Periodic Report

For 2012

Contents

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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 2012 (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 12, 2013, 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 2012, 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:

"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.
"DAP"	Diammonium phosphate, fertilizer containing 18% nitrate and 46% phosphorus acid
"Directors' Report"	The directors' report of ICL as at December 31, 2012 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
"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, 2012 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 IP”	ICL Industrial Products
“ICL PP”	ICL Performance Products
“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
“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_2O_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.
“Polymer”	A chemical compound containing a long chain of repeating units linked by a chemical bond and created by polymerization.
“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, 4.3.9 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.

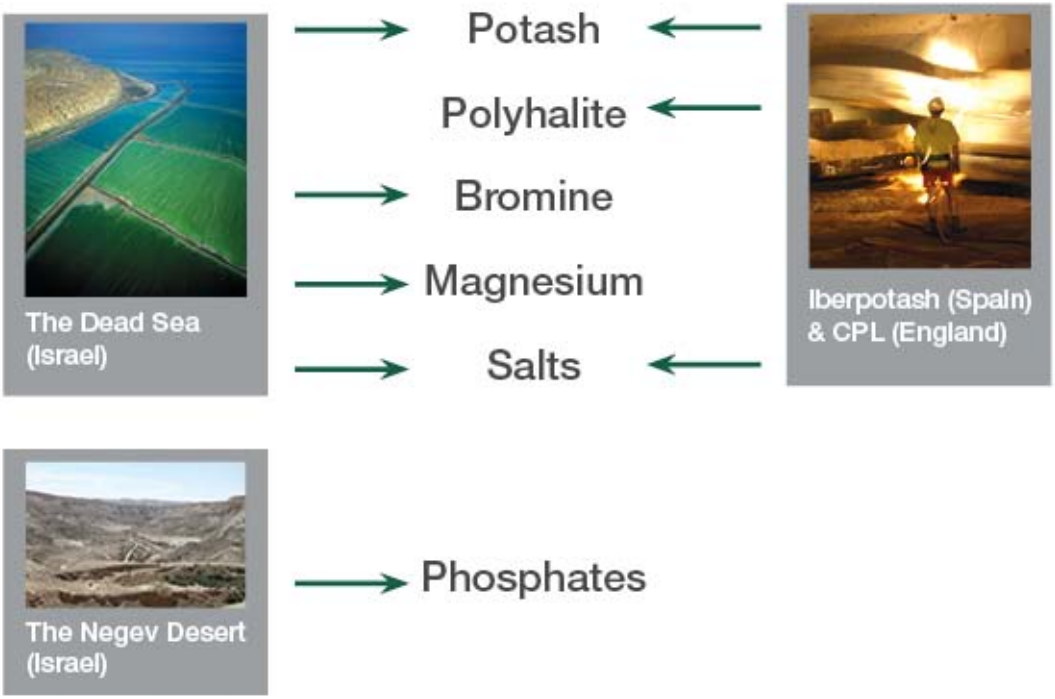
“Soluble NPK”	Soluble fertilizer containing the three basic elements for plant development (nitrogen, phosphorous and potash)
“SRF/CRF”	Slow/controlled release fertilizers
“Tami”	Tami (IMI) Research and Development Institute Ltd. – the central research institute of ICL, part of ICL Industrial Products 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.

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

2.1 General

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

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



ICL has a prominent position in the markets for potash, bromine, pure phosphoric acid, special phosphates, bromine based and phosphorus–based flame retardants and chemicals for the prevention of the spreading of fires (see section 2.1.2(B) 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 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 note 24B to the Financial Statements).

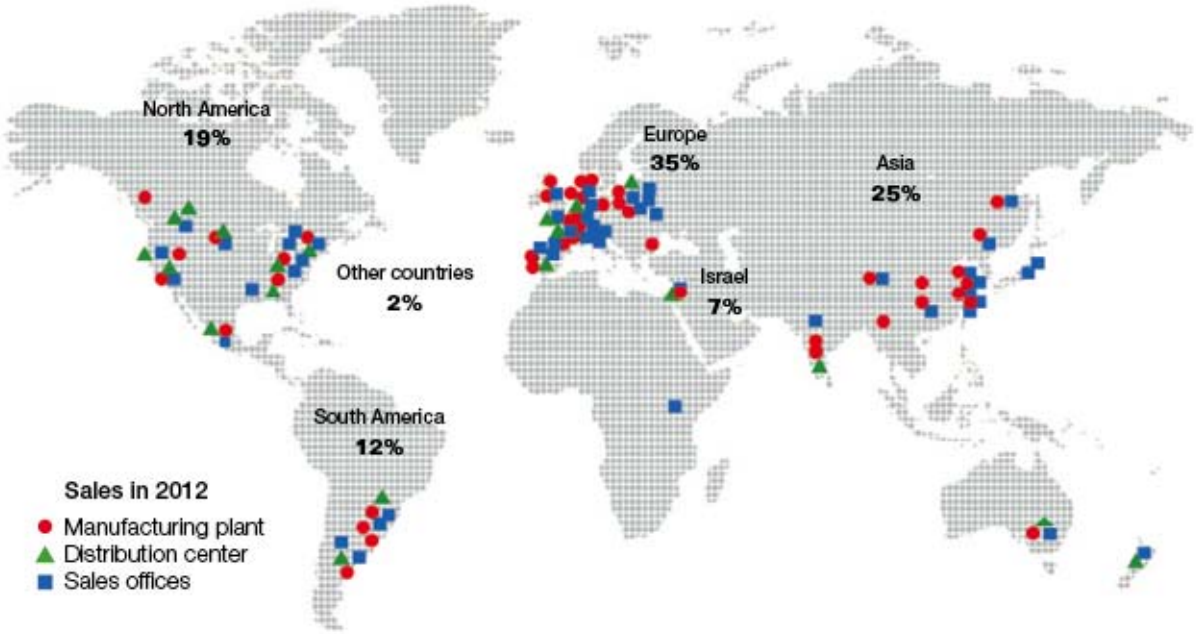
ICL's production facilities are based in Israel and other countries. ICL's operations outside of Israel are primarily in the production of products that are complimentary to or are based on ICL's operations in Israel or related fields. The activities of ICL's facilities are integrated with one another 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 5% 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 2012, approximately 45.7% of ICL's sales revenue arose from production activities taking place outside of Israel. Approximately 14% 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 note 24B(1) to the Financial Statements); on the sole natural gas supplier in Israel (see note 24A(9) to the Financial Statements); 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.

The following chart shows the geographical distribution of ICL's sales in 2012, and a description of the location of the Company's principal sites:



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 follows[1]:

Product	Business segment	Rank in international market
Potash	ICL Fertilizers	Sixth
Elemental bromine	ICL Industrial 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.

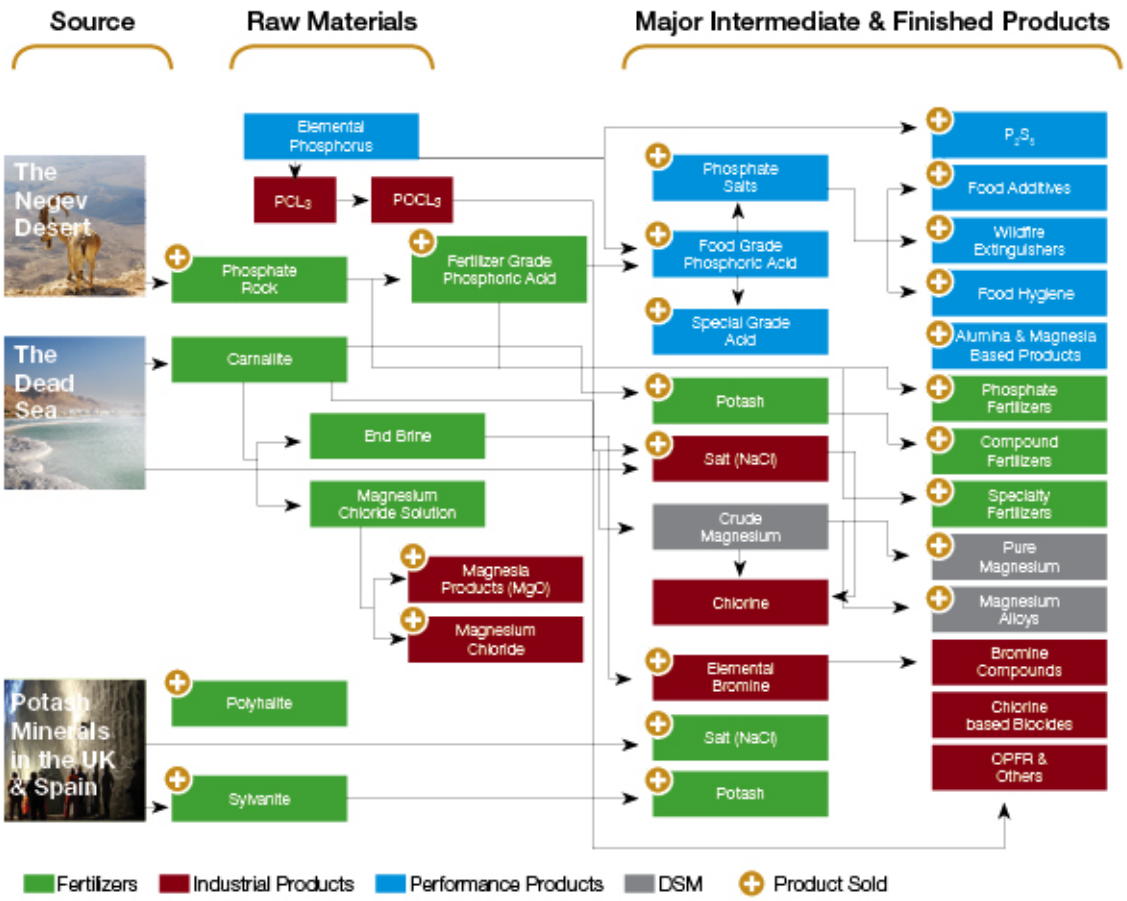
2. Potash production without dependence upon storage limitations: The hot and dry climate of the Dead Sea enables the Company to store, at particularly low cost, large quantities of potash in open areas. This advantage in storage capability enables the Company to produce continuously at Sodom, without 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

[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 responsibility for the veracity of external data.

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 are carrying activities to increase their production capacity. (For additional details, see section 4.1.6).

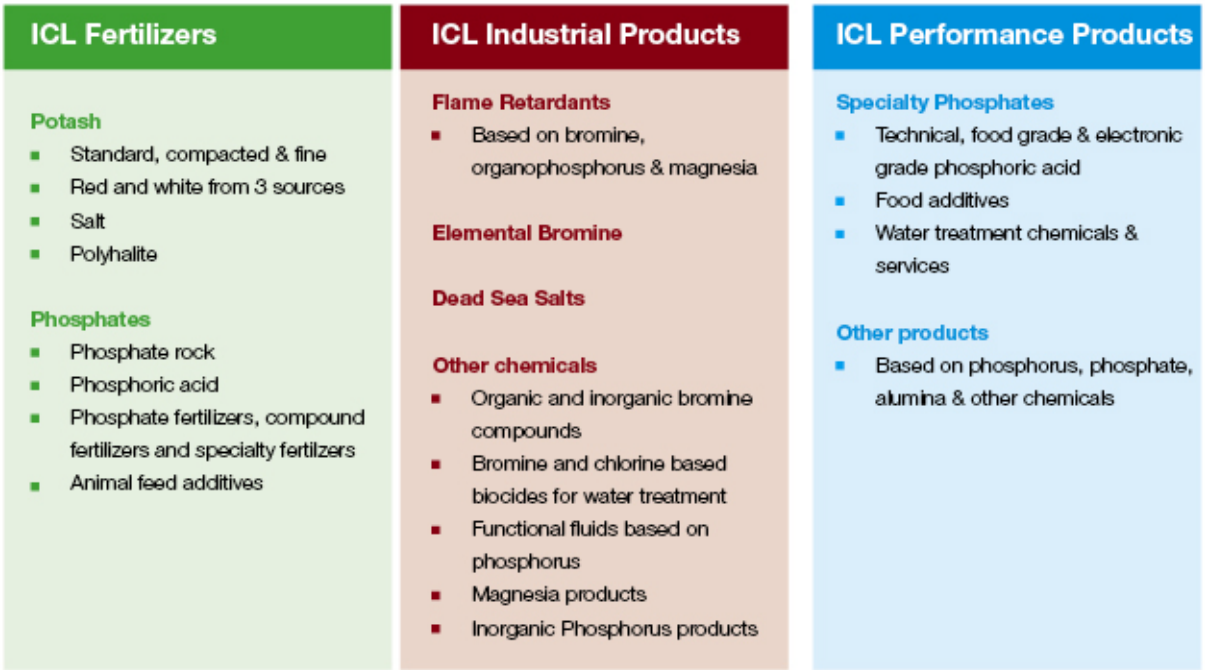
F. Relatively high positive cash flow from operations: In 2012 and 2011, the cash flow from operations of ICL was approximately $1,593 million and $1,269 million, respectively. ICL's high cash flows enable it to appropriately maintain and expand its production facilities, invest in infrastructure, invest 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 2012, the Company did not have any single customer that accounted for more than 10% of the total sales of the Company.

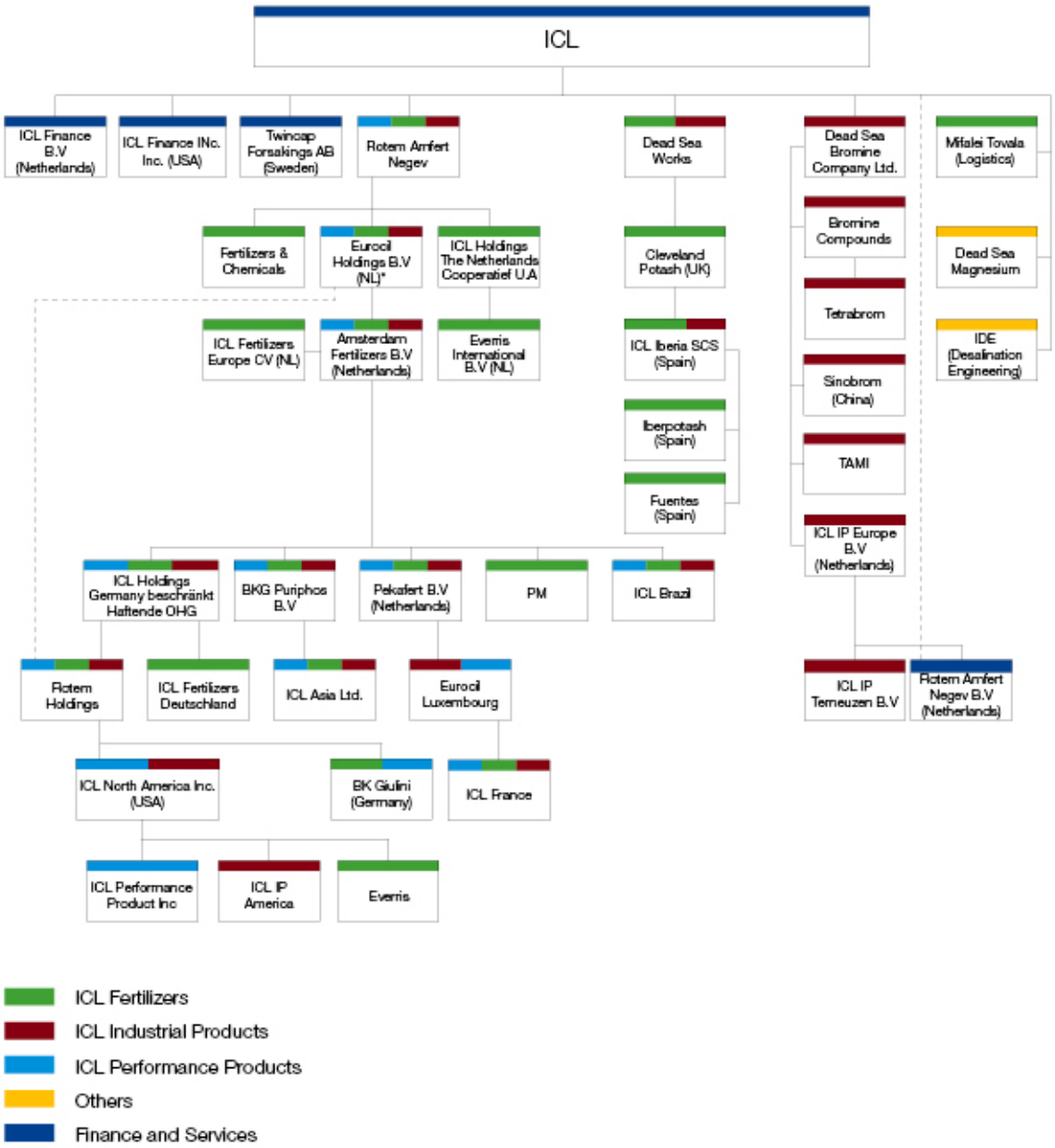
H. Company management: ICL's operations are managed by a management team with rich industry experience.

