “the Directive”), which was accepted by the European Commonwealth in 1996.

The Clean Air Law distinguishes between factories defined in the Directive as having a significant impact on the environment (hereinafter – “IPPC Factories”), with which ICL’s factories in Israel are included, and other factories. Pursuant to the Clean Air Law, the activities of IPPC Factories will be conditioned on receipt of a valid emissions’ permit. The emissions’ permit is expected to include specific provisions based on the best available technology (BAT).

On June 22, 2010, the Minister of the Environment promulgated the Clean Air Regulations (Emissions Permits), 2010, providing the requirements for submission and receipt of an emissions’ permit. For purposes of determining the best available technique, the Regulations make reference to the attribution documents (BREF) of the European Commonwealth and require selection of the best possible technology known (except in special circumstances requiring specific justification). After receipt of an emissions’ permit an emissions’ charge will be imposed on the factories. Regulations regarding the manner of determining the emissions’ charge have not yet been published, and it is not possible to know when the charge will be imposed or the rate thereof.

Since specific demands have not yet been determined for the Company’s facilities constituting emissions’ sources requiring an emissions’ permit, and since the rate of the charge has not yet been determined, at this stage the Company is unable to estimate the costs that will derive from the Law and, accordingly, it is not able to estimate the impacts of the Clean Air Law on its activities.

4. Increase in level of Pond 150

The minerals from the Dead Sea are extracted by way of solar evaporation, whereby salt precipitates into the bed of one of the evaporation ponds at Sodom, in one of the sites of DSW, of ICL Fertilizers. The precipitated salt creates a layer on the pond bed of approximately 20 centimeters in height annually. The process of production of the raw material requires that a fixed brine volume is preserved in the pond. To this end, the water level of the pond is raised by approximately 20 centimeters annually.

Notes to the Consolidated Financial Statements as at December 31, 2011

Note 24 - Commitments, Concessions and Contingent Liabilities (cont'd)**C. Contingent liabilities (cont'd)**

4. Increase in level of Pond 150 (cont'd)

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

Already in 1971 it was known to many, including the various authorities, that the level of Pond 150 will rise by 20 centimeters each year. Most of the hotels signed a document confirming their knowledge regarding the rising level and that it would be taken into account in planning and constructing the hotels, and that they would bear the costs of constructing protection and that they would have no claim against DSW in relation to the rising level.

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

Temporary defenses: the temporary defenses to be performed over a number of years and are characterized by constructing a dike the length of the western shore of the pond, opposite the relevant hotels in some of the places with a system to lower the ground water. These dikes will be raised from time to time, in consideration of the rising of the level of the pond. As at the date of the Report, there is agreement between DSW and the State regarding financing of the costs of the temporary defenses – DSW will bear 39.5% of the financing and the State will bear the rest.

Permanent solution: the permanent solution for the rising of the level of the Dead Sea is by means of full harvesting of the salt from Pond No. 5 of Dead Sea Works (hereinafter – “the Salt Harvesting”), in such a manner that raising of the water level in the Pond will not be necessary after completion of the harvesting. During December 2011, ICL reached agreement with the Ministry of Finance the outline of the principles for the permanent solution. The highlights of the outline are set forth below:

- A. Planning and execution of the Salt Harvesting will be performed by DSW.
- B. The Government will make a decision that the Salt Harvesting project, and the new pumping station to be constructed, constitute national infrastructure projects that will be advanced by the Committee for National Infrastructures. By means of its decision, the Government will direct the Committee for National Infrastructures and DSW, as the project initiator, to make their best efforts so that the National Site Plan covering the projects will become effective by June 30, 2013.

Notes to the Consolidated Financial Statements as at December 31, 2011

Note 24 - Commitments, Concessions and Contingent Liabilities (cont'd)

C. Contingent liabilities (cont'd)

4. Increase in level of Pond 150 (cont'd)
- C. Commencing from the beginning of 2017, the water level in Pond No. 5 will not rise above 15.1 in the Dead Sea Works network. If there is a significant non-conformance with the timetables for construction of the harvesting project as a result of a requirement for changes by the planning institutions, as a result of which the Plan is not approved on time, without DSW having violated its obligations, DSW will be permitted to request raising of the water level above that stated in this paragraph. DSW will be required to pay compensation for damages caused, if any, as a result of a rise in the water level.
- D. Pursuant to DSW's calculations, the total cost of the Salt Harvesting was estimated, as at October 2010, at NIS 3.8 billion, in values discounted at a real (inflation adjusted) discount rate of 7%. The Government will bear 20% of the amount of the cost of the Salt Harvesting and not more than the amount of NIS 0.76 billion. The Government's maximum commitment is linked to the CPI and bears interest at the rate of 7%.
- E. DSW agrees to an increase in the rate of the royalties, for every quantity of the chloride potash it sells in any given year, in excess of 1.5 million tons, in such a manner that instead of payment of royalties at the rate of 5% of the sales, in accordance with Section 15(A) of the Concession Indenture, a rate of 10% will apply to the sales. Update of the rate of the royalties, as stated, will apply to sales commencing from January 1, 2012, except for annual sales' quantities in excess of 3 million tons, in respect of which the rate of the royalties will be updated on sales made after January 1, 2010. The part of the statement of claim in the arbitration proceeding existing between the State and DSW, with respect to the dispute involving the royalties on annual sales in excess of 3 million tons will be cancelled.
- F. The Government will make a decision that, at this point, the State sees no need to make additional changes in its specific fiscal policy regarding mining from the quarries at the Dead Sea, including the commercial utilization thereof and, accordingly, at the present time, it will not initiate and will not object, as applicable, to proposed laws regarding this matter. DSW's consent to the increase of the rate of the royalties, as stated in Section E above, is contingent on implementation of the Government's decision, as stated in this Section.
- G. A detailed agreement is to be signed between the Company and the Israeli Government.

Subsequent to the date of the financial statements, in January 2012, the Government approved the outline of the plan and made the decisions required by the outline, as stated above.

Up to the time the required harvesting set-up is completed, additional interim defenses are required. There is no certainty that construction of these defenses will finish on the dates required by the height of the level of the Pond, since there could be delays deriving from, among other things, the need to receive the permits required by law (which are subject to complex and lengthy proceedings), and for other reasons. Delays in constructing the interim defenses could cause significant damage to the hotels and/or to DSW.

Notes to the Consolidated Financial Statements as at December 31, 2011

Note 24 - Commitments, Concessions and Contingent Liabilities (cont'd)

C. Contingent liabilities (cont'd)

4. Increase in level of Pond 150 (cont'd)

In 2006, the Dead Sea Hotels Union filed a petition to the High Court of Justice requesting that the Court order the State to decide regarding the permanent solution with respect to water level of the Dead Sea. On February 1, 2012, the Court ruled that the outline of the agreement between DSW and the Government renders the petition superfluous and, accordingly, it is rejected.

Subsequent to the date of the financial statements, in January 2012, Man, Nature and Law – the Israeli Society for Protection of the Environment and the Movement for Quality of the Governance in Israel (hereinafter – “the Petitioners”), filed a petition in the High Court of Justice, for issuance of a conditional order and a request for an interim order against the Government of Israel, the Ministry of Finance and Dead Sea Works (hereinafter – “the Respondents”), regarding the decision of the Government of Israel dated January 1, 2012, regarding the permanent solution for the water level of the Dead Sea and the royalties (hereinafter – “the Petition”). In the Petition, the Petitioners are requesting the High Court of Justice to order cancellation of the Government’s decision and to instruct that until the hearing date of the Petition, the Government’s decision will not enter into effect. In February 2012, the Court rejected the request for an interim order and determined that case is to be transferred to a panel of judges. The hearing of the case was set for May 2012.

Site Plan – as part of the Government’s prior decision to declare the protection project a national infrastructure project, it was decided to advance a special site plan regarding this matter on the National Infrastructures Committee. The Government’s latest decision imposes on DSW the obligation to advance a plan for the permanent solution, including the harvesting and moving of DSW’s existing pumping station. The plan is known as NIP 35 and relates to the urgent interim defenses that are also to permit raising the existing dykes in Pond 5 up to a certain level and is awaiting Government approval. Approval of the plans, their stages, on the relevant dates, is essential to the continuation of DSW’s production process and delays could have an unfavorable impact on the process and accordingly to losses/damage.

A National Site Plan (NSP) is in process for the area of the Dead Sea (including the concession area), known as NSP 13. The policy document of the NSP was recently approved by the National Council. The document presents a vision whereby the area in which the company operates will continue to serve for purposes of industry, tourism and residences, while preserving the environmental aspects. The next stage is preparation of a site plan for the region on the basis of the policy document.

5. In 2008, Israel National Roads Company filed a suit for damages totaling \$10 million for damages sustained by bridges located along Highway 90. The plaintiff alleges that the damages were sustained also as a result of the Company’s materials, which spilled out of trucks that transported them to the Eilat Port. The Company, based on the assessment of its legal counsel, estimates that it is more reasonable than not that the lawsuit will be dismissed than it will be accepted and, therefore, no provision was recorded in the Company’s books in respect of the said amount.
6. In addition to the contingencies referred to in sections above, a number of claims are pending against the Company and various subsidiaries (including lawsuits). In respect of claims for an amount up to about \$26 million as of December 31, 2010, the Company and the subsidiaries have recorded provisions as at that date of about \$4 million. In addition, part of the above claims are covered by insurance. In the opinion of Company Management, based on opinions of its legal counsel, the provision recorded is sufficient to cover any liabilities that might arise.

Notes to the Consolidated Financial Statements as at December 31, 2011

Note 25 - Equity

A. Composition:

	As at December 31, 2011		As at December 31, 2010	
	Authorized	Issued and paid	Authorized	Issued and paid
Ordinary shares of NIS 1 par value	<u>1,484,999,999</u>	<u>1,293,098,052</u>	<u>1,484,999,999</u>	<u>1,291,155,548</u>
Special State share of NIS 1 par value	<u>1</u>	<u>1</u>	<u>1</u>	<u>1</u>

The shares of ICL are listed for trade on the Tel-Aviv Stock Exchange. The closing price per share on the Tel-Aviv Stock Exchange on December 31, 2011 was NIS 39.50.

B. Rights conferred by the shares

The ordinary shares confer upon their holders voting rights (including appointment of directors by a simple majority at shareholders' meetings), the right to participate in shareholders' meetings, the right to receive profits and the right to a share in excess assets upon liquidation of ICL.

The Special State share, held by the State in order to safeguard matters of vital interest to the State, confers upon it special rights to make decisions among other things on the following matters:

- Sale or transfer of assets of the Company, which are "vital" to the State not in the ordinary course of business.
 - Voluntary liquidation, change or reorganization of the organizational structure of ICL or merger (excluding mergers of entities controlled by ICL that would not impair the rights or power of the Government, as holder of the Special State share).
 - Any acquisition or holding of 14% or more of the issued share capital of ICL.
 - The acquisition or holding of 25% or more of the issued share capital of ICL (including augmentation of an existing holding up to 25%), even if there was previously an understanding regarding a holding of less than 25%.
- Any percentage of holding of the Company's shares, which confers upon their holder the right, ability or actual possibility to appoint, directly or indirectly, such number of the Company's directors equal to half, or more than half, of the Company's directors actually appointed.

C. Share-based payments to employees

1. On January 28, 2007, the Company's Board of Directors approved a plan for a private issuance, for no consideration, of 12.9 million options exercisable for Company shares, to a group of officers and other senior employees holding management positions with the Company and companies it controls, in and outside of Israel.

On January 28, 2007, 5.4 million options from the aforementioned plan were allotted, of which 2.2 million to the Company's CEO. On March 27, 2007, 6.4 million options from the aforementioned plan were allotted. The rest of the options of that plan that were not allotted were cancelled at the end of March 2007.

Notes to the Consolidated Financial Statements as at December 31, 2011

Note 25 – Equity (cont'd)
C. Share-based payments to employees (cont'd)
1. (cont'd)

Upon exercise, each option could have been converted into one of the Company's ordinary shares of NIS 1 par value. Immediately upon their issuance, the ordinary shares issued as a result of exercise of the options will have all the same rights as the Company's ordinary shares. The options issued to the employees in Israel will be covered by Section 102 of the Income Tax Ordinance (New Version), and the regulations promulgated thereunder. The Company elected that the issuance shall be through a trustee under the "Capital Gains" tax track.

The options vested in three equal portions as follows: one-third at the end of 12 months from the approval date of the Board of Directors, one-third at the end of 24 months from the board of directors approval date, and one-third at the end of 36 months from the approval date of the Board of Directors. Each portion will be locked-up for an additional year from its vesting. The expiration date of the options is at the end of 60 months from the Grant Date. In addition, rules have been provided for a case of termination of service or employment of any of the option holders. The exercise price was set at NIS 25.59 per share linked to the Consumer Price Index "known" on the payment date (the base index is the index for December 2006). In the case of distribution of a dividend by the Company, the exercise price will be reduced on the ex-dividend date in the (gross) amount of the dividend per share, based on the amount thereof in NIS on the Effective Date.

Alternatively, and based on the Company's discretion, it may transfer or issue shares at the rate of the difference between the price per share on the exercise date and the exercise price multiplied by the number of options the employee intend to exercise. The options are not marketable and may not be transferred.

The option movement during 2011 and 2010 are as follows:

	Number of options Plan 2007
Balance as at January 1, 2010	9,827,185
<u>Movement in 2010:</u>	
Exercised during the year	(4,678,849)
Forfeited during the year	—
Total options outstanding – December 31, 2009	5,148,336
<u>Movement in 2011:</u>	
Exercised during the year	(2,991,740)
Forfeited during the year	—
Total options outstanding and can be exercised – December 31, 2010	<u>2,156,596</u>

Notes to the Consolidated Financial Statements as at December 31, 2011

Note 25 – Equity (cont'd)
C. Share-based payments to employees (cont'd)

The fair value of the options granted under the 2007 plan as aforementioned was valued on the basis of the Black & Scholes model for the pricing of options. The parameters that were used in order to implement the model are as follows:

	<u>Number of options Plan 2007</u>
Share price (in NIS)	25.59
Exercise price (in NIS)	25.59
Expected volatility	24.60%
Life of options (in years)	4
Risk-free interest rate	3.34%
Economic value (in \$ millions)	17.9

The expected volatility was determined on the basis of the historical volatility in the Company's share prices. The life of the options was determined on the basis of management's estimate of the period the employees will hold the options, taking into consideration their position with the Company and the Company's past experience regarding the turnover of employees. The risk-free interest rate was determined on the basis of the yield to maturity of shekel-denominated Government debentures, with a remaining life equal to the anticipated life of the option.

The cost of the benefit embedded in the options issued was recognized in full up to December 31, 2010.

Subsequent to the date of the financial statements, the remaining 2,156,596 options were exercised for 1,604,957 of the Company's ordinary shares. After exercise of the options for shares, there are no more outstanding options and the Company's issued and paid-up capital is 1,294,703,009 ordinary shares of NIS 1 par value.

- 2) On January 7, 2010, ICL's Board of Directors approved an issuance of 10,930,500 non-marketable options for no consideration to 318 ICL executives and senior employees in Israel and overseas. The issuance 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, an Extraordinary General Meeting of ICL's shareholders approved the issuance 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 expiration 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 expiration date of the options for the third portion is at the end of 48 months from the Board's approval. The options to employees in Israel were issued to a trustee under Section 102 of the Income Tax Ordinance, under the "capital gains" tax track.

Notes to the Consolidated Financial Statements as at December 31, 2011

Note 25 – Equity (cont'd)
C. Share-based payments to employees (cont'd)

2) (cont'd)

The fair value of the option issued in the said 2010 plan was valued on the basis of the Black & Scholes model to value options. The following parameters were used in applying the formula:

	<u>2010 plan</u>
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 (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%
Economic value (in \$ million)	54.3

The expected volatility was determined on the basis of historic volatility of the Company's share price. The life of the options was determined according to Management's estimate of the period that the employees will hold the options, taking into consideration their positions with the Company and the Company's experience with respect to employee attrition.

The risk free interest rate was determined on the basis of the yield to maturity of shekel-based government bonds, whose duration is the same as the expected lifetime of the option.

The benefit embedded in the options is recognized in the statement of income over the vesting period of each portion. Accordingly, in 2011 and 2010, the Company included expenses in respect of the said plan in the amounts of about \$15.5 million and about \$32.2 million, respectively.

D. Dividends

On March 29 2009, the Company's Board of Directors decided to distribute a dividend in the amount of \$175 million (the net dividend, less the share of a subsidiary amounts to \$174.7 million), about 0.14 dollars per share. The dividend was paid on May 4, 2009.

On May 19, 2009 the Company's Board of Directors decided to distribute a dividend in the amount of \$100 million (the net dividend, less the share of a subsidiary amounts to \$99.8 million), about 0.08 dollar per share. The dividend was paid on June 17, 2009.

On August 23, 2009, the Company's Board of Directors decided to distribute a dividend in the amount of \$100 million (the net dividend, less the share of a subsidiary amounts to \$99.8 million), about 0.08 dollar per share. The dividend was paid on September 16, 2009.

Notes to the Consolidated Financial Statements as at December 31, 2011

Note 25 - Shareholders' Equity (cont'd)**D. Dividends (cont'd)**

On November 23, 2009, the Company's Board of Directors decided to distribute a dividend in the amount of \$175 million (the net dividend, less the share of a subsidiary amounts to \$174.7 million), about 0.14 dollar per share. The dividend was paid on December 22, 2009.

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.

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 amounts to \$666.8 million), about \$0.53 per share. The amount of the dividend included a one-time dividend in the amount of \$500 million and a quarterly dividend in the amount of \$168 million. The dividend was paid on June 28, 2010.

On August 23, 2010, the Company's Board of Directors decided to distribute a dividend in the amount of \$177 million (the net dividend, less the share of a subsidiary amounts to \$176.7 million), about \$0.14 per share. The dividend was paid on September 20, 2010.

On November 22, 2010, the Company's Board of Directors decided to distribute a dividend in the amount of \$170 million (the net dividend, less the share of a subsidiary amounts to \$169.7 million), about \$0.13 per share. The dividend was paid on January 12, 2011.

On March 27, 2011, the Company's Board of Directors decided to distribute a dividend in the amount of \$170 million (the net dividend, less the share of a subsidiary, amounts to \$169.7 million), about \$0.13 per share. The dividend was distributed on May 15, 2011.

On May 15, 2011, the Company's Board of Directors decided to distribute a dividend in the amount of \$195 million (the net dividend, less the share of a subsidiary amount to \$194.7 million), about \$0.15 per share. The dividend was distributed on June 28, 2011.

On August 16, 2011, the Company's Board of Directors decided to distribute a dividend in the amount of \$298 million (the net dividend, less the share of a subsidiary amount to \$297.5 million), about \$0.23 per share. The dividend was distributed on September 26, 2011.

On November 20, 2011, the Company's Board of Directors decided to distribute a dividend in the amount of \$300 million (the net dividend, less the share of a subsidiary amount to \$299.5 million), about \$0.24 per share. The dividend will be distributed on December 22, 2011.

On March 26, 2012, the Company's Board of Directors decided to distribute a dividend in the amount of \$260 million (the net dividend, less the share of a subsidiary amount to \$259.5 million), about \$0.20 per share. The dividend will be paid after the date of the financial statements on April 30, 2012.

E. Translation reserve for foreign operations

The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations.

Notes to the Consolidated Financial Statements as at December 31, 2011

Note 25 - Shareholders' Equity (cont'd)**F. Reserve for available-for-sale financial assets**

The equity reserve comprises the cumulative net change in the fair value of available-for-sale financial assets until the investments are eliminated or impaired.

G. Capital reserves

The capital reserves include the expenses for payroll against a parallel increase in equity in respect of share based payments to employees (see Note C above).

H. Reserve for hedging of cash flows

The capital reserve for hedging cash flows includes changes in the fair value of derivatives utilized for hedging shekel debentures that were issued in 2009 (see Note 28E2).

I. Treasury shares

- 1) As at December 31, 2011, 2010 and 2009 a subsidiary holds 2,216,131 ordinary shares of NIS 1 par value of ICL.
- 2) On September 3, 2008, the Company's Board of Directors decided to approve that the Company may acquire, from time to time, itself and/or by a subsidiary, ordinary shares of the Company up to 5% of the Company's issued and paid-up share capital – this being out of the Company's distributable earnings in accordance with the Companies Law, 1999. The acquisition plan took place in the period commencing from the date of the decision and up to June 30, 2009. The acquisitions were made in accordance with the restrictions provided by law and the Company's internal enforcement plan with respect to securities, according to guidelines provided from time to time by an Ad-Hoc directors committee appointed to the subject, and all as part of the aforesaid decision.

In total 22,368,342 shares were acquired by the Company, constituting about 1.74% of the Company's issued and paid-up share capital, for a consideration of about \$258 million.

- 3) In determining the amount of retained earnings available for distribution as a dividend, the Companies Law stipulates that the cost of the Company's shares acquired by a subsidiary (that is presented as a separate item within the framework of the Company's shareholders' equity) must be deducted from the amount of retained earnings available for distribution presented within the framework of the Company's shareholders' equity.

Notes to the Consolidated Financial Statements as at December 31, 2011

Note 26 - Pledges and Restrictions Placed in Respect of Liabilities

- A.** ICL has undertaken various obligations in respect of loans and credit received from non-Israeli banks. Among others, it has undertaken to restrict guarantees and indemnities to third parties (other than the guarantees in respect to subsidiaries up to an agreed amount for \$550 million. ICL has also undertaken to grant loans only to subsidiaries and to associated companies in which it holds at least 25% of the voting rights – up to the amount stipulated by the agreement with the banks. ICL has also undertaken not to grant any credit, other than in the ordinary course of business, and not to register any charges, including rights of lien, except those defined in the agreement as “liens permitted to be registered” on its present or future assets or income. For details with regards to the covenants in respect of these loans, see Note 18(D).
- B.** Under the Law for the Encouragement of Capital Investments, certain subsidiaries have received investment grants from the State of Israel.

The above companies have registered floating charges on all their assets in favor of the State of Israel as security for compliance with the terms attaching to the grants.

Note 27 - Details of Statement of Income Items

A. Sales

	For the year ended December 31		
	2011	2010	2009
	US\$ thousands	US\$ thousands	US\$ thousands
Sales	6,891,565	5,599,563	4,365,582
Construction contracts	126,729	56,251	161,690
Concession agreements	49,540	35,723	27,044
	7,067,834	5,691,537	4,554,316

Notes to the Consolidated Financial Statements as at December 31, 2011

Note 27 - Details of Statement of Income Items (cont'd)

B. Cost of sales (1)

	For the year ended December 31		
	2011	2010	2009
	US\$ thousands	US\$ thousands	US\$ thousands
Materials and spare parts	1,765,881	1,209,112	1,064,713
Power and energy	392,978	336,822	282,081
Labor and related expenses	826,992	706,220	648,273
Subcontracted work	392,366	291,438	270,921
Depreciation and amortization	211,674	166,502	158,306
Other production expenses	342,925	294,290	256,801
Logistics and port expenses	66,315	57,696	40,368
	3,999,131	3,062,080	2,721,463
Decrease (increase) in inventories of finished products and work in progress	(86,960)	197,381	(3,677)
	3,912,171	3,259,461	2,717,786
(1) Net of amounts capitalized to property, plant and equipment under construction	12,359	21,240	23,122
<u>By sources of income</u>			
Sales	3,776,917	3,191,180	2,573,317
Construction contracts	94,935	37,495	124,214
Concession agreements	40,319	30,786	20,255
	3,912,171	3,259,461	2,717,786

C. Research and development expenses, net

	For the year ended December 31		
	2011	2010	2009
	US\$ thousands	US\$ thousands	US\$ thousands
Amount of expenses	72,327	64,648	54,766
Less – grants and participations, see Note 24A(5)	132	584	943
	72,195	64,064	53,823

Notes to the Consolidated Financial Statements as at December 31, 2011

Note 27 - Details of Statement of Income Items (cont'd)

D. Selling, transport and marketing expenses

	For the year ended December 31		
	2011	2010	2009
	US\$ thousands	US\$ thousands	US\$ thousands
Transport and insurance	602,782	567,801	362,395
Salaries and related expenses	139,707	110,157	99,616
Agents' commissions	30,029	25,345	24,822
Other	98,098	76,506	71,292
	870,616	779,809	558,125

E. General and administrative expenses

	For the year ended December 31		
	2011	2010	2009
	US\$ thousands	US\$ thousands	US\$ thousands
Salaries and related expenses	151,304	151,305	110,966
Buildings maintenance	14,150	11,733	10,887
Legal advice	11,974	8,491	10,742
Other*	99,107	74,085	63,294
	276,535	245,614	195,889
* Including movement in doubtful debts	2,229	(173)	1,762

Notes to the Consolidated Financial Statements as at December 31, 2011

Note 27 - Details of Statement of Income Items (cont'd)

F. Financing income and expenses

	For the year ended December 31		
	2011	2010	2009
	US\$ thousands	US\$ thousands	US\$ thousands
Financing income recorded in income:			
Interest income from bank deposits	22,613	10,408	26,072
Net change in fair value of derivative financial instruments	–	18,770	63,467
Gain on sale of financial assets available-for-sale	4,535	3,244	–
Net gain from changes in exchange rates	14,785	–	–
	41,933	32,422	89,539
Financing expenses recorded in income			
Interest expenses to banks and others	50,605	46,721	48,236
Financing expenses in relation to employee benefits	8,374	35,058	23,313
Bank commissions	3,050	3,037	2,424
Provision for impairment of financial assets available for sale	44,734	–	–
Net loss from changes in exchange rates	–	3,924	11,714
	106,763	88,740	85,687
Financing expenses	106,763	88,740	85,687
Net of borrowing costs capitalized	2,572	3,136	2,263
	104,191	85,604	83,424
Net financing expenses (income) recorded in the income statements	62,258	53,182	(6,115)

G. Other income and expenses

	For the year ended December 31		
	2011	2010	2009
	US\$ thousands	US\$ thousands	US\$ thousands
Gain on sale of activities	–	5,587	–
Curtailment in defined benefit plans for employees	–	–	677
Capital gains from sale of fixed assets, net	2,396	2,712	2,550
Other	2,643	2,980	397
	5,039	11,279	3,624
Other income recorded in income	5,039	11,279	3,624
Expenses from acquisition of subsidiary	10,914	–	–
Expenses in respect of early retirement (1)	2,360	–	55,336
Provision for impairment of plants (2)	–	–	27,043
Disposal of plants that were taken out of use	–	3,548	–
Provision in respect of customer claim	–	3,700	–
Past service cost	115	160	–
Other	2,002	333	11,765
	15,391	7,741	94,144
Other expenses recorded in the income statements	15,391	7,741	94,144

(1) See Note 22D.

(2) See Note 16B.

Notes to the Consolidated Financial Statements as at December 31, 2011

Note 28 - Financial Instruments and Risk Management**A. General**

The Group has extensive international activities wherein it is exposed to credit, liquidity and market risks (including currency, interest and other price risks). In order to reduce the exposure to these risks, the Group holds financial derivative instruments, (including forward transactions, transformation (SWAP) transactions, and options) for purposes of economic (not accounting) hedging of foreign currency risks, commodity price risks, and interest risks. Furthermore, the Group holds derivative financial instruments to hedge its risk in respect of changes in the cash flows of bonds issued. Some of these instruments are accounting hedges.

The transactions in derivatives are executed with large financial institutions in Israel and abroad, and therefore in the opinion of Group management the credit risk in respect thereof is low.

This Note presents information about the Group's exposure to each of the above risks, and the Group's objectives, policies and processes for measuring and managing risk.

The Group companies monitor on a regular basis the extent of the exposures and the hedge documentation of various matters. The hedge policies of all the types of exposures are discussed by the Company's Board of Directors and by the Boards of Directors of the segments in the framework of the annual budget. ICL's Finance Committee receives a report every quarter in the framework of the discussion of the quarterly results, as a means of controlling implementation of the policies and for purposes of updating the policies, where necessary. The managements of the companies implement the policies that are determined, while taking into consideration the actual and anticipated developments in the market.

Notes to the Consolidated Financial Statements as at December 31, 2011

Note 28 - Financial Instruments and Risk Management (cont'd)

B. Groups and measurement bases of financial assets and financial liabilities

	As at December 31, 2011			
	Financial assets		Financial liabilities	
	Measured at fair value through the statement of income	Loans and receivables	Measured at fair value through the statement of income	Measured at amortized cost
	US\$ thousands	US\$ thousands	US\$ thousands	US\$ thousands
Cash and cash equivalents	–	268,199	–	–
Investments in deposits and short-term loans	36,025	170,023	–	–
Trade receivables	–	1,327,513	–	–
Other receivables and debit balances, including derivative instruments	28,772	120,893	–	–
Deposits and other long-term receivables	–	264,654	–	–
Long-term derivative instruments	18,229	–	–	–
Total financial assets	83,026	2,151,282	–	–
Short-term credit from banks and others	–	–	–	(367,148)
Trade payables	–	–	–	(665,028)
Other payables and credit balances including derivative instruments	–	–	(40,671)	(513,583)
Long-term loans from banks and others	–	–	–	(1,557,677)
Long-term derivative instruments	–	–	(27,037)	–
Total financial liabilities	–	–	(67,708)	(3,103,436)
Total financial instruments, net	83,026	2,151,282	(67,708)	(3,103,436)

Notes to the Consolidated Financial Statements as at December 31, 2011

Note 28 - Financial Instruments and Risk Management (cont'd)**C. Credit risk****(1) General****(a) Customer credit risks**

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and from other receivables as well as from investments in securities.

The Company sells to a wide range and large number of customers, including customers with material credit balances. On the other hand, the Company does not have a concentration of sales to individual customers.

The Company has a regular policy of insuring the credit risk of all its customers by means of credit insurance companies, other than sales to government agencies and sales in small amounts. All other sales are executed only after receiving approval of coverage in the necessary amount from the insurance company, or other collaterals of a similar level.

The use of an insurance company as aforementioned ensures that the credit risk is managed professionally and objectively by an expert external party and transfers most of the credit risk to a third party. Nevertheless, the accepted deductible in credit insurance is 10% (even higher in a small number of cases) and leaves part of the risk, which was approved by the insurance company, in the hands of the Company.

The Group's credit insurance company is Israel Foreign Trade Risks Insurance Corp. The exposure of the insurance company is backed by global reinsurers of the highest level.

Most of the Group's customers have been trading with it for many years and only rarely have losses been incurred, for which the financial statements include specific provisions for doubtful debts that appropriately reflect, in Management's opinion, the loss inherent in debts, the collection of which is doubtful.