Corporate structure

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



Structure of the legal holdings of ICL (material companies)[2]



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%.

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 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.

ICL operates through management segments that include headquarters of 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.

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.

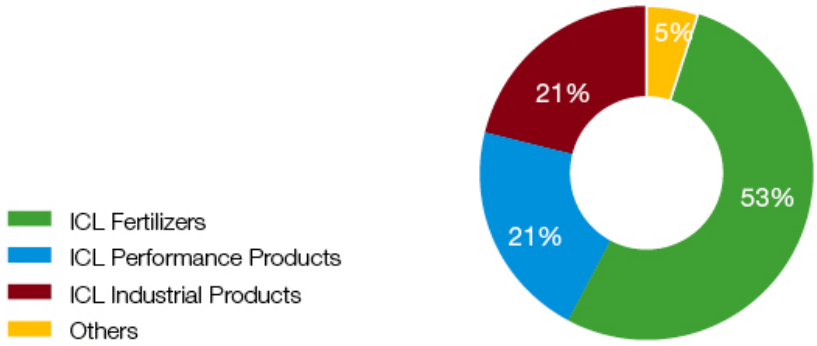
2.1.6 Appointment of the CEO

In January 2012, Mr. Akiva Mozes announced his retirement from the position of CEO of the Company. On March 4, 2012, the Board of directors decided to establish a committee of the Board, headed by the Company's chairman of the board, Mr. Nir Gilad, to search for a new CEO. On August 16, 2012, after discussing the recommendations of the search committee the Board of Directors resolved to appoint Stefan Borgas as CEO of the Company. Stefan Borgas assumed his duties as CEO of the Company on September 20, 2012. For further information, see section 5.2.

2.2 Areas of operation

The following is a description of the revenue of ICL in 2012, by segments

Total sales in 2012 - $6.7billion[3]



The following is a description of the business segments:

A. **ICL Fertilizers**: ICL Fertilizers produces potash from the Dead Sea and extracts and produces potash and salt from underground mines in Spain and England. ICL Fertilizers refines potash into various grades and sells it worldwide. In 2012, potash represented approximately 55% 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 2012, 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 2012, 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 various salt, magnesia, and chlorine products in Israel, as well as other phosphorus-based products at production sites in the United States and Germany and chlorine-based products 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

[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.

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 76% of ICL-PP sales in 2012.

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

A. For information about the allocation of options to officers and senior managers and their exercise in 2011 and 2012, see Note 25 to the financial statements.

B. To the best of ICL's knowledge, and based on reports received from the Company's shareholders, in 2011 and 2012, and subsequent to the balance sheet date, there were no further material transactions in ICL's shares, other than the transaction on January 29, 2012, where Israel Corporation acquired 733,333 shares of ICL from Akiva Mozes, the former CEO of the Company, for NIS 29.187 million in an off-floor transaction.

2.4 Distribution of dividends

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

For further information about the amounts and dates of the dividend distribution, see Note 25 to the financial statements. As at December 31, 2012, the earnings available for distribution amounted to USD 2.686 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 18D 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, the board of directors reapproved the policy concerning distribution of the dividend that was determined in 2007. 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
2012	6.4

[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:

2012 ($ thousands)									
	ICL Fertilizers				ICL-IP	ICL-PP	Other	Unattributable setoffs	Consolidated
	Potash	Phosphate	Setoffs	Total					
Revenue:									
Revenue from external sources	1,964,741	1,576,538	-	3,541,279	1,420,814	1,411,035	299,113	-	6,672,241
Revenue from sales to other segments	233,587	156,842	(119,544)	270,885	15,778	65,491	49,907	(402,061)	-
Total revenues	2,198,328	1,733,380	(119,544)	3,812,164	1,436,592	1,476,526	349,020	(402,061)	6,672,241
Breakdown of revenues	32.9%	26.0%	(1.8%)	57.1%	21.5%	22.1%	5.3%	(6.0%)	100%
Costs:									
Expenses representing revenue of other Company segments	42,087	188,068	(119,456)	110,699	110,103	130,949	50,310	(402,061)	-
Other costs	1,159,750	1,382,813	-	2,542,563	1,095,781	1,165,662	289,128	2,592	5,095,726
Total costs	1,201,837	1,570,881	(119,456)	2,653,262	1,205,884	1,296,611	339,438	(399,469)	5,095,726
Operating profit	996,491	162,499	(88)	1,158,902	230,708	179,915	9,582	(2,592)	1,576,515
Breakdown of operating profit	63.2%	10.3%	0.0%	73.5%	14.6%	11.4%	0.5%	0.0%	100%
Fixed operating costs	667,357	594,562	(12,253)	1,249,666	538,090	500,445	125,123	(12,523)	2,400,802
Variable operating costs	534,480	976,319	(107,203)	1,403,596	667,794	796,166	214,315	(386,946)	2,694,924
Total assets at December 31, 2012	2,167,196	1,552,201	(86,841)	3,632,556	1,750,165	1,067,675	228,256	1,075,467	7,754,119
Minority interest in revenue from external sources	-	5,599	-	5,599	7,257	9,500	-	-	22,356

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

2010 ($ thousands)									
	ICL Fertilizers				ICL-IP	ICL-PP	Other	Setoffs	Consolidated
	Potash	Phosphate	Setoffs	Total					
Revenue:									
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%
Costs:									
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
Operating profit	857,914	108,583	(1,366)	965,131	206,599	185,067	15,192	(25,862)	1,346,127
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	-	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

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 ICL is an Israeli corporation and has significant production facilities in Israel. Accordingly, ICL is affected by political, economic and security conditions prevalent in Israel.

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 2012, see Note 28 to the Financial Statements.

3.2.4 Energy expenses in 2012 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 27% ($109 million), 42% ($171 million), and 16% ($67 million), respectively. It is expected that with a gradual increase in the use of natural gas, energy costs as a percentage of total production costs will decline and the mix of these costs will change. Energy prices were higher in 2012 than in 2011.

. At the date of the report, the conversion to gas of 90% of the plants in Israel that had been planned for conversion was complete. At the date of the report, there is one gas supplier and one gas pipeline with a limited transmission capacity. On January 26, 2012, the Yam Tethys gas supplier announced a decrease in the qualtity of gas it supplies, due to depletion of the well For information about acquisition agreements for natural gas, and the reduction in gas supply, see note 24A(9) to the financial statements.

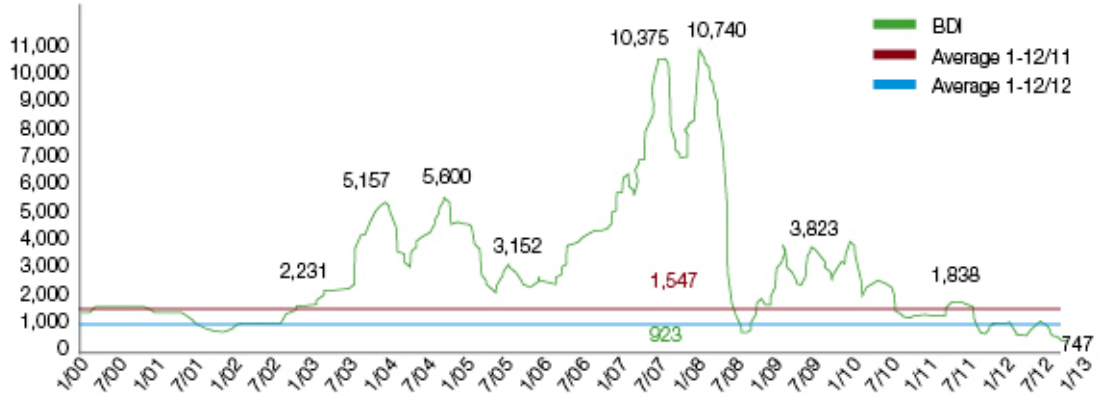
The shift to natural gas is significantly reducing pollutants in the vicinity of the plants, improving the product quality, reducing maintenance expenses and bringing about a significant financial savings as a result of moving from more expensive fuels.

3.2.5 In 2012 and 2011, ICL's shipping expenses amounted to approximately 5% of the total operational costs of ICL. In 2012, the Company's shipping costs amounted to approximately $245 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 and 2012. In 2012, the average Baltic dry index (BDI) was 923 points compared to an average 1,547 points last year, representing a decrease of 40%.

The chart below shows the development of the index in recent years from 2000 until the end of 2012.

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 positive impact on ICL's operating profit by approximately $56 million, and a negative impact on financing expenses by about $35 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:

Source: Bank of Israel Publications

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 2012, ICL published a Corporate Responsibility Report for 2011, 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 second 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 2011, 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 21, 2012, ref. 2012-01-284904

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:

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.

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[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.

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 50 of its products (in terms of CO_2e/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 CDP,[8] ICL reported its greenhouse gas balance in 2011, and described in detail how ICL addresses climatic change. ICL's high level of transparency achieved a score of 84 (out of 100) and accordingly, ICL has been included in the Carbon Disclosure Leadership Index.

3. **Responsible care**: 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, including compliance with the provisions of the law and standards, and beyond compliance. Promotion of the program is also based on 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.

4. 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. There are regulations and 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

[8] The Carbon Disclosure Project, the leading international reporting mechanism which collects information about climatic change from more than 3,000 companies worldwide

conducted audits at Dead Sea Works and Rotem Amfert Negev and awarded the Company product stewardship certification with honor.

5. ICL-IP has developed and adopted the methodology of 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. All production plants of ICL-PP in Israel and abroad that produce bromine-based flame retardants have VECAP certification. The program started in Europe and the United States, expanded to customers in Israel in 2011, and in 2012, application also started in the Far East.

6. Meeting environmental standards is a parameter for 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 2012, ICL spent about $137million on issues related to the environment and environmental conservation. Out of this sum, ICL invested approximately $58 million in plant and equipment for the prevention of environmental hazards, and approximately $79 million as a current expense in this area.

In 2013, ICL expects to spend a sum of approximately $155 million in these areas, of which $77 million will be in an investment in plant and equipment and about $78 million will be as a current expense for the same purposes. It is also expected that beyond 2013 there will not be a drop in the amount of these costs[9].

The Company included in its financial statements a provision of about $2 million in respect of legal or administrative proceedings related to the environment.

C. <u>Social responsibility:</u>

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 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.

[9] 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.

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

Monitoring and control of achievements: 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.

In all the audits that were carried out over the years, no irregularities were noted

Compliance with the safety requirements and goals is a parameter in manager compensation.

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 nine 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. In addition, Rotem Amfert Negev of ICL Fertilizers established a forum with residents near Mishor Rotem and ICL-PP has similar forums.

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.

   In 2011, ICL completed a series of protection projects at Mishor Rotem sites (Rotem Amfert Negev) and in Fertilizers and Chemical Materials. ICL also performed a security survey in all ICL sites and offices worldwide.

   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.

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3.3.2 Community Involvement of the ICL Group

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:

The national flagship project involves the adoption of a network of clubs for children at risk

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 . 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.

In 2012, ICL employees and managers adopted about 60 clubs near ICL plants (in Yeruham, Beer Sheva, Dimona, Arad, Kiryat Ata and Haifa), The clubs adopted by ICL include activities for teenage boys and girls.. 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.

In 2012, direct support for the clubs amounted to NIS 2.5 million and thousands of volunteer hours were donated by employees, some in the spare time of employees, retirees and their families.

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

In recent years, 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.. At the end 0f

2009, the board of directors of ICL decided to aid the completion of “Kfar Hairusim” in Be’er Sheva, adding another two residence buildings, a workshop and a dining hall. In 2011, ICL decided to support the construction of an ALUT home for autistic adolescents in Be'er Sheva. In 2012, assistance was approved for protection of buildings. This protection contributed to the residents' safety during Operation Pillar of Defense. ICL's total contribution to the Alut home between 2005 and 2013 is expected to amount to approximately NIS 10 million. Soroka Medical Center in the Negev:. For the past ten years, ICL has made an annual donation for the construction, development and equipping 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, in the towns and communities of ICL employees in the Negev. In 2012, 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 2012 accounted for about NIS 1.5 million.

ICL promotes activity for the support of women, at the Be'er Sheva branches of the “Inbal” and "Maslan". 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 250,000.

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 and the Rimon battalion of the Givati brigade, and 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 2012, 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 Machtesh 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

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.

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, as amended from time to time. 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 and acts in

accordance with the clarifications that were received. The total financial contributions of ICL in 2012 amounted to approximately NIS 19 million (compared to NIS 18 million in the previous year. This sum does not include the many volunteer hours donated by its employees.

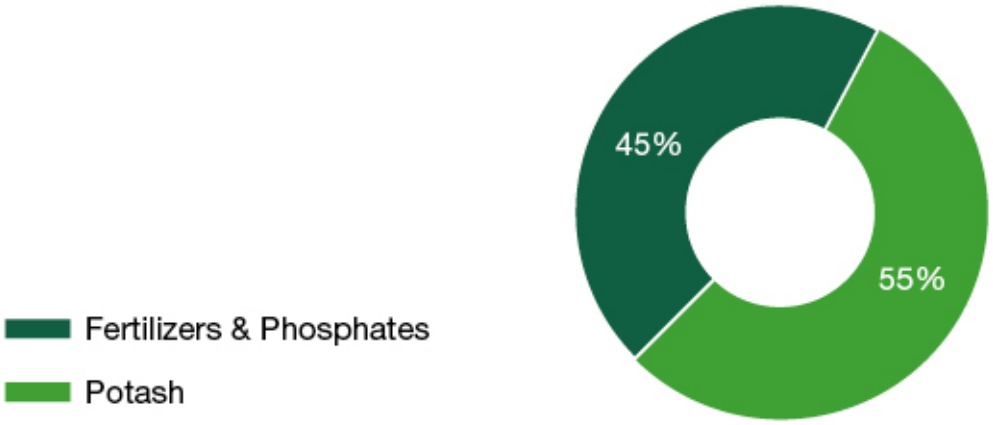
Chapter 4 – Description of the Corporation's Business by Area of Activity

4.1 ICL Fertilizers

4.1.1 General information about ICL Fertilizers

The chart below presents the external sales[10] of ICL Fertilizers, by product:

Total external sales for 2012 – $3.541 million



A. Description of operations

ICL Fertilizers develops, manufactures, markets and sells fertilizers that are based primarily on potash (potassium chloride) and phosphate. In 2012, sales of ICL Fertilizers totaled $3.8billion, representing about 57% 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 key 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 fertilizers based on phosphate and potash and and slow- and controlled-release fertilizers), Germany (mainly fertilizers based on phosphates and potash), Belgium (soluble fertilizers), India (NPK-based soluble fertilizers), the United States (slow- and 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 ICL Fertilizers Europe, which was established to take advantage of synergies between ICL Fertilizers Europe companies.

[10] 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).

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 world's largest manufacturers of soluble fertilizer compounds. For further information about the acquisition of new companies, see Note 11 to the Financial Statements.

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

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 phosphorous. 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.

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

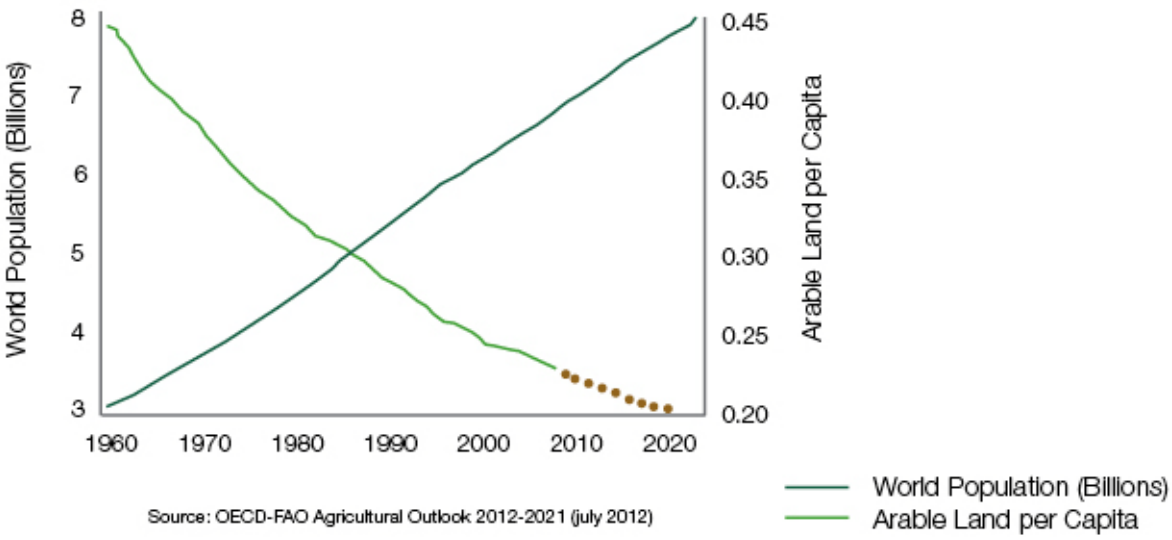
Potassium and phosphorus are vital for many of a plant's physiological processes, including strengthening cereal stalks, stimulating root development, leaf and fruit health, and accelerating the growth rate of crops. Without these elements, crops cannot achieve their growth potential. The agriculture 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

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.