(b) Credit risks in respect of deposits

The Company deposits its balance of liquid financial assets in bank deposits and in securities. All the deposits are with leading banks with an appropriate spread between the banks and a preference to banks that provide loans to the Company.

In addition, included in the balance of the long-term deposits and receivables is a financial asset in respect of construction of the desalination plants, which reflects amounts receivable from the Israeli government.

Notes to the Consolidated Financial Statements as at December 31, 2011

Note 28 - Financial Instruments and Risk Management (cont'd)

C. Credit risk (cont'd)

(2) Maximum Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	As at December 31	
	2011	2010
	Carrying amount	
	US\$ thousands	US\$ thousands
Cash and cash equivalents	268,199	400,914
Investments, deposits and short-term loans	206,048	493,201
Trade receivables	1,327,513	949,692
Other receivables, including derivative instruments	149,665	108,972
Deposits and other long-term receivables	264,654	197,826
Long-term derivative instruments	18,229	36,308
	2,234,308	2,186,913

The maximum exposure to credit risk for trade receivables, at the reporting date by geographic region was:

	As at December 31	
	2011	2010
	Carrying amount	
	US\$ thousands	US\$ thousands
Eastern Europe	23,912	14,024
Western Europe	341,031	302,614
North America	197,632	122,540
South America	86,593	61,504
India	314,576	104,075
China	198,126	147,291
Israel	69,150	67,099
Others	96,493	130,545
	1,327,513	949,692

Notes to the Consolidated Financial Statements as at December 31, 2011

Note 28 - Financial Instruments and Risk Management (cont'd)

C. Credit risk (cont'd)

(3) Aging of debts and impairment losses

The aging of trade receivables at the reporting date was:

	As at December 31		As at December 31	
	2011		2010	
	Gross US\$ thousands	Impairment US\$ thousands	Gross US\$ thousands	Impairment US\$ thousands
Not past due	1,229,776	(481)	821,339	(573)
Past due to 3 months	87,245	(1,430)	121,276	(1,812)
Past due 3 to 6 months	6,807	(181)	4,562	(114)
Past due 6 to 9 months	3,632	(39)	1,050	(82)
Past due 9 to 12 months	1,687	(491)	170	(80)
Past due over 12 months	9,873	(8,885)	7,543	(3,587)
	1,339,020	(11,507)	955,940	(6,248)

The movement in the provision for impairment in respect of trade receivables during the year was as follows:

	For the year ended December 31	
	2011	2010
	NIS thousands	NIS thousands
Balance as at January 1	6,248	4,722
Impairment loss on trade receivables recognized in the period	1,536	2,438
Trade receivables written off as uncollectible	(675)	(797)
Cancellation of past allowance	(878)	(262)
First time consolidation	6,148	-
Changes due to translation differences	(872)	147
Balance as at December 31	11,507	6,248

Notes to the Consolidated Financial Statements as at December 31, 2011

Note 28 - Financial Instruments and Risk Management (cont'd)

D. Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to timely meet its liabilities, under both normal and stressed conditions, without incurring unwanted losses.

The Company manages the liquidity risk by holding cash balances, short-term deposits and secured bank credit facilities.

The following are the contractual maturities of financial liabilities, including estimated interest payments:

	As at December 31, 2011				
	Carrying amount	12 months or less	1-2 years	3-5 years	More than 5 years
			US\$ thousands		
Non-derivative financial liabilities					
Credit from banks and others (not including current maturities)	329,042	345,494	–	–	–
Trade payables	665,028	665,028	–	–	–
Other payables	513,583	513,583	–	–	–
Non-convertible debentures (including current maturities)	505,470	42,679	285,088	224,247	–
Long-term bank loans (including current maturities)	1,090,313	42,814	64,423	942,027	169,655
	3,103,436	1,609,598	349,511	1,166,274	169,655
Financial liabilities – derivative instruments utilized for economic and accounting hedging					
Interest rate swaps and options	23,311	1,875	5,083	16,353	–
Foreign exchange derivatives	27,045	23,311	1,385	2,349	–
Commodity and sea freight derivative instruments	15,103	13,237	1,866	–	–
	65,459	38,423	8,334	18,702	–

Notes to the Consolidated Financial Statements as at December 31, 2011

Note 28 - Financial Instruments and Risk Management (cont'd)

D. Liquidity risk (cont'd)

	As at December 31, 2010				
	Carrying amount	12 months or less	1-2 years	3-5 years	More than 5 years
		US\$ thousands			
Non-derivative financial liabilities					
Credit from banks and others (not including current maturities)	11,282	11,594	–	–	–
Trade payables	521,258	521,258	–	–	–
Other payables	384,325	384,325	–	–	–
Dividend payable	169,703	169,703	–	–	–
Non-convertible debentures (including current maturities)	528,728	23,414	49,292	545,192	–
Long-term bank loans (including current maturities)	1,022,929	61,987	623,192	285,422	152,743
	<u>2,638,225</u>	<u>1,172,281</u>	<u>672,484</u>	<u>830,614</u>	<u>152,743</u>
Financial liabilities – derivative instruments utilized for economic and accounting hedging					
Interest rate swaps and options	23,153	1,878	3,708	16,457	1,110
Foreign exchange derivatives	4,843	4,843	–	–	–
Commodity and sea freight derivative instruments	6,421	1,939	4,482	–	–
	<u>34,417</u>	<u>8,660</u>	<u>8,190</u>	<u>16,457</u>	<u>1,110</u>

Notes to the Consolidated Financial Statements as at December 31, 2011

Note 28 - Financial Instruments and Risk Management (cont'd)

E. Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the fair value or future cash flows of a financial instrument.

1. Interest risk

The Group has loans bearing variable interest and therefore its financial results and cash flows are exposed to fluctuations in the market interest rates.

ICL uses financial instruments, including derivatives, in order to hedge this exposure. The Group uses interest rate swap contracts and interest options mainly in order to reduce the exposure to cash flow risk in respect of changes in the interest rates.

In addition, in 2005 the Company issued debentures in the amount of \$125 million, bearing fixed interest, the balance of which as at the date of the report is \$87 million. The liability in respect of the debentures, which bears fixed interest, exposes the Company to fair value risk in respect of changes in the market interest. The Company executed swap transactions, in order to change the interest rate whereby it pays variable interest and receives fixed interest.

(a) Interest Rate Profile

The following is the interest rate profile of the non-derivative interest-bearing financial instruments:

	As at December 31	
	2011	2010
	US\$ thousands	US\$ thousands
Fixed rate instruments:		
Financial assets	262,427	195,238
Financial liabilities	(537,115)	(571,940)
	<u>(274,688)</u>	<u>(376,702)</u>
Variable rate instruments		
Financial assets	440,231	868,172
Financial liabilities	(1,387,710)	(990,999)
	<u>(947,479)</u>	<u>(122,827)</u>

Notes to the Consolidated Financial Statements as at December 31, 2011

Note 28 - Financial Instruments and Risk Management (cont'd)**E. Market risk (cont'd)****1. Interest risk (cont'd)****(b) Fair value sensitivity analysis for fixed rate instruments**

The Group does not account for any fixed rate financial assets and liabilities at fair value through the statement of income. Therefore a change in interest rates at the reporting date would not affect profit and loss for changes in assets and liabilities at fixed interest.

(c) Cash flow sensitivity analysis for variable rate instruments

This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 2010.

	As at December 31, 2011			
	Influence on profit (loss)			
	Decrease of 1% in interest US\$ thousands	Decrease of 0.5% in interest US\$ thousands	Increase of 0.5% in interest US\$ thousands	Increase of 1% in interest US\$ thousands
Changes in dollar interest				
Non-derivative instruments	7,038	3,519	(3,519)	(7,038)
Cylinder instruments	(3,303)	(2,165)	1,945	3,899
Exchange instruments	(5,977)	(3,080)	2,997	5,900
	<u>(2,242)</u>	<u>(1,726)</u>	<u>1,423</u>	<u>2,761</u>
Changes in shekel interest				
Non-derivative instruments	1,675	837	(837)	(1,675)
Exchange instruments	1,270	629	(618)	(1,226)
	<u>2,945</u>	<u>1,466</u>	<u>(1,455)</u>	<u>(2,901)</u>
Changes in euro interest				
Non-derivative instruments	<u>1,824</u>	<u>912</u>	<u>(912)</u>	<u>(1,824)</u>
Changes in other currencies interest				
Non-derivative instruments	<u>(1,062)</u>	<u>(531)</u>	<u>531</u>	<u>1,062</u>

Notes to the Consolidated Financial Statements as at December 31, 2011

Note 28 - Financial Instruments and Risk Management (cont'd)

E. Market risk (cont'd)

1. Interest risk (cont'd)

(c) Cash flow sensitivity analysis for variable rate instruments (cont'd)

	As at December 31, 2010			
	Influence on profit (loss)			
	Decrease of 1% in interest US\$ thousands	Decrease of 0.5% in interest US\$ thousands	Increase of 0.5% in interest US\$ thousands	Increase of 1% in interest US\$ thousands
Changes in Dollar interest				
Non-derivative instruments	1,716	858	(858)	(1,716)
Interest rate swaps	(7,051)	(3,597)	3,456	6,776
Cylinder instruments	(2,220)	(1,224)	1,269	2,550
Other options	(1,156)	(449)	293	482
	<u>(8,711)</u>	<u>(4,412)</u>	<u>4,160</u>	<u>8,092</u>
Changes in Shekel interest				
Non-derivative instruments	<u>(476)</u>	<u>(238)</u>	<u>238</u>	<u>476</u>
Changes in British sterling interest				
Non-derivative instruments	<u>399</u>	<u>200</u>	<u>(200)</u>	<u>(399)</u>
Changes in Euro interest				
Non-derivative instruments	<u>436</u>	<u>218</u>	<u>(218)</u>	<u>(436)</u>
Changes in other currencies interest				
Non-derivative instruments	<u>(448)</u>	<u>(224)</u>	<u>224</u>	<u>448</u>

Notes to the Consolidated Financial Statements as at December 31, 2011

Note 28 - Financial Instruments and Risk Management (cont'd)

E. Market risk (cont'd)

1. Interest risk (cont'd)

(d) Conditions of derivative financial instruments used to hedge foreign currency risk

	As at December 31, 2011			
	Carrying amount (fair value)	Stated amount	Maturity date	Interest rate range
	US\$ thousands	US\$ thousands	Years	%
<u>Dollar</u>				
Swap contracts from fixed interest to variable interest	6,687	68,000	1-4	4.6%
Swap contracts from variable interest to fixed interest	(18,040)	361,262	1-5	2%-3.5%
Cylinder instruments	(5,271)	220,000	1-5	1%-5%
<u>Shekel</u>				
Swap contracts from fixed interest to variable interest	1,936	68,228	1-2	3.4%-5.25%

	As at December 31, 2010			
	Carrying amount (fair value)	Stated amount	Maturity date	Interest rate range
	US\$ thousands	US\$ thousands	Years	%
<u>Dollar</u>				
Swap contracts from fixed interest to variable interest	7,325	68,000	1-5	4.5%-4.7%
Swap contracts from variable interest to fixed interest	(15,929)	356,262	1-6	2.5%-4.3%
Cylinder instruments	(6,364)	195,000	1-5	2.3%-5.3%
Other options	(860)	30,000	1-6	3.2%
<u>Shekel</u>				
Swap contracts from fixed interest to variable interest	1,155	73,454	2-3	3.4%-5.25%

2. Currency risk

The Group is exposed to currency risk on sales, purchases and borrowings that are denominated in a currency other than the respective functional currencies of the Group. The currencies in which these transactions are primarily denominated are the NIS, euro, British sterling, Chinese yuan, Japanese yen and Brazilian real.

The Group enters into foreign currency derivatives – forward exchange and option contracts – almost all in order to protect the Group from the risk that the eventual net cash flows, resulting from existing assets and liabilities, and sales and purchases of goods within the framework of firm or anticipated commitments (based on a budget of up to one year), denominated in foreign currency, will be affected by changes in the exchange rates.

Notes to the Consolidated Financial Statements as at December 31, 2011

Note 28 - Financial Instruments and Risk Management (cont'd)**E. Market risk (cont'd)****2. Currency risk (cont'd)**

In addition, on April 27, 2009, the Company issued three series of bonds in a private placement to institutional investors through an auction, for a consideration of NIS 695 million (\$167 million). On September 9, 2009, the Company issued three series of bonds in a public offer through an auction, for a consideration of NIS 898 million (approximately \$235 million). Some of the series were issued in local currency and some are CPI-linked bearing CPI-linked interest. In respect of the shekel and CPI-linked liabilities, the Company performed dollar-shekel swap transactions to transform its cash flow from shekels into dollars. The Company also performed transactions in derivatives to hedge the major portion of its risk in respect of changes in the CPI. The swap transactions are for five years. This hedging transaction was not treated as an accounting hedge.

Furthermore, in the third quarter of 2009, the Company invested in derivatives to hedge its risk in respect of changes in the cash flows of extended Series B bonds, in respect of changes in the shekel-dollar exchange rate. The swap transactions are for four years. This hedging transaction was treated as an accounting hedge. As a result of the implementation of hedge accounting, the Company charged part of the changes in the fair value of the derivatives (a loss of US\$2.3 million) to capital reserves in other comprehensive income.

(a) Sensitivity analysis

A strengthening at the rate of 10% of the US\$ against the following currencies would have increased (decreased) profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant.

	As at December 31	
	2011	2010
	Impact on profit (loss) US\$ thousands	Impact on profit (loss) US\$ thousands
Non-derivative financial instruments		
Dollar/Euro	173	(18,923)
Dollar/NIS	41,824	62,328
Dollar/British sterling	3,936	(1,443)
Dollar/Japanese yen	(1,465)	(1,340)
Dollar/Brazilian real	135	(430)
Dollar/Chinese yuan	(2,575)	(401)
Dollar/Canadian Dollar	(562)	(1,279)

A weakening of 10% of the US\$ against the currencies above would have the same effect but in the opposite direction.

Notes to the Consolidated Financial Statements as at December 31, 2011

Note 28 - Financial Instruments and Risk Management (cont'd)

E. Market risk (cont'd)

2. Currency risk (cont'd)

(a) Sensitivity analysis (cont'd)

Presented hereunder is a sensitivity analysis of the Group's foreign currency derivative instruments as at December 31, 2011 and December 31, 2010. Any change in the exchange rates of the principal currencies as at December 31 would have increased (decreased) profit and loss and equity by the amounts shown below (in \$ thousands). This analysis assumes that all other variables remain constant.

	As at December 31, 2011			
	Increase 10%	Increase 5%	Decrease 5%	Decrease 10%
	US\$ thousands	US\$ thousands	US\$ thousands	US\$ thousands
<u>Euro/Dollar</u>				
Forward transactions	16,999	8,053	(7,286)	(13,910)
Options	11,326	5,214	(4,275)	(7,927)
<u>Dollar/NIS</u>				
Forward transactions	(15,872)	(8,200)	9,466	19,718
Options	(61,719)	(28,124)	21,542	48,229
Swap	(26,882)	(14,440)	14,380	31,196
Embedded derivative	(4,201)	(2,100)	2,100	4,201
<u>JPY/Dollar</u>				
Forward transactions	1,289	676	(747)	(1,576)
Options	1,444	612	(823)	(2,115)
<u>GBP/Dollar</u>				
Forward transactions	(4,464)	(2,114)	1,913	3,653
<u>CPI</u>				
Embedded derivative	4,762	2,381	(2,381)	(4,762)
Forward transactions	5,654	2,827	(2,827)	(5,654)
Swap	4,753	2,376	(2,376)	(4,753)
<u>GBP/Euro</u>				
Forward transactions	(759)	(398)	439	928

Notes to the Consolidated Financial Statements as at December 31, 2011

Note 28 - Financial Instruments and Risk Management (cont'd)

E. Market risk (cont'd)

2. Currency risk (cont'd)

(a) Sensitivity analysis (cont'd)

	As at December 31, 2010			
	Increase 10%	Increase 5%	Decrease 5%	Decrease 10%
	US\$ thousands	US\$ thousands	US\$ thousands	US\$ thousands
<u>Euro/Dollar</u>				
Forward transactions	3,892	1,842	(1,667)	(3,184)
Options	14,577	6,814	(7,026)	(14,258)
<u>Dollar/NIS</u>				
Forward transactions	(32,345)	(16,519)	20,140	41,531
Options	(15,648)	(8,605)	12,485	27,476
Swap	(28,744)	(15,053)	16,637	35,132
Embedded derivative	695	348	(348)	(695)
<u>JPY/Dollar</u>				
Forward transactions	1,244	651	(720)	(1,520)
Options	960	480	(619)	(1,481)
<u>GBP/Dollar</u>				
Forward transactions	761	399	(440)	(930)
<u>NIS/Euro</u>				
Embedded derivative	(1,143)	(572)	572	1,143
<u>CPI</u>				
Embedded derivative	1,584	792	(792)	(1,584)
Forward transactions	5,877	2,939	(2,939)	(5,877)
Swap	4,994	2,497	(2,497)	(4,994)
<u>GBP/Euro</u>				
Forward transactions	390	204	(226)	(476)
Options	(4,161)	(2,146)	1,413	3,508

Notes to the Consolidated Financial Statements as at December 31, 2011

Note 28 - Financial Instruments and Risk Management (cont'd)

E. Market risk (cont'd)

2. Currency risk (cont'd)

(b) Conditions of derivative financial instruments used to economically hedge the foreign currency risk

	As at December 31, 2011		
	Carrying amount	Stated amount	Average exchange rate
	US\$ thousands	US\$ thousands	
<u>Forward contracts</u>			
NIS/Dollar	(1,838)	177,938	3.79
Dollar/Euro	188	153,186	1.3
Dollar/JPY	(16)	14,161	77.6
Euro/GBP	(81)	8,274	0.84
Other	177	10,919	–
<u>Put options</u>			
NIS/Dollar	5,752	647,305	3.6
Dollar/Euro	6,933	79,593	1.36
Dollar/JPY	(381)	30,500	7.4
<u>Call options</u>			
NIS/dollar	20,214	631,355	3.64
Dollar/euro	(658)	78,426	1.38
Dollar/JPY	(345)	30,500	82
<u>Embedded derivative</u>			
Euro/NIS	4,210	–	–
Dollar/NIS	1,140	–	–
CPI	7,688	–	–

Notes to the Consolidated Financial Statements as at December 31, 2011

Note 28 - Financial Instruments and Risk Management (cont'd)

E. Market risk (cont'd)

2. Currency risk (cont'd)

(b) Conditions of derivative financial instruments used to economically hedge the foreign currency risk (cont'd)

	As at December 31, 2010		
	Carrying amount	Stated amount	Average exchange rate
	US\$ thousands	US\$ thousands	
<u>Forward contracts</u>			
NIS/Dollar	3,817	361,198	3.60
Dollar/Euro	1,075	25,417	1.38
Dollar/JPY	(180)	13,499	82.22
Euro/GBP	44	4,337	0.83
<u>Put options</u>			
NIS/Dollar	9,705	256,000	3.65
Dollar/Euro	5,842	150,242	1.32
Dollar/JPY	165	20,500	89.17
Dollar/GBP	727	41,238	0.83
Other	75	1,796	6.68
<u>Call options</u>			
NIS/Dollar	(1,130)	256,000	3.75
Dollar/Euro	(4,270)	149,984	1.33
Dollar/JPY	(513)	19,500	79.04
Dollar/GBP	(829)	41,238	0.83
Other	(36)	1,796	7.00
<u>Embedded derivative</u>			
Euro/Dollar	7,641	—	—
Dollar/NIS	7,641	—	—
CPI	7,641	—	—

The maturity date of all of the derivatives used to economically hedge foreign currency risk is up to a year.

Notes to the Consolidated Financial Statements as at December 31, 2011

Note 28 - Financial Instruments and Risk Management (cont'd)

E. Market risk (cont'd)

2. Currency risk (cont'd)

(c) Linkage terms of monetary balances – in thousands of dollars

	As at December 31, 2011						
	US\$	Euro	GBP	NIS	CPI	JPY	Others
<u>Non-derivative financial instruments:</u>							
Cash and cash equivalents	75,460	53,246	1,967	97,260	–	4,339	35,927
Investments, deposits and short-term loans	137,211	6,322	33,257	24,295	–	–	4,963
Trade receivables	901,442	292,941	37,192	21,541	–	22,465	51,932
Other receivables	65,615	1,085	3,205	41,993	–	775	8,219
Deposits and other long-term receivables	9,291	3,777	6	178,434	72,934	198	14
Total financial assets	<u>1,189,019</u>	<u>357,371</u>	<u>75,627</u>	<u>363,523</u>	<u>72,934</u>	<u>27,777</u>	<u>101,055</u>
Credit from banks and other credit providers	247,564	104,594	7,711	58	2,433	–	4,788
Trade payables	159,685	214,422	18,997	246,011	–	4,510	21,403
Other payables	218,484	85,564	8,415	165,218	730	782	38,791
Long-term loans from banks and others	849,672	241,974	–	289,045	176,850	52	84
Total financial liabilities	<u>1,475,405</u>	<u>646,554</u>	<u>35,123</u>	<u>700,332</u>	<u>180,013</u>	<u>5,344</u>	<u>65,066</u>
Total non-derivative financial instruments, net	<u>(286,386)</u>	<u>(289,183)</u>	<u>40,504</u>	<u>(336,809)</u>	<u>(107,079)</u>	<u>22,433</u>	<u>35,989</u>
<u>Derivative instruments:</u>							
Forward transactions	–	(153,186)	–	177,938	52,342	(14,161)	19,193
Call options issued	–	(1,167)	–	15,950	–	–	–
Put options	–	–	–	–	–	–	–
Cylinder	–	(78,426)	–	631,355	–	(30,500)	–
Swaps – dollar into shekel and CPI	–	–	–	270,335	38,892	–	–
Total derivative instruments	<u>–</u>	<u>(232,779)</u>	<u>–</u>	<u>1,095,578</u>	<u>91,234</u>	<u>(44,661)</u>	<u>19,193</u>
Net exposure	<u>(286,386)</u>	<u>(521,962)</u>	<u>40,504</u>	<u>758,769</u>	<u>(15,845)</u>	<u>(22,228)</u>	<u>55,182</u>

Notes to the Consolidated Financial Statements as at December 31, 2011

Note 28 - Financial Instruments and Risk Management (cont'd)

E. Market risk (cont'd)

2. Currency risk (cont'd)

(c) Linkage terms of monetary balances – in thousands of dollars (cont'd)

	As at December 31, 2010						
	US\$	Euro	GBP	NIS	CPI	JPY	Others
<u>Non-derivative financial instruments:</u>							
Cash and cash equivalents	252,123	63,824	1,187	54,641	–	4,966	24,173
Investments, deposits and short-term loans	361,580	77,439	14,175	21,594	–	–	18,413
Trade receivables	529,696	247,917	41,383	66,464	–	24,014	40,218
Other receivables	41,073	10,600	259	28,967	–	31	352
Deposits and other long-term receivables	5,822	2,319	–	110,157	79,340	188	–
Total financial assets	1,190,294	402,099	57,004	281,823	79,340	29,199	83,156
Credit from banks and others	32,180	7,981	8,435	100	2,555	–	1,766
Trade payables	98,407	158,732	11,222	227,755	–	5,180	19,962
Other payables	143,541	72,305	10,164	144,080	804	615	12,816
Dividend payable	–	–	–	169,703	–	–	–
Long-term loans from banks and others	845,012	236,530	–	237,020	188,223	49	3,088
Total financial liabilities	1,119,140	475,548	29,821	778,658	191,582	5,844	37,632
Total non-derivative financial instruments, net	71,154	(73,449)	27,183	(496,835)	(112,242)	23,355	45,524
<u>Derivative instruments:</u>							
Forward transactions	–	(25,417)	–	361,198	53,291	(13,499)	4,337
Call options issued	–	(258)	–	–	–	(1,000)	–
Put options	–	–	–	–	–	–	–
Cylinder	–	(149,984)	–	256,000	–	(19,500)	(43,035)
Swaps – dollar into shekel and CPI	–	–	–	226,730	38,892	–	–
Total derivative instruments	–	(175,659)	–	843,928	92,183	(33,999)	(38,698)
Net exposure	71,154	(249,108)	27,183	347,093	(20,059)	(10,644)	6,826

Notes to the Consolidated Financial Statements as at December 31, 2011

Note 28 - Financial Instruments and Risk Management (cont'd)**E. Market risk (cont'd)****3. Other price risk****A. Investment in securities**

The Group companies have an investment in marketable securities, in the amount of \$26 million. The impact of the change in the fair value of this investment will be recorded in this statement of income as a financial expense.

B. Hedging on marine shipping transactions

The Company is exposed to risks in respect of marine shipping rates. The Company uses marine shipping derivatives to hedge against the risk that its cash flows will be affected by changes in marine shipping prices. The fair value of the marine shipping derivatives as at December 31, 2011 was US\$15.1 million (liability).

F. Fair value of financial instruments

The Group's financial instruments mostly include non-derivative assets, such as: cash and cash equivalents, short-term investments, deposits and loans, receivables and debit balances, long-term investments and receivables, non-derivative liabilities, such as: short-term credit, creditors and credit balances, long-term loans and other liabilities; as well as derivative financial instruments.

Due to their nature, the fair value of the financial instruments included in the working capital of the Group is generally identical or approximates the value, according to which they are stated in the accounts. The fair value of the long-term deposits and receivables and the long-term liabilities also approximates their stated value, as these financial instruments bear interest at a rate which approximates the accepted market rate of interest.

The following table shows in detail the book value and the fair value of financial instrument groups presented in the financial statements not in accordance with their fair value.

	<u>As at December 31, 2011</u>		<u>As at December 31, 2010</u>	
	<u>Carrying amount</u>	<u>Fair value</u>	<u>Carrying amount</u>	<u>Fair value</u>
	<u>US\$ thousands</u>	<u>US\$ thousands</u>	<u>US\$ thousands</u>	<u>US\$ thousands</u>
Debentures bearing fixed interest:				
Marketable	322,721	337,599	344,532	363,146
Non-marketable	87,000	93,678	87,000	93,478
	409,721	431,277	431,532	456,624

The fair value of the non-marketable debentures received is based on a calculation of the present value of the cash flows based on the customary Libor rate for similar loans having similar characteristics. The average discount rate as at December 31, 2010 is 3.2% (December 31, 2010 – 3.7%).

The fair value of the marketable debenture is based on the stock market price as at the date of the report.

Notes to the Consolidated Financial Statements as at December 31, 2011

Note 28 - Financial Instruments and Risk Management (cont'd)

G. Hierarchy of fair value

The following table presents an analysis of the financial instruments measured by fair value, using the valuation method.

The following levels were defined:

Level 1: Quoted (unadjusted) prices in an active market for identical instruments

Level 2: Observed data (directly or indirectly) not included in Level 1.

	As at December 31, 2011		
	Level 1	Level 2	Total
	US\$ thousands	US\$ thousands	US\$ thousands
Available-for-sale securities	36,025	–	36,025
Derivatives used for hedging	–	(20,707)	(20,707)
	<u>36,025</u>	<u>(20,707)</u>	<u>15,318</u>

Note 29 - Earnings Per Share

Basic earnings per share

Calculation of the basic earnings per share for the year ended December 31, 2011, is based on the earnings allocated to the holders of the ordinary shares in the amount of \$1,511,821 thousand (2010 and 2009 – \$1,024,740 and \$770,420 thousand, respectively), divided by the weighted-average number of ordinary shares outstanding of 1,272,945 thousand shares (2010 and 2009 – 1,264,425 and 1,262,991 thousand shares, respectively), calculated as follows:

	For the year ended December 31		
	2011	2010	2009
	US\$ thousands	US\$ thousands	US\$ thousands
Earnings attributed to the ordinary shareholders	<u>1,511,821</u>	<u>1,024,740</u>	<u>770,420</u>

Weighted average number of ordinary shares:

	For the year ended December 31		
	2011	2010	2009
	US\$ thousands	US\$ thousands	US\$ thousands
Balance as at January 1	1,266,583	1,263,638	1,263,542
Less – Company's acquisitions of its own shares	–	–	(808)
Plus – options exercised for shares	1,116	787	257
Weighted average number of ordinary shares used in the computation of basic earnings per share	<u>1,267,699</u>	<u>1,264,425</u>	<u>1,262,991</u>

Notes to the Consolidated Financial Statements as at December 31, 2011
Note 29 - Earnings Per Share (cont'd)
Diluted earnings per share

Calculation of the diluted earnings per share for the year ended December 31, 2011, is based on the earnings allocated to the holders of the ordinary shares in the amount of \$1,511,821 thousand (2010 and 2009 – \$1,024,740 and \$770,420 thousand, respectively), divided by the weighted-average number of potential diluted ordinary shares of 1,272,945 thousand shares (2010 and 2009 – 1,271,598 and 1,266,398 thousand shares, respectively), calculated as follows:

	For the year ended December 31		
	2011	2010	2009
	US\$ thousands	US\$ thousands	US\$ thousands
Earnings attributed to the ordinary shareholders (diluted)	1,511,821	1,024,740	770,420
Weighted average of ordinary shares (diluted):			
	For the year ended December 31		
	2011	2010	2009
	US\$ thousands	US\$ thousands	US\$ thousands
Weighted average of ordinary shares used in the computation of the basic earnings per share	1,267,699	1,264,425	1,262,991
Effect of stock options	5,246	7,173	3,407
Weighted average of ordinary shares used in the computation of the diluted earnings per share	1,272,945	1,271,598	1,266,398

The average market value of the Company's shares, for purposes of calculating the dilutive effect of the stock options, is based on the quoted market prices for the period in which the options were outstanding.

Note 30 - Related and Interested Parties
A. Parent company and subsidiaries

The Group's parent company is Israel Corporation Ltd. Regarding the subsidiaries – see Note 32, regarding the entities in the Group.

B. Benefits to key management personnel (including directors)

Senior management, in addition to their salaries, are entitled to non-cash benefits (car and phone). The Group contributes to a post-employment defined benefit plan on their behalf. In accordance with the terms of the plan, senior management retirement age is 67. Senior managers also participate in the options' plan for Company shares. (See Note 25C – Share-Based Payments).