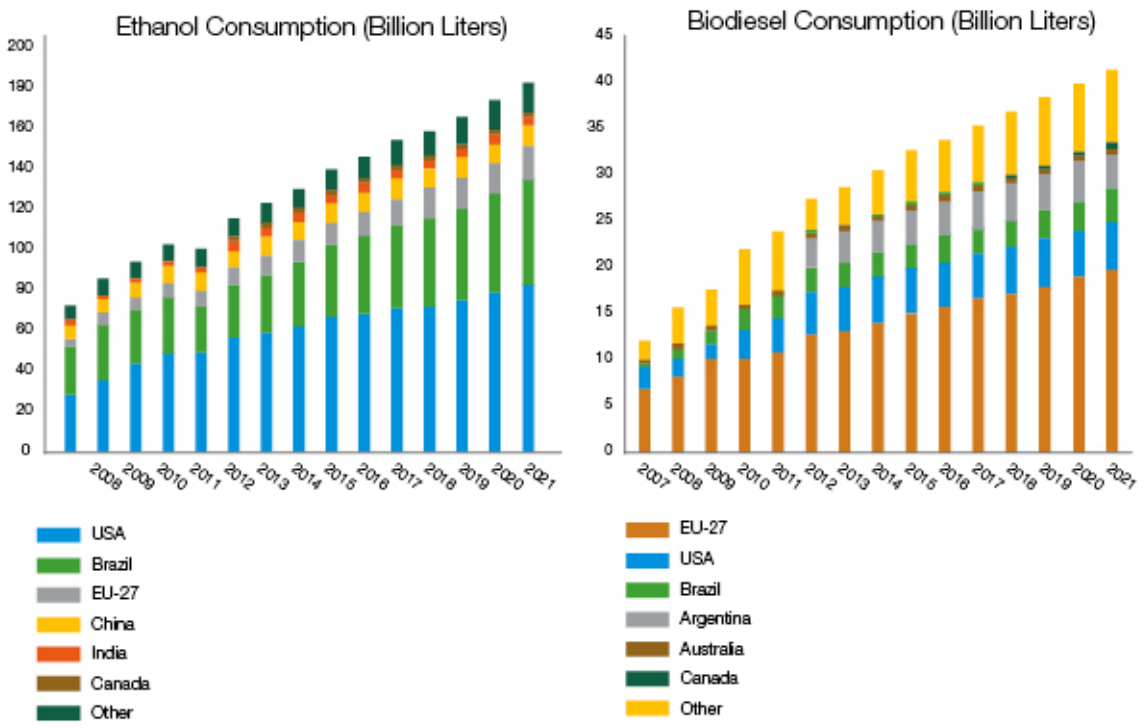
Expected growth in global populations and available arable land



Source: OECD-FAO Agricultural Outlook 2012

- 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. Recently, there has been an increase in low cost alternative energy sources (shale gas, mainly in the United States). The effect of these products on prices of energy products in general may also affect the economic feasibility of biofuels and the rate of increase in their use. It is noted that that the required level of use of biofuels in the major countries (United States, Europe, and Brazil) is defined in legislation.

Estimated global consumption of bio-fuels (billions of liters)

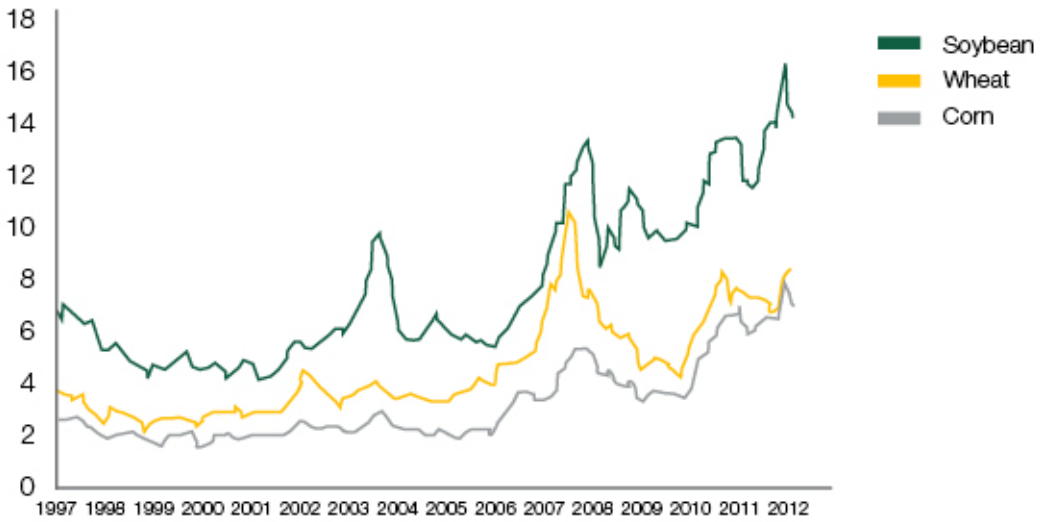


Source: OECD-FAO Agricultural Outlook 2012-2021 (June 2012)

- 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.

<u>Prices of principal grains for US farmers</u>

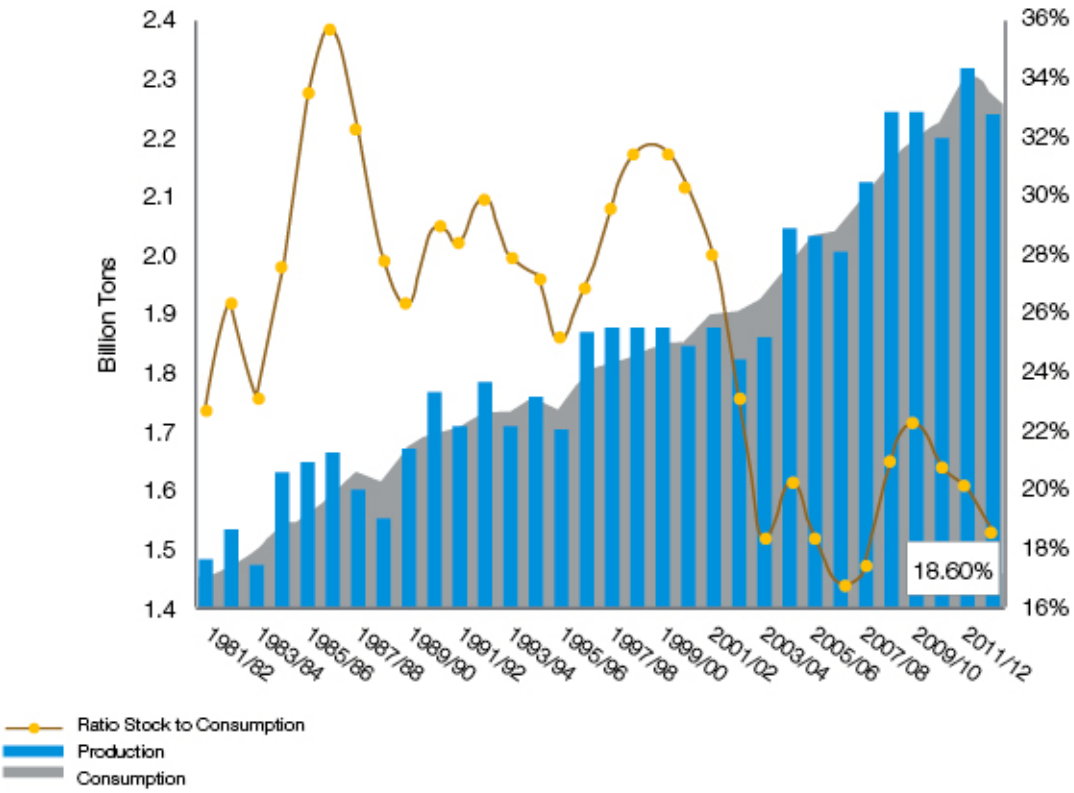


Source: USDA, December 2012

In 2012, the severe drought in the United States had a significant effect on global agriculture. From the middle of the year, USDA lowered estimates of corn, wheat and soybean yields, and the downward trend continued each month as the drought intensified. The serious situation in the United States, as well as the dry weather in agricultural regions in Russia, the Ukraine and Kazakhstan, resulted in a sharp increase in the prices of agricultural commodities on the CBOT.[11] The price increases were moderated in the last months of 2012, however they remain at record high levels. High prices of agricultural produce and the decline in global grain stocks generally encourage farmers to apply larger quantities of fertilizer to achieve higher yields and increase their profits.

According to the report published in February 2013 by USDA, a further decline is expected in the ratio of grain stocks to annual consumption to 18.60% at the end of the 2013 agricultural year compared to 20.19% in the prior agricultural year and 20.66% in the 2010/2011 agricultural year. The decline is mainly due to lower stocks of corn. [12]

Global grain production and consumption



Source: USDA, FAS, February 2013

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

[11] Chicago Board of Trade

[12] 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.

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.

In 2012, there was a slump in fertilizer consumption, notwithstanding the high price of agricultural commodities, which generally results in hjigher demand. The slump in demand is mainly due to the effect of the global economic crisis and the reluctance of parties in the fertilizer marketing chain to take risks involved in holding inventories or commitment to price. Other factors, such as severe weather conditions in different regions, and subsidy policies, and exchange rate fluctuations in India also affected fertilizer consumption in the past year..

At the beginning of 2012, Chinese importers (Sinofert and CNAPGC) and several potash producers signed contracts for the supply of potash for the first half of the year at $470 per ton CFR, similar to the price in the second half of 2011, ICL Fertilizers signed contracts for the sale of potash to China under similar conditions, with a quantity of 670,000 tons (and an optional 120,000 tons) in the first half of 2012. Supply contracts were not signed for the second half of 2012.

At the beginning of 2013, ICL Fertilizers signed framework agreements with customers in China for the sale of 3.3 million tons of potash over three years. The selling prices in the agreements will be negotiated between the parties. Under these agreements, in January 2013, ICL Fertilizers signed agreements for the supply of 660,000 tons of potash in the first half of 2013, at the price of USD 400 per ton CFR.

In the Indian market, the change in the subsidy policy for fertilizers and the depreciation of the local currency against the dollar resulted in a significant increase in the retail price of potash and phosphate fertilizers to the farmer, which caused a decline in demand. In 2012, no contracts for the supply of potash were signed in India and potash imports to India in this year were based on contracts signed in August 2011.

Towards the end of 2011, due to an accumulation of inventory in ports in India, Indian importers sought to delay deliveries of shipments under the 2011/2012 contract, which was due to end at the end of March 2012. The last shipments under this agreement arrived in India in October 2012.

At the beginning of February 2013, various agreements were reached between a number of potash producers and several Indian customers, regarding potash supply contracts for the agricultural year 2013/2014. The total volume of potash to be sold in the said contracts which may be signed within this framework is significantly lower than the volume in the previous contracts concluded in August 2011. The quantities agreed upon in 2011 were actually sold in 2011 and 2012, so that in 2012 no potash supply contracts for India were signed. The price agreed upon is $427 per ton. This price reflects a decrease of $63 per ton as compared with the price concluded in the previous contracts with Indian customers (August 2011), but is higher by $27 than the potash contract prices concluded for China. The process of negotiating contracts between various suppliers and customers in India is still underway.

Up to now, the Company has concluded with its customers in India to supply potash during 2013 in the total volume of 820 thousand tons (including an optional 50 thousand tons). Additional potash supply contracts for India are now in negotiations. The sales price concluded is similar to the price concluded recently in the deals of the other producers supplying potash to the Indian market.

Conversely, Brazil opened 2012 with high import quantities. Potash imports to this country in 2012 amounted to 7.5 million tons, representing a decrease of 3% only compared to the corresponding period last year. According to a report by the National Fertilizer Distributors Association[13] in Brazil, potash sales to local farmers in 2012 reached 8.1 million tons, representing an increase of 9% compared to consumption in the corresponding period last year. According to this information, it is expected that at the end of the year, potash stocks in this country will be lower than at the end of 2011, therefore it is estimated that there will be a heavy demand towards the next fertilizing season.[14]According to IFA estimates,[15] global potash sales in 2012 amounted to 51.9 million tons compared to 57.2 million tons last year.

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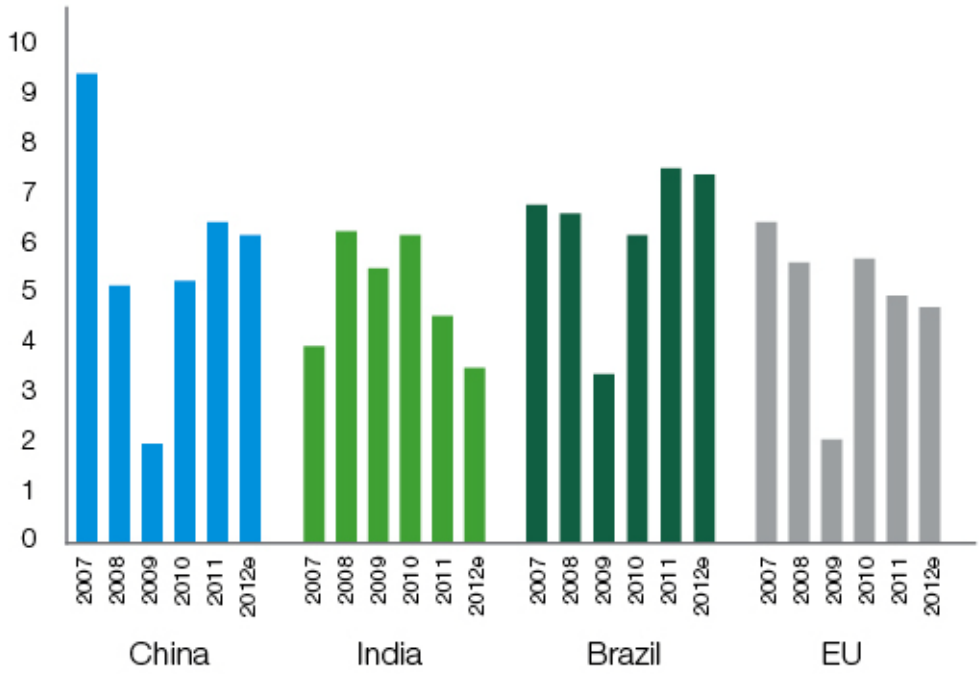
[13] National Fertilizer Distributors Association (ANDA)

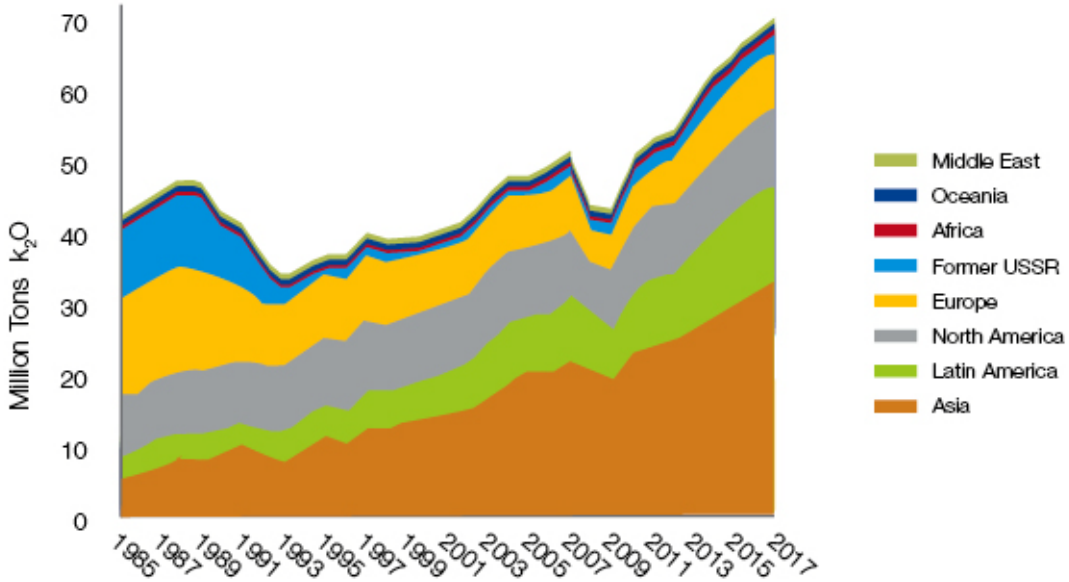
[14] The information in this section and in the accompanying illustration includes forward-looking information based on various estimates in professional publications. The estimates may not be realized, or may be partially realized and they are dependent, inter alia, on fluctuations in global economy, 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 developed and developing countries, and the effect of exchange rates.

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



Source: Boabc, Sindicado (Brazil),IFA, FertEcon (Feb. 2013)

Below is a description of potash consumption (including forecast) by continent[16]



Source: IFA Short-Term Prospects for World Agriculture and Fertilizer Demand 2011/2012 Dec 2012

Over the last ten years the average annual increase in potash consumption 2.1%.

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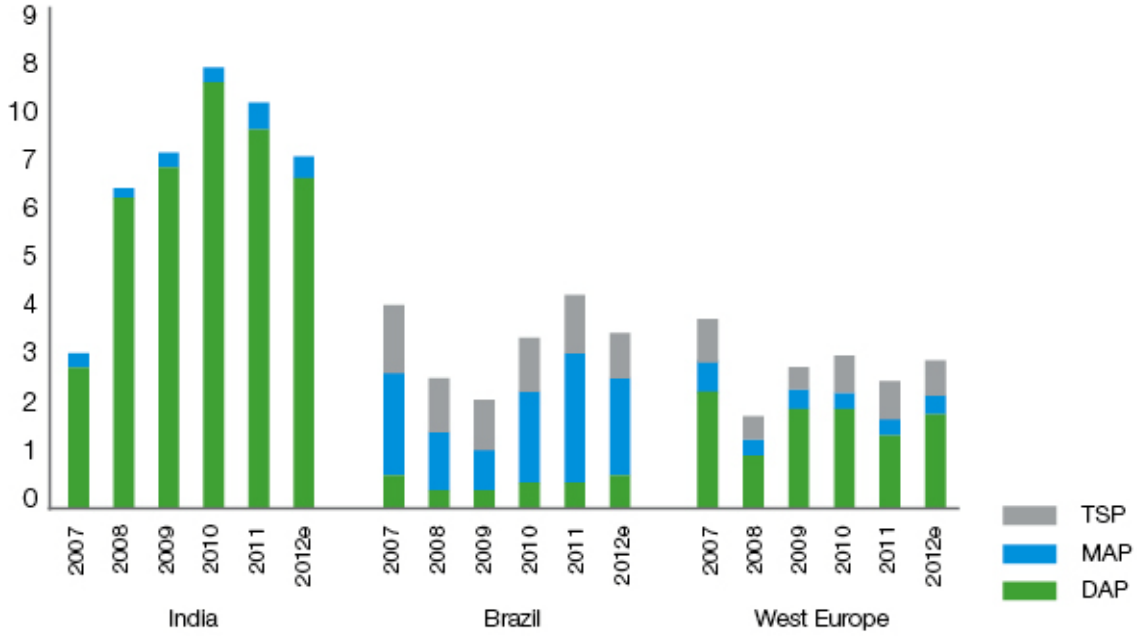
[15] IFA, Global Fertilizer Supply and Trade: 2011 – 2012 (Dec. 2011)

[16] The information in the paragraph and the graph include 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.

In 2012, global phosphate markets were relatively stable. Demand for phosphate fertilizers declined in two of the largest markets in the world, China and India, while there was a high demand in Brazil throughout the year. In the other countries, there were almost no changes in demand.

According to IFA estimates, phosphate fertilizer consumption in 2012 amounted to approximately 40.7 million tons P_2O_5, representing a decrease of 1.5% compared to the prior year. Phosphate fertilizer sales were the same as in the prior year, where a moderate increase in sales from domestic production was offset by a decrease in imports. .

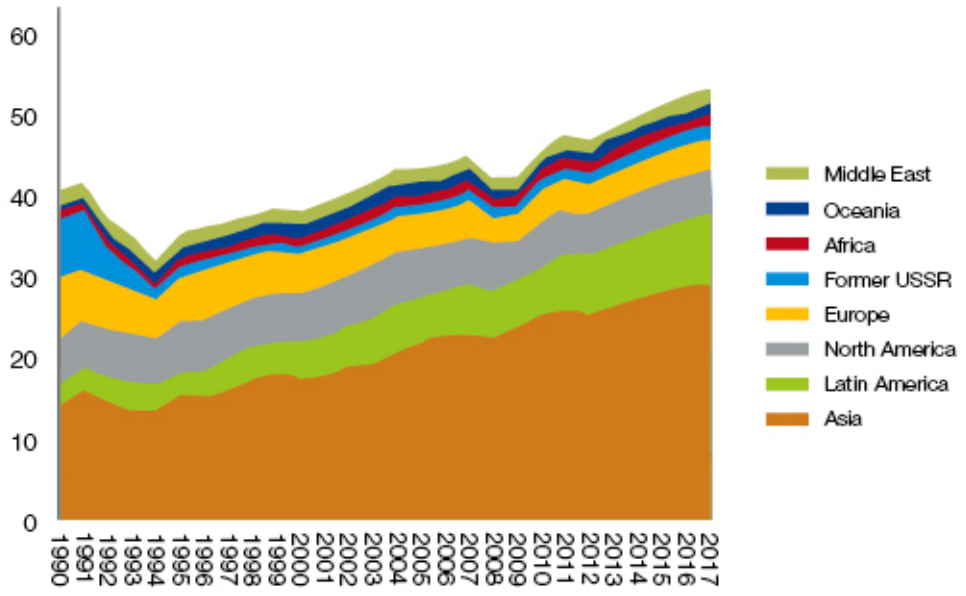
The graph below describes the development in phosphate fertilizer imports in principal countries that import phosphoric fertilizers:



Source: FertEcon Concentrated Phosphates Outlook 2011-2013, (November 2012)

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

Phosphate fertilizer consumption (including forecast) by continent[17]

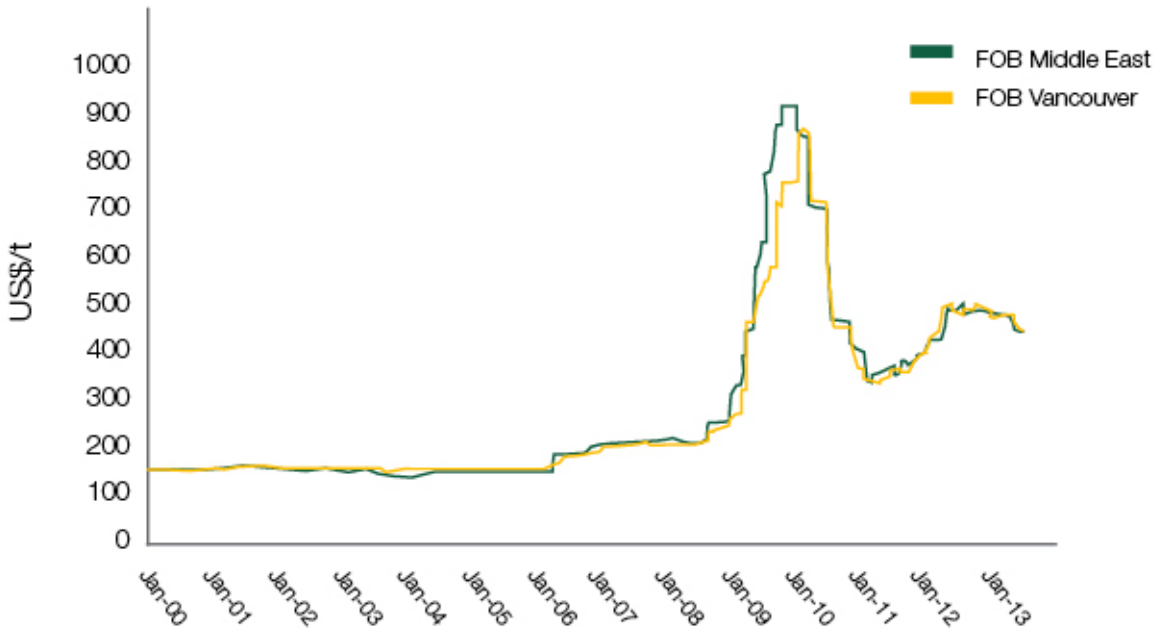


FertEcon Potash Outlook 2012-2 (Sep. 2012)

Over the last ten years, the average annual increase in phosphate consumption was 1.9%.

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

Standard potash prices (KCL) over time



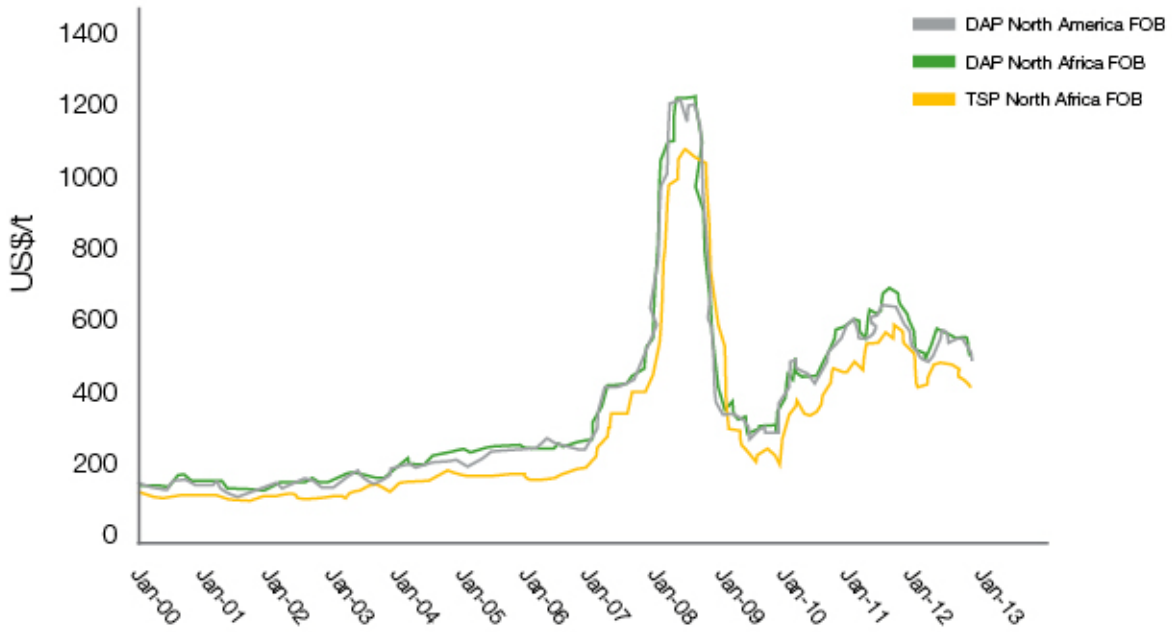
Source: Fertilizer Week (December 2012)

[17] The information in this section and in 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 developed and developing countries and the effect of exchange rates and others.

Up to 2007, potash prices were stable. From the middle of 2007, grain prices started to rise due to the sharp decline in grain stocks and in response, potash prices rose, reaching record highs in the middle of 2008. Some quantities were even sold at USD 1,000 per ton.

At the end of 2008, following the decline in global demand for potash, as described above, prices began to fall. In 2010, potash prices began to rise again from the slump of 2008/2009. In 2012, there was a gradual erosion of potash prices.

Phosphate fertilizer prices over time



Source: Fertilizer Week (December 2012)

Prices of phosphate fertilizers reacted in a similar manner to potash prices until the 2008/2009 crisis. At the lowest level the DAP price fell to $300 per ton FOB. However, phosphate fertilizers started to recover earlier than potash and the increase from the slump of mid-2009 was already apparent in the fourth quarter of 2009. In the fourth quarter of 2011, 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 the second quarter of 2012, prices started to rise and the DAP price rebounded to USD 600 per ton, however the slump in demand stopped the rise in prices in the fourth quarter, causing prices to fall slightly more than USD 500 per ton.

In the specialty fertilizers products market, 2012 was characterized by a decrease of 10% in prices of soluble fertilizers (mainly MKP and MAP). There was a moderate increase in prices of slow-release fertilizers, however this increase did not offset the increase in raw material prices.

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.

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, 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.

Commercial sales of the product started in 2012.

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. 69% of the phosphate rock produced in 2012 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.

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, the United States, Spain, India 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 weeks to 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 l 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 for various crops, usually containing CRF and crop-protection products.

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	2012	2,198.3	32.9	1,286.4	46.7
	2011	2,506.2	33.1	1,554.2	62.0
	2010	2,140.7	37.6	1,226.4	57.3
Phosphates and fertilizers	2012	1,733.3	25.9	463.7	16.8
	2011	1,705.9	22.5	502.8	29.5
	2010	1,056.3	18.6	285.4	27.0

* For purposes of this table, revenue figures for the product include revenue among business segments.

The decrease in potash revenue in 2012, compared to the prior year is due to a decrease in selling quantities, after an agreement with China for the second half of 2012 was not signed and the supply agreement to India was not renewed in 2012.

In fertilizers, the increase in revenue in 2012 compared to the prior year was mainly due to the consolidation of the results of companies and operations that were acquired in 2011.

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:

	2012		2011		2010	
	$ million	%	$ million	%	$ million	%
Israel	276	8	218	6	228	8
North America	200	6	324	8	91	3
South America	684	19	544	14	517	18
Europe	1,253	35	1,230	32	891	31
Asia	1,065	30	1,441	38	1,102	38
Other countries	63	2	78	2	63	2

In 2012, there was a decrease in revenue, mainly in Asia, following the decrease in quantities sold to China and India. The increase in sales in South America is mainly due to an increase in potash sales to Brazil.

4.1.5 Marketing and distribution

The primary markets of ICL Fertilizers are China, India, Brazil, and Europe. 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 2012, ICL Fertilizers paid commissions amounting to about $11 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 is customary to negotiate for potash agreements, some 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 is usually for six months 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 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) and Teesside (UK),

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.

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. In March 2013, Vale announced that it is suspending the implementation of the Rio Colorado project, given the current macro environment and economic feasibility of the project. At the end of 2012, Vale suspended works at the site.

The Russian fertilizer producer EuroChem is currently implementing a project to open a potash mine that was originally planned to begin production at the end of 2014, with output that will gradually rise to 2.3 million tons a year. According to the Company, a delay of one year was also declared for this project, due to technical problems.

The Australian company BHP is the largest mining company in the world. BHP owns a large number of potash mining concessions in Canada, and is in the process of developing a new potash mine in Saskatchewan, Canada. The Company began works at the project site, however the project itself requires strict approval processes for investments in the Company before final approval of implementation.

Last year, the German potash producer K+S, acquired Potash One, a Canadian development company, and issued a plan to develop a new mine in Canada. The new mine is based on solution mining technology and 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 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 published a development plan to increase production capacity from 13 million tons to 15.6 million tons in 2017.

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 (PK). 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 Ma'aden 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, the hot and dry climate of the Dead Sea enables the Company to store, at very low cost, a large quantity of potash in an open area. This storage advantage allows the company to produce at Sodom at a relatively constant rate, independent of fluctuations in global potash demand. This is compared to the competitors, who, in times of sharp decline in demand, are forced to reduce their potash production quantities.

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 2010-2012 in millions of dollars:

	Q 1	Q 2	Q 3	Q 4
2012	846	1,190	1,066	710
2011	837	1,101	1,126	1,034
2010	766	822	753	766

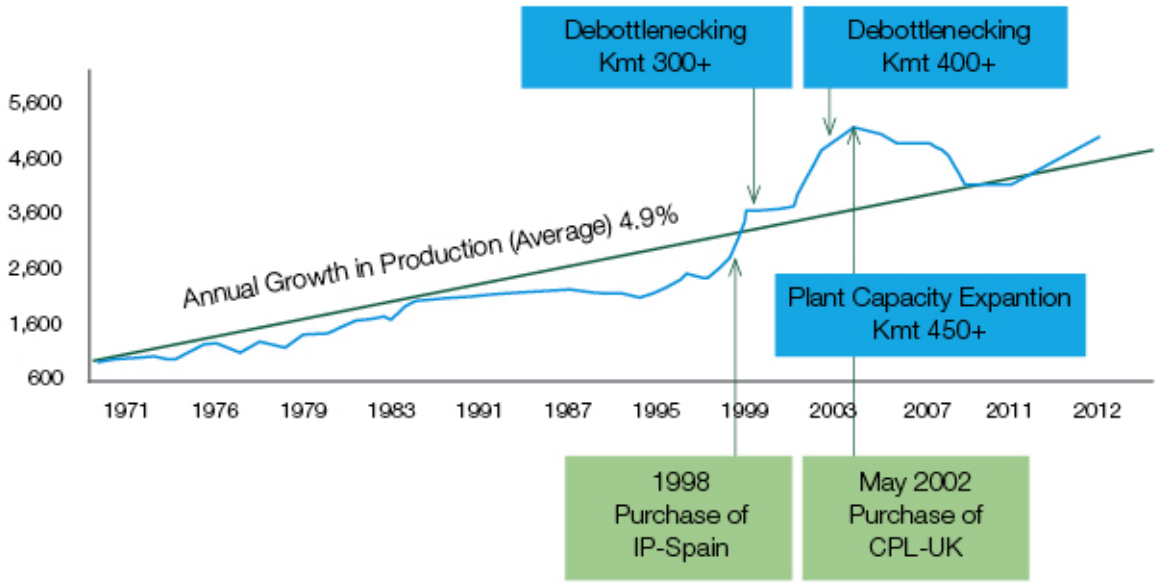
The decrease in sales in the fourth quarter of 2012 is due to a delay in signing the potash supply agreements with China and India.