Notes to the Consolidated Financial Statements as at December 31, 2011

Note 30 – Related and Interested Parties (cont'd)**B. Benefits to key management personnel (including directors) (cont'd)**

Benefits for key management personnel (in total 15 key management personnel including directors, in 2010 - key 14 management personnel) comprised:

	For the year ended December 31	
	2011	2010
	US\$ thousands	US\$ thousands
Short-term benefits	7,979	7,080
Post-employment benefits	741	992
Share-based payments	4,910	9,404
Total *	13,630	17,476
* To interested parties employed by the Company	4,477	5,851
* To interested parties not employed by the Company (10 directors, in 2010 – 9 directors)	2,334	3,848

C. Ordinary transactions that are not exceptions

The Company's Board of Directors, with the agreement of the Audit Committee, decided that a transaction will be considered an "insignificant" transaction for public reporting purposes if all the following conditions have been met:

- (1) It is not an "extraordinary transaction" within its meaning in the Companies Law.
- (2) The effect of each one of the parameters listed hereunder, is less than one percent (hereinafter – negligible status):

For every transaction or arrangement that is tested for negligible status, the parameters will be checked, as long as they are relevant, and on the basis of ICL's consolidated financial statements, reviewed or audited, according to the issue, prior to the transaction as detailed below:

- Assets ratio – the amount of the assets in the transaction (acquired or sold assets) divided by total assets.
- Equity ratio – the increase or decrease in equity divided by total equity.
- Revenue ratio – estimated revenue from the transaction divided by annual revenue.
- Manufacturing expenses ratio – the amount of the expenses in the transaction divided by the annual cost of sales.
- Profit ratio – the profit or loss attributed to the transaction divided by total annual comprehensive income or loss during the period.

Notes to the Consolidated Financial Statements as at December 31, 2011

Note 30 – Related and Interested Parties (cont'd)

C. Ordinary transactions that are not exceptions (cont'd)

- (3) The transaction is negligible also from a qualitative point of view. For the purpose of this criterion, it shall be examined whether there are special considerations justifying a special report on the transaction, even if it does not meet the quantitative criteria described above.
- (4) In examining negligibility of the transaction occurring in the future, the probability of the transaction occurring should be examined, among others.

D. Transactions with related and interested parties

	For the year ended December 31	
	2011	2010
	US\$ thousands	US\$ thousands
Sales	11,674	2,415
Cost of sales (1)	72,528	60,972
Selling transport and marketing expenses (2)	40,704	33,500
Management fees to the parent company (3)	3,500	3,500
Other expenses (4)	455	5,059

- (1) A subsidiary in the performance products segment entered into a long-term agreement with an interested party of the Company for the acquisition of food quality phosphoric acid. The agreement was signed before the subsidiary was acquired by ICL and is in effect until 2018.

In addition, companies in the ICL Group purchase from a shipping company, where the company is a sister company Integrated Shipping services Ltd. (hereinafter – Zim). is an interested party, immaterial amounts of customs and related services. In the opinion of ICL, the services are purchased at market terms.

- (2) In September 2007, a subsidiary in ICL's industrial products segment entered into a non-exclusive framework agreement with a sister company of ICL, ZIM, for period which finishes on December 31, 2012, for transporting containers for all the ICL Group companies. It is emphasized that ICL is not obligated to transport containers through ZIM. The transport rates are determined as a function of the various destinations, with the addition of a discount or surcharge, based on the effective annual transport volumes compared to the volume stated in the agreement. In the opinion of ICL and on the basis of the quarterly tests performed by the segment under the supervision of ICL's Audit Committee, the transport is executed at market terms and the selection of the shipping company, whether ZIM or another company, is based on the needs of ICL.

A subsidiary in the fertilizer segment purchases fuel for ships in Israel, from a sister company of ICL, Bazan, among others, at a daily shipping price established as per the daily accepted index (Platts fob Med). The amount of fuel purchased in 2011 was about \$18 million. This arrangement is not exclusive to the ICL subsidiary and there is no commitment to purchase fuel from the sister company and therefore the amount of the arrangement changes from time to time according to market conditions.

- (3) In June 2009, following approval by the Audit Committee, the Company's Board of Directors approved a revision of the management fees payable to Israel Corp. to \$ 3.5 million per year for each of the years from 2009 to 2011. On July 20, 2009, the revision was approved by the General Meeting of the Company's shareholders.

On October 5, 2011 the General Meeting of the Company's shareholders approved an extension of the management agreement on the same terms for the years 2012 until 2014.

Notes to the Consolidated Financial Statements as at December 31, 2011

Note 30 – Related and Interested Parties (cont'd)

D. Transactions with related and interested parties (cont'd)

- (4) A subsidiary provides insurance services, property and liabilities insurance, to a subsidiary of the Company's controlling shareholder and also employee liability insurance to the controlling shareholder. In the period of the report, the Company recognized revenues from premiums in respect of the related party, in the amount of about \$0.5 million, and also recognized expenses relating to insurance claims, in the amount of about \$0.9 million.

E. Balances with interested parties

- 1) Composition:

	As at December 31	
	2011	2010
	US\$ thousands	US\$ thousands
Long-term deposits, net of current maturities	<u>1,152</u>	<u>1,483</u>
Current maturities of long-term deposits	<u>230</u>	<u>218</u>
Other current assets	<u>671</u>	<u>120,500</u>
Other current liabilities	<u>13,322</u>	<u>11,905</u>

- 2) The controlling shareholder, Israel Corporation, from time to time deposits surplus monies, in short-term U.S. dollar or shekel deposits in ICL. The terms of the deposits are determined based on the market prices existing on the date the deposit is made. The interest paid on the deposit is the market interest, which represents for Israel Corporation surplus interest over the interest on a bank deposit (to a depositor) and the market interest, which represents for ICL interest lower than the interest charged on a loan from a bank (to the borrower). The deposits are received in ICL without security and each party may withdraw the monies on a daily basis.

In 2011 and 2010, Israel Corporation did not deposit monies with ICL.

- 3) The Company declares a dollar dividend that is paid in NIS, pursuant to the exchange rate on the effective date. The Company executes a hedging transaction in order to hedge the exposure to changes in the dollar/shekel exchange rate. The dividend paid to the Company's controlling shareholder, Israel Corporation, is made partly based on the exchange rate on the effective date and partly based on the exchange rate on the date of distribution. In addition, the dividend paid to an interested party is done pursuant to the exchange rate on the date of distribution.

Notes to the Consolidated Financial Statements as at December 31, 2011

Note 31 - Events Occurring in the Period of the Report

On April 13, 2011, the Board of Directors of ICL approved as part of the efficiency plan of Iberpotash S.A., a Spanish subsidiary in the ICL Fertilizers segment, the combination of the company's activities from two sites into one site. As part of this step, the production activities on the Suria site will be expanded, which include a mine and a factory, and the activities (mine and factory) on the second site will be discontinued. In the first stage of the plan, approval was granted for expansion of the potash production capacity, the potash granulation capacity, and construction of a plant for production of vacuum salt (salt with a high purity level) in Suria. In the second stage, which has not yet been approved, an additional expansion is planned of the potash production capacity, which will bring the potash production capacity to about 1.1 million tons, of which about 630 thousand tons of granulated potash and about 50 thousand tons of technical grade potash, as well as a production capacity of about 1.5 million tons of vacuum salt.

In the Company's estimation, execution of the first stage of the plan is expected to be completed in the beginning of 2014.

In the Company's estimation, execution of the first stage will lead to savings and greater efficiency that will contribute to reduction of the potash production costs, as well as improvement of the extent of the production's compliance with the sustainability values relating to environmental protection.

Execution of the second stage is expected to result in production of a larger quantity of potash in one mine and factory as opposed to production in mines and factories located in two different sites.

The impact of the shutdown and discontinuance of the activities of the second site on the Company's results in the period of the report is not significant.

Notes to the Consolidated Financial Statements as at December 31, 2011

Note 32 - Group Entities

The Holding Company	The Affiliate	Percentage of shareholding	
		Shares conferring rights to profits	Voting shares
Israel Chemicals Ltd.			
Israel Chemicals Ltd.	Dead Sea Works Ltd., Israel	100.00	100.00
Israel Chemicals Ltd.	Dead Sea Bromine Company Ltd., Israel	100.00	100.00
Israel Chemicals Ltd.	Rotem Amfert Negev Ltd., Israel	100.00	100.00
Israel Chemicals Ltd.	Dead Sea Periclase Ltd., Israel ***	100.00	100.00
Israel Chemicals Ltd.	Mifalei Tovala Ltd., Israel	100.00	100.00
Israel Chemicals Ltd.	Rotem Amfert Negev B.V., The Netherlands*	32.60	32.60
Israel Chemicals Ltd.	I.D.E. Technologies Ltd., Israel	50.00	50.00
Israel Chemicals Ltd.	ICL Financing and Issuing Ltd., Israel	100.00	100.00
Israel Chemicals Ltd.	Ferson Chemicals Ltd., Israel	100.00	100.00
Israel Chemicals Ltd.	ICL Fine Chemicals Ltd., Israel	100.00	100.00
Israel Chemicals Ltd.	P.A.M.A (Energy Resources Development) Ltd., Israel***	25.00	25.00
Israel Chemicals Ltd.	Dead Sea Magnesium Ltd.	100.00	100.00
Israel Chemicals Ltd.	ICL Finance B.V, The Netherlands	100.00	100.00
Israel Chemicals Ltd.	ICL Finance Inc., USA	100.00	100.00
Israel Chemicals Ltd.	Twincap Försäkrings AB, Sweden	100.00	100.00
Israel Chemicals Ltd.	HYB, Inc. ,USA***	80.00	80.00
Dead Sea Works Ltd.			
Dead Sea Works Ltd.	ICL Fertilizers, Israel*	50.00	50.00
Dead Sea Works Ltd.	Ashli Chemicals Ltd. , UK***	100.00	100.00
Dead Sea Works Ltd.	Ashli Chemicals (Holland) B.V., Israel	100.00	100.00
Dead Sea Works Ltd.	Cleveland Potash Ltd (CPL), U.K*	70.95	70.95

*The investee is also held by other Group companies.

**There are preferred shares

*** in Liquidation/inactive

**** partnership held by other group companies, and the holding percentage is changed from time to time according to the articles of association.

Notes to the Consolidated Financial Statements as at December 31, 2011

Note 32 - Group Entities (cont'd)

<u>Ashli Chemicals (Holland) B.V., Israel</u>			
Ashli Chemicals (Holland) B.V., Israel	Cleveland Potash Ltd (CPL), U.K*	29.05	29.05
Ashli Chemicals (Holland) B.V., Israel	ICL Finance Belgium NV, Belgium	100.00	100.00
<u>Cleveland Potash Ltd (CPL), U.K</u>			
Cleveland Potash Ltd (CPL), U.K	Constantine & Company (Export) Limited	50.00	50.00
Cleveland Potash Ltd (CPL), U.K	ICL Iberia Ltd, UK	100.00	100.00
Cleveland Potash Ltd (CPL), U.K	ICL Iberia SCS, Spain*	100.00	100.00
Cleveland Potash Ltd (CPL), U.K	Everris Ltd., (UK)	100.00	100.00
<u>ICL Iberia SCS, Spain</u>			
ICL Iberia SCS, Spain	Iberpotash S.A. , Spain	100.00	100.00
ICL Iberia SCS, Spain	Trafico de Mercancias S.A., Spain	100.00	100.00
ICL Iberia SCS, Spain	Medentech Limited, Ireland	100.00	100.00
ICL Iberia SCS, Spain	Absia SA, Spain	100.00	100.00
ICL Iberia SCS, Spain	Grupo Empresarial Agromediterráneo, S.L, Spain	100.00	100.00
ICL Iberia SCS, Spain	ICL Fosfatos Y Aditivos Servicios De Mexico, S.A. DE C.V.*	100.00	100.00
ICL Iberia SCS, Spain	ICL Fosfatos Y Aditivos Mexico, S.A. DE C.V.*	100.00	100.00
ICL Iberia SCS, Spain	Everris Iberica Fertilizers SL, Spain	100.00	100.00
<u>Grupo Empresarial Agromediterráneo, S.L</u>			
Grupo Empresarial Agromediterráneo, S.L	Antonio Fuentes Méndez, S.A, Spain	100.00	100.00
Grupo Empresarial Agromediterráneo, S.L	Fomento y Desarrollo Agrícola, S.L, Spain	100.00	100.00
Grupo Empresarial Agromediterráneo, S.L	Logística de Fertilizantes Fuentes, S.A. Spain	100.00	100.00

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*** in Liquidation/inactive

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Notes to the Consolidated Financial Statements as at December 31, 2011

Note 32 - Group Entities (cont'd)

<u>Antonio Fuentes Méndez, S.A. Spain</u>			
Antonio Fuentes Méndez, S.A, Spain	Importaciones y Tránsitos, S.A., Spain*	28.00	28.00
<u>Fomento y Desarrollo Agrícola, S.L, Spain</u>			
Fomento y Desarrollo Agrícola, S.L, Spain*	Importaciones y Tránsitos*, S.A., Spain	72.00	72.00
<u>Medentech Limited, Ireland</u>			
Medentech Limited, Ireland	Patentwise Limited, Ireland ***	100.00	100.00
<u>Dead Sea Bromine Company Ltd.</u>			
Dead Sea Bromine Company Ltd.	Bromine Compounds Ltd., Israel	100.00	100.00
Dead Sea Bromine Company Ltd.	ICL IP Europe B.V . ,The Netherlands	100.00	100.00
Dead Sea Bromine Company Ltd.	Tami (IMI) Institute for R&D Ltd.	100.00	100.00
Dead Sea Bromine Company Ltd.	ICL-IP JAPAN Ltd	100.00	100.00
Dead Sea Bromine Company Ltd.	Landchem Ltd. ,South Africa	100.00	100.00
Dead Sea Bromine Company Ltd.	Bromine and Chemicals Ltd., UK	100.00	100.00
Dead Sea Bromine Company Ltd.	Dead Sea Periclase Fused products Co., Israel *	99.00	99.00
Dead Sea Bromine Company Ltd.	Ameribrom Inc., USA***	100.00	100.00
Dead Sea Bromine Company Ltd.	ICL Management & Trading India Private Limited., India	100.00	100.00
<u>Bromine Compounds Ltd.</u>			
Bromine Compounds Ltd.	Tetrabrom Technologies Ltd., Israel	100.00	100.00
Bromine Compounds Ltd.	Chemada Fine Chemicals Ltd., Israel	26.00	26.00
Bromine Compounds Ltd.	Bromine Compounds Marketing (2002) ltd., Israel	100.00	100.00
Bromine Compounds Ltd.	Dead Sea Periclase Fused products Co., Israel*	1.00	1.00
<u>ICL-IP Europe B.V., The Netherlands</u>			
ICL-IP Europe B.V., The Netherlands	ICL- IP Terneuzen BV, The Netherlands	100.00	100.00
ICL-IP Europe B.V., The Netherlands	Bromisa Industrial e Commercial Ltda, Brasil*	90.952	90.952

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*** in Liquidation/inactive

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Notes to the Consolidated Financial Statements as at December 31, 2011

Note 32 - Group Entities (cont'd)

ICL-IP Europe B.V., The Netherlands	Lianyungang Dead Sea Bromine Compounds Co. Ltd, China	60.00	60.00
ICL-IP Europe B.V., The Netherlands	Sinobrom compounds Co. Ltd, China	75.00	75.00
ICL-IP Europe B.V., The Netherlands	Rotem Amfert Negev B.V., The Netherlands*	67.40	67.40
<u>ICL- IP Terneuzen BV, The Netherlands</u>			
ICL- IP Terneuzen BV, The Netherlands	Bromisa Industrial e Commercial Ltda, Brasil*	9.048	9.048
<u>Rotem Amfert Negev B.V.</u>			
Rotem Amfert Negev B.V.	Eurocil Holding B.V., The Netherlands **	0	41.90
<u>Tami IMI Institute for R&D Ltd.</u>			
Tami IMI Institute for R&D Ltd.	Potassium Nitrate Ltd., Israel***	50.00	50.00
Tami IMI Institute for R&D Ltd.	Novetide Ltd. Israel	50.00	50.00
Tami IMI Institute for R&D Ltd.	Magsens Ltd.	22.20	22.20
<u>Rotem Amfert Negev Ltd.</u>			
Rotem Amfert Negev Ltd.	ICL Fertilizers	50.00	50.00
Rotem Amfert Negev Ltd.	Eurocil Holding B.V., The Netherlands	100.00	58.10
Rotem Amfert Negev Ltd.	Agro-Vant, Israel	100.00	100.00
Rotem Amfert Negev Ltd.	Fertilizers and Chemicals Ltd.	100.00	100.00
Rotem Amfert Negev Ltd.	Zuari Rotem specialty fertilizers Limited, India	50.00	50.00
Rotem Amfert Negev Ltd.	ICL Holding The Netherlands Cooperatief U.A., The Netherlands	100.00	100.00

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*** in Liquidation/inactive

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Notes to the Consolidated Financial Statements as at December 31, 2011

Note 32 - Group Entities (cont'd)

<u>Fertilizers and Chemicals Ltd.</u>			
Fertilizers and Chemicals Ltd.	Industrial Chemical Equipment Ltd., Israel	100.00	100.00
Fertilizers and Chemicals Ltd.	Revivim In The Bay Water and Environment Ltd., Israel	100.00	100.00
Fertilizers and Chemicals Ltd.	Agriphuzia, Israel*	49.50	49.50
<u>Industrial Chemical Equipment Ltd., Israel</u>			
Industrial Chemical Equipment Ltd., Israel	Agripo Management services Ltd. Israel	50.00	50.00
<u>Agripo Managment services Ltd.</u>			
Agripo Management services Ltd.	Agriphuzia, Israel*	1.00	1.00
<u>ICL Holding The Netherlands Cooperatief U.A., The Netherlands</u>			
ICL Holding The Netherlands Cooperatief U.A., The Netherlands	Euro Clearon Netherlands B.V, The Netherlands	100	100
<u>Euro Clearon Netherlands B.V, The Netherlands</u>			
Euro Clearon Netherlands B.V, The Netherlands	Everris International B.V, The Netherlands	100.00	100.00
<u>Everris International B.V, The Netherlands</u>			
Everris International B.V, The Netherlands	Everris Kenya Ltd* , Kenya	50.00	50.00
Everris International B.V, The Netherlands	Everris Malaysia Sdn. Bhd , Malaysia	100.00	100.00
<u>Eurocil Holding B.V., The Netherlands</u>			
Eurocil Holding B.V., The Netherlands	Rotem Holding G.M.B.H. , Germany*	10.00	10.00
Eurocil Holding B.V., The Netherlands	Amsterdam Fertilizers B.V., The Netherlands	100.00	100.00
Eurocil Holding B.V., The Netherlands	ICL FE Potash BV , The Netherlands	100.00	100.00
<u>ICL FE Potash BV , The Netherlands</u>			
ICL FE Potash BV , The Netherlands	Florett S A, Luxembourg	85.00	85.00
<u>ICL Brasil Ltda.</u>			
ICL Brasil Ltda.	FosBrazil S.A, Brazil	44.00	44.00

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*** in Liquidation/inactive

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Notes to the Consolidated Financial Statements as at December 31, 2011

Note 32 - Group Entities (cont'd)

<u>Pekafert B.V., The Netherlands</u>			
Pekafert B.V., The Netherlands	Eurocil Luxembourg SA, Luxembourg	100.00	100.00
<u>Eurocil Luxembourg S.A, Luxembourg</u>			
Eurocil Luxembourg S.A	Anti-Germ Austria GmbH, Austria	100.00	100.00
Eurocil Luxembourg S.A	Anti-Germ Deutschland GmbH, Germany	100.00	100.00
Eurocil Luxembourg S.A	Anti-Germ France S.A.S, France	100.00	100.00
Eurocil Luxembourg S.A	Euro Clearon B.V, The Netherlands	100.00	100.00
Eurocil Luxembourg S.A	Specialty Technologies Europe B.V., The Netherlands	100.00	100.00
<u>Anti-Germ France S.A.S, France</u>			
Anti-Germ France S.A.S, France	Anti-Germ Iberica, Spain	100.00	100.00
Anti-Germ France S.A.S, France	Everris France SAS , France	100.00	100.00
Anti-Germ France S.A.S, France	Rhenoflex Dreyer ,S.A.S., France	100.00	100.00
Anti-Germ France S.A.S, France	ICL Biogema SAS, France	100.00	100.00
Anti-Germ France S.A.S, France	BKG France S.A.S	100.00	100.00
Anti-Germ France S.A.S, France	Sofima S.A.S France	100.00	100.00
Anti-Germ France S.A.S, France	Primalab S.A.S., France	100.00	100.00
<u>Euro Clearon B.V., The Netherlands</u>			
Euro Clearon B.V., The Netherlands	Clearon Holdings Inc. , U.S.A.	100.00	100.00
<u>Clearon Holdings Inc. , U.S.A.</u>			
Clearon Holdings Inc. , U.S.A.	Clearon Corp. , U.S.A.	100.00	100.00
<u>Anti-Germ Austria GmbH, Austria</u>			
Anti-Germ Austria GmbH, Austria	Anti-Germ CZ s.r.o; Czech Republic*	98.00	98.00
Anti-Germ Austria GmbH, Austria	Anti-Germ Hungary, Hungary	100.00	100.00
Anti-Germ Austria GmbH, Austria	Anti-Germ Slovakia s.r.o., Slovakia	100.00	100.00
<u>אנטי גרם הונגריה, הונגריה</u>			
אנטי גרם הונגריה, הונגריה	Anti-Germ CZ s.r.o; Czech Republic*	2.00	2.00

*The investee is also held by other Group companies.

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*** in Liquidation/inactive

**** partnership held by other group companies, and the holding percentage is changed from time to time according to the articles of association.

Notes to the Consolidated Financial Statements as at December 31, 2011

Note 32 - Group Entities (cont'd)

<u>Speciality Technologies Europe B.V. The Netherlands</u>			
Speciality Technologies Europe B.V. The Netherlands	Scora S.A, France	100.00	100.00
<u>Rotem Holding G.M.B.H. , Germany</u>			
Rotem Holding G.M.B.H. , Germany	BK Giulini, GmbH , Germany	100.00	100.00
Rotem Holding G.M.B.H. , Germany	Fibrisol Service Ltd. ,UK	100.00	100.00
Rotem Holding G.M.B.H. , Germany	Fibrisol Service Australia Pty. Ltd., Australia	100.00	100.00
Rotem Holding G.M.B.H. , Germany	B.K Giulini Argentina S.A, Argentina*	95.00	95.00
Rotem Holding G.M.B.H. , Germany	Shanghai Tari International Ltd., China	51.00	51.00
Rotem Holding G.M.B.H. , Germany	Yunnan B.K Giulini Tianchuang Phosphate Co. Ltd., China	60.00	60.00
Rotem Holding G.M.B.H. , Germany	Fibrisol Muscalla GmbH, Germany*	34.65	34.65
Rotem Holding G.M.B.H. , Germany	BK Giulini Polska Sp.z.o.o, Poland*	95.00	95.00
Rotem Holding G.M.B.H. , Germany	BK Giulini Japan Ltd. , Japan	100.00	100.00
Rotem Holding G.M.B.H. , Germany	BK Giulini Leather Chemistry Co. Ltd. Hong Kong	100.00	100.00
Rotem Holding G.M.B.H. , Germany	BKG Personal Care Co., Ltd.Hong Kong	100.00	100.00
Rotem Holding G.M.B.H. , Germany	ICL Performance Products Holding Inc., USA***	100.00	100.00
Rotem Holding G.M.B.H. , Germany	Flexotex GmbH , Germany	100.00	100.00
Rotem Holding G.M.B.H. , Germany	BKG Performance Products Jiangyin Co., Ltd. China*	53.05	53.05
Rotem Holding G.M.B.H. , Germany	ICL North America Inc. USA	100.00	100.00
Rotem Holding G.M.B.H. , Germany	BK Giulini Specialities Private Limited, India	51.00	51.00
Rotem Holding G.M.B.H. , Germany	Turris Assekuranz GmbH, Germany	100.00	100.00
Rotem Holding G.M.B.H. , Germany	ICL IP Bitterfeld GmbH, Germany	100.00	100.00

*The investee is also held by other Group companies.

**There are preferred shares

*** in Liquidation/inactive

**** partnership held by other group companies, and the holding percentage is changed from time to time according to the articles of association.

Notes to the Consolidated Financial Statements as at December 31, 2011

Note 32 - Group Entities (cont'd)

<u>Fibrisol Service Australia Pty. Ltd., Australia</u>			
Fibrisol Service Australia Pty. Ltd., Australia	Everris Australia Pty. Ltd. , Australia	100.00	100.00
<u>BK Giulini Leather Chemistry Co. Ltd. Hong Kong.</u>			
BK Giulini Leather Chemistry Co. Ltd. Hong Kong	BKG Performance Products Jiangyin Co. Ltd. China*	11.00	11.00
<u>Flexotex GmbH , Germany</u>			
Flexotex GmbH , Germany	BKG Finance GmbH, Germany	100.00	100.00
Flexotex GmbH , Germany	BKG Finance Sup GmbH, Germany	100.00	100.00
<u>ICL North America Inc, USA</u>			
ICL North America Inc. USA	Phosphorus Derivatives Inc, U.S.A	100.00	100.00
ICL North America Inc. USA	ICL Performance Products Inc, U.S.A	100.00	100.00
ICL North America Inc. USA	ICL IP America Inc. U.S.A **	100.00	100.00
ICL North America Inc. USA	Everris NA Inc, U.S.A	100.00	100.00
<u>ICL Performance Products Inc, US</u>			
ICL Performance Products Inc, US	ICL Performance Products LP, USA*,**	99.00	99.00
ICL Performance Products Inc, US	ICL Performance Products LLC, US	100.00	100.00
ICL Performance Products Inc, US	ICL Performance Products Canada Limited; Canada	100.00	100.00
<u>ICL Performance Products LLC</u>			
ICL Performance Products LLC	ICL Performance Products LP, USA*,**	1.00	1.00

*The investee is also held by other Group companies.

**There are preferred shares

*** in Liquidation/inactive

**** partnership held by other group companies, and the holding percentage is changed from time to time according to the articles of association.

Notes to the Consolidated Financial Statements as at December 31, 2011

Note 32 - Group Entities (cont'd)

<u>BKG Personal Care Co., Ltd.Hongkong</u>			
BKG Personal Care Co., Ltd.Hong kong	BKG Performance Products Jiangyin Co., Ltd. Jiangyin, China*	35.95	35.95
<u>BKG Puriphos B.V, The Netherlands</u>			
BKG Puriphos B.V, The Netherlands	ICL ASIA Ltd, Hong Kong	100.00	100.00
<u>ICL ASIA Ltd, Hong Kong</u>			
ICL ASIA Ltd, Hong Kong	ARM Ltd., Hong Kong	100.00	100.00
ICL ASIA Ltd, Hong Kong	ICL Fertilizers (India) Private Ltd.	100.00	100.00
ICL ASIA Ltd, Hong Kong	Jiaxing ICL Chemical Co., Ltd. , China	100.00	100.00
ICL ASIA Ltd, Hong Kong	Zhangjiagang FTZ ICL Trading Co. Ltd.	100.00	100.00
<u>ARM Ltd., Hong Kong</u>			
ARM Ltd., Hong Kong	ICL Trading (HK) Ltd., Hong Kong	100.00	100.00
ARM Ltd., Hong Kong	DDFR Corporation Ltd , Hong Kong	50.00	50.00
ARM Ltd., Hong Kong	BK Giulini Hong Kong Limited, Hong Kong	100.00	100.00
ARM Ltd., Hong Kong	AUB Storing and Services (Hong Kong) Ltd., Hong Kong	55.00	55.00
<u>BK Giulini Hong Kong Limited, Hong Kong</u>			
BK Giulini Hong Kong Limited, Hong Kong	BK Giulini Hygiene Hong Kong Ltd.	100.00	100.00
BK Giulini Hong Kong Limited, Hong Kong	Angang BK Giulini Water Treatment Co Ltd, China	50.00	50.00

*The investee is also held by other Group companies.

**There are preferred shares

*** in Liquidation/inactive

**** partnership held by other group companies, and the holding percentage is changed from time to time according to the articles of association.

Notes to the Consolidated Financial Statements as at December 31, 2011

Note 32 - Group Entities (cont'd)

<u>B.K. Giulini GmbH , Germany</u>						
B.K. Giulini GmbH , Germany				Fibrisol Muscalla GmbH, Germany*	65.35	65.35
B.K. Giulini GmbH , Germany				Hoyermann Chemie GmbH , Germany	100.00	100.00
B.K. Giulini GmbH , Germany				B.K. Mercosur S.A. , Uruguay	100.00	100.00
B.K. Giulini GmbH , Germany				Rhenoflex GmbH , Germany	100.00	100.00
B.K. Giulini GmbH , Germany				Rotem do Brasil Ltd. , Brasil	100.00	100.00
B.K. Giulini GmbH , Germany				Tari International N.Z Ltd.,New Zealand	100.00	100.00
B.K. Giulini GmbH , Germany				BK Giulini Polska Sp.z.o.o, Poland*	5.00	5.00
B.K. Giulini GmbH , Germany				B.K Giulini Argentina S.A*	5.00	5.00
<u>Rhenoflex GmbH , Germany</u>						
Rhenoflex GmbH , Germany				Gurit Worbla GmbH , Germany	100.00	100.00
<u>Amsterdam Fertilizers B.V., The Netherlands</u>						
Amsterdam Fertilizers B.V., The Netherlands				ICL Holding beschränkt haftende OHG, Germany*	95.00	95.00
Amsterdam Fertilizers B.V., The Netherlands				Finacil EEIG (European Economic Interest Grouping)****	12.50	12.50
Amsterdam Fertilizers B.V., The Netherlands				BKG Puriphos B.V, The Netherlands	100.00	100.00
Amsterdam Fertilizers B.V., The Netherlands				ICL Fertilizers Europe CV, The Netherlands	100.00	100.00
Amsterdam Fertilizers B.V., The Netherlands				Nutrissi Holding NV , Belgium	50.00	50.00
Amsterdam Fertilizers B.V., The Netherlands				Incap B.V, The Netherlands	100.00	100.00
Amsterdam Fertilizers B.V., The Netherlands				Pekafert B.V., The Netherlands	100.00	100.00
Amsterdam Fertilizers B.V., The Netherlands				ICL Brazil Ltda.	100.00	100.00
Amsterdam Fertilizers B.V., The Netherlands				P.M. Chemicals Srl, Italy	100.00	100.00
Amsterdam Fertilizers B.V., The Netherlands				BKG Puriphos CV, The Netherlands*	0.35	0.35

*The investee is also held by other Group companies.