4.1.8 Production[18]

The current annual potential production capacity[19] of the potash plants is about 6million tons, phosphate rock is about 4.5 million tons, phosphate fertilizers and compound fertilizers about 1.9 million tons, soluble fertilizers about 200,000 tons, liquid fertilizers about 150,000 tons and controlled-release fertilizers about 100,000 tons.

For details of production, sales and closing stock of potash, fertilizers and phosphates, see section 3.1.1 in the Directors Report.

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 between 300,000 and 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.

In 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

[18] 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.

[19] 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.

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, as from 2017, 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 in the second half 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 6.3-6.5 million tons.[20]

4.1.9 Research and development

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 technology for the use of bituminous phosphate as a source for production of phosphoric acid and downstream products.
3. Development of alternative methods for increasing the production of carnallite, the raw material used to produce potash in Sodom.
4. Improvement of the quality of its offered products.
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 high acid products allowing diverse applications in soluble fertilizers
8. Development of controlled release products with coating materials of compositions and thicknesses unlike those currently available in the market
9. Development of controlled release products combined with pesticides - CRC
10. Development of biodegradable coatings for controlled release fertilizers
11. Development of polyhalite-based fertilizers as raw materials for the specialty fertilizer industry

B. Research and development expenses

Total research and development expenses in 2012 amounted to $18.5 million.

[20] 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.

4.1.10 Intangible assets - patents and trademarks

ICL Specialty Fertilizers has 13 groups of patents, mostly related to derivatives of the Osmocote brand, for specific soluble fertilizers, production technology of coatings (P1, P2), and for applications of controlled fertilizer compounds and plant protection products.

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 sylvinite 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 purchased from third parties.

At the beginning of 2012, sulfur prices were $240 per ton FOB. In 2012, sulfur prices weakened gradually,, falling to approximately $190 FOB by the end of the year.

D. Phosphate, compound and liquid fertilizers

Phosphate fertilizers are manufactured from phosphate rock, sulfuric acid and phosphoric acid, which are all produced by the Companyγ 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 raw materials used to produce slow-release 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

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. Following the delay in signing new agreements with suppliers in China and India, inventory reached approximately one million tons at the end of 2012.

,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 potash stock days for 2012 and 2011 are 68 and 84.4, 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 decrease in inventory days stems from a decrease in the average inventory in 2012 compared to the previous year.

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 2011 and 2012 was as follows:

December 31, 2012		
	Average credit level ($ millions)	**Average credit days**
Customers	847	81
Suppliers	352	69

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

The increase in average trade receivables and average credit days is due to changes in the geographic mix of sales.

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, a system to control stack emissions at a rotary dryer at DSW started routine operation. A similar system is being installed in another rotary dryer. In addition, this year, nine extraction and filtration systems to prevent non-specific dust emissions were installed in the transportation facilities of ICL Fertilizers at Ashdod port.

- At ICL Fertilizers' plants in Israel, a master plan is being implemented to install continuous control and detection measures in the stacks. At Mishor Rotem, preparations are under way to establish a system of air quality monitoring stations. At DSW, a continuous monitoring system for stacks was installed. At Rotem, a monitoring and control system with detectors was installed on the perimeter and there are preparations for the construction of air quality monitoring stations.

- ICL Fertilizers' plants in Israel are in the process of converting to natural gas (see section 3.2.4). Conversion to gas significantly reduces air emissions.

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 facility to separate oils and fuels from waste from sewage of the heavy mechanical equipment garages using membranes started regular operation.

- At the Rotem site, a waste water project is being operated with the principal aims of reducing effluent quantities, recycling waste water, reducing water consumption, treatment of waste water at the start of the flow and neutralization and restoration of wastewater reservoirs.

- At DSW, a detailed plan was prepared for restoration of the bulky waste at the plant site, which has been submitted to the authorities for approval.

3. Hazardous substances

- Upgrade of the sulfur storage system at the Rotem plant and gradual upgrade of the sulfur terminal at Ashdod

- 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.

- Operation 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 B.

2. At The Sodom site, an area with old fuel contamination has been found near the operational salt reservoir. Dead Sea Works submitted a principle plan to the Ministry of Environmental Protection for treatment at the site and is waiting for instructions.

3. For information about preparations for the report to the Pollutant Release and Transfer Register (PRTR) see section 4.4.

D. Material legal proceedings related to environmental issues

For material legal proceedings related to environmental quality, see Note 24C 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 2012, ICL Fertilizers invested a total of $18.8million in the acquisition of property, plant and equipment for the prevention of environmental hazards and recorded $23 million as a current expense. During 2013, ICL Fertilizers is expected to invest approximately $27 million in property, plant and equipment and to incur current expenses of approximately $23 million. In ICL Fertilizers' estimation, there is not expected to be a decrease in the level of these expenses in subsequent years.[21] 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.

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

For information about the Dead Sea Concession Law and payment of royalties in accordance with the law, see Note 24B(1) to the Financial Statements.

2. Phosphate mining concessions

For information about mining phosphate in the Negev, see Note 24B(2) to the Financial Statements.

3. ICL Fertilizers' European concessions

For information about concessions for mining potash in Spain and in England, see Note 24B(3)-(5) to the Financial Statements.

4. Well production permits

The supply of water to the ICL Fertilizers plants at the Dead Sea is via a series of wells that the Company operates, both within and outside of the concession area. ICL Fertilizers has lease agreements and production permits for these wells[22].

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[21] 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.

[22] DSW has a permit to produce water from the wells at Ein Ofarim received from the Water Authority. The lease period from the Israel Lands Administration (ILA) for these wells expired in February and March 2009. An application to extend the lease period was submitted to the ILA, but after a lengthy procedure, it was not accepted. ICL Fertilizers are taking action to change the ILA's decision. The application was discussed recently in the ILA's exemptions committee, which approved the application. This application is subject to the approval of the Minister of Finance. .

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

Pursuant to special legislation with respect to the Dead Sea concession[23], 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 they were approved by an ad hoc committee. The Company is operating to receive approval for the outline plan and the detailed plans for its activities in the concession area at Sodom and in other areas of interest. 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 various planning bodies. In addition, after the detailed 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 detailed plan.

For planning procedures with respect to Pond 5, see Note 24C(4) to the Financial Statements.

As to Rotem's mining and quarrying works, see Note 24B(2) to the Financial Statements.

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 fertilizers[24]. 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.

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[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.

- Product stewardship: in 2011, Rotem Companies and Dead Sea Works were awarded product stewardship certification.
- 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, information management and risk management. Its principal facilities also have a comprehensive internal and external quality assurance system.
- Most production facilities of ICL Fertilizers in Israel have ISO 9001 quality management certification, ISO 14001 environmental quality management certification and OSHA 18001 safety and health management certification. All plants of ICL Fertilizers worldwide are expected to implement these standards or their equivalents in the future`.

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 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.

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 strategy[25]

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:

[25] 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.

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
5. Diversification of market destinations.
6. Increasing logistic transportation capability in Israel.
7. Constant improvement of product quality.
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. In 2012, a new power station in Sodom fueled by natural gas was approved. The power station will have a production capacity of 245 MWh, which will supply the electricity requirements of the production facilities at Sodom. Operation of the station is planned for the middle of 2015.
2. Construction of a new partition in the middle of the dike surrounding Pond 5. continued in 2012. The objective of the project is 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).
3. 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 Note 24C(4) to the financial statements.
4. 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.
5. ICL Fertilizers is continuing to implement 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.
6. 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).
7. In 2012, ICL Fertilizers started to upgrade the logistics system in Eilat and there are plans to upgrade the logistics system in Sodom 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 .

For information about new acquisitions, see Note 11 to the Financial Statements.

4.1.18 Other matters

A. Increase in water level in Pond 150

For information about the rising water level of Pond 150, see Note 24C(4) to the Financial Statements.

B. Cracks in the evaporation pond

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.[26] 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, in the first stage, dynamic compression and filling of the dike as part of a comprehensive engineering plan to reinforce the stability of the dike, which blocked the spaces. In the second stage, a new partition was 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.

C. 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.

D. Gas supply agreement

For information about the gas supply agreement, see Note 24A(9) to the Financial Statements.

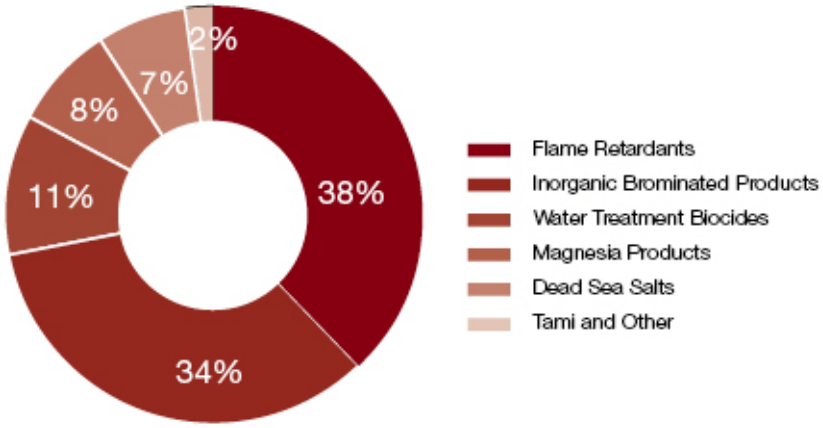
[26] For additional information on the danger of seepage through the dike, see section 5.18.5 on the topic "

4.2 ICL-Industrial Products

4.2.1 General information on the area of operations

The following chart details the external sales[27] of the Industrial Products business segment according to product areas:

External sales for 2012 – $1,421 million



A. Description of the area of operations

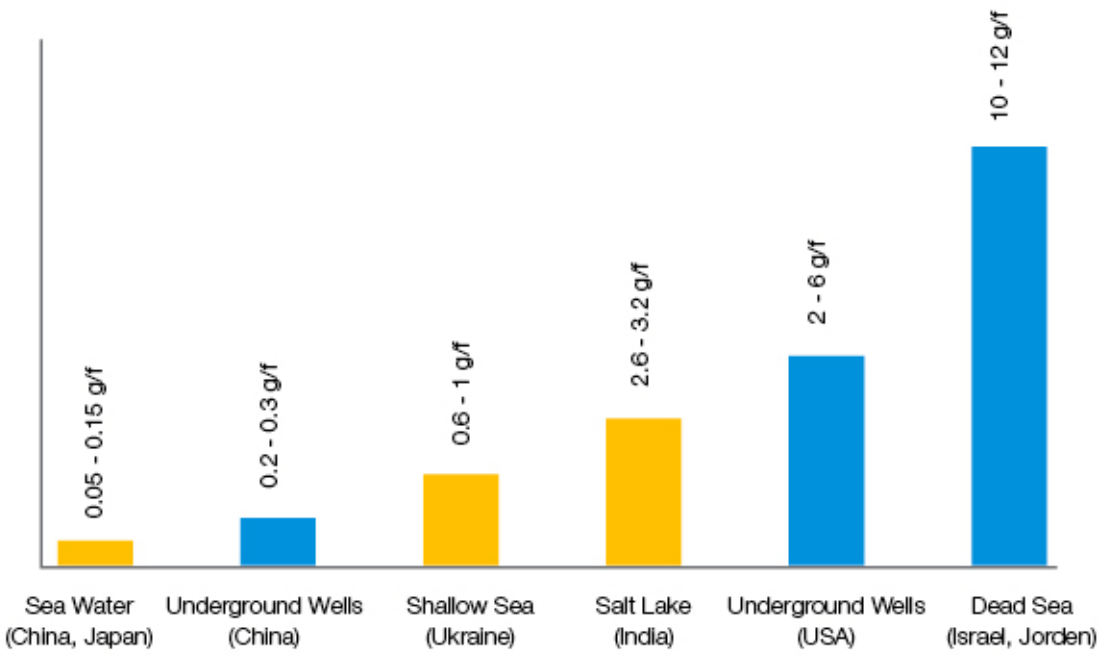
ICL-IP develops, manufactures, markets and sells industrial chemicals, principally based upon bromine, magnesia, chlorine and salts from the Dead Sea and phosphorus and chlorine purchased from third parties. In 2012, the net sales of the Industrial Products segment (including sales to other companies in the Company) totaled approximately $1,437 million. ICL-IP sales constituted approximately 21.5% of ICL's total sales (including sales to other segments in the Company) in this year. ICL-IP's main products are 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 of 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 products based on the Dead Sea salts. Most of the bromine manufactured by ICL-IP is used internally. In 2012, ICL-IP used 76% of its annual elemental bromine production.

ICL-IP's major manufacturing facilities are located around the world as illustrated in the map below. The plants 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 chlorine-based 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 compounds), and 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 compounds in Jiangyin which started production of bromine compounds in 2012.

[27] 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).

Bromine is an element from the halogen family known for its variety of uses in many industries. 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 world's major source of bromine and the concentration of salts in the Dead Sea is significantly higher than the concentration in regular sea water. Due to the high concentration of bromine in the Dead Sea, bromine production is the easiest, most economically feasible and stable in the world. Although there are other sources of bromine around the world, about half of the global supply comes from the Dead Sea.

<u>The Dead Sea is the source of the most highly-concentrated bromine</u>[28]



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

[28] The information in this graph is based on the Company's internal estimates.

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.

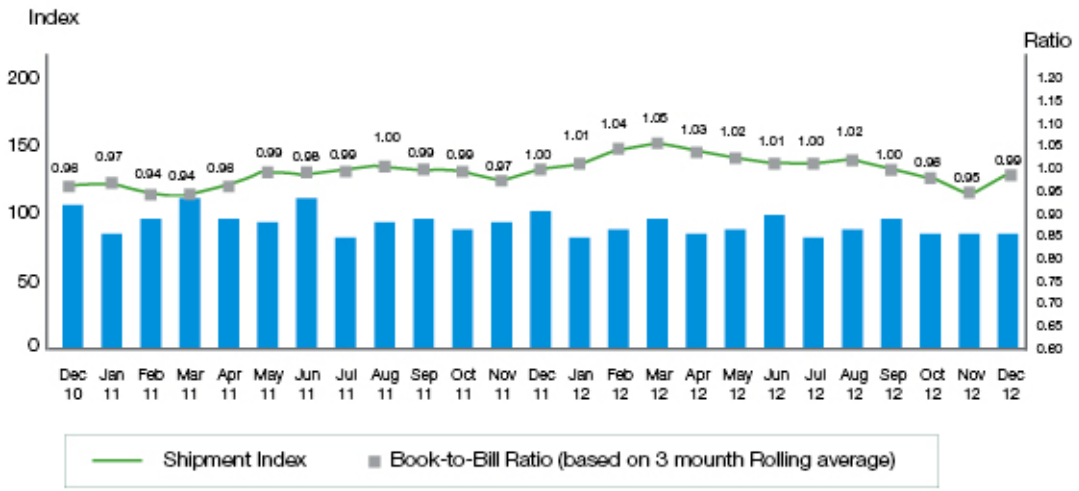
Most of the bromine produced worldwide is used as raw material for compounds with a wide range of uses.

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 global economic slowdown resulted in a slowdown in demand for electronics and consequently, a decrease in demand for flame retardants, mainly bromine-based products for electronics. As from the last quarter of 2012, there was also a slump in demand for flame retardants for construction. In 2012, the slowdown resulted in a decrease of bromine prices in China and India.

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 are being developed and regulation in other countries increases the use of bromine and bromine compounds.

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



Source: IPC, November 30, 2012 – Association connecting electronics industries, Jan. 2013

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 in North America. A ratio that is higher than 1 indicates a forecast of higher production in the future.

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. This resulted in an increase of sales of clear brines for oil drilling in the Gulf of Mexico in 2012,reaching the level prior to the explosion. There is also an increase in the amount of global drillings, particularly offshore drilling.