**There are preferred shares

*** in Liquidation/inactive

**** partnership held by other group companies, and the holding percentage is changed from time to time according to the articles of association.

Notes to the Consolidated Financial Statements as at December 31, 2011

Note 32 - Group Entities (cont'd)

Amsterdam Fertilizers B.V., The Netherlands	BK Giulini Kimya ve Sanayi Ticaret A.S,Turkey*	100.00	100.00
Amsterdam Fertilizers B.V., The Netherlands	Everris Kenya Ltd*, Kenya	50.00	50.00
P.M. Chemicals Srl, Italy			
P.M. Chemicals Srl, Italy	Everris Italia S.r.l , Italy	100.00	100.00
Nutrisi Holding N.V , Belgium			
Nutrisi Holding. , Belgium	NU3 NV, Belgium	50.00	50.00
NU3 NV, Belgium			
NU3 NV, Belgium	NU3 B.V, The Netherlands	100.00	100.00
BK Giulini Kimya ve Sanayi Ticaret A.S.Turkey			
BK Giulini Kimya ve Sanayi Ticaret A.S,Turkey	Rotem Kimyevi Maddeler Sanayi ve Ticaret A.S, Turkey	73.30	73.30
ICL Fertilizers Europe CV			
ICL Fertilizers Europe CV	BKG Puriphos CV, The Netherlands*	99.65	99.65
ICL Holding beschränkt haftende OHG, Germany			
ICL Holding beschränkt haftende OHG, Germany	Stodiek Dunger GmbH, Germany	100.00	100.00
ICL Holding beschränkt haftende OHG, Germany	ICL Holding Germany GmbH, Germany	100.00	100.00
ICL Holding beschränkt haftende OHG, Germany	Rotem Holding G.M.B.H. , Germany*	90.00	90.00
ICL Holding beschränkt haftende OHG, Germany	ICL Fertilizers Deutschland GmbH, Germany	100.00	100.00
ICL Holding beschränkt haftende OHG, Germany	Eisenbacher Dentalwaren ED GmbH, Germany	100.00	100.00
ICL Holding beschränkt haftende OHG, Germany	Adentatec GmbH Competence in Dental, Germany	100.00	100.00
ICL Holding beschränkt haftende OHG, Germany	Everris GmbH, Germany	100.00	100.00
ICL Holding Germany GmbH, Germany			
ICL Holding Germany GmbH, Germany	ICL Holding beschränkt haftende OHG, Germany*	5.00	5.00
Incap B.V, The Netherlands			
Incap B.V, The Netherlands	Intracap Insurance Ltd., Switzerland	100.00	100.00

*The investee is also held by other Group companies.

**There are preferred shares

*** in Liquidation/inactive

**** partnership held by other group companies, and the holding percentage is changed from time to time according to the articles of association.

Notes to the Consolidated Financial Statements as at December 31, 2011

Note 32 - Group Entities (cont'd)

<u>Mifalei Tovala Ltd.</u>	-		
Mifalei Tovala Ltd.	Sherut Rail & Road Transportaion Services Registered Partnership, Israel	50.00	50.00
Mifalei Tovala Ltd.	M.M.M. Company United Landfill Industries (1998) Ltd., Israel	33.33	33.33
<u>I.D.E. Technologies Ltd.</u>	-		
I.D.E. Technologies Ltd.	Ambient Technologies Inc., USA	100.00	100.00
I.D.E. Technologies Ltd.	IDE Canaries S.A., Spain	100.00	100.00
I.D.E. Technologies Ltd.	Larnaca Water Partners, Cyprus*	95.00	95.00
I.D.E. Technologies Ltd.	Pelagos Desalination Services, Cyprus	100.00	100.00
I.D.E. Technologies Ltd.	Detelca UTE, Spain	20.00	20.00
I.D.E. Technologies Ltd.	Indian Desalination Engineering PVT Ltd., India	50.00	50.00
I.D.E. Technologies Ltd.	V.I.D Desalination Company LTD, Israel	49.998	49.998
I.D.E. Technologies Ltd.	OTID desalination partnership	50.00	50.00
I.D.E. Technologies Ltd.	West Galile Desalination Company Ltd***	50.00	50.00
I.D.E. Technologies Ltd.	ADOM Ashkelon desalination Ltd., Israel	40.50	40.50
I.D.E. Technologies Ltd.	I.D.E.S.B DESALINATION PARTNERSHIP, Israel	50.00	50.00
I.D.E. Technologies Ltd.	H2ID Ltd, . Israel	50.00	50.00
I.D.E. Technologies Ltd.	OMIS Water Ltd, Israel	60.00	60.00
I.D.E. Technologies Ltd.	IDE Technologies India Private Ltd. , India*	99.00	99.00
I.D.E. Technologies Ltd.	IDE Holdings Hong Kong Limited***	100.00	100.00
I.D.E. Technologies Ltd.	Sorek Desalination Ltd	51.00	51.00
I.D.E. Technologies Ltd.	Sorek Desalination Partnership	51.00	51.00

*The investee is also held by other Group companies.

**There are preferred shares

*** in Liquidation/inactive

**** partnership held by other group companies, and the holding percentage is changed from time to time according to the articles of association.

Notes to the Consolidated Financial Statements as at December 31, 2011

Note 32 - Group Entities (cont'd)

I.D.E. Technologies Ltd.	Sorek Operation and maintenance company Ltd	51.00	51.00
I.D.E. Technologies Ltd.	IDE Americas Inc, USA	100.00	100.00
I.D.E. Technologies Ltd.	Desalination Plants (Development of Zarchin Process) Limited, Israel ***	86.50	100.00
I.D.E. Technologies Ltd.	PCT Protective Coating Technologies Ltd.	51.00	51.00
<u>Ambient Technologies Inc., USA</u>			
Ambient Technologies Inc., USA	Larnaca Water Partners, Israel*	5.00	5.00
Ambient Technologies Inc., USA	IDE Technologies India Private Ltd. , India*	1.00	1.00
<u>Dead Sea Magnesium Ltd.</u>			
Dead Sea Magnesium Ltd.	M.R.I. Research & Development Ltd.,Israel	99.00*	77.78
Dead Sea Magnesium Ltd.	Dead Sea Magnesium Inc., USA	100.00	100.00
Dead Sea Magnesium Ltd.	Israeli Light Metal Initiative Ltd.	9.00	9.00
Dead Sea Magnesium Ltd.	Magnesium Die Casting Ltd.,Israel***	100.00	100.00

*The investee is also held by other Group companies.

**There are preferred shares

*** in Liquidation/inactive

**** partnership held by other group companies, and the holding percentage is changed from time to time according to the articles of association.

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

Israel Chemicals Ltd.

**Separate Information
in accordance with Regulation 9C
of the Securities Regulations
(Periodic and Immediate Reports) 1970**

**Separate Financial Data
of the Company from
the Consolidated Financial
Statements as at
December 31, 2011**

Israel Chemicals Ltd.

**Separate Financial Information in Accordance with Regulation 9C of the Securities Regulations
(Periodic and Immediate Reports) 1970
Separate Financial Data of the Company from the Consolidated Financial Statements as at
December 31, 2011**

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To: The shareholders of Israel Chemicals Ltd.

Subject: Special auditors' report on separate financial data according to Regulation 9C of the Securities Regulations (Periodic and Immediate Reports) - 1970

We have audited the separate financial data presented in accordance with Regulation 9C of the Securities Regulations (Periodic and Immediate Reports) - 1970 of Israel Chemicals Ltd. (hereinafter - the Company) as at December 31, 2011 and 2010 and for each of the three years, the last of which ended December 31, 2011. The separate financial data are the responsibility of the Company's Board of Directors and of its Management. Our responsibility is to express an opinion on the separate financial data based on our audits.

We conducted our audits in accordance with generally accepted auditing standards in Israel. Such standards require that we plan and perform the audit to obtain reasonable assurance that the financial data are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the separate financial data. An audit also includes assessing the accounting principles that were used in preparing the separate financial data and the significant estimates made by the Board of Directors and by Management, as well as evaluating the separate financial data presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the separate financial data has been prepared, in all material respects, in accordance with Regulation 9C of the Securities Regulations (Periodic and Immediate Reports) - 1970.

Somekh Chaikin
Certified Public Accountants (Isr.)

March 26, 2012

Financial Data Related to the Company from the Consolidated Financial Statements as at December 31

Details of Financial Position

	Additional information	2011 US\$ thousands	2010 US\$ thousands
Current assets			
Cash and cash equivalents		70,025	115,682
Short-term investments, deposits and loans		421	157,500
Investee companies - current account		492,469	649,365
Other receivables, including derivative instruments		2,210	4,455
Income taxes refundable		8,755	-
Total current assets		573,880	927,002
Non-current assets			
Investments in investee companies		3,285,807	3,056,038
Long-term deposits and receivables		7,624	8,158
Loans to subsidiaries		570,000	440,000
Long-term derivative instruments	3,6	18,229	36,308
Deferred taxes, net	5	9,584	9,192
Fixed assets		1,044	1,302
Total non-current assets		3,892,288	3,550,998
 Total assets		4,466,168	4,478,000

Financial Data Related to the Company from the Consolidated Financial Statements as at December 31

	<u>Additional information</u>	<u>2011 US\$ thousands</u>	<u>2010 US\$ thousands</u>
Current liabilities			
Credit from banks and others	4	22,106	282,027
Credit from investee companies		293,364	265,236
Dividend payable		-	169,703
Other payables, including derivative instruments		53,283	67,819
Income taxes payable		-	833
Total current liabilities		<u>368,753</u>	<u>785,618</u>
Non-current liabilities			
Loans from banks and others	4	-	120,000
Loans from investee companies		561,482	473,522
Debentures	4	418,470	441,728
Long-term derivative instruments	3,6	25,171	21,274
Employee benefits		15,490	15,751
Total non-current liabilities		<u>1,020,613</u>	<u>1,072,275</u>
Total liabilities		<u>1,389,366</u>	<u>1,857,893</u>
Equity			
Share capital		542,377	541,858
Share premium		94,798	90,675
Capital reserves		884	37,544
Retained earnings		2,698,856	2,210,143
Treasury shares		(260,113)	(260,113)
Total equity attributable to the owners of the Company		<u>3,076,802</u>	<u>2,620,107</u>
Total liabilities and equity		<u>4,466,168</u>	<u>4,478,000</u>

Nir Gilad
Chairman of the Board of
Directors

Akiva Mozes
Chief Executive
Officer

Avi Doitchman
Executive VP, CFO and Strategy

Approval date of the financial statements: March 26, 2012.

The accompanying additional information is an integral part of the separate financial data.

Financial Data Related to the Company from the Consolidated Financial Statements**Details of income**

	Additional information	For the year ended December 31		
		2011	2010	2009
		US\$ thousands	US\$ thousands	US\$ thousands
Financing income		19,858	4,699	15,950
Expenses				
General and administrative		47,208	61,373	27,022
Financing		33,680	42,153	33,716
		80,888	103,526	60,738
Income from investee companies, net		1,580,674	1,152,809	756,723
Income before taxes on income		1,519,644	1,053,982	711,935
Taxes on income	5	7,823	29,242	(58,485)
Income for the year attributed to owners of the Company		1,511,821	1,024,740	770,420

The accompanying additional information is an integral part of the separate financial data.

Financial Data Related to the Company from the Consolidated Financial Statements**Details of comprehensive income**

	For the year ended December 31		
	2011	2010	2009
	<u>US\$ thousands</u>	<u>US\$ thousands</u>	<u>US\$ thousands</u>
Income for the year attributed to owners of the Company	<u>1,511,821</u>	<u>1,024,740</u>	<u>770,420</u>
Other comprehensive income components			
Change in fair value of financial assets available for sale	(3,756)	(3,324)	6,816
Net actuarial losses from defined benefit plans	-	(804)	(555)
Change in fair value of derivatives used for hedging cash flows	(15)	(1,097)	(1,230)
Income taxes in respect of other comprehensive income components	1,234	490	(1,209)
Other comprehensive income in respect of investee companies, net	<u>(76,541)</u>	<u>(38,345)</u>	<u>30,712</u>
Other comprehensive income (loss) for the year, net of tax	<u>(79,078)</u>	<u>(43,080)</u>	<u>34,534</u>
Total comprehensive income for the year attributed to the owners of the Company	<u>1,432,743</u>	<u>981,660</u>	<u>804,954</u>

The accompanying additional information is an integral part of the separate financial data.

Financial Data Related to the Company from the Consolidated Financial Statements**Details of cash flows**

	For the year ended December 31		
	2011	2010	2009
	US\$ thousands	US\$ thousands	US\$ thousands
Cash flows from operating activities			
Income for the year	1,511,821	1,024,740	770,420
Adjustments for:			
Depreciation and amortization	372	399	479
Interest expenses, net	17,908	19,646	7,303
Gain on securities classified as available-for-sale	(4,535)	(3,244)	(150)
Gain from investee companies, net	(1,580,674)	(1,152,809)	(756,723)
Share based payment transactions	15,476	32,518	2,462
Revaluation of assets and liabilities denominated in foreign currency	(741)	11,382	5,763
Income tax expense	7,823	29,242	(58,485)
	<u>(32,550)</u>	<u>(38,126)</u>	<u>(28,931)</u>
Change in other receivables	2,114	(1,782)	(326)
Change in trade and other payables	25,533	(7,364)	(13,527)
Change in employee benefits	(261)	2,006	770
	<u>(5,164)</u>	<u>(45,266)</u>	<u>(42,014)</u>
Income tax received (paid)	(293,653)	(123,152)	23,697
Interest received	3,485	1,584	540
Interest paid	(20,079)	(20,115)	(6,561)
Net cash used in operating activities related to the Company	<u>(315,411)</u>	<u>(186,949)</u>	<u>(24,338)</u>
Net cash provided by operating activities related to investee companies	1,479,909	1,361,372	645,662
Net cash provided by operating activities	<u>1,164,498</u>	<u>1,174,423</u>	<u>621,324</u>
Cash flows from investing activities			
Investments in long-term deposits	-	-	(5,387)
Receipt from sale of investment securities available-for-sale	14,421	9,356	2,261
Acquisition of fixed assets	(114)	(649)	(136)
Short-term deposits and loan, net	143,414	(143,414)	-
Net cash (used) provided in investing activities related to the Company	<u>157,721</u>	<u>(134,707)</u>	<u>(3,262)</u>
Net cash used (provided) in investing activities related to investee companies	26,896	(81,023)	(250,558)
Net cash (used) provided in investing activities	<u>184,617</u>	<u>(215,730)</u>	<u>(253,820)</u>
Cash flows from financing activities			
Proceeds from options allocated to employees	94	334	-
Issue of debentures	-	-	402,840
Dividend paid	(1,131,033)	(998,251)	(549,037)
Long-term loan received	-	120,000	-
Repayment of long-term loans	(150,000)	-	(30,000)
Acquisition by the Company of its own shares	-	-	(6,544)
Short-term credit from banks and others	(229,921)	(558,040)	143,164
Net cash used in financing activities related to the Company	<u>(1,510,860)</u>	<u>(1,435,957)</u>	<u>(39,577)</u>
Net cash flows from financing activities related to investee companies	116,088	540,218	(275,394)
Net cash used in financing activities	<u>(1,394,772)</u>	<u>(895,739)</u>	<u>(314,971)</u>
Net increase (decrease) in cash and cash equivalents	<u>(45,657)</u>	<u>62,954</u>	<u>52,533</u>
Cash and cash equivalents as at the beginning of the year	115,682	52,728	195
Cash and cash equivalents as at the end of the year	<u>70,025</u>	<u>115,682</u>	<u>52,728</u>

The accompanying additional information is an integral part of the separate financial data.

Separate Financial Data of the Company from the Consolidated Financial Statements

Additional information to Separate Financial Data

1 - General

Presented hereunder are the financial data from the Group's consolidated financial statements as at December 31, 2011 (hereinafter – the consolidated financial statements), which are issued in the framework of the periodic reports and which are attributed to the Company itself (hereinafter – separate financial data) and are presented in accordance with Regulation 9C and the tenth addendum to the Securities Regulations (Periodic and Immediate Reports) – 1970 regarding separate financial data of an entity.

In this separate financial data –

- (1) The Company – Israel Chemicals Ltd.
- (2) Subsidiaries – Entities controlled by the Company.
- (3) Investee companies – Subsidiaries and entities in which the Company has significant influence.

2 - Significant Accounting Policies Applied in the Separate Financial Data

The accounting policies described in the consolidated financial statements have been applied consistently to all periods presented in the Company's separate financial data, including the manner by which the financial data were classified in the consolidated financial statements, with any necessary changes deriving from that mentioned hereunder:

A. Presentation of the financial data

(1) Data on financial position

Information on amounts of assets and liabilities included in the consolidated financial statements that are attributable to the Company itself (other than in respect of investee companies), according to categories of assets and liabilities, as well as information regarding the net amount, on the basis of the consolidated financial statements, that is attributable to the Company's owners, of total assets less total liabilities, in respect of investee companies, including goodwill.

(2) Data on income and comprehensive income

Information on amounts of revenues and expenses included in the consolidated financial statements, allocated between income and other comprehensive income, attributable to the Company itself (other than in respect of investee companies), while specifying the categories of revenues and expenses, as well as information regarding the net amount, on the basis of the consolidated financial statements, that is attributable to the Company's owners, of total revenues less total expenses in respect of the operating results of investee companies.

Separate Financial Data of the Company from the Consolidated Financial Statements

2 - Significant Accounting Policies Applied in the Separate Financial Data (cont'd)

A. Presentation of the financial data (cont'd)

(3) Data on cash flows

Information on cash flows included in the consolidated financial statements that are attributable to the Company itself (other than in respect of investee companies), based on the consolidated statement of cash flows, classified according to flow from operating activities, investing activities and financing activities with details of their composition. The cash flows from operating activities, investing activities and financing activities in respect of transactions with investee companies are presented separately on a net basis, under the relevant type of activity, in accordance with the nature of the transaction.

B. Transactions between the Company and investee companies

(1) Presentation

Intra-group balances and transactions, and any income and expenses arising from intra-group transactions, which were eliminated in preparing the consolidated financial statements, were presented as part of the balance in respect of investee companies.

(2) Measurement

Transactions between the Company and its subsidiaries were measured according to the recognition and measurement principles provided in International Financial Reporting Standards ("IFRS") with respect to the accounting treatment of transactions of this kind that are executed with third parties.

3 - Derivative Instruments

	As at December 31			
	2011		2010	
	Assets	Liabilities	Assets	Liabilities
	US\$ thousands		US\$ thousands	
Among current assets and liabilities:				
Foreign currency derivative instruments	-	(2,117)	1,592	-
Interest derivative instruments	400	(1,875)	-	(1,878)
	400	(3,992)	1,592	(1,878)
Among non-current assets and liabilities:				
Foreign currency derivative instruments	10,006	(3,735)	27,827	-
Interest derivative instruments	8,223	(21,436)	8,481	(21,274)
	18,229	(25,171)	36,308	(21,274)

Separate Financial Data of the Company from the Consolidated Financial Statements

4 - Credit from Banks and Others

A. Composition

	As at December 31	
	2011	2010
	US\$ thousands	US\$ thousands
Current liabilities		
Short-term credit		
From financial institutions	22,106	252,027
Current maturities of long-term loans		
From financial institutions	-	30,000
	22,106	282,027

	As at December 31	
	2011	2010
	US\$ thousands	US\$ thousands
Non current liabilities		
Loans from financial institutions*	-	150,000
Marketable debentures	418,470	441,728
	418,470	591,728
Less – current maturities in respect of loans		
From financial institutions	-	30,000
	418,470	561,728

* The Group has the right to make early repayment of the loans from financial institutions.

B. Classified by currency and interest rates

	Weighted average interest rate as at December 31	As at December 31	
		2011	2010
		%	
		US\$ thousands	US\$ thousands
Current liabilities (without current maturities)			
Short-term credit from financial institutions			
In dollars	1.5	22,106	252,027

Separate Financial Data of the Company from the Consolidated Financial Statements

4 - Credit from Banks and Others (cont'd)

	Weighted average interest rate as at December 31	As at December 31	
		2011	2010
		%	
		US\$ thousands	US\$ thousands
Non-current liabilities (including current maturities)			
Financial institution loans			
In dollar		-	150,000
Marketable debentures (1):			
In dollar	3.0	69,612	69,055
In Israeli currency – unlinked	5.1	219,648	237,020
In Israeli currency - linked to CPI	3.4	129,210	135,653
		418,470	441,728

(1) See paragraph D.

C. Maturity periods

The credit and the loans including debentures (net of current maturities) mature in the following years after the reporting date, as follows:

	As at December 31	
	2011	2010
	US\$ thousands	US\$ thousands
Second year	263,125	24,000
Third year	155,345	301,934
Fourth year	-	187,794
Fifth year	-	48,000
	418,470	561,728

D. Issuance of Debentures

On April 27, 2009, the Company issued three series of debentures in a private offering via a tender to institutional investors, for consideration of NIS 695 million (about \$167 million). The debentures were issued in the following three series:

1. Series A – approximately NIS 452 million debentures linked to the CPI, to be redeemed at the end of 5 years.
2. Series B – approximately NIS 61 million debentures not linked, to be redeemed at the end of 4.5 years.
3. Series C – approximately NIS 182 million debentures linked to the dollar, to be redeemed in 4.5 years.

Separate Financial Data of the Company from the Consolidated Financial Statements

4 - Credit from Banks and Others (cont'd)

D. Issuance of Debentures (cont'd)

In August 2009 the debentures were registered for trading on the Tel-Aviv Stock Exchange. The interest rate determined in the tender after registration of the debentures on the stock exchange is 3.4% per annum for the CPI-linked debentures, 5.25% per annum for the shekel debentures and 2.4% above the six-month dollar Libor rate, for the dollar-linked debentures.

On September 9, 2009, the Company issued three series of debentures via a tender to the public, for consideration of NIS 898 million (about \$235 million). The debentures were issued in three series, as follows:

1. Expanded Series B – approximately NIS 696 million debentures not linked, to be redeemed at the end of about 4 years, bearing interest at the rate of 5.25%. The debentures were issued at a price of NIS 1.031 per unit and at an effective interest rate of 5%.
2. Expanded Series C – approximately NIS 102 million debentures linked to the dollar, to be redeemed in about 4 years, bearing interest at the rate of 2.4% above the six-month dollar Libor rate (rate on the issuance date – 4.4%). The debentures were issued at a price of NIS 0.913 per unit and at an effective interest rate of 4.7%.
3. Series D – approximately NIS 100 million shekel debentures not linked, to be redeemed at the end of about 5 years, bearing interest at the rate of 1.45% above the three-month shekel Telbor rate.

In respect of its shekel and index-linked series, the Company has executed transactions in derivatives that swap the NIS cash flows with dollar cash flows. In addition, the Company has executed transactions in derivatives to hedge against exposure to changes in the CPI.

5 - Taxes on Income

A. Deferred income taxes

The composition of the deferred taxes and the changes therein, are as follows:

	In respect of balance sheet items			
	Depreciable property, plant and equipment	Employee related obligations	Other	Total
	US\$ thousands	US\$ thousands	US\$ thousands	US\$ thousands
Balance as at January 1, 2010	(36)	3,837	3,945	7,746
Changes in 2010:				
Amounts recorded in equity	-	(249)	*(197)	*(446)
Amounts recorded in income	9	(548)	*2,431	*1,892
Balance as at December 31, 2010	(27)	3,040	6,179	9,192
Changes in 2011:				
Amounts recorded in equity	-	48	(1,353)	(1,305)
Amounts recorded in income	(24)	1,016	705	1,697
Balance as at December 31, 2011	(51)	4,104	5,531	9,584

The deferred taxes as at December 31, 2011 are calculated at a tax rate of 25% (December 31, 2010 - 24%).

Separate Financial Data of the Company from the Consolidated Financial Statements

5 - Taxes on Income (cont'd)

B. Taxes on income included in the income statements:

	For the year ended December 31		
	2011	2010	2009
	US\$ thousands	US\$ thousands	US\$ thousands
Current taxes	9,393	7,734	18,188
Deferred taxes	(1,697)	*(2,393)	6
Taxes in respect of prior years	127	* 23,901	(76,679)
	<u>7,823</u>	<u>29,242</u>	<u>(58,485)</u>

* Reclassified

C. Taxes on income regarding equity items

	For the year ended December		
	2011	2010	2009
	US\$ thousands	US\$ thousands	US\$ thousands
<u>Taxes recorded in other comprehensive income</u>			
Actuarial gains from defined benefit plan	48	(249)	131
Change in fair value of financial assets available-for-sale	1,329	331	(1,660)
Change in fair value of derivatives used for hedging cash flows	(143)	408	320
	<u>1,234</u>	<u>490</u>	<u>(1,209)</u>
<u>Taxes recorded directly in equity</u>			
Tax benefit in respect of issuance of shares to employees	(1,070)	(211)	744
	<u>(1,070)</u>	<u>(211)</u>	<u>744</u>

6 - Financial Instruments and Risk Management

A. General

The Company has extensive international activity in which it is exposed to credit, liquidity and market risks (including currency, interest and other price risks). In order to reduce the exposure to these risks, the Company holds financial derivative instruments, (including forward transactions and swap transactions) for the purpose of economic (not accounting) hedging of foreign currency risks and interest risks (the Company coordinates hedging for interest rate risks for all the Group). Furthermore, the Company holds derivative financial instruments to hedge its risk in respect of changes in the cash flows of issued debentures, and such instruments are accounting hedges.

The transactions in derivatives are executed with large financial institutions in Israel and abroad, and therefore in the opinion of management of the Company the credit risk in their respect is low.

Separate Financial Data of the Company from the Consolidated Financial Statements

6 - Financial Instruments and Risk Management (cont'd)

A. General (cont'd)

This note presents information about the Company's exposure to each of the above risks, and the Company's objectives, policies and processes for measuring and managing risk.

The Company monitors on a regular basis the extent of the exposures and the hedge documentation of various matters. The hedge policies of all the types of exposures are discussed by the Company's board of directors. The finance committee of ICL receives a report every quarter in the framework of the discussion on the quarterly results, as a means of controlling implementation of the policies and for the purpose of updating the policies if required. The management of the Company implement the policies that are determined, while taking into consideration actual market developments and anticipations.

B. Groups and measurement bases of financial assets and financial liabilities

	As at December 31, 2011			
	Financial assets		Financial liabilities	
	Measured at fair value through profit and loss	Loans and receivables	Measured at fair value through profit and loss	Measured at amortized cost
	US\$ thousands	US\$ thousands	US\$ thousands	US\$ thousands
Cash and cash equivalents	-	70,025	-	-
Investments in deposits and short-term loans	-	421	-	-
Other receivables and debit balances, including derivative instruments	400	1,673	-	-
Deposits and other long-term receivables	-	7,624	-	-
Long-term derivative instruments	18,229	-	-	-
Total financial assets	18,629	79,743	-	-
Short-term credit from banks and others	-	-	-	(22,106)
Other payables, including derivative instruments	-	-	(3,992)	(35,683)
Long-term loans from banks and others	-	-	-	(418,470)
Long-term derivative instruments	-	-	(25,171)	-
Total financial liabilities	-	-	(29,163)	(476,259)
Total financial instruments, net	18,629	79,743	(29,163)	(476,259)

Separate Financial Data of the Company from the Consolidated Financial Statements

6 - Financial Instruments and Risk Management (cont'd)

C. Credit risk

(1) General

Deposit credit risks

The Company deposits its balance of liquid financial assets only in bank deposits. The deposits are held at leading banks with an appropriate spread between the banks and a preference to banks that provide loans to the Company.

(2) Maximum Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	As at December 31	
	2011	2010
	Carrying amount	
	US\$ thousands	US\$ thousands
Cash and cash equivalents	70,025	115,682
Investment deposits and short-term loans	421	157,500
Other receivables, including derivative instruments	2,073	4,388
Deposits and other long-term receivables	7,624	8,158
Long-term derivative instruments	18,229	36,308
	98,372	322,036

D. Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses.

The Company manages the liquidity risk by holding cash balances, short-term deposits and secured bank credit facilities.

Separate Financial Data of the Company from the Consolidated Financial Statements

6 - Financial Instruments and Risk Management (cont'd)**D. Liquidity risk (cont'd)**

The following are the contractual maturities of financial liabilities, including estimated interest payments:

	As at December 31, 2011				
	Carrying amount	12 months or less	1-2 years US\$ thousands	3-5 years	More than 5 years
Non-derivative financial liabilities					
Short-term credit from banks and others (without current maturities)	22,106	22,439	-	-	-
Other payables	35,683	35,683	-	-	-
Non-convertible debentures (including current maturities)	418,470	17,787	18,131	437,339	-
	<u>476,259</u>	<u>75,909</u>	<u>18,131</u>	<u>437,339</u>	<u>-</u>
Financial liabilities - derivative instruments utilized for economic and accounting hedging					
Derivatives on exchange rates	5,852	2,117	1,385	2,350	-
Interest rate swaps and options	23,311	1,875	5,083	16,353	-
	<u>29,163</u>	<u>3,992</u>	<u>6,468</u>	<u>18,703</u>	<u>-</u>
	<u>505,422</u>	<u>79,901</u>	<u>24,599</u>	<u>456,042</u>	<u>-</u>

Separate Financial Data of the Company from the Consolidated Financial Statements

6 - Financial Instruments and Risk Management (cont'd)**D. Liquidity risk (cont'd)**

	As at December 31, 2010				
	Carrying amount	12 months or less	1-2 years	3-5 years	More than 5 years
			US\$ thousands		
Non-derivative financial liabilities					
Short-term credit from banks and others (without current maturities)	252,027	255,809	-	-	-
Other payables	11,254	11,254	-	-	-
Dividend payable	169,703	169,703	-	-	-
Non-convertible debentures (including current maturities)	441,728	18,522	18,861	468,200	-
Long-term Bank loans (including current maturities)	150,000	33,258	27,412	80,455	25,324
	<u>1,024,712</u>	<u>488,546</u>	<u>46,273</u>	<u>548,655</u>	<u>25,324</u>
Financial liabilities - derivative instruments utilized for economic and accounting hedging					
Interest rate swaps and options	23,152	1,878	3,708	16,457	1,109
	<u>23,152</u>	<u>1,878</u>	<u>3,708</u>	<u>16,457</u>	<u>1,109</u>
	<u>1,047,864</u>	<u>490,424</u>	<u>49,981</u>	<u>565,112</u>	<u>26,433</u>

Separate Financial Data of the Company from the Consolidated Financial Statements

6 - Financial Instruments and Risk Management (cont'd)

E. Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and prices of equity instruments will affect the fair value or future cash flows of a financial instrument.