Details of the number of oil drillings in the world:

Source: Baker Hughes, November 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 2012, the market for swimming pool chemicals continued to be affected by the increase in activity by competitors in the United States, whose operations are mainly based on imports from the East, leading to lower prices for most products. At the beginning of 2013, the United States Department of Commerce decided to impose anti-dumping taxes on manufacturers of chlorine-based biocides from China at a rate of 30%, allowing local producers to be competitive.

4.2.2 .Development of technology that allows the production of shale gas and its application in the United States opens up business opportunities, including the increase in demand of bromine-based biocides, however, this technology of dry drilling of shale gas causes the release of natural bromide minerals in the soil and an increase of bromides in water sources. This could effect various bromine applications.

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 p**ressures.**

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, for disinfecting drinking water and gas discovery as a biocide in the solution used to crack the rock in which gas is trapped..

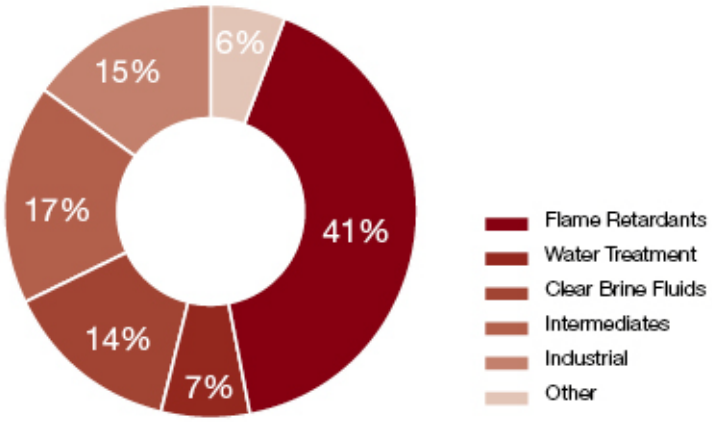
F. **Calcined and specialty magnesia products** are used in various industries, primarily in the steel transformer industry, rubber, and as a mineral supplement in pharmaceutical and food products.

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 mainly in the food and pharmaceutical industries. In addition, ICL-IP markets packaged potash for oil drilling and other industrial uses.

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** 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 2012:



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
2012	1436.6	21.5	492.8	34.3
2011	1513.0	21.4	547.0	36.1
2010	1,313.2	21.9	428.9	32.7

* For purposes of this table, revenue figures for the sector include revenue among business segments.

The decrease in revenues in 2012 compared to the previous year is mainly due to the decrease in sales quantities. This decrease was partially offset by the increase in prices, mainly inorganic bromine products.

The decrease in profits and gross profit are mainly due to a decrease in sales quantities.

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 as from 2015. Concurrently, the incentive continues in the United States to reduce mercury emissions by providing tax rebates.

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 years[29]. 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.

In 2012, gas prices in the United States were low due to local gas production from gas shales. As a result of the low prices, gas was used in power stations that had converted to generation of electricity using gas instead of coal.

In 2012, sales of Merquel™ increased by a two-digit rate of growth. In 2013, sales of this product are expected to continue to grow at a similar rate with the introduction of additional power plants in the United States that use Merquel™ [30]

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 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 construct production plants for the new flame retardant and is expected to start to supply the product to its customers from the second half of 2013.

Dry bleach

In the second half of 2012, ICL-IP launched a new general disinfectant product in the United States for household use. The product was launched in many convenience stores and mega stores. The product, which is a green product with little shelf space, and is safer than other

[29] The information is 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.

[30] The information is 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.

products on the market, will be launched in the UK and the Netherlands in the second stage. The target market for this product could reach hundreds of millions of dollars.[31]

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

	2012		2011		2010	
	$ millions	**%**	**$ millions**	**%**	**$ millions**	**%**
Israel	45	3	35	2	29	2
North America	446	31	450	30	406	31
South America	38	3	37	3	29	2
Europe	490	34	514	34	408	32
Asia	377	27	439	29	402	31
Other countries	25	2	24	2	25	2

In 2012, sales of ICL-IP to Asia decreased, due to a quantitative decrease of flame retardants and inorganic bromine products in this market.

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 2012, ICL-IP paid commissions amounting to about $8 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") 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.

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

[31] The information in this section includes 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 be a number of competing producers.

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.

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

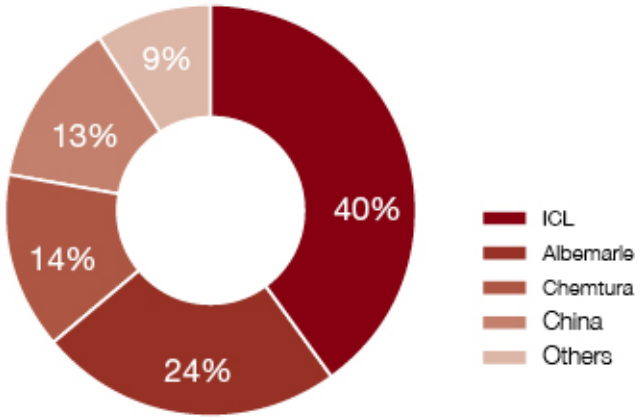
ICL-IP is the world's leading producer of elemental bromine, accounting for approximately a third of total international production of bromine. ICL-IP estimates that it and its two main competitors, Chemtura and Albemarle, accounted in 2012 for approximately 75% of the worldwide supply of bromine and approximately 64% 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-IP.

In China, there are dozens of small manufacturers of bromine which, cumulatively, manufactured approximately 17% of worldwide bromine in 2012. Production of bromine in China is becoming more expensive 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 2012



Source: ICL estimates

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. To date, most of the new isotanks have been received and the last ones are expected to be received in 2013. In addition, ICL-IP has a widespread worldwide marketing network and a range of high-quality products, combined with a technical support system that works closely with customers, providing a good competitive position in its target markets. In China, for example, ICL-IP's network includes three production facilities in China(the third site was erected in 2012), 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.

ICL-IP is addressing competition in areas where it operates by offering quality products, introducing new products and developing new products to meet market needs. ICL-IP is developing long-term relationships with its customers and ensures that a comprehensive solution to all their demands is provided, including improved support services.

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:[32]

Elemental bromine:	approximately 280,000 tons
Bromine compounds:	approximately 400,000 tons[33]

[32] 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.

Chlorine-based biocides:	approximately 37,000 tons
Phosphorus compounds:	approximately 150,000 tons
Magnesia:	approximately 53.000 tons
Dead Sea salts	approximately 430,000 tons

In 2012, the Company produced 174,000 tons of bromine and 218,000tons of bromine compounds. In 2012, production of chlorine-based biocides reached 16,000 tons, production of phosphate compounds reached 90,000tons and production of magnesia products reached 42,000tons.

4.2.10 Research and Development

A. Research and development operations and results

1. Environmental quality, including new environmentally-friendly products

A. Brominated polymers: Continued development of brominated flame retardants, which are targeted as environment-friendly flame retardants in general, and DECA and FR1410 substitutes in particular. Due to the size (molecular weight) of polymer molecules, it is unlikely that they will penetrate oily body tissue and remain there.

B. Textiles: Continued development of TexFron, a series of textile flame-retardant products. 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.

C. Energy storage: Continued development of bromine-based solutions for storing energy.

D. Merquel: Continued research as support for use of bromine products to reduce mercury emissions in coal-fueled power stations

E. Ecological research to improve sewage treatment, reduction of air emissions and solid waste

2. New products

A. Biocides: Continued development of new materials 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.

B. Phosphorus-based products: 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. In addition, new products for lubricants have been developed.

3. Other processes

A. Support of production: 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). There is extensive use of a "sustainability index" model for new products, which includes various parameters relating to product properties.

B. Engineering: 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.

B. Research and development expenses

ICL-IP's total research and development expenses for 2012 were approximately $27 million..

[33] 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.

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 299 patents that have been registered over the years and an additional 230 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 20121, 56 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:

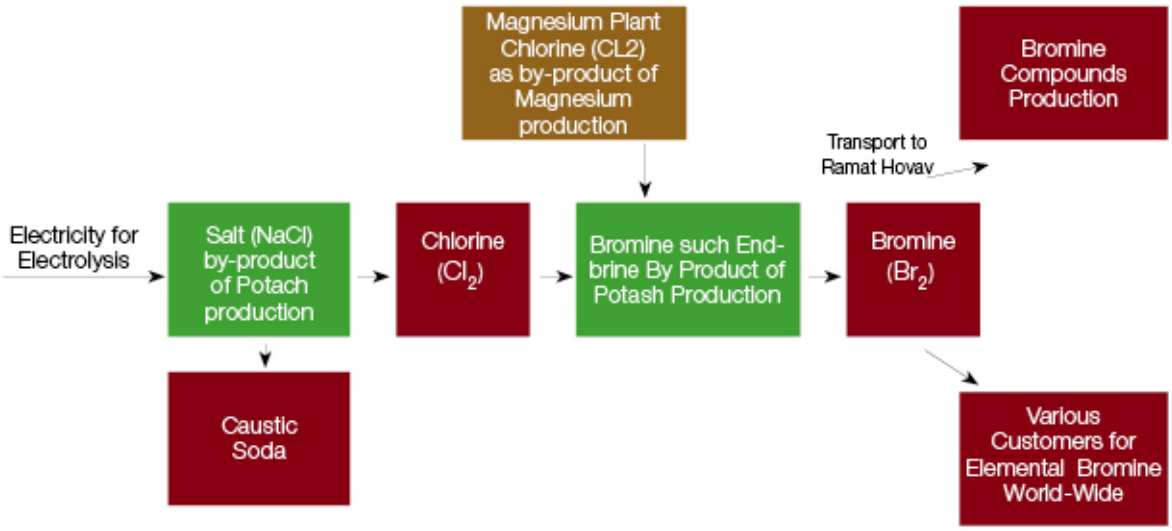
A. Bromine and bromine compounds

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 and Ireland. 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.

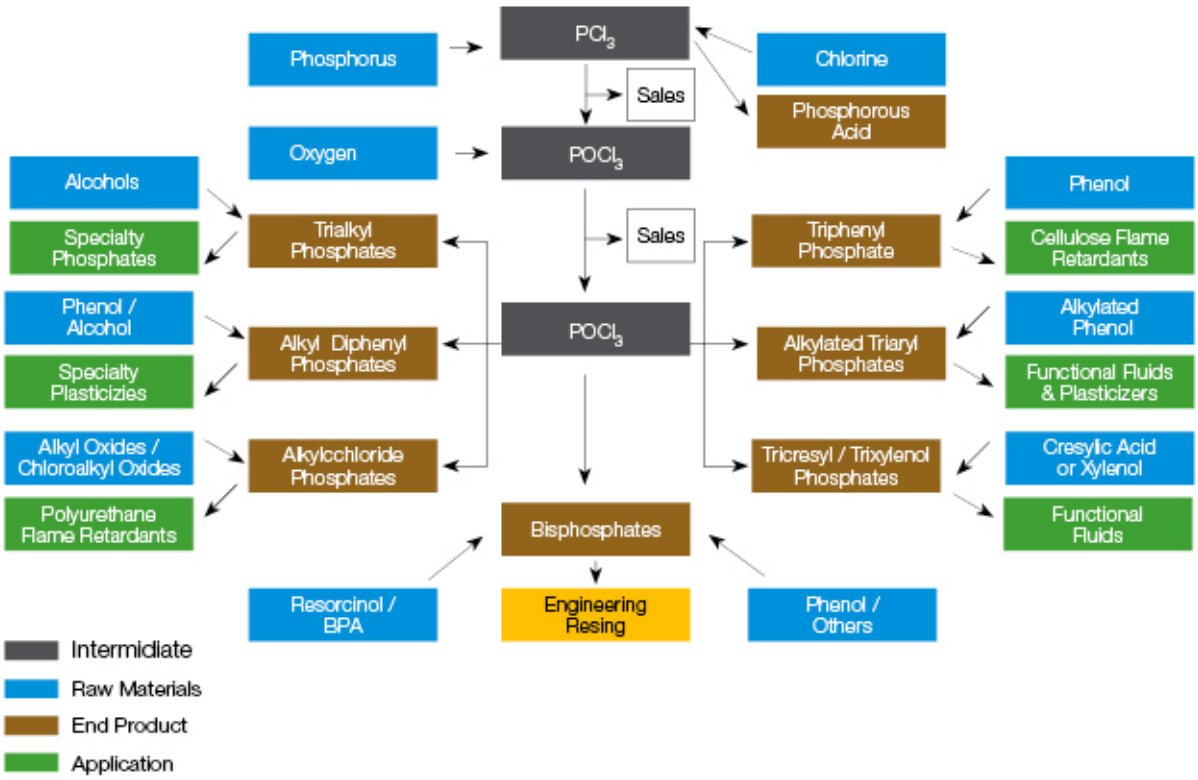
D. Dead Sea salts

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 Central Asia (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 operational and 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:

	2012	2011
Elemental bromine	18	15
Bromine compounds	177	169
Chlorine-based biocides	261	245
Phosphorus compounds	40	35
Magnesia	218	213

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 2012, 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, 2012	
	Average credit level ($ millions)	**Average credit days**
Customers	239	58
Suppliers	116	56

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

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" as described in the Hazardous Substances Law. 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. 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. The treated effluents flow into evaporation ponds or the Dead Sea.

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, Integration Pollution Prevention Control (IPPC) is 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.

In addition, a Vice-president for sustainability was appointed, 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 occurs, the facility's production process is terminated.
- Systems for collection and treatment of volatile organic compound emissions from the plants' stacks. 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 (LDAR) with the assistance of a European company.
- Joint work is continuing 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 has almost completed the construction of an independent wastewater removal system at the Bromine Compounds plant, at an estimated cost of approximately $37 million. The system will include a piping system and the plant's own evaporation ponds. The system is being 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 is planned to meet the standards of the relevant European directive. The plant is in the running-in stage.

C. Material impact of environmental regulations

1. For information about the additional terms in the business license of Bromine Compounds, see Note 24C(3) to the Financial Statements.
2. For information about the agreement with the Ministry of Environmental Protection regarding air emissions and prevention of pollution and odor hazards at Ramat Hovav, see Note 24C(3) to the Financial Statements.
3. For the implications of the Clean Air Law, 5768-2008, see section 4.4 B.
4. In January 2012, the conditions of a business permit relating to air quality were received by the Bromine Compounds plant. Awork plan was being prepared for its implementation, Discussions are also being held with the authorities to amend a number of sections.
5. For information about preparations for reporting to the Pollutant Release and Transfer Register (PRTR), see section 4.4B.
6. Additional terms were set out in the toxins permit received by Bromine Compounds regarding requirements for risk management and seismic surveys. In the context of these terms, Bromine Compounds is required to perform a risk management survey and seismic survey in accordance with Ministry of Environment.al Protection guidelines. The consequences of the findings in the survey will be project based and it is hard to estimate at this stage the investment required. The timetable for performing the projects will be set in accordance with the program framework to be defined in the survey findings.

D. Significant legal matters related to the environment

For information about material legal proceedings in respect of environmental quality, see Note 24C(3) to the Financial Statements.

E. Environmental risk management policy

Regarding, risk management policy, see Section 3.3 above.

F. Future material capital expenditures for environmental matters

During 2012, ICL-IP invested a total of approximately $31 million in the acquisition of property, plant and equipment to improve environmental quality and recorded approximately $40 million as a current expense for issues related to improvement of environmental quality.

In 2013, ICL-IP expects to invest approximately $45 million in property, plant and equipment and record approximately $39 million as a current expense for similar purposes[34]. 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 Note 24B(1) to the Financial Statements). 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 Note 24B(1) to the Financial Statements.

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

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.

- The flame retardant HBCD is on the list of materials requiring authorization, after being defined as a Substance of Very High Concern (SVHC) in the EU. The implication is that approval for use limited in time 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 the second half of August 2015. At the preparation date of the report, there is no ban on the use of the substance. 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 (towards the middle of 2014) in Europe`. Since there is still no HBCD substitute available in commercial quantities, permission to use HBCD for a limited period in polystyrene insulation plates in buildings is being assessed.The final decision is expected to be made by the United Nations in May 2013. ICL-IP has a substitute for HBCD in the initial production stages. The flame retardant DECA, is banned for use in

[34] 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.

electrical and electronic applications in the EU. In addition, due to the definition of DECA as SVHC, it will most likely be banned for all uses in the EU in 2016]

- In North America, the three large manufacturers of the product (Albemarle, Chemtura and ICL-IP) undertook to the authorities in the United States and Canada to gradually phase out DECA in these markets by the end of 2013. Propyl bromide, produced by ICL-IP, was defined as SVHC in the EU as from December 2012. The use as biodegradable raw material will not be affected (since it is not included in this process). This limitation is not expected to significantly impact the company.

- In October 2011, the phosphorus-based flame retardant TDCPP was included in the list of carcinogens in California. In November 2012, ICL-IP announced that it will no longer sell the substance to the furniture industry as from 2013 and in 2015 it will no longer produce the substance. Concurrently, the Company has developed two alternative substances, which it plans to introduce to the market in the near future.

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 and the Medentech plant in Ireland have ISO 14001 environmental management certification.
- The plants in Ramat Hovav and Mishor Rotem have IS 10000 corporate responsibility certification.
- The Ramat Hovav plant, the R&D site and Makleff House have SI 24001 certification for security and business continuity management, part 1 and 2: response and prevention.
- The magnesia plant at Mishor Rotem and the pure potash production plant at Sodom have GMP food and pharma certification from the Ministry of Health in Israel. The salt plant at Sodom has product safety certification (HACCP).
- 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
- In 2010, an internal standard for certification as a green plant was written. The plants of ICL-IP in Israel have certification for this standard. . The Terneuzen plant and the phosphorus-based plant in Germany are also certified as green plants.
- The management offices of the segment in Beersheba, Israel have a green building standard.
- 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 Industrial Products has a comprehensive system of internal quality audits, in which there are also various competitions between units.

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 strategy[35]

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.

[35] 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.

- 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.

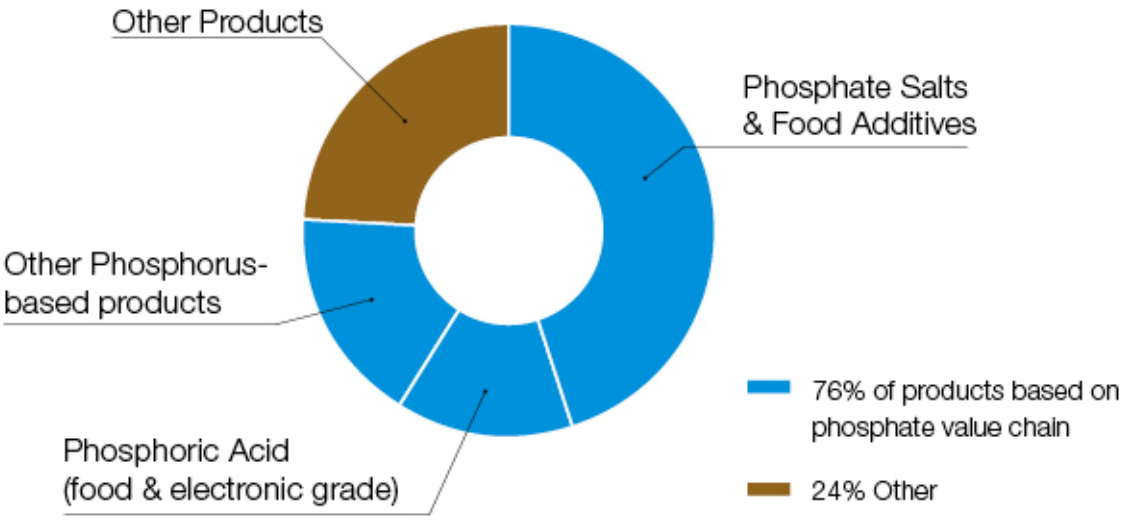
2. Development of markets and operating segments, based on the sector's raw materials.
3. Increasing the weight of specialty products in the mix of products sold by ICL-IP, including:
   - The development of new products and applications and market-specific substitutes for existing products that contain 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.

4.3 ICL Performance Products

4.3.1 General information about the area of operations

The following chart details the external segment sales[36] of ICL-PP according to product group:

Total external sales for 2012 - $1,411 million

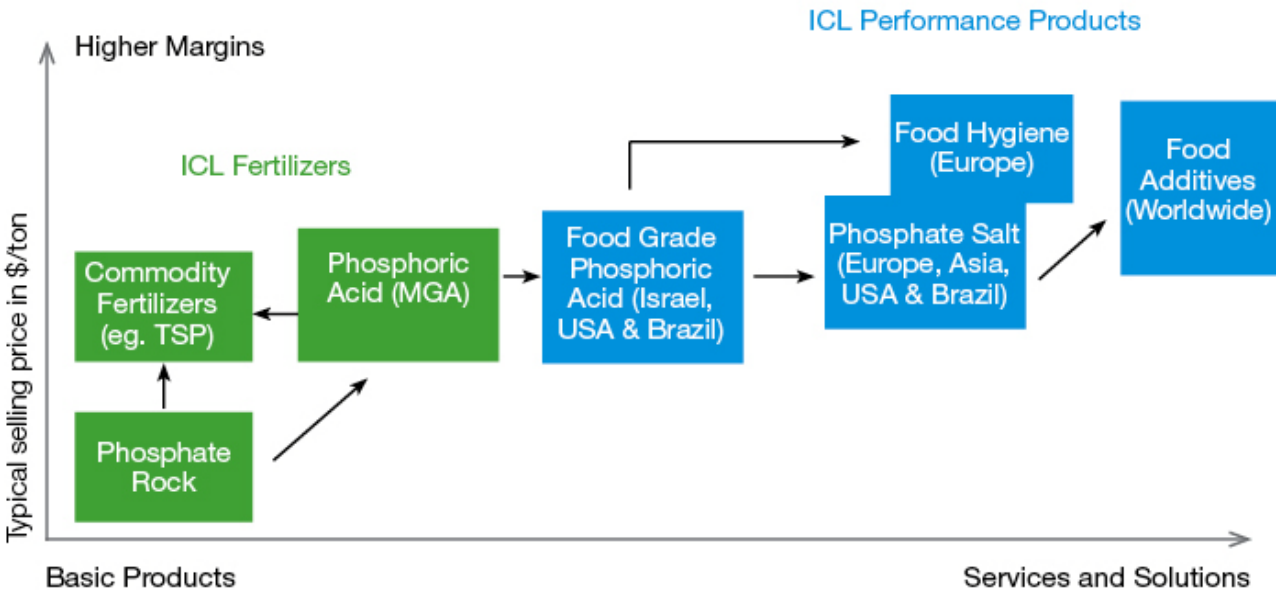


A. Description of activity

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 2012, ICL-PP revenues totaled approximately $1,477million (including sales to other business segments at ICL), representing approximately 22.1% of ICL's revenues in that year. Approximately 76% 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 the phosphoric acid manufactured from the rock and partially on elemental phosphorus (P4) and phosphoric acid that is purchased from third parties.

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

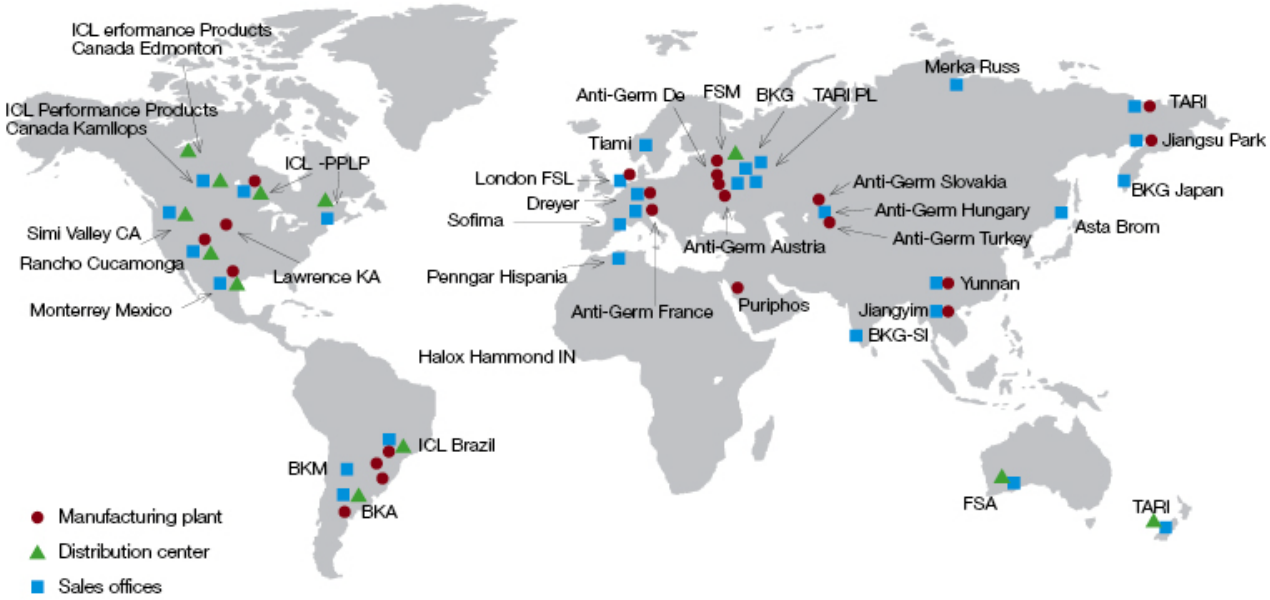
The following chart describes how ICL-PP is part of ICL's strategy to manufacture downstream products with higher added value based on phosphate rock:



ICL-PP products are designed for a wide range of uses and industries. The main markets of ICL-PP include food, detergent, metallurgy, paint and coating, electronics, footwear, paper, pharmaceuticals, water treatment, concrete, oil additives and fire fighting..

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. 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, which mainly effect production costs of thermal phosphoric acid .

The global economic crisis and the atmosphere in the markets led to a slowdown in global markets in 2012 and a slowdown in growth in China. The slump in demand and increased competition in 2012 led to a gradual decline in selling prices of pure phosphoric acid As a result, customers and competitors created pressure to lower prices of phosphorous-based products. In addition, the expected restriction on the use of phosphate salts as a dishwasher detergent (STPP) will create further pressure on prices of phosphorus-based products in Europe. The atmosphere of uncertainty in the United States resulted in lower growth rates in this market and caused a slow recovery of the market. ICL-PP began preparations in 2012 for the expected increase in demand for low-sodium foods in the United States.

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.

   P_2S_5: used as a primary ingredient in lubricating oil additives and insecticides. After the Balance sheet date, on February 21, 2012, ICL-PP acquired the assets and activities of the Knapsack plant in Germany which are used for the production and sale of the phosphorus compound P_2S_5, from Thermphos International B.V.

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
2012	1,476.5	22.1	475.0	32.2
2011	1,496.9	21.1	484.1	32.3
2010	1,340.0	22.3	451.5	33.7

* 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

	31-12/2012		31-12/2011		31-12/2010	
	$ millions	%	$ millions	%	$ millions	%
Israel	9	1	8	1	4	1
North America	545	38	516	36	463	36
South America	81	6	72	5	69	5
Europe	565	40	622	43	551	43
Asia	166	12	168	12	156	12
Rest of world	45	3	44	3	41	3

The increase in sales in North American in2012 was mainly due to an increase in fire-safety sales and products for the food industry in the United States. The decrease in sales in Europe was mainly due to the effect of fluctuations in the euro-dollar exchange rate.

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 2012, ICL-PP paid commissions amounting to approximately $ 7.4 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

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: Chemische Fabrik Budenheim KG, Innophos Inc., Prayon, PCS, Adithya Birla, Haifa Chemicals Ltd. and various Chinese producers. Another competitor, Thermphos International BV declared bankruptcy in the second half of 2012.

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

C. P_2S_5: ChemTrade Logistics Company in North America and Italmatch Chemicals in Brazil and Singapore.

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 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.

4.2.7 Seasonality

The target markets of most ICL-PP products are characterized by seasonality, except for flame retardants, which have a higher sales volume in the spring and summer due to the many fires in North America during this period.

4.3.8 Production

Potential production capacity of the main products:[37]

Pure phosphoric acid (in terms of phosphoric oxide): approximately 325,000 tons[38]

Phosphate salts and food additives: approximately 486,000, tons
Other phosphate-based products: approximately 133,000 tons
Other products at ICL-PP: approximately 4753,000 tons

[37] 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.

[38] Part of the use of the production capacity of thermal phosphoric acid depends of the economic feasibility of purchasing phosphorus (P_4), 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.

Production of principal products in 2012:

	Production in 2012(thousands of tons)
Pure phosphoric acid (in terms of P_2O_5)	126
Phosphate salts and food additives	385
Other phosphate-based products	87
Other products	261

In 2012, ICL-PP shut down one of its production facilities of phosphoric acid and phosphate salts at Carteret, New Jersey in the United States, as part of ICL-PP's efficiency plan. Under the efficiency plan, production of phosphoric acid and phosphate salts was transferred to ICL-PP's production facilities in the United States. Output is not expected to be impaired as a result of the efficiency plan.

In addition, the production facility for hygiene products in the Czech Republic was shut down and production was moved to Austria. The production capacity in production facilities for water treatment and paper in China was increased due to an increase in demand in these markets.

4.3.9 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 order to strengthen ICL-PP's position in the markets in which it is active, including mainly:

   A. Components based on natural materials 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. Environmentally-friendly formulations for control of forest fires

   F. Development of a new generation of phosphate-based flame retardants for plastic- and water-based paints to replace formulations based on toxic substances.

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. Development of dedicated equipment for efficient use of phosphoric acid on asphalt surfaces to improve road durability.

In other fields:

A. Adapting the use of thermoplastic materials for uses outside the footwear industry using recycled materials.

B. Expansion of the water treatment product line with emphasis on ecologically friendly, biodegradable materials and adaptation to new markets and fields.

C. Development of innovative biodegradable products for the paper industry and adapting the products to the Asian countries.

D. Development of new products compatible with new dental technologies and new applications.

E. Development of advanced additives for building tunnels and for the building industry, mainly for developing markets.

F. Adaptation of existing products to new laws (BIOCIDE and the REACH directive)

B. Investment in research and development

ICL-PP's total research and development expenses in 2012 were approximately $17.4 million.

4.3.10 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 1,543 registered trademarks and approximately 575 registered patents.

4.3.11 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 (P_4). ICL-PP obtains fertilizer-grade phosphoric acid from ICL Fertilizers and also obtains P_4 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 up to 2017, In addition, ICL has a long-term supply agreement for P_4 with another supplier, endings 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.

4.3.12 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:

	2012	2011
Pure phosphoric acid and phosphate salts	70	68
Food additives	64	55
Other	66	62

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, 2012	
	Average credit level ($ millions)	**Average credit days**
Customers	220	54
Suppliers	104	26

	December 31, 2011	
	Average credit level ($ millions)	**Average credit days**
Customers	233	56
Suppliers	119	28

4.3.13 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 best available technologies. ogies.

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 and apply strict control and command systems..

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 4.4B.

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 3.3B above.

F. Future material capital expenditures for environmental matters [39]

During 2012, ICL-PP invested approximately $7 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 2013 are anticipated to be approximately $3 million and $8 million, respectively. The scope of these expenses is expected not to decline in the years 2014 and onward. There might be an increase which cannot be estimated.

The main investments in the area of environment of ICL-PP are in the subject of water in Ludwigshafen and Ladenburg in Germany. The sludge treatment process at Ludwigshafen was successfully completed in 2012. In the United States, dismantling of the facilities and structures at Carteret continued, including removal of waste. At Monterrey, Mexico, operations continued to improve the efficiency of the wastewater treatment facility. The Kansas Department of Health and Environment renewed the wastewater permit at the Lawrence plant in the United States, but included a requirement to prepare a detailed plan to reduce phosphate in the wastewater, by the middle of 2010. A similar request was sent to Kansas City, which asked the Company to prepare a detailed plan to reduce the phosphate in the Company's wastewater phosphate flowing to the urban sewage. These requirements may increase the Company's expenses for environmental issues in the future.

The main investments that are expected in 2013 are for the reduction of wastewater at Ludwigshafen and reduction of the use of clean water in the pharma production facility at Ludwigshafen.

4.3.14 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, Monterrey and the white acid production facility at Mishor Rotem have ISO 22001 certification.

[39] Projections regarding the projected costs and expenses in 2012 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 plants at ICL-PP at Ladenburg and Ludwigshafen in Germany, at Lawrence, Carondelet, , Kamloops and Ontario in North America, the white acid production facility at Mishor Rotem and the facility at Jiangyin Park have ISO 14001 and OHSAS 18001 certification. The production facilities of ICL-PP in Brazil are in the process of implementing ISO 14001 and OHSAS 18001.

- ICL Performance facilities at Lawrence in the United States and Monterrey in Mexico have GFSI / FSSC 22000 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. Quality management is part of ICL-PP's risk management policy, with emphasis on pharmaceuticals and food.

4.3.15 Goals and business strategy

ICL-PP seeks to increase its revenues, profitability and cash flow primarily through the following[40]:

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 registration in Europe (REACH)

A statute covering the framework for licensing and evaluation of chemicals in the European Union (known as "REACH") came into force as of June 1, 2007. The statute applies to chemicals already on the market, as well as to new chemicals. Pursuant to this legislation, manufacturers in the common market and importers of chemicals or importers of certain products containing chemicals are 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 is being implemented gradually, between 2008 and 2018, under the supervision of the new European Chemicals Agency (ECHA).