(1) Interest risk

The Company has loans bearing variable interest and therefore its financial results and cash flows are exposed to fluctuations in market interest rates.

The Company uses financial instruments, including derivatives, in order to hedge this exposure. The Group uses interest rate swap contracts and interest options mainly in order to reduce the exposure to cash flow risk in respect of interest rates.

(a) Interest Rate Profile

The following is the interest rate profile of the non-derivative interest-bearing financial instruments:

	As at December 31	
	2011	2010
	Carrying amount	
	US\$ thousands	US\$ thousands
Fixed rate instruments:		
Financial assets	2,490	3,046
Financial liabilities	(322,722)	(344,532)
	<u>(320,232)</u>	<u>(341,486)</u>
Variable rate instruments:		
Financial assets	75,580	264,633
Financial liabilities	(117,854)	(499,223)
	<u>(42,274)</u>	<u>(234,590)</u>

(b) Fair value sensitivity analysis for fixed rate instruments

The Company does not account for any fixed rate financial assets and liabilities at fair value through profit and loss. Therefore a change in interest rates at the reporting date would not affect profit and loss for changes in assets and liabilities at fixed interest.

(c) Cash flow sensitivity analysis for variable rate instruments

This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 2010.

Separate Financial Data of the Company from the Consolidated Financial Statements

6 - Financial Instruments and Risk Management (cont'd)**E. Market risk (cont'd)****(1) Interest risk (cont'd)****(c) Cash flow sensitivity analysis for variable rate instruments (cont'd)**

	As at December 31, 2011			
	Influence on profit or loss			
	Decrease of 1% in interest	Decrease of 0.5% in interest	Increase of 0.5% in interest	Increase of 1% in interest
	US\$ thousands	US\$ thousands	US\$ thousands	US\$ thousands
Changes in dollar interest				
Non-derivative instruments	622	311	(311)	(622)
Cylinder instruments	(3,303)	(2,165)	1,945	3,899
	<u>(2,681)</u>	<u>(1,854)</u>	<u>1,634</u>	<u>3,277</u>
Changes in shekel interest				
Non-derivative instruments	(200)	(100)	100	200
	<u>(2,881)</u>	<u>(1,954)</u>	<u>1,734</u>	<u>3,477</u>
	As at December 31, 2010			
	Influence on profit or loss			
	Decrease of 1% in interest	Decrease of 0.5% in interest	Increase of 0.5% in interest	Increase of 1% in interest
	US\$ thousands	US\$ thousands	US\$ thousands	US\$ thousands
Changes in dollar interest				
Non-derivative instruments	3,372	1,686	(1,686)	(3,372)
Interest rate swaps	(7,051)	(3,597)	3,456	6,776
Cylinder instruments	(2,220)	(1,224)	1,269	2,550
Other options	(1,156)	(449)	293	482
	<u>(7,055)</u>	<u>(3,584)</u>	<u>3,332</u>	<u>6,436</u>
Changes in shekel interest				
Non-derivative instruments	(95)	(48)	48	95
Changes in Euro interest				
Non-derivative instruments	(936)	(468)	468	936
	<u>(8,086)</u>	<u>(4,100)</u>	<u>3,848</u>	<u>7,467</u>

Separate Financial Data of the Company from the Consolidated Financial Statements

6 - Financial Instruments and Risk Management (cont'd)

E. Market risk (cont'd)

(1) Interest risk (cont'd)

(d) Conditions of derivative financial instruments used to hedge the foreign currency risk

	As at December 31, 2011			
	Carrying amount (fair value)	Notional amount	Maturity date	Interest rate range
	US\$ thousands	US\$ thousands	Years	%
<u>US dollar</u>				
Interest rate swaps from fixed into variable	6,687	68,000	1-4	4.6%
Interest rate swaps from variable into fixed	(18,040)	361,262	1-5	2%-3.5%
Cylinder instruments	(5,271)	220,000	1-5	1%-5%
<u>NIS</u>				
Interest rate swaps from fixed into variable	1,936	68,228	1-2	3.4%-5.25%

(2) Currency risk

The Company is exposed to currency risk on sales, purchases and borrowings that are denominated in a currency other than the respective functional currencies of the Company. The main exposure is to the NIS currency.

The Company enters into foreign currency derivatives – forward contracts – almost all in order to protect the Group from the risk that the eventual dollar net cash flows, resulting from existing assets and liabilities, and sales and purchases of goods and services within the framework of firm or anticipated commitments (based on a budget of up to one year) that will be affected by changes in the exchange rates.

Furthermore, on April 27, 2009, the Company issued three series of debentures in a private placement to institutional investors through an auction, for consideration of NIS 695 million (USD 167 million).

On September 9, 2009, the Company issued three series of debentures in a public offering through an auction, for consideration of NIS 898 million (approximately USD 235 million). Several of the issued series are denoted in shekels and several are CPI-linked bearing CPI-linked interest. In respect of the shekel and CPI-linked liabilities, the Company performed dollar-shekel swap transactions to swap its cash flow from shekels into dollars. The Company also performed transactions in derivatives to hedge the major portion of its risk in respect of changes in the CPI. The swap transactions are for five years. This hedging transaction was not treated as an accounting hedge.

Furthermore, in the third quarter of 2009, the Company invested in derivatives to hedge its risk in respect of changes in the cash flows of expanded Series B derivatives, in respect of changes in the shekel-dollar exchange rate. The swap transactions are for four years and affect the income statement over the entire lifetime of the debentures. This hedging transaction was treated as an accounting hedge. As a result of the implementation of hedging accounting, the Company charged part of the changes in the fair value of the derivatives (a loss of USD 2.3 million) to capital reserves in other comprehensive income.

Separate Financial Data of the Company from the Consolidated Financial Statements

6 - Financial Instruments and Risk Management (cont'd)

E. Market risk (cont'd)

(2) Currency risk (cont'd)

(a) Sensitivity analysis

A strengthening at the rate of 10% of the US\$ against the following currencies would have increased (decreased) profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant.

	As at December 31	
	2011	2010
	Impact on profit (loss) in US\$ thousands	
<u>Non-derivative financial instruments</u>		
Dollar/NIS	32,739	49,847
Dollar/Euro	-	(9,355)

A weakening of 10% of the US\$ against the currencies above as at December 31 would have the same effect but in the opposite direction.

Presented hereunder is a sensitivity analysis of the Company's foreign currency derivative instruments as at December 31, 2011 and December 31, 2010. Any change in the exchange rates of the principal currencies as at December 31 would have increased (decreased) profit or loss and equity by the amounts shown below (in \$ thousand). This analysis assumes that all other variables remain constant.

	As at December 31, 2011			
	Increase 10%	Increase 5%	Decrease 5%	Decrease 10%
	US\$ thousands	US\$ thousands	US\$ thousands	US\$ thousands
Dollar/Euro Forward	5,598	2,932	(3,240)	(6,840)
Dollar/GBP Forward	(7,335)	(3,474)	3,143	6,001
Dollar / NIS Swap	(28,744)	(15,053)	16,637	35,132
<u>CPI</u>				
Forward	5,654	2,827	(2,827)	(5,654)
Swap	4,753	2,376	(2,376)	(4,753)
	As at December 31, 2010			
	Increase 10%	Increase 5%	Decrease 5%	Decrease 10%
	US\$ thousands	US\$ thousands	US\$ thousands	US\$ thousands
<u>CPI</u>				
Forward	5,877	2,939	(2,939)	(5,877)
Swap	4,994	2,497	(2,497)	(4,994)
<u>Dollar/NIS</u>				
Forward	(11,151)	(4,656)	10,388	19,166
Swap	(24,204)	(12,675)	14,009	29,583

Separate Financial Data of the Company from the Consolidated Financial Statements

6 - Financial Instruments and Risk Management (cont'd)

E. Market risk (cont'd)

(2) Currency risk (cont'd)

(b) Conditions of derivative financial instruments used to economically hedge the foreign currency risk

	As at December 31, 2011		
	Carrying amount	Notional amount	Average exchange rate
	US\$ thousands	US\$ thousands	%
<u>Forward</u>			
CPI	(279)	52,342	3.7
Dollar / Euro	(847)	61,591	1.31
Dollar / GBP	1,271	66,024	1.57
<u>Swap</u>			
Dollar / NIS	(111)	270,553	3.8
Dollar / CPI	6,662	38,892	3.8

	As at December 31, 2010		
	Carrying amount	Notional amount	Average exchange rate
	US\$ thousands	US\$ thousands	%
<u>Forward</u>			
Dollar / NIS	1,592	147,670	3.7
CPI	1,028	53,291	3.8
<u>Swap</u>			
Dollar / NIS	17,521	226,730	3.8
Dollar /CPI	9,548	38,892	3.8

The maturity date of all of the derivatives used to economically hedge foreign currency risk is up to a year.

Separate Financial Data of the Company from the Consolidated Financial Statements

6 - Financial Instruments and Risk Management (cont'd)**E. Market risk (cont'd)****(2) Currency risk (cont'd)****(c) Linkage terms of monetary balances**

	As at December 31, 2011				
	US\$	Euro	GBP	NIS	CPI
Non-derivative financial Instruments:					
Cash and cash equivalents	23,615	126	96	46,188	-
Investments deposits and short-term loans	-	-	-	18	-
Other receivables	405	-	-	1,268	-
Deposits and other long-term receivables (including current maturities)	5,537	-	-	-	2,490
Total financial assets	29,557	126	96	47,474	2,490
Credit from banks and other credit providers	21,998	-	-	108	-
Other payables	7,296	-	-	28,387	-
Long-term loans from banks and other credit providers (including current maturities)	69,612	-	-	219,648	129,210
Total financial liabilities	98,906	-	-	248,143	129,210
Total non-derivative financial instruments, net	(69,349)	126	96	(200,669)	(126,720)
Derivative instruments:					
Forwards	-	61,591	66,024	-	52,342
Swaps Dollar to NIS and CPI	-	-	-	270,553	38,892
Total derivative instruments	-	61,591	66,024	270,553	91,234
Net exposure	(69,349)	61,717	66,120	69,884	(35,486)

Separate Financial Data of the Company from the Consolidated Financial Statements

6 - Financial Instruments and Risk Management (cont'd)**E. Market risk (cont'd)****(2) Currency risk (cont'd)****(c) Linkage terms of monetary balances (cont'd)**

	As at December 31, 2010				
	US\$	Euro	GBP	NIS	CPI
Non-derivative financial Instruments:					
Cash and cash equivalents	38,313	40,140	12	37,217	-
Investments deposits and short-term loans	90,000	53,414	-	13,661	-
Other receivables	2,434	-	-	429	-
Deposits and other long-term receivables (including current maturities)	5,537	-	-	-	3,046
Total financial assets	136,284	93,554	12	51,307	3,046
Credit from banks and other credit providers	252,027	-	-	-	-
Other payables	803	-	-	10,451	-
Dividend payable	-	-	-	169,703	-
Long-term loans from banks and other credit providers (including current maturities)	219,055	-	-	237,020	135,653
Total financial liabilities	471,885	-	-	417,174	135,653
Total non-derivative financial instruments, net	(335,601)	93,554	12	(365,867)	(132,607)
Derivative instruments:					
Forwards	-	-	-	147,670	53,291
Swaps Dollar to NIS and CPI	-	-	-	226,730	38,892
Total derivative instruments	-	-	-	374,400	92,183
Net exposure	(335,601)	93,554	12	8,533	(40,424)

6 - Financial Instruments and Risk Management (cont'd)

F. Fair value of financial instruments

The financial instruments of the Company mostly include non-derivative assets, such as: cash and cash equivalents, investments, deposits and short-term loans, debtors and debit balances, investments and long-term receivables, non-derivative liabilities, such as: short-term credit, creditors and credit balances, long-term loans and other liabilities; as well as derivative financial instruments.

Due to their nature, the fair value of the financial instruments included in the working capital of the Group is generally identical or approximates the value, according to which they are stated in the accounts. The fair value of the long-term deposits and receivables and the long-term liabilities also approximates their stated value, as these financial instruments bear interest at a rate which approximates the accepted market rate of interest.

The following table shows in detail the stated value and the fair value of financial instrument groups presented in the financial statements not in accordance with their fair value.

			<u>As at December 31, 2011</u>	
			<u>Carrying amount</u>	<u>Fair value</u>
			<u>US\$ thousands</u>	<u>US\$ thousands</u>
Marketable	fixed	rate	<u>322,721</u>	<u>337,599</u>
debentures				

The fair value of the marketable debentures is based on the stock market price for the report date.

7 - Arrangements and transactions with investee companies

A. Profit from investee companies, net includes the Company's share in profits of its subsidiaries, management fees from subsidiaries and financing income and expenses, net relating to credit and loans that were provided or received from the subsidiaries.

B. Material transactions with investee companies

	<u>For the year ended December 31</u>		
	<u>2011</u>	<u>2010</u>	<u>2009</u>
	<u>US\$ thousands</u>	<u>US\$ thousands</u>	<u>US\$ thousands</u>
Dividend from investee companies	<u>1,198,311</u>	<u>1,356,758</u>	<u>607,992</u>
Management fees from investee companies	<u>42,828</u>	<u>35,422</u>	<u>28,429</u>
Financing income from investee companies, net	<u>13,083</u>	<u>2,536</u>	<u>9,409</u>

C. Financial guarantees

The Company guarantees the liabilities of its subsidiaries to banks to an unlimited amount. The balance of the subsidiaries' bank liabilities for which the Company provided a guarantee is \$1,885 million at the reporting date.

7 - Arrangements and transactions with investee companies (cont'd)

D. Loans

Loans between the Company and investee companies in Israel are provided at the same conditions as the Company received and as a condition of the loans the conditions will not be below the minimum interest required under the tax law in Israel. For the period of the financial statements the loans were in accordance with the said condition.

E. Dividends

- (1) On April 15, 2010, a dividend in the amount of \$400 million was received from the subsidiary Dead Sea Works.
- (2) On April 29, 2010, dividends in the amount of \$5.3 million and \$9 million were received from the subsidiaries IDE and HYB Inc., respectively.
- (3) On May 30, 2010, a dividend in the amount of \$56 million was received from the subsidiary Dead Sea Bromine.
- (4) On June 28, 2010, dividends in the amounts of \$500 million and \$10 million were received from the subsidiaries Dead Sea Works and Rotem Amfert Negev, respectively.
- (5) On August 31, 2010 a dividend in the amount of \$17 million was received from the subsidiary Dead Sea Bromine.
- (6) On September 20, 2010 dividends in the amount of \$130 million and \$10 million were received from the subsidiaries Dead Sea Works and Rotem Amfert Negev, respectively.
- (7) On November 21, 2010, the subsidiaries Dead Sea Works and Rotem Amfert Negev declared distribution of a dividend in the amount of \$150 million and \$45 million, respectively.
The dividends were received subsequent to the date of report, on January 12, 2011.
- (8) On November 30, 2010, a dividend in the amount of \$20 million was received from subsidiary Dead Sea Bromine.
- (9) On January 1, 2011, a dividend in the amount of \$4.5 million was received from the subsidiary Tovala.
- (10) On January 12, 2011, dividends in the amount of \$150 million and \$45 million were received from the subsidiaries Dead Sea Works and Rotem Amfert Negev, respectively.
- (11) On February 25, 2011, a dividend in the amount of \$2 million was received from the subsidiary HYB Inc.
- (12) On March 31, 2011, dividends in the amount of \$400 million, \$38 million and \$25 million were received from the subsidiaries Dead Sea Works, Dead Sea Bromine and Rotem Amfert Negev, respectively.

7 - Arrangements and transactions with investee companies (cont'd)

E. Dividends (cont'd)

- (13) On April 3, 2011, a dividend from the proportionately consolidated company, IDE, in the amount of \$5 million was received.
- (14) On May 12, 2011, dividends in the amount of \$40 million and \$9.5 million were received from the subsidiaries Rotem Amfert Negev and Tovala, respectively.
- (15) On May 15, 2011, a dividend in the amount of \$25 million was received from the subsidiary Dead Sea Bromine.
- (16) On June 28, 2011, a dividend in the amount of \$140 million was received from the subsidiary Dead Sea Works.
- (17) On August 31, 2011 a dividend in the amount of \$31 million was received from the subsidiary Dead Sea Bromine.
- (18) On September 21, 2011 dividends in the amount of \$150 million and \$60 million were received from the subsidiaries Dead Sea Works and Rotem Amfert Negev, respectively.
- (19) On November 20, 2011 a dividend in the amount of \$24 million was declared by the subsidiary Dead Sea Bromine.
- (20) On December 15, 2011 dividends in the amount of \$225 million and \$25 million were received from the subsidiaries Dead Sea Works and Rotem Amfert Negev, respectively.
- (21) On December 21, 2011 a dividend in the amount of \$153 thousand was received from the subsidiary HYB Inc.
- (22) After the date of the financial statements, on March 11, 2012 a dividend was declared by the subsidiary Mifalei Tovala in the amount of \$5.5 million.
- (23) After the date of the financial statements, on March 25, 2012 dividends in the amount of \$180 million and \$20 million were declared by the subsidiaries Dead Sea Works and Rotem Amfert Negev, respectively.

Chapter D – Code of Ethics, Corporate Regime, Controls and Internal Audit

1. Code of ethics

In 2011 ICL's Board of Directors adopted a global code of ethics that replaced the Israeli code adopted in 2005. The global code of ethics lists the following basic values of ICL:

- Fairness in business
- Responsibility
- Excellence and continuous improvement
- Respect for others
- Commitment to the environment

The code of ethics was also adopted by the subsidiaries of ICL Group operating in Israel and abroad, making it uniform for the entire Group. It has been assimilated by ICL employees inside and outside Israel through periodic training.

Ethics committees have been set up in ICL and the segments to handle the compliance with the code of ethics, whether by determining internal procedures or by discussing ethical dilemmas raised by employees.

2. Corporate regime

As part of its corporate social responsibility, ICL operates in accordance with principles designed to ensure the quality and transparency of its decision-making procedures. Following is a summarized description of the key standards of ICL's corporate regime:

2.1 Independence of the Board of Directors

In ICL there is separation between the identity and duties of the Chairman of the Board and between the identity and duties of the CEO. There is also separation between the duties of the Board and the duties of the Company's officers. Directors (with the exception of the external directors who are appointed for three-year periods in accordance with the law) are elected every year by the General Meeting.

Independent directors: at the reporting date ICL had not adopted a provision in its articles regarding the minimum number of independent directors as defined in Article 219 (E) of the Companies Law, 1999 (the "Companies Law"). However, to the best of the Board's knowledge, at the reporting date, five of ICL's twelve board members (Messrs. Victor Medina, Avraham (Baiga) Shochat and three external directors – Dr Miriam Haran, Prof. Yair Orgler and Mr. Yaakov Dior) are "independent directors" as defined in the Companies Law. Another director, (Mr. Haim Erez,) complies with the independence requirement except for the fact that he has been serving as a board member for more than nine years.

2.2 Directors with accounting and financial expertise

The Companies Law and Securities Law, 1968 determine that a public company must stipulate an appropriate minimum number of directors with accounting and financial expertise to serve as company directors and make disclosures regarding board members who comply with these requirements. Directors with accounting and financial expertise are those whose education, experience and qualifications give them proficiency in and understanding of business and accounting, as well as internal control and financial reporting. This allows them to acquire an in-depth understanding of the company's financial statements and initiate discussions regarding the presentation of the financial data.

ICL's Board of Directors has decided that there will be a minimum of three directors with accounting and financial expertise. The Board believes that this number allows it to perform the duties imposed on it by law and by the documents of association, given its responsibility to examine the Company's financial condition and operating results and prepare and approve its financial statements.

In the decision-making process the Board took into consideration the Company's size, the complexity of its operations, the range of risks to which it is exposed, its current control systems, both internal control and audits conducted by external auditors, the existence of boards of directors in the Company's segments of operations containing skilled and professional directors, including directors who are not officers in the Company, who supervise the operations of the segments and the disclosure provided in the statements of the segments and in the financial statements of the companies in the segment.

The assessment of the accounting and financial expertise of the directors took into consideration the following factors: education, management experience in public companies, number of years of service as director in public companies as well as knowledge and degree of knowledge with subjects such as accounting issues and control issues typical of the industry in which the ICL Group and companies of similar size and complexity operate, the duties and obligations of an external auditor, the processes inherent in the preparation of the financial statements in accordance with the law, the Company's procedures and its internal control system.

The Company's Board believes that at the reporting date, 10 of its 12 board members have accounting and financial expertise, as described below:

Mr Nir Gilad has served since January 1, 2008 as chairman of ICL's Board, CEO of the parent company – Israel Corporation Ltd. – and as chairman of the board and director of other companies in the Group. He has served as Deputy CEO of Israel Corporation, Deputy CEO of Migdal Insurance Holdings, CEO of Migdal Investments Management (2001), Chairman of Migdal Capital Markets, Accountant-General of the Ministry of Finance and CFO of Israel Aircraft Industries. Mr Gilad has a B.Sc. in Economics and Agricultural Administration from the Hebrew University of Jerusalem and an MBA, majoring in Finance, from Bar Ilan University.

Mr. Avraham (Baiga) Shochat has served as Minister of Finance in the Israeli government, as a member of the Knesset Finance Committee and in additional positions in the government and in the Knesset. He has served and serves as director in a number of public and private corporations and has also served as mayor. Mr. Shochat has a B.Sc. from the Faculty of Civil Engineering of the Israel Institute of Technology.

Mr. Yossi Rosen serves as Chairman of the Board and director of various public and private companies. From 1998 – 2007 he served as Chairman of ICL's Board of Directors and also as CEO of Israel Corporation Ltd. Mr Rosen has a BA from the Faculty of Economics and Political Science and an MBA in Business Administration from the Hebrew University of Jerusalem.

Mr. Moshe Vidman serves as director of a number of private and public companies. Mr Vidman has served as CEO and president of an industrial company and Deputy Accountant General in the Ministry of Finance. Mr Vidman has a BA from the Faculty of Economics and an MBA in Business Administration (Finance) from the Hebrew University in Jerusalem. Mr. Vidman serves as a director of other public companies.

Mr. Avisar Paz is employed as CFO of the parent company, Israel Corporation, and as director of various ICL subsidiaries. Mr Paz previously served as CFO and Controller of another concern. Mr Paz is an accountant and he has a BA in Economics and Accounting from Tel Aviv University.

Mr. Haim Erez serves as director of several public companies. Between 1988 and 1996 he served as CEO of ICL and as Chairman of the Board of ICL subsidiaries. Mr Erez was a research fellow in Company Privatization and Local Government at the London School of Economics (LSE). Mr. Erez has a BA in history and an MA in Political Science from Haifa University.

Mr. Victor Medina has served as CEO of United Mizrahi Bank Ltd. Between 1990 and 1995 he served as Chairman of ICL's Board of Directors. He previously served as Director-General of the Ministry of Finance. He has held senior positions in the Bank of Israel, inter alia as a member of the bank's senior management with responsibility for the Monetary Department, the Foreign Currency Supervision Department and the Credit Department. Mr Medina has a BA from the Faculty of Economics and Political Science, and an MA in Economics, majoring in Finance and Banking, from the Hebrew University of Jerusalem. Mr. Medina serves as a director of other public companies.

Prof. Yair Orgler is an external director of ICL. Prof. Orgler has served as Professor of Finance and Banking, Dean of the Faculty of Management and Vice Rector of Tel Aviv University. Prof. Orgler has published and edited ten books in his specialist areas as well as dozens of scientific and professional articles. He served for ten years as the Chairman of the Board of the Tel Aviv Stock Exchange. Prof. Orgler has a B.Sc. in Industrial Engineering and Management from the Israel Institute of Technology, an M.Sc. in Industrial Engineering from the University of Southern California and a PhD in Industrial Management, majoring in Finance from Carnegie Mellon University. Prof. Orgler founded and served as Chairman of Maalot Israel Securities Rating Company Ltd.. He has served and serves as director of various public companies.

Adv. Eran Sarig is employed as VP Business Development and Strategy in Israel Corporation. From 2004 to 2010, he filled a number of positions in Teva Pharmaceutical Industries Ltd., including as a director, Business and global development from 2007. Mr. Sarig has an LL.B. from the Faculty of Law at Tel Aviv University, an LL.M. from Duke University School of Law and an MBA from the Interdisciplinary Center in Herzliya.

Mr Yaakov Dior is an external director of ICL. Until September 2009 he served as an external director in the Company, as a director in Dead Sea Works, as a director in Rotem Amfert Negev, as a director in Dead Sea Bromine and as a member of the Advisory Committee of the ICL Performance Products segment. Mr Dior has a BA in Economics and Political Science from the Hebrew University of Jerusalem, and an MBA from Tel Aviv University. He is also a director in other public companies.

Further details of the directors named above and of the corporations in which they serve can be found in section 26 of the "Additional Details" chapter of the 2011 Periodic Report. Directors with accounting and financial expertise also serve on the boards of ICL's subsidiaries.

2.3 Training of directors

When they are appointed, new board members receive appropriate training in ICL's operations and from time to time all directors receive training in areas which are subject to material changes.

2.4 Supervision of the Board of Directors

In 2011, ICL's Board of Directors convened for 20 meetings and the boards of the segments held 11 meetings.

Attendance rate of directors at ICL board meetings:

4 directors attended 100% of the meetings

2 directors attended 90% of the meetings

2 directors attended 85% of the meetings

2 directors attended 80% of the meetings

1 director attended 75% of the meetings

1 director attended 65% of the meetings

In accordance with ICL's policy, operations of the Company or its subsidiaries, such as those involving investments exceeding a predetermined amount, organizational changes, mergers and acquisitions all require the Board's approval.

Every year ICL's Board holds detailed discussions of the annual budget, annual work plan, five-year plans, and approval of periodic reports, quarterly and annual financial statements. In the course of the year the Board will convene from time to time for discussions with the Company's management

which presents its activities in material areas, and the Board members also visit the Company's plants. In addition, once a year, the board of directors convenes for a discussion without the ICL management. In addition to ICL's Board of Directors, the segments also operate by means of Boards of directors on which some of ICL's board members also sit, in addition to officers of ICL and others, including independent directors. These boards, themselves or by means of committees (finance, audit, investment, safety, ecology and security, research and development, human resources, ad hoc committees) convene on a regular basis and supervise the activities of the segments. In accordance with ICL's policy, the boards of the segments also operate in accordance with accepted norms in public companies.

Board committees

From time to time ICL's Board appoints ad hoc committees to deal with special matters as well as permanent committees to provide ongoing assistance in areas of activity requiring special attention. These are some of the committees:

Audit Committee: ICL and its segments have audit committees of which all the external directors are members, and ICL's Audit Committee is headed by an external director. At the end of 2011, Mr. Yaakov Dior and Mr. Avraham (Baiga) Shochat commenced service as members of ICL's Audit Committee, so that its members number 6 directors – three external and three independent. On the classification of Messrs. Baiga Shochat and Victor Medina as independent directors, see the description of the Finance Committee below. In 2011 the committee held 13 meetings in addition to the 15 meetings of the audit committees held by the segments. The attendance rate of members is as follows:

3 directors attended 100% of the meetings.

3 directors attended 92% of the meetings.

The Audit Committee is responsible, inter alia, for approving the annual and multi-annual internal audit plan which is based on a risk survey conducted in Israel and overseas. The Audit Committee examines the effectiveness of the Internal Auditor in the Company and ensures that he is in possession of all the tools, sources and access to the information which he needs to be able to perform his job to the appropriate professional standards. In 2008 the Audit Committee approved a charter for the ICL Group's audit committees which was designed to ensure that the committee would fulfill its obligations in accordance with the law and also that the segments' committees would perform their duties. The charter was also designed to regulate the limits of responsibility and authority between the committee and the segment committees. In 2008, the Audit Committee and Board of Directors approved procedures and controls designed to identify, report and approve transactions with officers, interested parties and controlling shareholders. In 2011 the Audit Committee approved a procedure for classification of a transaction as extraordinary or not and of an action as material or not. The committee convenes with the external auditor every year for a discussion which is not attended by ICL's managers.

Finance Committee: The Finance Committee reviews the drafts of the Periodic Report, the Directors' Report and the annual and quarterly financial statements. In 2011 the Finance Committee convened four times, in addition to 2 meetings of finance committees in the segments. The attendance rate was 100% for all committee members. ICL's management presents a detailed overview of the financial statements and the material issues relating to the financial statements and the accounting treatment implemented in the statements. The external auditors give an overview of the accounting issues relating to the financial statements and the material findings that were discovered during the audit. After that, there is a discussion and the Finance Committee formulates its recommendation to the Board of Directors. In these meetings and in other meetings held during the year, the committee also discusses the accounting policy adopted and the accounting treatment applied in matters material to the Company, financial exposure policy, taxation policy, accounting estimates, the internal controls of the disclosure and the financial reporting, the integrity and appropriateness of the disclosure in the financial statements, and other matters which have financial and accounting aspects, such as valuations, including the assumptions and the estimates on which they are based. The committee also discusses the Company's agreements relating to financing and insurance. Commencing 2012, the committee also discusses the scope of fees of the external auditor of the Company, and presents its recommendation to the Board of Directors. The audit fees of the auditor are established by negotiation between the auditor and management and in

the opinion of management are reasonable and acceptable considering the scope and type of activities of the Company.

On February 16, 2011, the Board of Directors of ICL approved the change in the composition of the Finance Committee and its compliance with the provisions of the Companies Regulations (Provisions and Conditions for Approving the Financial Statements), 2010. Following the Board's approval, the committee numbers five members, as follows:

Prof. Yair Orgler, committee chairman and external director, with accounting and financial expertise.
Dr. Miriam Haran, external director
Mr. Victor Medina, independent director, with accounting and financial expertise
CPA Avisar Paz, with accounting and financial expertise
Adv. Eran Sarig, with accounting and financial expertise

On February 9, 2011, the Audit Committee approved the independence of Prof. Yair Orgler, Dr. Miriam Haran, Mr. Victor Medina and Mr. Avraham (Baiga) Shochat. On August 8, 2011 the Audit Committee re-approved the classification of Messrs. Baiga Shochat and Victor Medina as independent directors, in the light of Amendment 16 to the Companies Law.

On August 16, 2011, Messrs. Avisar Paz and Adv. Eran Sarig ended their terms as members of the Finance Committee, pursuant to Section 115 of the Companies Law, and on November 10, 2011 the Board of Directors of ICL appointed Messrs. Avraham (Baiga) Shochat, Yaakov Dior (external director) and Ovadia Eli to the committee. Two of these additional members of the committee (Yaakov Dior and Baiga Shochat) have accounting and financial expertise. At the date of this report, the committee has 4 members with accounting and financial expertise.

The Board of Directors of ICL appointed all the committee members after they were satisfied that their education and extensive experience, as set out in this section, enable them to fulfill their role as members of the Finance Committee. All the members of the Finance Committee declared that they are able to read and understand financial statements.

Human Resources Committee: The Human Resources Committee deals with issues relating to human resources in ICL. For example, the committee discusses the remuneration of employees and officers, employee promotions, labor relations, etc. The committee has five members, of whom two are external directors and one is an independent director. In 2011, the committee held four meetings, at which the attendance rate was as follows:
4 directors attended 100% of the meetings.
1 director attended 50% of the meetings.

2.5 Disclosure regarding approval of the Company's financial statements

ICL's Board of Directors is responsible for overall control of the Company.

The Board of Directors authorized the Finance Committee to discuss the periodic reports and financial statements and recommend them to the Board for approval. The committee comprised six members (see section 2.4 above). The external auditors participate in Finance Committee meetings, and the Internal Auditor is invited to the committee's meetings. For details of the manner of the committee's operations, see section 2.4 above.

In accordance with the resolution of the Board of Directors on March 3, 2011, the recommendations of the Finance Committee are presented to the members of the Board of Directors no later than three business days prior to the board meeting.

Approval of ICL's financial statements includes a discussion of the segments' boards of directors of the financial and business results of the segments. These boards comprise, inter alia, ICL Board members as well as ICL officers. In the segments, the external auditor as well as those responsible for the internal audit take part in these discussions. ICL's Board discusses its statements after approval of the segments' statements.

The Company's financial statements are approved in a number of meetings as needed: a few days before approval of the financial statements by the Board of directors, the Finance Committee conducts a comprehensive discussion of the Board of Directors Report and the financial statements

and the reporting and disclosure issues. The committee's recommendations are distributed to the board of directors according to the schedule defined by the Board of directors and are presented during the discussion to approve the reports. At this meeting, the Company's management gives a detailed overview of the business environment, market trends and economic analysis of the Company's business results. After the economic discussion, the Board of directors discusses and analyzes the financial statements and the disclosure. The Company's external auditor refers to the accounting policies or implementation of the accounting treatment in the financial statements and presents the principal findings of the review process where necessary. After the board is satisfied that the statements constitute a true reflection of ICL's condition and operating results, it approves them. The external auditors and the Internal Auditor participate in these meetings.

On February 29, 2012 the Board of Directors of ICL discussed the Description of the Corporations' Business (Barnea Report).

On March 15, 2012, the Finance Committee discussed the Periodic Report, the Directors' Report and the financial statements for 2011 and formulated its recommendations to the Board of Directors of ICL. The Committee's recommendations were distributed to the Board of Directors on March 21, 2012. The Committee's meeting was divided into two parts: in the first part, management presented an overview as described in section 2.4 above; in the second part, only directors who are members of the committee participated, and they discussed and formulated the committee's recommendations to the Board of Directors. The committee members who were present were Prof. Yair Orgler, Dr. Miriam Haran, Victor Medina, Yaacov Dior, Ovadia Eli and Avraham (Baiga) Shochat. The first part of the meeting was also attended by Board members Nir Gilad, Yossi Rosen, Avisar Paz, Eran Sarig, Haim Erez and Moshe Vidman.

On March 26, 2012, the Board of Directors of ICL discussed the entire set of reports and approved them. Mr. Zion Amsalem, the external auditor and Mr Shlomo Ben Shimol, the internal auditor (participated in all meetings except for the meeting on March 15, 2012) and the following officers participated in all these meetings: Akiva Moses, Asher Grinbaum, Yossi Shachar, Avi Doitchman, Asher Rapaport, Eli Amit, Natan Dreyfuss, Liza Haimovitz, Osi Sessler (participated in all the meetings except for February 29, 2012), Amir Benita, Michael Hazan and Yakir Menashe. Mr Michael Hazan participated in the meeting on March 15, 2012. (For the functions of these officers, see Chapter of Additional Details of the Corporation).

2.6 Salary of the external auditor

In 2011, the ICL Group recorded expenses for services it received from KPMG Somekh Chaikin, CPA and other external auditors overseas for auditing and related services and tax consultancy services in the amount of USD 7 million as follows:

	2010				2011			
	Fees (\$,000)		No. of hours		Fees (\$,000)		No. of hours	
	Israel	Abroad	Israel	Abroad	Israel	Abroad	Israel	Abroad
Audit and tax services	2,424	3,668	38,850	20,328	2,511	4,382	36,971	26,546
Other services*	299	225	2,501	787	308	202	2,800	860

* Other services include mainly transaction advisory services, advice on Israeli and overseas taxation and on transfer pricing.

2.7 Approving the transactions with interested parties

The audit committees of ICL and the segments have approved an internal procedure for the identification, reporting and approval of transactions with officers, interested parties and controlling shareholders or transactions with other segments in which each of them has a personal interest. In accordance with this procedure, the following are among the provisions stipulated:

- Rules for the identification of a transaction to which this procedure applies; rules for the method for transferring information about the transaction, and rules for the method of reporting and approving such a transaction.
- A transaction of ICL with an officer of ICL or a controlling shareholder and a transaction with another party in which each of them has a personal interest, which is not an extraordinary transaction, is presented to the Audit Committee and the Board of Directors of ICL for approval. In light of Amendment 16 to the Companies Law, every such transaction is brought before the Audit Committee of ICL for classification as an extraordinary transaction or not. On December 27, 2011 the committee approved a procedure for classification of a transaction as extraordinary.

The procedure supplements and does not detract from any existing duty in connection with the approval of such transactions. In order to implement the procedure, ICL has developed a computerized system to assist in the identification and tracking of transactions requiring disclosure and approval as provided in the procedure.

3. Internal compliance

ICL is setting up a compliance program designed to ensure that its employees obey the law's provisions and the company's procedures. Internal enforcement programs exist in areas dealing with antitrust, laws regulating securities, ecology, occupational safety and hygiene, labor laws, prevention of sexual harassment, code of ethics and prevention of smoking in public places. Enforcement programs are assimilated on an ongoing basis by managers and employees, and periodic tests are carried out by external entities whose objective is to ensure implementation of the programs. A supervisor is appointed for each program and ICL's board and the boards of the segments receive quarterly reports on the method of implementation of the programs in all segments of operations in the relevant quarter.

4. Internal audit

ICL Group has an internal audit system to ensure compliance with the requirements of the law and ICL's procedures.

4.1 The Internal Auditor

Name: Mr Shlomo Ben Shimol (CIA).

Start of tenure: 2005. The appointment is for a fixed period and was last extended in 2010 until 2013.

The auditor complies with the terms of Article 146 (B) of the Companies Law since he is not an interested party or an officer in the Company, or a relation of either of those and he is not the external auditor or an agent thereof. The auditor complies with the provisions of Article 8 of the Internal Audit Law, 1992 since he has no position in ICL other than his job as auditor. The auditor has confirmed to ICL that he has no material business connections with ICL or any of its associates.

The auditor is a partner in Deloitte Brightman Almagor and there are no employee – employer relations between him and ICL. Furthermore, the auditor performs internal audit services for the subsidiary Dead Sea Magnesium. ICL's segments of operations employ staff who perform internal audit duties in accordance with the auditor's professional instructions.

4.2 Manner of the appointment

In 2005 the Board of Directors and Audit Committee approved the appointment of the auditor. The appointment was made on the basis of his professional qualifications, audit experience in general, and in industrial corporations and public companies in particular, the Deloitte firm's international presence, its professional databases and the internal audit tools at its disposal as well as their impression of the auditor and his team. The appointment was renewed by the Audit Committee and Board of Directors in 2007 and 2010, based on the above considerations and the auditor's cumulative work experience.

4.3 The auditor's organizational superior

The Internal Auditor answers to the chairman of the Board of Directors.

4.4 Audit plan

ICL and its segments, in Israel and overseas, have approved a multi-year work plan until and including 2013, in addition to a detailed annual work plan. In 2008 a risk analysis survey conducted as part of this plan was used as a basis for preparation of the annual and multi-year plans. Hundreds of managers from ICL headquarters and its segments took part in the survey which culminated in a definition of key processes, characterization of exposures to risks and an estimate of the processes' level of exposure to risks. The risk survey and its results were discussed by ICL's management and Audit Committee and this was the basis on which the priorities of the internal audit for the coming years were determined. In 2009 ICL's risk survey was updated to reflect the results of the survey carried out in ICL's Performance Products segment in North America, as well as the results and grading of the audit reports implemented in the segments in 2009. In 2010 a comprehensive risk survey for risk management (ERM) was carried out throughout the Group by external consultants, and the risk management mapping process from 2010 was updated during 2011.

The internal auditor's work plan was prepared on the basis of the risk survey, requests from ICL's management and the segments to examine certain topics, requests from the Audit Committee and the findings of previous audit reports. The work plan was approved by the Audit Committee and is monitored regularly by the Audit Committee and the Board of Directors.

In 2010, the mapping process of internal auditing was completed for ICL companies in countries other than Israel.

The work plan gives the Internal Auditor discretion to add topics requiring audit and in such cases the auditor must report to the committee his intention to deviate from the work plan and provide reasons for his request.

4.5 Overseas audit or audit in investees

The audit plan covers the operations of the entire ICL Group. The segments employ staff in internal audit positions who answer to the segment auditors. In view of ICL's size and the extensive volume of its operations, audit assignments have been distributed throughout the organization between the Chief Internal Auditor and the segment auditors. ICL's Chief Internal Auditor has overall responsibility for its internal audit and he assists with and oversees the audit work in the segments.

4.6 Scope of employment

In 2011, the internal auditor invested 239 hours in ICL and a further 2,046 hours in audit of subsidiaries. These hours were broken down into 685 audit hours overseas and 1,600 audit hours in Israel. This is in addition to the audit work in the segments, which is carried out mainly by segment employees. In 2011, 14 internal audit employees were employed by ICL and its investees on a full-time basis. Audit services were also outsourced on a scale which is not material.

The scope of employment derives from the audit plan as approved by ICL's Audit Committee, as well as from ad hoc assignments imposed on audit employees by the chairman of the Board of Directors of each company in the Group.

4.7 Preparation of the audit

The internal audit is prepared in accordance with professional standards customary for internal audits, professional directives and instructions published by the Institute of Internal Auditors.

As part of the annual audit plan, the Internal Auditor prepares quality control to review the audit work of the Internal Audit Unit. In accordance with Professional Directive 14 of the Institute of Internal Auditors in Israel, the Internal Auditor draws up a plan to ensure quality, including internal and external examination of the Internal Audit Unit.

The Board of Directors believes, based on notification from the Internal Auditor and from its own review, that the internal audit work was carried out in accordance with accepted professional standards.

4.8 Access to information

The Internal Auditor has unrestricted, constant and independent access to the information systems of ICL and its investees inside and outside Israel. This information includes financial and other data.

4.9 Internal audit reports

The reports of the Internal Auditor are submitted in writing on an ongoing basis throughout each year. In 2011, 130 internal audit reports were submitted in ICL and the segments. The internal audit reports are submitted to the chairman of the Audit Committee and the committee members, ICL's management and the audited units. In the investees, auditors' reports are submitted to the segment's chairman of the Board of Directors and CEO, the chairman of its Audit Committee, ICL's auditor and the management of the audited unit. The auditor updates the chairman of ICL's Board of Directors and Audit Committee with regard to extraordinary or material audit findings described in the reports of the segment audits.

In 2011, ICL's Audit Committee held 6 meetings to discuss audit reports. In addition, the Internal Auditor holds regular and periodic meetings with the Chairman of the Board of Directors, the Chairman of the Audit Committee, the Group's CEO and its senior management.

In addition, in 2011, the audit committees of the segments held 15 meetings. Furthermore, the manager responsible for internal auditing in each segment holds regular and periodic meetings with the Internal Auditor, the chairman of the segment's board of directors and audit committee, as well as with its CEO and senior management.

4.10 Board's assessment of the activities of the Internal Auditor

The Board of Directors believes, based on confirmation from the Internal Auditor and a comparison with equivalent companies in the industry, in Israel and overseas, that the scope of the internal audit work, the continuity of its activities, the work plan of ICL's Internal Auditor and of auditors in the segments, are reasonable and can achieve the objectives of the Group's internal audit. The Audit Committee, together with the Group's management and the Internal Auditor, perform an annual examination of the appropriate scope of the internal audit work in ICL and in the segments.

4.11 Remuneration of the Internal Auditor

The total remuneration paid to the Internal Auditor and his staff in ICL is based on an agreed hourly tariff. In 2011, the amount paid to the auditor totaled approximately \$160 thousand.

The Board of Directors believes that the Internal Auditor's remuneration is reasonable and does not influence the exercise of his professional judgment.



Chapter – Additional Information about the Corporation in 2011

Pursuant to the Securities Regulations (Periodic and Immediate Statements), 5730-1970
("the Regulations")

Regulation 25A – Registered address

Company	Israel Chemicals Ltd. ("ICL" or "the Company")
Company number in the Registrar of Companies:	520027830
Registered address:	Millennium Tower, 23 Aranha Street, P.O. Box 20245, Tel Aviv 61202, Israel
Telephone:	(972) 3 -6844400
Fax:	(972) 3 -6844444
Email	investors@icl-group.com
Balance sheet date:	December 31, 2011
Report date	March 26, 2012

Regulation 8A

Attached hereto is a description of the corporation and the development of its businesses in 2011 as Section One of the Periodic Report of the Company for 2011 ("the Report")

Regulation 9

Attached hereto as Section Three to the Report is the consolidated financial statements of the Company for the year ended December 31, 2011, including the opinion of the Company's auditors are attached to this report.

Regulation 9B - Annual Report regarding Effectiveness of the Internal Control over the Financial Reporting and the Disclosure for 2011

The annual report regarding Effectiveness of the Internal Control over the Financial Reporting and the Disclosure for 2011 is attached to this report.

Regulation 9C – Separate Financial Data

Attached to this report is the separate financial data taken from the Company's consolidated financial statements, in reference to the Company itself as a parent company for the year ending December 31, 2011, and accompanied by an opinion of the accounting firm which is the external auditor of the company is attached to this report.

Regulation 9D – Table of Liabilities by date of repayment

See the Table of Liabilities by date of repayment as at March 26, 2012, reference number _____.

Regulation 10 – Directors' Report on the State of the Company's Affairs

The Directors' Report on the State of the Company's Affairs for 2011 is attached as Section Two of the Report.

**Regulation 10A – Summary financial statements for 2011 and for each of the quarters of the year
(thousands of US dollars)**

<u>USD (thousands)</u>	Year	Quarter	Quarter	Quarter	Quarter
	2011	10-12/2011	7-9/2011	4-6/2011	1-3/2011
Sales	7,067,834	1,712,361	1,898,335	1,928,842	1,528,296
Cost of sales	3,912,171	936,943	1,026,966	1,058,067	890,195
Gross Profit	3,155,663	775,418	871,369	870,775	638,101
Selling, transportation and marketing expenses	870,616	226,950	216,179	234,493	192,994
General and administrative expenses	276,535	73,867	71,972	69,398	61,298
R&D expenses – net	72,195	17,573	19,862	18,191	16,569
Other expenses	13,928	238	8,620	6,283	7,425
Other revenue	(3,576)	(9,668)	(1,435)	(429)	(682)
Profit from ordinary operations	1,925,965	466,458	556,174	542,836	360,497
Finance expenses	104,191	14,752	33,309	27,969	28,161
Finance revenue	(41,933)	(13,040)	(17,048)	(6,696)	(5,149)
Financing costs, net	62,258	1,712	16,261	21,273	23,012
Share in income (loss) of affiliates, net of tax	8,001	3,260	(2,696)	(4,258)	(4,307)
Profit before income tax	1,871,708	461,486	542,609	525,821	341,792
Income tax	348,692	87,510	104,106	95,920	61,156
Profit for the period	1,523,016	373,976	438,503	429,901	280,636
Attributable to:					
Shareholders of the Company	1,511,821	369,615	436,302	426,169	279,735
Non-controlling interests	11,195	4,361	2,201	3,732	901
Profit for the period	1,523,016	373,976	438,503	429,901	280,636

Regulation 11 – List of investments in subsidiaries and affiliates at the date of Report on Financial Condition

See details of investments in the Notes to Company's financial statements for 2011, in the list attached to the Company's financial statements and in the appendix attached at the end of this portion of the report.

Regulation 12 – Changes in investments in subsidiaries and affiliates during the reporting period

See Note 10 to the Company's financial statements for 2011.

Regulation 13 – Income of subsidiaries and affiliates, 1-12/2011

US\$ thousands

Company (subsidiary or affiliate)	Income	Comprehensive Income	Income of Israel Chemicals Ltd. from the companies		
			Dividend	Management fees	Income (expenses) interest and linkage differences (net)
Dead Sea Works Ltd.	976,068	939,755	915,000	15,563	(2,480)
Dead Sea Bromine Ltd.	174,414	175,086	117,000	7,737	3,145
Rotem Amfert Negev Ltd.	351,761	316,106	150,000	16,941	12,056
Dead Sea Periclase Ltd.	3,549	2,961	-	-	

IDE Technologies Ltd. ¹	29,359	26,335	5,000	450	3
Mifalei Tovala Ltd.	7,921	8,009	9,500	351	-
Rotem Amfert Negev B.V. (Holland)	(3,746)	(3,739)	-	-	-
Ferson Chemicals Ltd.	92	92	-	-	(17)
Dead Sea Magnesium Ltd.	11,480	11,521	-	848	607
ICL Fine Chemicals Ltd	-	-	-	-	-
ICL Finance Inc., USA	(12)	(12)	-	-	-
ICL Finance BV	3,367	529	-	-	319
ICL Financing and Issuing Ltd.	-	-	-	-	-
Twincap Försäkrings AB, Sweden	24	(190)	-	30	-
Hy Yield Bromine Inc. US	(4)	(4)	1,811	-	-

Following the date of the Report, on March 25, 2012, the Dead Sea Works and Rotem Amfert Negev subsidiaries declared dividend payments of \$180 million and \$20 million, respectively.

Regulation 14 – List of categories of loan balances at the date of the report on financial condition

Granting loans is not one of the main businesses of the corporation.

Regulation 20 – Trading on a stock exchange – securities listed for trading

- A. The Company's shares have been listed on the Tel Aviv Stock Exchange since 1992.
- B. In 2007, ICL issued 11,800,000 non-negotiable options for no consideration to officers and senior employees.

In 2011, 2,991,740 options were exercised for 1,929,779 shares. In 2012, up to the date of the Report, 2,156,596 options were exercised for 1,667,327 shares. These options are the remainder of the options exercisable according to this plan.

- C. On January 7, 2010, the board of directors of ICL approved an allotment of 10,930,500 non-negotiable options, for no consideration, to officers and employees.

For further details see section 2.3 in the Description of Corporate Activity for 2009.

Regulation 21 – Payments to interested parties and senior officers

Details of the recipient				Payments for services				
Name	Position	Scope of position	Holding in equity	Salary (1)	Remuneration (1)	Bonus paid in 2010 for 2009 (12)	Share-based payment	Total
				USD thousands				
Akiva Mozes (2)	CEO	100%	0.03%	2,494	4,480	5,700	6,100 (7)	16,280
Asher Grinbaum (3)	Executive VP	100%	0.00%	1,467	2,833	2,200	1,941 (8)	6,974
Yossi Shahar (4)	Executive VP	100%	0.01%	1,246	2,394	2,200	1,941 (9)	6,535
Dani Chen	CEO, ICL	100%	0.00%	1,228	2,182	2,100	1,941	6,223

¹ A company proportionately consolidated. The data are for 50% of the profits.

(5)	Fertilizers						(10)	
Nissim Adar (6)	CEO, ICL Industrial Products	100%	0.00%	1,228	2,125	2,050	1,941 (11)	6,116

- (1) The salary set out in the above table includes all of the following components: monthly salary, social rights, social provisions and incidental expenses, company car and reimbursement of telephone expenses. (For the CEO – includes 13th salary as well.)
- (2) According to the employment contract, signed in 1995 and amended in 2000, between the Company and Mr. Mozes, Mr. Mozes serves as the CEO of the Company. The employment contract is not limited in time and will be in force until is it ended by one of the parties given written prior notification. Mr. Mozes is entitled to a notice period of 12 months. According to the employment contract and the salary updates, as decided by decisions of the Board of directors from time to time, Mr. Mozes salary as at December 31, 2011 is NIS 193,000. Mr. Mozes' salary is linked to the consumer price index. Mr. Mozes is entitled to a 13th salary. In addition to the sums set aside for Mr. Mozes on a current basis for retirement and severance, Mr. Mozes will be paid severance payment (except in the case of extraordinary termination as set out in the agreement), taking into account the seniority he accumulated in the Group's companies and based on his last salary times the number of years of employment in the Group. In addition, Mr. Mozes is entitled to severance pay calculated as his last salary times the number of years of employment since January 1995. On January 5, 2012, the Company's CEO, Mr. Akiva Mozes, gave notice to the Company's board of directors that he wishes to resign from his position as CEO of the Company. The date of his retirement has not yet been set. For further details, see section 5.2 A to the Description of the Company's Business.
- (3) Mr. Asher Grinbaum serves as executive vice-president and COO, The employment contract with Mr. Grinbaum from 1994, including all its updates, states that Mr. Grinbaum's salary will be updated two times a year according to the rise in the consumer price index in the months that passed since the last update. The employment contract is not limited in time and will be in force until is it ended by one of the parties given written prior notification. Mr. Grinbaum is entitled to a notice period of 6 months. According to the employment contract and the salary updates, as decided by decisions of the Board of directors from time to time, Mr. Grinbaum's salary as at December 31, 2010 is NIS 127,000. Mr. Grinbaum is entitled to sums said aside for pension fund and or defined contribution insurance, as well as severance pay in the amount of his last salary times the years of his service in the ICL Group. On March 26, 2012, the Board of directors approved the increase in Mr. Grinbaum's salary to NIS 133 thousand.
- (4) Mr. Yossi Shahar serves as executive vice-president for business development. The employment contract with Mr. Shahar from 1994, including all its updates, states that Mr. Shahar's salary will be updated two times a year according to the rise in the consumer price index in the months that passed since the last update. The employment contract is not limited in time and will be in force until is it ended by one of the parties given written prior notification. Mr. Shahar is entitled to a notice period of 6 months. According to the employment contract and the salary updates, as decided by decisions of the Board of directors from time to time, Mr. Shahar's salary as at December 31, 2010 is about NIS 100,000. Mr. Shahar is entitled to sums said aside for pension fund and or defined contribution insurance, as well as severance pay in the amount of his last salary times the years of his service in the ICL Group. On December 7 2011, Mr. Yossi Shachar, VP Business Development, gave notice of his intention to take earlier retirement after 37 years of service in the Company. His resignation date is March 31, 2012. For further details, see section 5.2 A to the Description of the Company's Business.
- (5) Mr. Dan (Dani) Chen serves as CEO of ICL Fertilizers. The employment contract with Mr. Chen from 1978, including all its updates, states that Mr. Chen's salary will be updated two times a year according to the rise in the consumer price index in the months that passed since the last update. The employment contract is not limited in time and will be in force until is it ended by one of the parties given written prior notification. Mr. Adar is entitled to a notice period of 6 months. According to the employment contract and the salary updates, as decided by decisions of the Board of directors from time to time, Mr. Chen's salary as at December 31, 2010 is about NIS 107,000. Mr. Adar is entitled to sums said aside for pension fund and or defined contribution insurance, as well as severance pay in the amount of his last salary times the years of his service in the ICL Group. . On March 26, 2012, the Board of directors approved the increase in Mr. Chen's salary to NIS 113 thousand.
- (6) Mr. Nissim Adar serves as CEO of ICL Industrial Products. The employment contract with Mr. Adar from 2002, including all its updates, states that Mr. Adar's salary will be updated two times a year according to the rise in the consumer price index in the months that passed since the last update. The employment contract is not limited in time and will be in force until is it ended by one of the parties given written prior notification. Mr. Adar is entitled to a notice period of 6 months. According to the employment contract

and the salary updates, as decided by decisions of the Board of directors from time to time, Mr. Adar's salary as at December 31, 2010 is about NIS 107,000. Mr. Adar is entitled to sums said aside for pension fund and or defined contribution insurance, as well as severance pay in the amount of his last salary times the years of his service in the ICL Group. . On March 26, 2012, the Board of directors approved the increase in Mr. Adar's salary to NIS 113 thousand.

- (7) On January 7, 2010, the board of directors of the Company approved the allotment of 1,100,000 non-negotiable options, for no consideration, to Akiva Mozes. The options are exercisable into Company shares at an exercise price of NIS 53.1 in three portions, as from January 2011. The weighted financial value of each option, immediately prior to the approval, is NIS 18.1 for the first and second portions and NIS 19.3 for the third portion, based upon the price of the share of NIS 1 par value in the Tel Aviv Stock Exchange on the eve of the allotment, NIS 53.1, , the same as the exercise increment. The amount in the table reflects the expense recorded by the Company, for granting the options on the basis of accounting principles. The exercise price for the options as at the day of publication of this report is NIS 49.32. This price is 21% higher than the last share price on the day before the publication of this report. For further details see section 5.2(E) in the Description of the Corporation's Affairs.
- (8) On January 7, 2010, the board of directors of the Company approved the allotment of 350,000 non-negotiable options, for no consideration, to Asher Grinbaum. The options are exercisable into Company shares at an exercise price of NIS 53.1 in three portions, as from January 2011. The weighted financial value of each option, immediately prior to the approval, is NIS 18.1 for the first and second portions and NIS 19.3 for the third portion, based upon the price of the share of NIS 1 par value in the Tel Aviv Stock Exchange on the eve of the allotment, NIS 53.1, , the same as the exercise increment. The amount in the table reflects the expense recorded by the Company, for granting the options on the basis of accounting principles. The exercise price for the options as at the day of publication of this report is NIS 49.32. This price is 21% higher than the last share price on the day before the publication of this report. For further details see section 5.2(E) in the Description of the Corporation's Affairs.
- (9) On January 7, 2010, the board of directors of the Company approved the allotment of 350,000 non-negotiable options, for no consideration, to Yossi Shahar. The options are exercisable into Company shares at an exercise price of NIS 53.1 in three portions, as from January 2011. The weighted financial value of each option, immediately prior to the approval, is NIS 18.1 for the first and second portions and NIS 19.3 for the third portion, based upon the price of the share of NIS 1 par value in the Tel Aviv Stock Exchange on the eve of the allotment, NIS 53.1, , the same as the exercise increment. The amount in the table reflects the expense recorded by the Company, for granting the options on the basis of accounting principles. The exercise price for the options as at the day of publication of this report is NIS 49.32. This price is 21% higher than the last share price on the day before the publication of this report. For further details see section 5.2(E) in the Description of the Corporation's Affairs.
- (10) On January 7, 2010, the board of directors of the Company approved the allotment of 350,000 non-negotiable options, for no consideration, to Dani Chen. The options are exercisable into Company shares at an exercise price of NIS 53.1 in three portions, as from January 2011. The weighted financial value of each option, immediately prior to the approval, is NIS 18.1 for the first and second portions and NIS 19.3 for the third portion, based upon the price of the share of NIS 1 par value in the Tel Aviv Stock Exchange on the eve of the allotment, NIS 53.1, , the same as the exercise increment. The amount in the table reflects the expense recorded by the Company, for granting the options on the basis of accounting principles. The exercise price for the options as at the day of publication of this report is NIS 49.32. This price is 21% higher than the last share price on the day before the publication of this report. For further details see section 5.2(E) in the Description of the Corporation's Affairs.
- (11) On January 7, 2010, the board of directors of the Company approved the allotment of 350,000 non-negotiable options, for no consideration, to Nissim Adar. The options are exercisable into Company shares at an exercise price of NIS 53.1 in three portions, as from January 2011. The weighted financial value of each option, immediately prior to the approval, is NIS 18.1 for the first and second portions and NIS 19.3 for the third portion, based upon the price of the share of NIS 1 par value in the Tel Aviv Stock Exchange on the eve of the allotment, NIS 53.1, , the same as the exercise increment. The amount in the table reflects the expense recorded by the Company, for granting the options on the basis of accounting principles. The exercise price for the options as at the day of publication of this report is NIS 49.32. This price is 21% higher than the last share price on the day before the publication of this report. For further details see section 5.2(E) in the Description of the Corporation's Affairs.
- (12) The bonus set out in the above table represents the bonus for profits in 2011, as approved by the Board of Directors on March 26th, 2012. On March 27, 2011 the Board of Directors approved the granting of bonuses to the executive officers in respect of the profits of 2010 which were paid in 2011, and which are not included in the table above. The bonuses paid in 2011 were as follows: A bonus of NIS 5,700,000 to Mr. Akiva Mozes the CEO of the company; A bonus of NIS 2,000,000 to Mr. Asher Grinbaum the

Executive VP and COO; A bonus of NIS 1,850,000 to Mr. Yossi Shahar, the Executive VP for Business Development; A bonus of NIS 1,900,000 to Mr. Dani Chen the CEO of Fertilizers and a bonus of NIS 1,830,000 to Mr. Nissim Adar – the CEO of ICL IP.

In 2011 the sum of \$1,106 thousand was paid as compensation to the Board of Directors, according to Company regulations.

Executive Remuneration

On March 26, 2012, the Board of Directors of the Company discussed connection between the officers' remuneration for the reporting year, as specified in the table above, and their contribution to the Company, as well as the whether the remuneration is fair and reasonable. Information of the overall remuneration and all its components were presented to the Board of Directors.

Officers' remuneration is determined by taking into account the business and financial results of the Company and all of its segments, their adherence to business goals, the performance of each individual officer and his superiors' assessment of his contribution to the Company. Comparative data regarding the amount of compensation paid to officers in past years and in other similar companies is also considered.

Officers remuneration consists of three components: A fixed component including salary and related expenses, and variable components for annual bonuses and equity based payments.

The fixed salary component of officers' remuneration is examined by the Board of directors, according to the assessment of the executive, his position, contribution to the company, personal achievements and his success in promoting the various goals of the management areas for which he is in charge. These components are given different weights which may change, from time to time depending on the circumstances.

The bonus component of officers' remuneration is examined by the Board of Directors based on an internal process in the Company, which is approved by the Board of Directors and includes guidelines concerning methods for assessing the performance of the officers and their contribution to the Company, setting the amount of the remuneration and procedures for approving the remuneration awarded. According to this procedure, the remuneration of officers is determined, *inter alia*, based upon the following parameters: the financial results of the Company, personal performance of the officers measured by economic and qualitative criteria, managers' assessments of the officers' achievements and their contributions to the Company, and their accomplishments in advancing the various goals of the unit they are responsible for, such as safety and ecological goals. The various components are weighted for the purpose of the overall assessment, which may be adjusted from time to time according to the circumstances.

The equity linked component is examined by the Board of Directors based on the assessment of the officers, their contribution to the Company, accomplishments in advancing the various goals of the Company, seniority in the Company and the Board's desire to preserve the managerial backbone of the Company over the years. The equity based remuneration is aimed at strengthening the long term connection between the remuneration awarded to the managers and the Company's shareholders profitability.

External consulting firms presented the Board of Directors with their opinions based on comparisons and analysis of data pertaining to the salaries, bonuses and equity based remuneration paid to officers in similar positions in public companies with similar business volume as that of the company, in Israel and abroad and Israeli companies with turnover of more than one Billion dollars..

Following discussion, the Board of Directors confirmed the connection between the remuneration for each of the officers specified in Regulation 21 for the reporting year and their contribution to the Company, and that the remuneration and all its components are proper, fair and reasonable remuneration for the contribution of each officer to the Company's operations and to its business and financial results as stipulated below.

Below are explanations of the Audit Committee and the Board of Directors regarding the remuneration of the officers:

- a. **Akiva Mozes, President and CEO of the Company** –Mr. Moses has managed with extreme success the execution of the Board of Directors business policy that led the Company to attain impressive achievements which are reflected, inter alia, in its financial results for 2011, which are the second record results and a continuation of the trend of growth and increased profitability. The business results of ICL are explained, inter alia, by actions initiated and taken by Board of Directors and

Management, headed by Mr. Moses – for example, Mr. Mozes' execution of the acquisition policies established by the Board of Directors, which this year emphasized an expansion of the Company's Special Fertilizers capabilities, contributed to the strengthening of ICL's global standing in this rapidly growing, high-potential market sector. Management's execution of the Board's policies regarding potash inventory levels in the Company's warehouses and new marketing tactics led to sales of high quantities of potash and a reduction of potash stores, contributing significantly to the Company's profitability. A review of the new marketing policy of the Board of Directors compared with that of ICL's competitors teaches, in retrospect, that revision of the Company's stock and marketing policy was an important economic and managerial step that bolstered ICL's status in the global market. In addition, with the cooperation of the Board's Chairman and approval of the Board, the Management led the Company to complete an exceedingly important agreement in principle with the Israeli government regarding the execution of the Dead Sea Salt Harvesting Project, enabling the Company to continue operating and manufacturing within known parameters. The Board of Directors confirmed that the amount of the bonus for Mr. Mozes is fair and reasonable in light of the aforesaid, and with due attention to the scope and complexity of the Company's operations, its extensive worldwide deployment, the realization of the business and marketing strategy, the creation of certainty regarding the continued production of potash, the improvement in financial results, including in relation to comparable companies, and that his contribution to ICL is significant and worthy of the bonus which has been established. The decision of the Board of Directors was made after comparison with the bonus data of officers of similar rank in large public companies in Israel and in leading overseas companies that operate in the area of business of ICL.

- b. **Asher Grinbaum, Executive VP and COO** – During 2011, Mr. Grinbaum led the Company to important achievements in operation, overall maintenance, quality and excellence, and the risk management of the Group. Within the framework of MR. Grinbaum's responsibility and management, ICL adopted a policy of Corporate Social Responsibility (CSR) and adapted the Company's strategy and work plans to CSR policies. Mr. Grinbaum led the process of publishing the Company's CSR report for 2011 according to the guidelines of the GRI, and of reporting the carbon emission footprint of 37 of the Company's key products to the international organization, CDP. In addition, Mr. Grinbaum led a comprehensive safety initiative with the goal of achieving "Zero Accidents" and strengthened the Company's employment monitoring systems in Israel and abroad. The Board of Directors confirmed that the amount of the bonus for Mr. Grinbaum, in all of its components, is fair and reasonable, including in comparison with the accepted financial reward for officers of corresponding rank in other companies in Israel and abroad, and that it reflects his important contribution to the results of the Company's operations and its achievements in the areas of safety, the environmental quality, the Company's operating results and achievements.
- c. **Yossi Shachar, Executive VP Corporate Development** – For several years, Mr. Shachar has led the business strategy of ICL and its adaptation to reality and to the changing needs of the Company. The growth of the Company, beyond organic growth, necessitates the acquisition of companies and the creation of an infrastructure for the assimilation of those companies, and the ongoing expansion of the Company in its area of operation. Mr. Shachar leads the Company in the development of its businesses, identifying and analyzing global trends that impact the Company and which can influence the Company's performance in the long term. In 2011, ICL completed the acquisition of Scotts Miracle-Gro, Fuentes Mendez S.A., and a number of additional companies that contributed to the strengthening of the Company's global leadership in the area of specialty fertilizers. The Board of Directors confirmed that the amount of the bonus for Mr. Shachar, including all of its components, is fair and reasonable, including in comparison with the financial reward for officers of corresponding rank in other companies in Israel and abroad, and that it reflects his important contribution to the results of the Company's operations and its achievements in growth and expansion.
- d. **Danny Chen, CEO of ICL Fertilizers** – Mr. Chen has overall responsibility for all the companies in the Fertilizers segment, in Israel and abroad. In 2011, Mr. Chen led ICL Fertilizers to achieve high profitability, among other things, through intensive manufacturing optimization activities in Israel as well as in the Company's plants in Spain and England, and through the change in the Company's potash marketing policies in China. Mr. Chen contributed significantly to the securing of important agreements with the Israeli government that established the principles of the Dead Sea Salt Harvesting Project and leads the Dead Sea Works' preparations to this complex, challenging project. The Board of Directors confirmed that the amount of the bonus for Mr. Chen, including all of its components, is fair and reasonable, including in comparison with the financial reward for officers of corresponding rank in other companies in Israel and abroad, and that it reflects his important contribution to the results operations of ICL Fertilizers and the establishing of an infrastructure for its continued operations in the years to come.

- e. **Nissim Adar, CEO of ICL Industrial Products** – Mr. Adar has overall responsibility for all the companies in the ICL Industrial Products segment in Israel and abroad. In 2011, the segment achieved significant growth in revenues and record profitability as compared with previous years, inter alia due to the success of his manufacturing and sales policies in the areas of flame retardants and his significant contribution to the development of new bromine-related markets and applications. The Board of Directors confirmed that the amount of the bonus for Mr. Adar, including all of its components, is fair and reasonable, including in comparison with the financial reward for officers of corresponding rank in other companies in Israel and abroad, and that it reflects his important contribution to the significant improvement in the operating results of the segment and its competitive positioning.

Regulation 21A – Control in the Corporation

See section 24 of the regulations.

Regulation 22 – Transactions with the controlling shareholder

Below are details of transactions with controlling shareholders or in which controlling shareholders have a personal interest in their approval, in which the Company engaged in the reporting period or subsequent to the reporting period or at a later date from the end of the reporting period and up to the approval date of the report, or which are still in effect.

Transactions included in section 270(4) of the Companies Law, 5759-1999 ("the Companies Law"):

- (1) The Company has been paying the parent company, Israel Corp., annual management fees since 1996. On October 5, 2011, the General Meeting of the Shareholders of the Company approved, after approval by the audit committee and board of directors of the Company, the extension of the previous management fees paid to Israel Corp. and/or H.L. Management and Consulting (1986) Ltd., a wholly owned subsidiary of Israel Corp., for three years from January 1, 2012. Management services include routine general consultation, such as professional, financial, strategic and managerial consultation, consultation and representation in communication and regulation issues (hereinafter together: the management services). The parties may agree to expand the management services to additional areas. The Company will pay Israel Corp annual management fees of \$3.5 million, plus VAT. For further details see the Company's Immediate Report of October 6, 2011 (ref. 2011-01-294183).
- (2) On October 5, 2011, the General Meeting of Company's Shareholders approved amendments to the insurance cover, exemption from liability and indemnification undertakings which were previously granted by the Company, pursuant to decisions of the General Meeting of Shareholders of the Company as of December 17, 2001 and August 30, 2007 ("Indemnity Provisions"), for Company directors who serve, and may serve, from time to time, as officers of Israel Corporation Ltd., the controlling shareholder of the Company, and such directors who may serve the Company from time to time. For further details, see the Company's Immediate Report dated October 6, 2011, (ref.2011-01-294183).
- (3) On November 16, 2011, the Audit Committee of the Company, following approval of the General Meeting of the Shareholders of the Company on December 17, 2001, August 30, 2007 and October 5, 2011, to shorten the period for events which apply to arrangements for exemption from liability and indemnification that have been provided, and may be provided, from time to time according to existing decisions regarding this matter relating to directors of the Company who serve and who may serve from time to time as officers of Israel Corp. the Company's controlling shareholder, and for directors who shall serve the Company, from time to time, over a period of nine years from the date of the decision (November 20, 2020). The reasons of the Audit Committee were, among other things: the importance of the exemption from liability and indemnification in order to ensure proper functioning of the officers and to allow them to exercise proper discretion when making decisions, and to make the conditions of the exemption from liability and indemnification obligations similar to other directors. The Audit Committee believes that the period established is reasonable under the circumstances. For further details, see Immediate Report dated November 17, 2011 (Ref. 2011-01-330087).
- (4) On February 15, 2010, the special general meeting of the shareholders of the Company approved, after approval by the Board of Directors and the Audit Committee, the allotment of 800,000 options, non-negotiable and for no consideration, to Nir Gilad, Chairman of the Board of Directors of the Company. For further details, see the Immediate Report of January 7, 2010, ref. no. 2010-01-384837.

Additional Transactions not included in section 270(4) of the Companies Law and that are not insignificant:

On August 30, 2007, the General Meeting of the Company approved, following approval by the Board of Directors and the Audit Committee of the Company, a framework resolution, which was amended in the General Meeting held on November 10, 2008, in accordance with the Companies Regulations (Relief in Transactions with Interested Parties) 5760-2000, to acquire officers' liability insurance on two levels: a joint level with Israel Corp. with a liability limit of \$20 million (55% of the premium paid by ICL and 45% by Israel Corp.) and a separate independent layer with a liability limit of \$185 million. The frame resolution is valid for five years as from 2007, provided the Audit Committee and the Board of Directors approve the renewal of the policy, the terms for purchase of the policy comply with the terms of the frame resolution and the percentage for sharing the premium between ICL and Israel Corp. in the joint level. On August 16, 2011, ICL's Board of Directors approved, in accordance with the authority vested in them by the General Meeting, raising the second self-insurance layer of the coverage ceiling to a limitation of \$220 million]. For further details, see the Immediate Report dated August 30, 2007, (ref. no. 200701-377743-) and the Immediate Report dated August 17, 2011 (ref. no. 2011-01-243654).

Definition of an insignificant transaction

On March 29, 2009, the board of directors of the Company resolved, in accordance with the opinion of the audit committee, in respect of this regulation, that a transaction will be considered as insignificant if all the following conditions are met: it is not an extraordinary transaction (as defined in the Companies Law²). The effect on the relevant parameter (as set out below) is less than one percent (the margin of insignificance).

The relevant parameters will be tested for any transaction or agreement that meets the parameters of the margin of insignificance, based on the reviewed or audited consolidated financial statements of the Company, as relevant, prior to the event, as follows:

Asset ratio: the volume of the assets which are the subject of the event (acquired or sold assets), out of the total assets

Equity ratio: the increase or decrease in equity out of the total equity

Income ratio: the estimated income arising from the transaction, out of the total annual revenue

Expense ratio for production inputs: the amount of the expense for the transaction out of the annual cost of sales

Profit ratio: the profits or losses attributable to the event out of the total annual profit or loss for the period

A transaction is also insignificant in its quality. For this criterion, the transaction will be reviewed for special considerations justifying individual reporting for the transaction, even if it does not pass all the quantitative tests set out in this section.

In reviewing whether a future event is insignificant, the level of probability of the event actually occurring should also be examined.

Regulation 24 A – Holdings of interested parties and senior officers at the date of the report

Name of interested party	Dormant shares	Security	TASE no.	Par value	Holding (%)	Holding (fully diluted) (%)
Israel Corporation Ltd.	No	ICL	281014	665,485,881	52.30	8651.
PotashCorp. Agricultural Society Ltd.	No	ICL	281014	176,088,630	13.84	13.72
Nir Gilad	No	Options 01/10	2810240	800,000	0.00	0.06
Akiva Mozes	No	ICL	281014	433,231	0.03	0.03

² Section 1 of the Companies Law defines an extraordinary transaction as a transaction that (1) is not in the company's regular course of business, (2) is not undertaken in market conditions; or (3) is likely substantially to influence the profitability, property or liabilities of the company.

Name of interested party	Dormant shares	Security	TASE no.	Par value	Holding (%)	Holding (fully diluted) (%)
		Options 01/10	2810240	1,100,000	0.00	0.09
Ferson Chemicals Ltd.	No	ICL	281014	⁶ 2,216,131	0.17	0.17
Rotem Amfert Negev Ltd.	No	ICL	281014	205	0.00	0.00
IDE Technologies	No	ICL	281014	205	0.00	0.00
Prof. Yair Orgler	No	ICL	281014	1,600	0.00	0.00
Avraham (Baiga) Shochat	No	ICL	281014	2,000	0.00	0.00
Moshe Vidman	No	ICL	281014	6,100	0.00	0.00
Yossi Rosen	No	ICL	281014	6,500	0.00	0.00
Ofer Holdings Group Ltd.	No	ICL	281014	377,662	0.03	0.03
Israel Chemicals Ltd.	Yes	ICL	281014	22,373,500	0.00	0.00
Haim Erez	No	ICL	281014	2,595	0.00	0.00
Ya'acov Diyur	No	ICL	281014	8,960	0.00	0.00
Asher Grinbaum	No	Options 01/10	2810240	350,000	0.00	0.03
Yossi Shahaar	No	ICL	281014	100,000	0.01	0.01
		Options 01/10	2810240	350,000	0.00	0.03
Nissim Adar	No	Options 01/10	2810240	350,000	0.00	0.03
Dani Chen	No	ICL	281014	21,800	0.00	0.00
		Options 01/10	2810240	350,000	0.00	0.03
Avi Doitchman	No	ICL	281014	32,000	0.00	0.00
		Options 01/10	2810240	200,000	0.00	0.02
Asher Rapaport	No	ICL	60,000	0.00	0.00	0.00
		Options 01/10	2810240	150,000	0.00	0.01
Nathan Dreyfuss	No	ICL	281014	19,649	0.00	0.00
		Options 01/10	2810240	50,000	0.00	0.00
Herzel Bar Niv:	No	ICL	281014	54,834	0.00	0.00
		Options 01/10	2810240	50,000	0.00	0.00
Eli Amit		Options 01/10	2810240	150,000	0.00	0.01
Osnat Sessler		Options 01/010	2810240	50,000	0.00	0.00
Lisa Haimovitz		Options 01/10	2810240	50,000	0.00	0.00
Amir Benita		Options 01/10	2810240	25,000	0.00	0.00
Michael Hazan	No	ICL	281014	8,300	0.00	0.00
		Options 01/10	2810240	30,000	0.00	0.00
Yehezkel Yisrael		Options 01/10	2810240	50,000	0.00	0.00
Yakir Menashe		Options 01/10	2810240	25,000	0.00	0.00

Regulation 24A – Registered and issued capital and convertible securities at the date of the report

No. of security	Details of share	Number of shares	No. of shares less dormant shares
281014	Registered capital	1,484,999,999	1,484,999,999
	Issued capital		
281014	Ordinary shares	1,294,703,009	1,272,329,509
2810018	Special shares	1	--
	Total issued capital	1,294,703,009	1,272,329,509 :total dormant shares 22,373,500

Company's convertible securities

No. of security	Type of security	Number of securities
2810240	2010 Options (ICL 01/10)	10,930,500

Debentures of the Company

No. of security	Type of security	Number of securities
281028	Series A debentures	452,350,000
2810182	Series B debentures	735,798,000
2810190	Series C debentures	294,253,000
2810232	Series D debentures	99,871,000

Regulation 24B – Shareholders' register

See the shareholders register and equity balance of the Company as at March 27, 2012.

Regulation 26 – Directors of the Company as of the date of the Report**1. Nir Gilad**

ID no. 54702808 **Date of birth:** April 6, 1957

Address: Israel Corporation, Millennium Tower, 23 Aranha Street, Tel Aviv

Citizenship: Israeli

Outside director: No

Independent director: No

Commencement of office: May 28, 2007

Member of Board of Directors committees: human resources committee – chairman; contribution committee – chairman; and committee for promotion and acceleration of investments in the Negev

Employee of the corporation, a subsidiary, affiliate or interested party: CEO of Israel Corporation Ltd.

Education: B.A. in Economics and Agricultural Administration, majoring in Mathematics and Statistics from the Hebrew University, Jerusalem; MA in Business Management, majoring in Finance from Bar Ilan University

Employment in the last five years: deputy CEO of Israel Corporation (May 15, 2006 to May 31, 2007); chairman of H.L. Management and Consulting (1986) Ltd.; chairman of the board of directors of ICL (January 1, 2008 to present); chairman of the board of directors of Zim Integrated Shipping Services Ltd. (December 1, 2009 to present); chairman of IC Green Energy Ltd.; chairman of OPC Rotem Ltd.; acting chairman of the board of directors of ICL (May 28-December 31, 2007); Deputy CEO of Migdal Insurance and Finances Holdings Ltd.

Community service: Atidim, Daroma-Tzafona – promotion and integration in social and industrial action in outlying areas

Director in corporations: Observing director in Better Place, IC Power Israel; Dead Sea Works Ltd.; Rotem Amfert Negev Ltd.; Dead Sea Bromine Ltd.; Bromine Compounds Ltd., Tower Semiconductor Ltd.; H.L. (Holdings – ICL) Ltd.; H.L. (Kislev, 1998) Ltd.; H.L. Rechesh ICL (1998) Ltd.; Cherry Quantum (2007) Ltd.

Family member of an interested party in the corporation: No

Having accounting and financial expertise: Yes

2. Yossi Rosen

ID no. 041965179 **Date of birth:** July 18, 1939

Address: Oil Refineries Ltd., POB 4, Haifa Bay 31000

Citizenship: Israeli

Outside director: No

Independent director: No

Commencement of office: September 23, 1998

Member of board of directors committees: human resources committee; committee for promotion and acceleration of investments in the Negev

Employee of the corporation, a subsidiary, affiliate or interested party: chairman of the board of directors of Oil Refineries Ltd.; manager in Ofer Holdings Ltd.

Education: BA in Economics and Political Sciences, Certificate and MA in Business Management – both from the Hebrew University of Jerusalem

Employment in the last five years: chairman of the board of directors of Oil Refineries Ltd. (June 28, 2007 – present); manager in Ofer Holdings Ltd.; chairman of Noga Holdings Ltd.; chairman of the board of directors of ICL (September 28, 1998 – January 1, 2008); director in Israel Corporation (June 29, 2009 – January 12, 2010)

Director in corporations: Dead Sea Bromine Ltd.; Bromine Compound Ltd.; Rose Millennium Investments Ltd.; Carmel Olefins Ltd.; Gadiv Petrochemical Industries Ltd.; Habas H.Z. Investments (1960) Ltd.; Hadassah Organization for the Benefit of the Public

Family member of an interested party in the corporation: No

Having accounting and financial expertise: Yes

3. Prof. Yair Orgler

ID no. 1210541 **Date of birth:** October 10, 1939

Address: 19 Yaakov Zrubavel, Tel Baruch, Tel Aviv

Citizenship: Israeli

Outside director: Yes

Independent director: Yes

Commencement of office: September 5, 2006

Outside director with accounting and financial expertise or professional qualification: Yes

Member of board of directors committees: audit committee – chairman, finance committee – chairman; human resource committee; contributions committee; committee for promotion and acceleration of investments in the Negev

Employee of the corporation, a subsidiary, affiliate or interested party: No

Education: B.Sc. in Industrial Engineering and Management from the Technion - Israel Institute of Technology - Israel Institute of Technology in Haifa; M.Sc. in Industrial Engineering from the University of Southern California (USC); Ph.D. in Industrial Management from Carnegie Mellon University, Pittsburgh

Employment in the last five years: chairman of the finance and audit committee of the Israel Cancer Association, professor emeritus at Tel Aviv University. Outside director, Bank Leumi (2007-2010)

Director in corporations: outside director at Bank Hapoalim Ltd.; outside director, Itamar Medical Ltd., Gazit-Globe Ltd.; Ceragon Networks Ltd.; director at Atidim – High-Tech Industrial Park Ltd. and director of subsidiaries of the Company: Dead Sea Bromine Ltd., Bromine Compounds Ltd.; member of the management committee of: Academic College of Tel Aviv-Yaffo; Atid Insurance; Association of

Public Companies; Shvil – Transparency International in Israel; member of Friends of the Reut Medical Center.

Family member of an interested party in the corporation: No

Having accounting and financial expertise: Yes

4. **Chaim Erez**

ID no.9415142 **Date of birth:** November 11, 1935

Address: 9A Mendes, Tel Hashomer

Citizenship: Israeli

Outside director: No

Independent director: No

Commencement of office: February 1, 1996

Member of board of directors committees: audit committee and human resource committee

Employee of the corporation, a subsidiary, affiliate or interested party: No

Education: BA in General History from Tel Aviv University; MA in Political Science from Haifa University; research fellow at the London School of Economics in Company Privatization and Local Government

Employment in the last five years: director (see below), chairman of the Armored Corps Memorial Site and Museum in Latrun. Director at Africa- Israel investments Ltd. and Eldan-Tech Ltd.

Director in corporations: ICL companies: Dead Sea Works Ltd. and Rotem Amfert Negev Ltd.; Africa-Israel Investments Ltd.; Eldan-Tech Ltd.; chairman of Anglo Israel Control Systems (1998) Ltd.

Family member of an interested party in the corporation: No

Having accounting and financial expertise: Yes

5. **Dr. Miriam Haran**

ID no. 4090940 **Date of birth:** 1949

Address: 5, Kadish Luz St., Jerusalem

Citizenship: Israeli

Outside director: Yes.

Independent director: Yes

Commencement of office: September 1, 2009

Member of board of directors committees: finance committee, audit committee, committee for promotion and acceleration of investments in the Negev, and human resource committee

Employee of the corporation, a subsidiary, affiliate or interested party: No

Education: B.Sc. in Natural Sciences from the Hebrew University, Jerusalem; Ph.D. in Organic Chemistry from Brandeis University, United States

Employment in the last five years: Head of MBA Program in Environmental Management, Ono Academic College in Israel; consultant for Ashkelon-Eilat Pipeline Ltd.; Director General, Ministry of Environmental Protection, Israel (2003-2006)

Director in corporations: ICL subsidiaries: Dead Sea Works Ltd., Rotem Amfert Negev Ltd.; Chairman, Consumer Council, BTGR, a Ma'ala company; committee member of the Jerusalem Institute for Israel Studies

Family member of an interested party in the corporation: No

Having accounting and financial expertise: No

6. **Moshe Vidman**

ID no. 690875 **Date of birth:** December 19, 1943

Address: 14 Megadim Street, Yafe Nof, Jerusalem

Citizenship: Israeli

Outside director: No.

Independent director: No

Commencement of office: September 2, 1996

Member of board of directors committees committee for promotion and acceleration of investments in the Negev

Employee of the corporation, a subsidiary, affiliate or interested party: No

Education: BA in Economics and MBA in Business Management (majoring in finance) from the Hebrew University of Jerusalem

Employment in the last five years: director (see below), representative of Revlon Ltd. in Israel

Director in corporations: Mizrahi –Tefahot Bank; Dash Apax Holdings Ltd. Israel Corporation Ltd.; Jafora-Tabori Ltd.; Rosebud Medical Ltd.; Melisron Ltd.; Ofer Investments Ltd.; Alrov Properties and Lodging Ltd.; ICL subsidiaries: Dead Sea Works Ltd. and Rotem Amfert Negev Ltd.; Hebrew University of Jerusalem: member of the Board of Governors and executive committee; chairman of the board of directors of Hebrew University Assets Ltd.; member of the management committee of the Jerusalem Foundation; CEO and chairman of Moshe Vidman Ltd.

Family member of an interested party in the corporation: No

Having accounting and financial expertise: Yes

7. **Victor Medina**

ID no. 64302599 **Date of birth:** March 22, 1939

Address: 128, HaRimon Street, Shoshon

Citizenship: Israeli

Outside director: No

Independent director: Yes

Commencement of office: September 5, 2006

Member of board of directors committees: audit committee, finance committee, and committee for promotion and acceleration of investments in the Negev

Employee of the corporation, a subsidiary, affiliate or interested party: No.

Education: BA in Economics and Political Sciences; MA in Economics from the Hebrew University of Jerusalem

Employment in the last five years: Chairman, Migdal Capital Markets

Director in corporations: Chairman Migdal Capital Markets. ICL subsidiaries: Dead Sea Works Ltd., Rotem Amfert Negev Ltd., Dead Sea Bromine Ltd. and Bromine Compounds Ltd.

Family member of an interested party in the corporation: No

Having accounting and financial expertise: Yes

8. **Avisar Paz**

ID no. 54190921 **Date of birth:** January 29, 1957

Address: Israel Corporation, Millennium Tower, 23 Aranha Street, Tel Aviv.

Citizenship: Israeli

Outside director: No

Independent director: No

Commencement of office: April 1, 2001

Member of board of directors committees:

Employee of the corporation, a subsidiary, affiliate or interested party: Yes, Israel Corporation Ltd.

Education: BA in Economics and Accounting from Tel Aviv University; certified public accountant (Israel)

Employment in the last five years: CFO of Israel Corporation, former VP and comptroller

Director in corporations: Israel Corporation Group companies: Zim Integrated Shipping Services Ltd. and Oil Refineries Ltd.; ICL subsidiaries: Dead Sea Works Ltd.; Rotem Amfert Negev Ltd.; Dead Sea Bromine Ltd.; Bromine Compounds Ltd.

Family member of an interested party in the corporation: No

Having accounting and financial expertise: Yes

9. **Avraham (Baiga) Shochat**

ID no. 7613086 **Date of birth:** June 14, 1936

Address: 2/22 Dan Hausner Street, Tel Aviv

Citizenship: Israeli

Outside director: No

Independent director: Yes

Commencement of office: January 26, 2006

Member of board of directors committees: investments committee (subsidiaries), finance committee, audit committee, and chairman of the committee for promotion and acceleration of investments in the Negev

Employee of the corporation, a subsidiary, affiliate or interested party: No

Education: B.Sc. in Civil Engineering from the Technion - Israel Institute of Technology in Haifa

Employment in the last five years: Advisor to the CEO of Baran Group Ltd. (up to January 2008); chairman of the investment committee of the Israel Infrastructure Fund owned by Harel Investments and Adv. Yehuda Raveh, director in Kali Capital Markets Ltd.

Director in corporations: Alon USA; Direct Insurance - Financial Investments Ltd.; Kali Capital Markets; Chairman of the Board, Citipass Ltd.; Israel Infrastructure Fund; Mizrahi Tefahot Bank Ltd.; Sian Holdings Enterprises Ltd.; Bituach Yashir Financial Holdings; Carasso Motors Ltd.; ICL subsidiaries: Dead Sea Works Ltd., Rotem Amfert Negev Ltd., Dead Sea Bromine Ltd. and Bromine Compounds Ltd.; chairman of the board of trustees of Tel Hai Academic College and member of the Israel Science Foundation

Family member of an interested party in the corporation: No

Having accounting and financial expertise: Yes

10. **Eran Sariq**

ID: 027219062 **Date of birth:** April 3, 1974

Address: 23 Aranha, Tel Aviv

Citizenship: Israeli

Outside director: No.

Independent director: No

Commencement of office: October 4, 2010

Member of the board of directors committees: Finance committee.

Employee of the corporation, a subsidiary, affiliate or interested party: Yes. Israel Corporation Ltd.; Vice President, Business Development and Strategy, Israel Corp. Ltd.

Education: LLB from Tel Aviv University; LLM from Duke University, United States; MBA from Herzliya Interdisciplinary Center.

Employment in the last five years: Vice President, Business Development and Strategy, Israel Corp. Ltd. Since March 2010 to today; Director of global business development, Teva Pharmaceuticals Ltd., from 2007 to 2010; advocate; Teva Pharmaceuticals Ltd., from 2004 to 2006. Vice President, Business Development and Strategy, Israel Corp. Ltd. from March 2010 to the present.

Director in corporations: Oil Refineries Ltd., IC Power Ltd.; Member of the Directors Committee of ICL Specialty Fertilizers.

Family member of an interested party in the corporation: No

Having accounting and financial expertise: Yes

11. **Ovadia Eli**

ID: 43699875 **Date of birth:** May 22, 1945

Address: Sharret 69, Afula

Citizenship: Israeli

Outside director: No.

Independent director: No

Commencement of office: August 16, 2011

Member of the board of directors committees: Finance committee.

Employee of the corporation, a subsidiary, affiliate or interested party: No

Education BA from University of Haifa; Graduate, Lifshitz Teachers Academy, Jerusalem

Employment in the last five years: Chairman of Israel Airports Authority, Chairman of Shmanim Basisim Haifa Ltd., (until May 31, 2011); Chairman of I.C.P.I., Director of Salt Industries Israel Ltd. and Shaarei Ribit, Ltd.

Director in corporations: Zim Integrated Shipping Lines; OPC Rotem, Ltd. (OPC); IC Power Israel Ltd. (ICPI); IC Power Ltd. (ICP); Adriel Israel Properties Ltd.

Family member of an interested party in the corporation: No

Having accounting and financial expertise: No

12. **Yaacov Dior**

ID: 4090940 **Date of birth:** August 3, 1944

Address: Aharon Katzin 36, Raanana 43214

Citizenship: Israeli

Outside director: Yes.

Independent director: Yes

Commencement of office: October 5, 2011

Member of the board of directors committees: Finance committee; Audit Committee

Employee of the corporation, a subsidiary, affiliate or interested party: No

Education: B.A. in Economics and Political Science from the Hebrew University of Jerusalem; MBA from Tel-Aviv University

Employment in the last five years: Until September 2009, served as external director of the Company; Director of Dead Sea Works; Director of Rotem Amfert Negev; Director of Dead Sea Bromines Ltd.; Member of Advisory Committee of ICL Performance Products segment, CEO of IDT Carmel, Ltd.; Chairman of the Board of Kenai Kakol Ltd.

Director in corporations: External Director of Clal Insurance Holdings Ltd.; Chairman of the Board of Cellarix Mobile Payments Ltd.; Member of Friends of Bar-Ilan University; Management Committee of Bar-Ilan University; Member of Public Committee of Alut – the National Association for Autistic Children; Member of the Association of Friends of Meir Hospital

Family member of an interested party in the corporation: No

Having accounting and financial expertise: Yes

Regulation 26A – Senior officers of the corporation as of the date of the report

1. **Akiva Mozes**

ID no. 006255046 **Date of birth:** February 22, 1947

Commencement of office: April 14, 1999

Position in the corporation, a subsidiary, affiliate or interested party: CEO of ICL; chairman of the board of directors of ICL subsidiaries: Dead Sea Works Ltd., Rotem Amfert Negev Ltd., Dead Sea Bromine Company Ltd. and Bromine Compounds Ltd.

Interested party or family member of an interested party in the corporation: Interested party in the corporation

Education: BA in Economics and Political Sciences and MBA in Business Management, both from the Hebrew University of Jerusalem

Business experience in the last five years: member of the Public Companies Association; representative of the public at the National Labor Tribunal (2002 onwards); member of the executive committee of the International Fertilizer Industry Association (IFA); chairman of the Agriculture

Committee of the International Fertilizer Industry Association (IFA-AGR); director at Strauss Group Ltd. (June 2008 onwards); member of the Friends of Ben Gurion University of the Negev in Beer Sheva (1999 onwards); member of Management Committee of University of Tel Aviv; member of the Friends of Shenkar College of Engineering and Design (May 2006 onwards); Chairman of the Friends of the Soroka Medical Center in Beer Sheva (1999 onwards); member of the Industrial Academic Advisory Board of the Kinneret Academic College in the Jordan Valley (2005 onwards), member of the advisory committee to the supervisor of Banks regarding banking issues.

2. **Asher Grinbaum**

ID no. 067450239 **Date of birth:** March 25, 1950

Commencement of office: January 1, 2008

Position in the corporation, a subsidiary, affiliate or interested party: Deputy CEO and COO, chief risk officer

Interested party or family member of an interested party in the corporation: No

Education: BA in Mechanical Engineering and MA in Business Management, both from Ben Gurion University of the Negev in Beersheba

Business experience in the last five years: CEO of ICL Fertilizers (2004-2007) and CEO of ICL Industrial Products (up to 2003), director in ICL subsidiaries: Dead Sea Works Ltd., Rotem Amfert Negev Ltd., Dead Sea Bromine Ltd. and Bromine Compounds Ltd.; chairman of the management committee of Beersheba Theatre; chairman of Nitzana Youth Village; member of the presidium of the Manufacturers Association; chairman of the Chemical, Pharmaceutical and Environmental Society of the Manufacturers Association; chairman of the environment committee of the Manufacturers Association; member of the board of governors of Sami Shamoon College of Engineering; Chairman of Association of Friends of Yad Sarah (Southern District); member of management committee of the "To See" Association.

3. **Yossi Shahar**

ID no. 003966967 **Date of birth:** March 9, 1949

Commencement of office: January 1, 2008

Date completing tenure: March 31, 2012

Position in the corporation, a subsidiary, affiliate or interested party: Executive Vice President of Corporate Development

Family member of another senior officer or interested party: No.

Education: BA in Economics and Statistics from Ben Gurion University of the Negev in Beersheba, an extension of the Hebrew University of Jerusalem

Business experience in the last five years: CEO of ICL Industrial Products Ltd. (2004-2007) and CEO of ICL Performance Products (2002-2003); director in ICL subsidiaries: Dead Sea Works Ltd., Rotem Amfert Negev Ltd., Dead Sea Bromine Ltd. and Bromine Compounds Ltd.

4. **Nissim Adar**

ID no. 62611538 **Date of birth:** July 17, 1951

Commencement of office: January 1, 2008

Position in the corporation, a subsidiary, affiliate or interested party: CEO of ICL Industrial Products

Interested party or family member of an interested party in the corporation: No

Education: BA in Chemical Engineering and MA in Industrial Management, both from Ben Gurion University of the Negev in Beersheba

Business experience in the last five years: executive vice president of ICL industrial Products Ltd. (2002-2007); chairman of Tami IMI Research and Development Institute

5. **Dan (Dani) Chen**

ID no. 50769249 **Date of birth:** January 9, 1952

Commencement of office: January 1, 2008

Position in the corporation, a subsidiary, affiliate or interested party: CEO, ICL Fertilizers

Interested party or family member of an interested party in the corporation: No

Education: BA in Electrical Engineering from the Technion - Israel Institute of Technology in Haifa; MA in Industrial Management from Ben Gurion University of the Negev in Beersheba

Business experience in the last five years: executive VP of marketing at ICL Fertilizers

6. **Shlomo Ben Shimol**

ID no. 12308789 **Date of birth:** July 2, 1956

Commencement of office: May 1, 2005

Position in the corporation, a subsidiary, affiliate or interested party: internal auditor

Interested party or family member of an interested party in the corporation: No.

Education: BA in Economics and Accounting from Tel Aviv University; certified public accountant (CPA) in Israel and certified internal auditor (CIA)

Business experience in the last five years: Partner in Deloitte Brightman Almagor Zohar

7. **Lisa Haimovitz**

ID no. 059754382 **Date of birth:** August 15, 1965

Commencement of office: May 1, 2009

Position in the corporation, subsidiary, affiliate or interested party: general counsel and Company secretary

Interested party or family member of an interested party in the corporation: No

Education: LLB and MBA from Tel Aviv University; member of the Israel Bar

Business experience in the last five years: VP Strategy in Delek Group (2007-2008); senior advisor to the chairman of the Securities Authority and to the head of the department of international affairs department of the Securities Authority (1993-2006)

8. **Herzel Bar-Niv**

ID no. 42172742 **Date of birth:** December 6, 1949

Commencement of office: January 1, 2008

Position in the corporation, subsidiary, affiliate or interested party: VP of international taxation

Interested party or family member of an interested party in the corporation: No

Education: BA in Economics and Accounting from Bar Ilan University, certified public accountant (CPA) in Israel

Business experience in the last five years: Controller at ICL, chairman of the Makefet Fund audit committee.

9. **Avi Doitchman**

ID no. 057297723 **Date of birth:** September 18, 1961

Commencement of office: February 28, 2000

Position in the corporation, a subsidiary, affiliate or interested party: Executive Vice President, CFO & Strategy, market risk management manager and director in subsidiaries and affiliates: Rotem Amfert Negev Ltd., Dead Sea Works Ltd., Dead Sea Bromine Ltd., Bromide Compounds Ltd., IDE Technologies Ltd., Fertilizers and Chemicals Ltd., ICL Fine Chemicals Ltd., Ferson Chemicals Ltd., PAMA (Energy Resources Development) Ltd. Member of the Executive committee of the Public Companies Association.

Interested party or family member of an interested party in the corporation: No

Education: BA in Economics and Accounting from Bar Ilan University; certified public accountant (CPA) in Israel

Business experience in the last five years: CFO

10. **Nathan Dreyfuss**

ID no. 13723887 **Date of birth:** November 9, 1951

Commencement of office: March 1, 1994

Date completing tenure: April 30, 2012

Position in the corporation, a subsidiary, affiliate or interested party: CFO, chairman of the board of directors of Ferson Chemicals Ltd. and ICL Finance and Issuance Ltd.; director at IDE Technologies Ltd. and Dead Sea Magnesium Ltd.

Interested party or family member of an interested party in the corporation: No

Education: BA in Economics and MBA in Business Management, both from the Hebrew University of Jerusalem

Business experience in the last five years: CFO at ICL

11. **Amir Benita**

ID no. 25592536 **Date of birth:** September 28, 1973

Commencement of office: July 15, 2007

Position in the corporation, a subsidiary, affiliate or interested party: Vice President, Accounting

Interested party or family member of an interested party in the corporation No

Education: BA in Business Management and Accounting from the College of Management; certified public accountant (CPA) in Israel

Business experience in the last five years: Controller of the Company (2007-2012); senior auditor at Kost Forer Gabbay & Kasierer (June 2002 to July 2007); senior lecturer in accounting studies at the College of Management (2001-2009)

12. **Osnat Sessler**

ID no. 22938831 **Date of birth:** September 6, 1967

Commencement of office: January 1, 2003

Position in the corporation, a subsidiary, affiliate or interested party: VP of investor relations and communications

Interested party or family member of an interested party in the corporation: No

Education: BA in Economics from UCLA; MBA in Business Management from Yale University

Business experience in the last five years: VP of investor relations and communications at ICL.

13. **Eli Amit**

ID no. 052594900 **Date of birth:** June 27, 1954

Commencement of office: January 1, 2002

Position in the corporation, a subsidiary, affiliate or interested party: Senior VP, Economics; director at: Dead Sea Works Ltd., Rotem Amfert Negev Ltd., Dead Sea Bromine Ltd., Bromine Compounds Ltd.; chairman of the board of directors of Dead Sea Magnesium Ltd.

Interested party or family member of an interested party in the corporation: No

Education: BA in Economics and Philosophy and MBA in Business Management from Tel Aviv University; MA in Economics from Northwestern University

Business experience in the last five years: VP of Economics.

14. **Asher Rapaport**

ID no. 053604799 **Date of birth:** October 22, 1955

Commencement of office: November 1, 2006

Position in the corporation, a subsidiary, affiliate or interested party: Senior VP, Human Resources, Chairman of the Board of Directors of the Company subsidiary, Mifalei Tovala Ltd.

Interested party or family member of an interested party in the corporation: No

Education: BA in Economics and Business Management, M.Sc. in Industrial Engineering and Management – both from Ben Gurion University of the Negev in Beersheba

Business experience in the last five years: VP, assistant to the CEO of ICL

15. **Yakir Menashe**

ID no. 028955763 **Date of birth:** October 12, 1971

Commencement of office: March 4, 2012

Position in the corporation, a subsidiary, affiliate or interested party: Vice President, Regulatory Affairs; Director of Dead Sea Magnesium Ltd. subsidiary

Interested party or family member of an interested party in the corporation: No

Education: BA in Law from the College of Management; Attorney

Business experience in the last five years: Assistant to the CEO

16. Michael Hazzan

ID no. 59815266 **Date of birth:** July 9, 1965

Commencement of office: March 4, 2012

Position in the corporation, a subsidiary, affiliate or interested party: Vice President, Finance; Director in the following ICL Group subsidiaries: ICL Finance and Issuances Ltd.; Pirson Chemical Materials Ltd.; and ICL Fine Chemicals Ltd.

Interested party or family member of an interested party in the corporation: No

Education: BA in Economics from Tel Aviv University and an M.A. in Economics from Bar Ilan University

Business experience in the last five years: Manager, Department of Finance of the Company

17. Hezi Israel

ID no. 23630304 **Date of birth:** January 16, 1968

Commencement of office: March 4, 2012

Position in the corporation, a subsidiary, affiliate or interested party: Vice President Business Development and Strategy

Interested party or family member of an interested party in the corporation: No

Education: M.B.A. from Tel Aviv University and a B.A. in Economics and Political Science from Tel Aviv University.

Business experience in the last five years: Vice President, Strategy and Business Development, for ICL's Industrial Products segment.

Regulation 27 – The auditors of the Corporation

KPMG Somekh Chaikin - 23 Aranha Street, Tel Aviv 64739

Regulation 28 – Change in the Articles of Association or Bylaws of the Corporation

On October 5, 2011, the Annual General Meeting of Shareholders of the Company approved, following the approval of the Audit Committee and the Board of Directors, among other things, an amendment to the Bylaws of the Company. For further details see the Immediate Report of the Company dated October 6, 2011 (ref. 2011-01-294246)

Regulation 29A (1) – Resolutions adopted by the Board of Directors in respect of distribution of a dividend

- A.** On March 27, 2011, the board of directors resolved to distribute a dividend to the shareholders amounting to USD 170 million (the net dividend, less the share of the subsidiary, is USD 169.7 million), to be distributed on May 12, 2011.
- B.** On May 15, 2011, the board of directors resolved to distribute a dividend to the shareholders amounting to USD 195 million (the net dividend, less the share of the subsidiary, is USD 194.7 million). The dividend was distributed on June 28, 2011.
- C.** On August 16, 2011, the board of directors resolved to distribute a dividend to the shareholders amounting to USD 298 million (the net dividend, less the share of the subsidiary, is USD 297.5 million). The dividend was distributed on September 26, 2011.
- D.** On November 20, 2011, the board of directors resolved to distribute a dividend to the shareholders amounting to USD 300 million (the net dividend, less the share of the subsidiary, is USD 299.5 million). The dividend was distributed on December 22, 2011.
- E.** Subsequent to the reporting date, on March 26, 2012, the board of directors resolved to distribute a cash dividend of USD 260 million, to be distributed on May, 2011.

For details regarding the Company's dividend policy see Section 2.4.2 in Chapter A of the Periodic Report – Description of the Corporation's Business

Regulation 29 C - Resolutions adopted at a general meeting

- A.** On October 5, 2011, the Annual General Meeting of the Shareholders of the Company approved, after a recommendation by the Audit Committee and the Board of Directors, as applicable, the following:

1. To reappoint the Company's auditors, KPMG Somekh Chaikin auditing firm, as auditors of the Company for 2011 and through to the end of the next annual general meeting (including for any other audit or review that may be required for prior periods), and to authorize the board of directors to set their fees for the audit and additional services for the period.
2. To reappoint all the directors of the Company who served at the time of the General Meeting (who are not outside directors): Mr. Nir Gilad, Mr. Yossi Rosen, CPA Avisar Paz, Mr. Haim Erez, Mr. Victor Medina, Mr. Moshe Vidman, Mr. Eran Sarig and Mr. Avraham (Baiga) Shochat, for an additional term as directors of the Company, through to the end of the next annual general meeting.
3. The remuneration that will be paid to these directors will continue to be the maximum remuneration paid to outside expert directors according to the definition of the Companies Regulations (Rules for the Payment of Remuneration and Expenses of Outside Directors) 5760-2000 ("Remuneration Regulations for Outside Directors"). The annual remuneration that will be payable to Messrs. Victor Medina and Avraham (Baiga) Shochat for their services who were classified by the Audit Committee of the Company as Independent Directors, for their tenure as directors of Company segments, ICL Fertilizers³ and ICL Industrial Products,⁴ respectively, will be in accordance with Regulation 2 of the Companies Regulations (Matters that Do Not Constitute Affiliation). 5767-2006, i.e., the lower of: (a) the amount calculated by the number of meetings of subsidiaries in which they participated, or (b) the fixed annual remuneration according to Remuneration Regulations for Outside Directors. The remuneration to be paid to the remaining directors that serve as directors of company segments, with the exception of Messrs. Nir Gilad, Eran Sarig and Avisar Paz, will be according to the compensation paid to expert external directors according to the level of the relevant subsidiary, as defined by the terms "Expert Outside Directors" and "Level" in the Remuneration Regulations for Outside Directors⁵. In accordance with the Management Agreement, as defined in Section 11 herein, during the term of the Management Agreement, directors' remuneration will not be paid to directors Nir Gilad, Avisar Paz, and Eran Sarig, who are among the management employed by Israel Corp. or by Chet Lamed Nihul Yiutz (1986) Ltd., (a wholly-owned subsidiary of Israel Corp.) for their positions on the Board of Directors of the Company and its committees, or those of the Company's subsidiaries, as applicable.
4. To approve the appointment of Mr. Ovadia Eli as director in the Company, for a period ending after the next Annual General Meeting.
5. To approve exemption of liability and indemnity obligations for Ovadia Eli in accordance with the Company's arrangement, and this in accordance with the resolution of the Company's general meeting of December 12, 2001, August 30, 2007, and October 5, 2011 and as approved from time to time for the Company's officers. Mr. Ovadia Eli will be entitled to benefit from the Company's existing insurance arrangements, in accordance with the resolution of the Company's general meeting of August 30, 2007 (as updated on November 10, 2008), and as approved from time to time for the Company's officers.
6. To approve the appointment of Mr. Yaacov Dior as director in the Company, for a period ending after the next Annual General Meeting.
7. To approve exemption of liability and indemnity obligations for Yaacov Dior in accordance with the Company's arrangement, and this in accordance with the resolution of the Company's general meeting of December 12, 2001, August 30, 2007, and October 5, 2011 and as approved from time to time for the Company's officers. Mr. Yaacov Dior will be entitled to benefit from the Company's existing insurance arrangements, in accordance with the resolution of the Company's general meeting of August 30, 2007 (as updated on November 10, 2008), and as approved from time to time for the Company's officers.
8. To approve an amendment to the Articles of Association of the Company ("Regulations"), among others, that provisions will be added to the Regulations regarding policies designed to adjust the Regulations regarding indemnification and insurance, law enforcement efficiency of the Securities Authority (Legislative Regulations) 5751-2011.

³ Companies of the ICL Fertilizers segment: Dead Sea Works Ltd. and Rotem Amfert Negev Ltd.

⁴ Companies of the ICL Industrial Products segment: Dead Sea Bromine Ltd. and Bromine Compounds Ltd.

⁵ The subsidiaries mentioned in footnotes 10 and 11 above are in the highest level of the company, as specified in the Remuneration Regulations for Outside Directors, and accordingly, remuneration shall be paid at the maximum rate. It should be noted that one annual remuneration is payable in respect of serving on the board of directors of the ICL's Fertilizers segment, and one annual remuneration is payable for serving on the board of ICL's Industrial Products segment.

9. To approve an amendment regarding insurance cover, exemption from liability and indemnification undertakings previously provided by the Company, pursuant to resolutions of the General Meeting of Shareholders of the Company on November 25, 2001 and August 30, 2007 ("Indemnity Provisions"), to directors of the Company who serve, or shall serve, from time to time as officers of Israel Corp., the Company's controlling shareholder, and such directors who shall serve the Company from time to time ("Directors Who Serve as Officers of the Controlling Shareholder").
10. To approve an amendment to indemnify provisions previously granted to officers of the Company (including directors), who are not Directors Who Serve as Officers of the Controlling Shareholder, and who are officers of the company who shall serve from time to time.
11. To approve a management services agreement ("Management Agreement") with Israel Corp. and/or Machal Management & Consulting (1986) Ltd. (collectively, "Israel Corp.") for a period of three years, commencing at the conclusion of the existing management agreement, i.e. from January 1, 2012, and ending December 31, 2014 ("Management Agreement").

Regulation 29A – Resolutions of the company

On August 16, 2011, the Directors of the Company approved insurance cover, exemption from liability and indemnification undertakings for Messrs. Yaacov Dior and Ovadia Eli.

On March 4, 2012, the Directors of the Company approved insurance cover, exemption from liability and indemnification undertakings for Messrs. Yakir Menashe, Michael Hazzan and Hezi Israel.

For details regarding the decision to approve insurance cover, exemption from liability and indemnification undertaking for the Company's directors see Regulation 29 C – section B above.

On November 16, 2011, the Audit Committee of the Company decided, following approval by the General Meeting of the Company on December 17, 2001, August 30, 2007 and October 5, 2011, to shorten the period for events which apply to arrangements for exemption from liability and indemnification that have been provided, and may be provided, from time to time according to existing decisions regarding this matter relating to directors of the Company who serve and who may serve from time to time as officers of Israel Corp. the Company's controlling shareholder, and for directors who shall serve the Company, from time to time, over a period of nine years from the date of the decision (November 20, 2020). For further details, see Section 22 to the Regulations - Transactions with the Controlling Shareholder.

Israel Chemicals Ltd.

Signatories and their positions:

1. Akiva Mozes, CEO
2. Avi Doitchman, Executive Vice President, CFO & Strategy

Signed on: March 26, 2012

Israel Chemicals Ltd.
Investments in subsidiaries and affiliates at December 31, 2011
(NIS)

Company (subsidiary or affiliate)	Class of shares	Paid up capital and payments on account	ICL investments		Control	
			Par value	Cost	Issued share capital	Voting rights
Dead Sea Works Ltd.	Ordinary	309,093,148	309,093,148	577,177,815	100%	100%
	Extraordinary	1	-	-	--	--
	Total	309,093,149	309,093,148	577,177,815	100%	100%
Dead Sea Bromine Ltd.	Ordinary	88,600,077	88,600,077	366,847,307	100%	100%
	Extraordinary	1	-	-	-	-
	Total	88,600,078	88,600,077	366,847,307	100%	100%
Dead Sea Periclase Ltd.	Ordinary	12,994,015	12,994,015	84,831,999	100%	100%
Mifalei Tovala Ltd.	Ordinary A	10,004	10,004	708	100%	100%
	Payments on account of shares	15,710,317		15,710,317	-	-
	Total	15,720,321	10,004	15,711,025	100%	100%
Rotem Amfert Negev Ltd.	Ordinary	55,990,438	55,990,438	295,795,501	100%	100%
	Extraordinary	1	-	-	-	-
	Total	55,990,438.5	55,990,438	295,795,501	100%	100%
IDE Technologies Ltd.	Ordinary	1,291,688	1,291,688	10,929,172	50%	50%
ICL Finance and Issuing Ltd.	Ordinary	100	99.40	99	100%	100%
Ferson Chemicals Ltd.	Ordinary	1	1	1	100%	100%
Rotem Amfert Negev BV Holland	Ordinary	79,000 DFL	79,000 DFL	153,153.95	32.6%	32.6%
ICL Fine Chemicals Ltd	Ordinary	500	494	1,749.40	100%	100%
Magnesium Dead Sea Ltd.	Ordinary	486,041,528	486,041,528	1,367,543,865	100%	100%
	Extraordinary	1	-	-	-	-
	Total	486,041,529	315,926,993	1,144,365,436	100%	100%
ICL Finance B/V	Ordinary	€18,000	€18,000	285,049,275	100%	100%
ICL Finance Inc., USA	Ordinary	\$20	\$20	109,325,000	100%	100%
Twincap Försäkrings AB, Sweden	Ordinary	€4,800,000	€4,800,000	27,099,840	100%	100%
Hlgh Yield Bromine Inc., USA	Ordinary	8,898	8,898	42,796,709	80%	80%

Annual Report regarding Effectiveness of the Internal Control over the Financial Reporting and the Disclosure in accordance with Regulation 9B(a):

The management, under the supervision of the Board of Directors of Israel Chemicals Ltd. (hereinafter – “the Corporation”), is responsible for determining and maintaining proper internal control over the Corporation’s financial reporting and disclosure.

Regarding this matter, the members of management are:

1. Akiva Mozes, CEO
2. Asher Grinbaum, Deputy CEO and COO
3. Yossi Shahar, Deputy CEO and Business Development
4. Nissim Adar, CEO of ICL Industrial Products
5. Dani Chen, CEO of ICL Fertilizers
6. Avi Doitchman, Executive VP, CFO
7. Eli Amit, Senior VP of Economics
8. Asher Rapaport, Senior VP of Human Resources
9. Lisa Haimovitz, General Counsel and Company Secretary
10. Herzal Bar-Niv, VP of International taxation
11. Nathan Dreyfuss, VP of Finance
12. Amir Benita, ICL Controller
13. Osnat Sessler, VP of Investor Relations and Communications

Internal control over the financial reporting and disclosure includes the Corporation’s existing controls and procedures, which were planned by the CEO and the most senior officer in the finance area or under their supervision, or by a party actually executing the said functions, under the supervision of the Corporation’s Board of Directors, which were intended to provide a reasonable level of confidence regarding the reliability of the financial reporting and preparation of the financial statements in accordance with the law, and to ensure that information the Corporation is required to disclose in the statements it publishes under law was gathered, processed, summarized and reported on the date and in the format prescribed by law.

The internal control includes, among other things, controls and procedures that were planned to ensure that information the Corporation is required to disclose, as stated, was accumulated and transferred to Corporation management, including to the CEO and to the most senior officer in the finance area or to a party actually executing the said functions, in order to enable making decisions at the appropriate time, with respect to the disclosure requirements.

Due to its inherent limitations, the internal control over the financial reporting and disclosure is not intended to provide complete assurance that a misrepresentation or omission of information in the statements will be avoided or discovered.

Management, under the supervision of the Board of Directors, performed an examination and evaluation of the internal control over the Corporation’s financial reporting and disclosure and its effectiveness.

The effectiveness evaluation of the internal controls on financial reporting and disclosure which was performed under the supervision of the Board of Directors included an assessment of the risks relating to reporting and disclosure and the very material processes derived from them and the relevant business units in which to evaluate the effectiveness of their internal controls.

The evaluation also included the mapping and documentation of existing controls in the Corporation, evaluation of the effectiveness of the design of these controls, analysis of deficiencies in controls if they exist and evaluation of the effectiveness of the operation of these controls.

This evaluation of effectiveness of internal control relates to, as required, the overall components including: Entity Level Controls; Financial Statement Closing Process; IT General Controls; and the processes as identified by management as very material processes for financial reporting and disclosure which are:

- i. Sales – with emphasis on pricing and orders, invoicing, receipt of cash and revenue recognition;
- ii. Purchasing – with emphasis on receipt of services, invoices and payments
- iii. Treasury – with emphasis on bank reconciliations;
- iv. Inventory – with emphasis on controls over quantity, slow moving and obsolete inventory, costing of inventory.

Based on this evaluation, the Corporation's Board of Directors and management reached the conclusion that the internal control over the Corporation's financial reporting and disclosure, as at December 31, 2010 is effective.

Date: March 26, 2012

Akiva Mozes
Chief Executive
Officer

Nir Gilad
Chairman of the
Board of Directors

Avi Doitchman
Executive VP, CFO
and Strategy

Declaration of the CEO in accordance with Regulation 9B(d)(1):

I, Akiva Mozes, declare that:

1. I have examined the Periodic Report of Israel Chemicals Ltd. (hereinafter – “the Corporation”) for 2011 (hereinafter – “the Statements”);
2. As far as I am aware, the Statements do not include a misrepresentation of a material fact and they do not lack a material fact that is required so that the representations included therein, in light of the circumstances in which such representations were included, will not be misleading with reference to the period covered by the Statements;
3. As far as I am aware, the financial statements and other financial information included in the Statements properly reflect, in all material respects, the Corporation’s financial position, results of operations and cash flows as at the dates and for the periods to which the Statements relate;
4. I have disclosed to the Corporation’s auditors, Board of Directors and Audit and Financial Statements Committees, based on my most up-to-date estimation with respect to the internal control over the Corporation’s financial reporting and disclosure:
 - A) All the significant deficiencies and weaknesses in determination or operation of the internal control over the financial reporting and disclosure that might reasonably have an unfavorable impact on the Corporation’s ability to gather, process, summarize or report financial information in such a manner that could cause doubt with respect to the reliability of the financial report and preparation of the financial statements in accordance with the provisions of law;and –
 - B) Every fraud, whether or not significant, wherein the CEO is involved or a party under his direct supervision or other employees are involved that have a significant function in the internal control over the financial reporting and disclosure;
5. I, alone or together with others in the Corporation:
 - A) Have determined controls and procedures, or have verified the determination and existence of controls and procedures under my supervision, which are designed to ensure that significant information relating to the Corporation including subsidiaries as defined in the Securities Law (annual financial statements), 2010, is brought to my attention by others in the Corporation and subsidiaries, particularly during the period of preparation of the Statements; and –
 - B) Have determined controls and procedures, or have verified the determination and existence of controls and procedures under my supervision, which are designed to reasonably ensure the reliability of the financial report and preparation of the financial statements in accordance with the provisions of law, including in accordance with generally accepted accounting principles (GAAP);
 - C) Have evaluated the effectiveness of the internal control over the financial reporting and disclosure, and have presented in this report the conclusions of the Board of Directors and management regarding the effectiveness of the internal control as stated as at the date of the Statements.

Nothing in that stated above detracts from my responsibility or the responsibility of any other person under any law.

Date: March 26, 2012

Akiva Mozes, CEO

Declaration of the most senior officer in the finance area in accordance with Regulation 9B(d)(2):

I, Avi Doitchman, declare that:

1. I have examined the financial statements and other financial information included in the statements of Israel Chemicals Ltd. (hereinafter – “the Corporation”) for 2011 (hereinafter – “the Statements”);
2. As far as I am aware, the financial statements and the other financial information included in the Statements do not include a misrepresentation of a material fact and they do not lack a material fact that is required so that the representations included therein, in light of the circumstances in which such representations were included, will not be misleading with reference to the period covered by the Statements;
3. As far as I am aware, the financial statements and other financial information included in the Statements properly reflect, in all material respects, the Corporation’s financial position, results of operations and cash flows as at the dates and for the periods to which the Statements relate;
4. I have disclosed to the Corporation’s auditors, Board of Directors and Audit and Financial Statements Committees, based on my most up-to-date estimation with respect to the internal control over the Corporation’s financial reporting and disclosure:
 - A) All the significant deficiencies and material weaknesses in determination or operation of the internal control over the financial reporting and disclosure to the extent it relates to the financial statements and the other financial information included in the Statements, which could reasonably have an adverse impact on the Corporation’s ability to gather, process, summarize or report financial information in such a manner that could cause doubt with respect to the reliability of the financial report and preparation of the financial statements in accordance with the provisions of law; and –
 - B) Every fraud, whether or not significant, wherein the CEO is involved or a party under his direct supervision or other employees are involved that have a significant function in the internal control over the financial reporting and disclosure;
5. I, alone or together with others in the Corporation:
 - A) Have determined controls and procedures, or have verified the determination and existence of controls and procedures under my supervision, which are designed to ensure that significant information relating to the Corporation including subsidiaries as defined in the Securities Law (annual financial statements), 2010, to the extent it is relevant to the financial statements and to other financial information included in the Statements is brought to my attention by others in the Corporation and subsidiaries particularly during the period of preparation of the Statements; and –
 - B) Have determined controls and procedures, or have verified the determination and existence of controls and procedures under my supervision, which are designed to reasonably ensure the reliability of the financial report and preparation of the financial statements in accordance with the provisions of law, including in accordance with generally accepted accounting principles (GAAP);
 - C) Have evaluated the effectiveness of the internal control over the financial reporting and disclosure, to the extent it relates to the financial statements and to the other financial information included in the Statements as at the date of the Statements; my conclusions regarding my evaluation as stated were presented to the Board of Directors and management and are included in this report.

Nothing in that stated above detracts from my responsibility or the responsibility of any other person under any law.

Date: March 26, 2012

Avi Doitchman, Executive VP,
CFO and Strategy