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[40] 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.

Apart from higher production and raw material costs following implementation of REACH,ICL companies incur costs in the field of licensing, control and implementation of product stewardship programs with customers.. 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 prepared to implement REACH and are registering products in of the segments as required by law.

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 has also volunteered to lead and prepare a number of leading files for the entire industry (leader registrant). ICL expects to complete, by the second target date set in the law for the middle of 2013, the relevant submissions for dozens of other materials, including submitting numerous leading files.

Under the law, ECHA publishes supplements to the list of substances defined as “substances of very high concern”. At the publication date of the report, this list includes three products of ICL-IP (see section 4,2,15A(2) regarding limitations on the use of bromine-based flame retardants).

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 that are defined as chemical plants, similar to the other chemical plants in Israel, to apply for an emissions permit by March 31, 2014. As from March 31, 2011, the requirement to apply for an emission permit is applicable to the metals sector to which the magnesium plant belongs.

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.

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 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).

ICL-IP's plant at Ramat Hovav applied for an emissions permit in September 2012. The emissions permit is expected to be received in 2013. The emissions permit defines emission values and an improvement plan as a basis for projects, the cost of which cannot be estimated at this stage,

The other ICL-IP plants are preparing to apply for emission permits, up to 2014.The magnesium company applied for an emissions permit on time. A draft permit was received, however the terms are yet to be finalized and are being discussed by the parties. The permit is expected to be received in 2013.

The Rotem site at Mishor Rotem is a source of emissions as defined in the Clean Air Law, and is classified ans a chemical plant, and therefore will need to apply for an emissions permit by March 1, 2014. The power station at the DSW site in Sodom is a source of emissions which requires a permit according to the Law, and is classified in the energy industry and therefore will need to apply for an emissions permit for the power plant by March 15, 2015.The classification of the DSW production site at Sodom as a "chemical plant" site requiring an emissions permit is now under review.

C. Report of pollutant release to the environment

In accordance with new legislation for the duty to report pollutant release (Pollutant Release and Transfer Register – PTRT), in June 2013 segment companies in Israel will report for the first time the quantities of pollutants transferred to the environment according to the provisions of the law. This law is based on conventional legislation in Europe. ICL plants in Israel have started to prepare for reporting.

D. 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.

For information about the projects performed by IDE, see Note 24A(8) to the Financial Statements.

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 sylvinite.

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 hasleasing rights until 2030 for the salt and carnallite ponds, pumping facilities and productions 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 operations[41].

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.

[41] 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.

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.

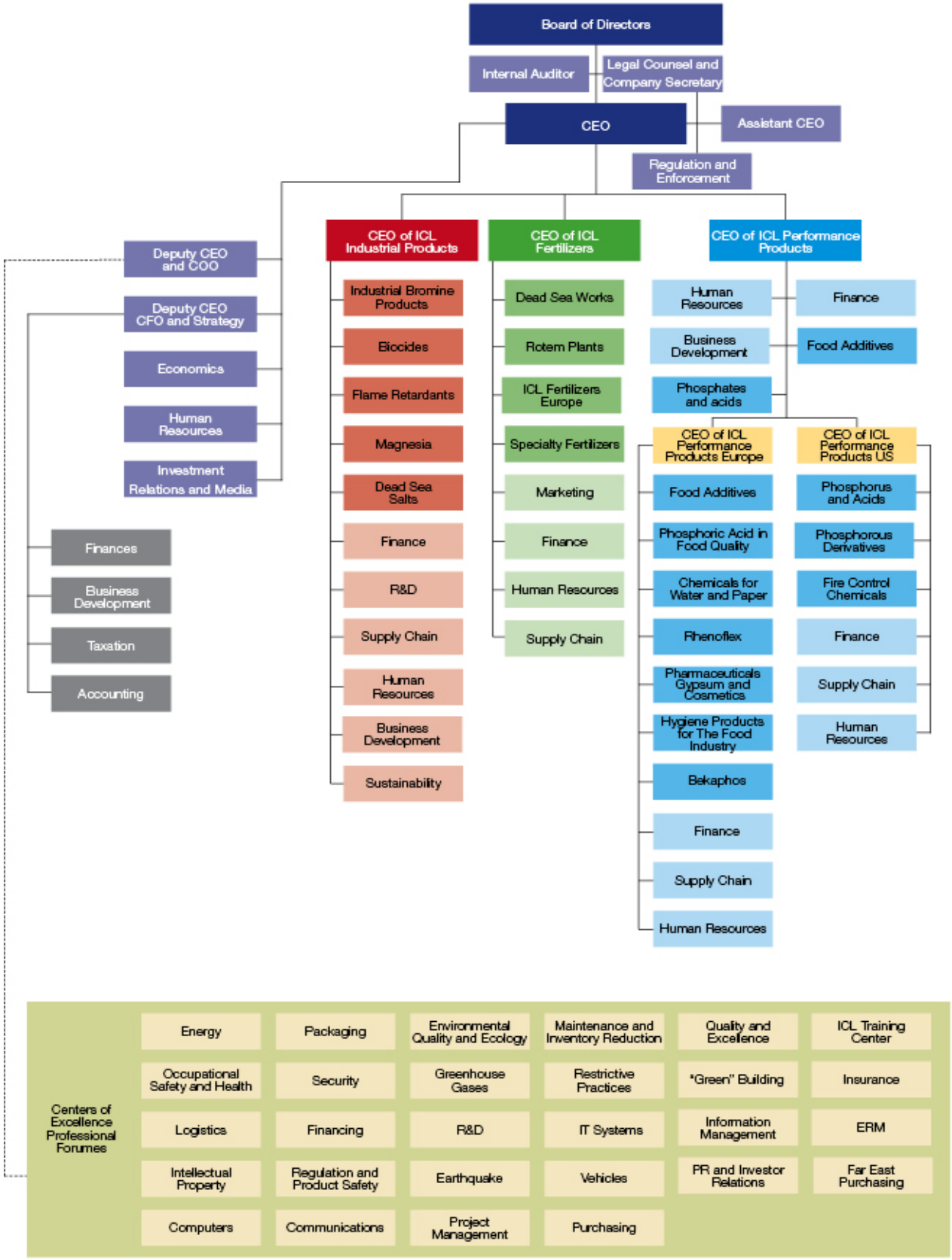
C. Spain: the concessions at the potash and salt mines arise from the concession agreements described in Note 24B(3) to the Financial Statements. The potash and salt production plants, and warehouses and loading and unloading facilities of ICL Fertilizers at Catalonia, are owned by the ICL Group. ICL 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 Note 24B(4)-(5) to the Financial Statements. 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. The Company owns three mines and one plant for producing peat for ICL Fertilizers at Everris in the UK.

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 leases ending in 2015 and 2017.

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 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.

On March 4, 2012 the Board of Directors resolved to establish a Board committee to appoint a new CEO. The members of the committee are Nir Gilad (chairman of the Board of Directors and the committee), Yossi Rosen and Yaacov Dior, an external director. Akiva Mozes was appointed as an observer in the committee meetings.

On August 16, 2012, after discussing the recommendation of the search committee, the Company's board of directors resolved to appoint Stefan Borgas as CEO of ICL, commencing on September 20, 2012. At this date, Akiva Mozes retired from his position. The chairman of the board of directors, Nir Gilad, thanked Akiva Mozes for his exceptional contribution of many years to the management of the Company and its achievements.

On March 31, 2012, Yossi Shahar, deputy CEO, VP Business Development and Strategy, resigned from his position in the Company, after 37 years of employment in the Company.

On April 30, 2012, Nathan Dreyfuss, VP Finance, resigned from his position in the Company, after 18 years of employment in the Company.

On March 4, and July 19, 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 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.
- To appoint Adv. Yakir Menashe, Assistant to the CEO, as VP Regulatory Affairs and Compliance
- To appoint Lisa Haimovitz, legal counsel and Company secretary as VP, Legal Counsel and Company Secretary

On January 30, 2013, Asher Rapaport, executive VP of Human Resources, announced his resignation after 33 years of employment in the Company, of which 7 years as a senior officer of the Company. Yakir Menashe, VP Regulation and Enforcement, was appointed VP of Human Resources. The subjects of regulation and enforcement were transferred to the responsibility of the VP, Legal Counsel and Company Secretary.

B. Breakdown of employees

As at December 31, 2012, ICL had a workforce of 12,280 employees. Of these, 46_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:

	2012	2011
Production	9,125	8,915
Marketing and sales	1,434	1,402
Management & administration	1,242	1,159
Research and development	479	434
Total employees	12,280	11,910

* 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:

	2012	2011
ICL Fertilizers	6,014	5,777
ICL-IP	2,660	2,681
ICL-PP	2,967	2,834
Other (includes employees of IDE, DSM and ICL management)	639	618
Total employees	12,280	11,910

3. Geographic breakdown of employees:

	2012	2011
Israel	5,495	5,306
Germany	1,267	1,270
Spain	1,215	1,160
UK	1,062	1,037
Netherlands	450	435
USA	1,080	1,040
China	694	654
France	350	358
Brazil	96	102
Other	572	548
Total employees	12,280	11,910

C. Significant changes in the number of employees

The total number of employees at ICL at December 31, 2012 is 12,280, compared to 11,910 employees at December 31, 2010, an increase of 370 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.

D. Investment in employee development, training and education

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

A central pivot in developing the organizational infrastructure in 2012 included the formation of a model for uniform and global management qualifications. The qualifications model is designed to provide the foundation for long-term organizational development plans and to serve as an important tool in human resource development, recruitment and integration processes of managers and systematic mapping of the training and development needs of employees and managers in compliance with the business requirements of the Company and its segments.

Further to development of the qualifications model and on its basis, there will be systematic assessment and feedback in the Company as a basis for management team development programs in management teams and personal development of executives. In addition, the qualification model will be adapted to other central processes, such as integration and screening of managers, employee and manager assessment and feedback, executive development programs at all levels and a management reserve plan.

In Israel, there is an ICL study center that coordinates the training and qualification of employees and managers, The center addresses a number of central areas: development of organizational issues and solutions in 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.

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 for candidates prior to employment (in operational and maintenance professions), and preparation of business descriptions in various areas (operations, maintenance, safety / security, ecology and projects), etc.

In 2011 and 2012, ICL companies in Israel implemented a joint lateral plan for executive manager development in Israel, based on a leadership profile the senior manager that was mapped out in 2010 and served as a basis for a range of plans and is one of the sources for preparation of the qualifications model.

As part of this plan, ten sessions were held , with the participation of 200 senior managers. Concurrently, in these years, team development programs were held in the companies, for segment managers through to middle management. These programs were based on the senior manager profile.

E. Employee incentive program

On November 14th, 2012, the Board of directors of ICL appointed a compensation committee according to amendment 20 of the Companies Law, 1999. Three external directors serve on the committee.

The main functions of the Compensation committee are:

1. To make recommendations to the Board of directors on the Officers' compensation policy, as well as to recommend, once every three years, whether to approve the extension of the compensation policy that was established for a period of more than three years.

2. To make recommendations to the Board on updating the compensation policy from time to time and to review its implementation.

3. To decide whether to approve transaction as to the employment and terms of employment of Officers which require approval of the Compensation committee according the the Companies Law.

For additional details of the employee options plan, see Note 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 2017.

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, Spain 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.

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, 2012.

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 2012, an increase of approximately $117 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 $1,557million[42]. 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

5.3.2. Credit facilities and their terms

ICL's credit facilities and loans are as follows:

- Long-term loans and credit facilities

In December 2010, the Company received a loan from a European bank for EUR 100 million. The loan is repayable on December 15, 2015.

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. As of December 31, 2012 ICL utilized $555 million from this credit facility.

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. As at December 31, 2012, ICL used $200 million of this credit facility.

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 2012.

In December 2012, ICL entered into a loan agreement with a European bankfor a loan of €100 million. At the balance sheet date, no moneys were drawn from this loan. The repayment date is six years from the drawing down of the loan and no later than December, 2021.

[42] 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.

- 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 163 million.

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

- Debentures

  Unlisted debentures amounting to $67 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
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.

  As at December 31, 2012, ICL has unused long-term credit facilities amounting to $702 million.

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

See Note 18D to the Financial Reports.

5.3.5 Credit rating of the Corporation

The Company has a credit rating of ilAA+ 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 8, 2012 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 2012 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 21A2 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 21A3 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, tax benefit tracks in the original law 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 21A3 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.

On November 5, 2012, Amendment 69 and a temporary provision to the Law for the Encouragement of Capital Investment were enacted, prescribing that companies that choose to apply the temporary order will be entitled to a reduction of the corporate tax on distribution of exempt earnings as a dividend. For further information, see Note 21A3c to the Financial Statements.

Regarding the Benefits arising from the Law for the Encouragement of Industry (Taxation), 1969 See note 21A4 to the Financial Reports.

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 14.5% in 2012 and 18.6% in 2011.

For a review of the differences between the main statutory tax rates of the Company and the actual tax rate in 2012 and 2011, see Note 21I2 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, 2012, amounts to about $1,507 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 2012, 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.

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 ICL[43] 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.

[43] 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."

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 strategy[44]

ICL's uniqueness lies in the supply of products and solutions for the essential requirements of mankind in areas of agriculture, food, and materials for industrial products, including safety and energy products.

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 2013.

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

[44] 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.

The strategy includes the following components:

A. **Leveraging and reinforcing core businesses**

ICL is taking steps to establish and reinforce its business position in core areas, focusing on units with high growth potential in agriculture, food, and materials for various industries, including safety and energy products. Key components of this effort will be reflected in the investment policy for expanding ICL's operations in the areas of potash, bromine, phosphate, food and biocides, as well as to looking at expanding its holdings of strategic raw materials in order to improve its competitiveness and reduce production costs. ICL aims to expand research and development as leverage for internal growth, and to assess mergers and acquisitions in areas that complement the Company's business.

ICL is taking steps to leverage global trends to expand the business base

The trends of global population growth and increased urbanization alongside the rising standard of living are expected to result in higher demand in the food sector. The need to increase agricultural yields and the ongoing increase in demand for grains results in an increase in demand for fertilizers. ICL has no effect on the demand for grains, however there is a long-term trend of growing worldwide grain consumption.

Accordingly, ICL is taking steps to expand potash production at all sites to realize the advantages in this market and to take part in its growth. ICL also continues to invest and expand production of of phosphate rockas well as downstream products of phosphate rock for agricultural uses, for food applications and other uses, utilizing existing infrastructure and increasing the usage of existing facilities.

The specialty fertilizers market is also 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 specialty fertilizers, including controlled release, slow release and soluble fertilizers as premium products; acquisition of Fuentes Fertilizantes, a leading company in Spain that manufactures and distributes liquid and soluble fertilizers, NPK compunds and conventional fertilizers; and the acquisition of all the shares of Nutrisi Holdings, a partner in one of the largest manufacturers of soluble compound fertilizers.

ICL is taking steps to continue expansion and development of fertilizers and specialty fertilizers through organic growth, acquisition of additional companies and expansion of the product range through development of advanced technologies

The global food market is growing consistently with the population growth. ICL-PP uses most of the phosphate salts that it produces as raw material to manufacture food additives in many countries. ICL's food additives are mainly targeted at the processed meat, fish and seafood markets, the cheese and dairy products markets and the baked goods industry. ICL also operates in the area of food minerals based on magnesia and pure potash. ICL invests in development of products with added value in the sector, and in 2012, it started to prepare for the expected increase in demand for low-sodium foods in the United States. ICL aims to continue the development of activities in the area, through organic growth, acquisition of additional companies and expansion of the product range.

The increase in demand for water is a goal for expanding the product range and technologies for drinking and industrial water treatment. ICL operates in desalination through IDE (in which ICL holds 50% of the shares), and through chemical and service operations based on ICL's existing products and capabilities for companies and authorities operating in the area.

Technological innovations in electronic products, the trend of energy saving and stricter insulation standards, alongside the need for environmental solutions, are reflected in the continued investments in establishing and reinforcing ICL's business position in the market for

flame retardants based on bromine and phosphorus, ICL operates to increase the weight of its unique products in ICL-IP including: production and development of existing and new flame retardants, focusing on development of polymer and/or reactive flame retardants, which are the next generation of products in the field; development of new products and applications as well as substitute products for existing products containing bromine so that the new products will serve as growth engines to increase global bromine demand; and combination of bromine-based and phosphorus-based flame retardants to achieve a competitive advantage for the Company and its customers;

ICL is active in the quest for additional uses for bromine and in expanding its current uses which encompass water treatment, oil and gas drilling, the automotive industry and emission control.In the field of emission control, ICL has introduced bromine compounds to address the prevention of emissions from coal-fired power stations.

B. Increasing penetration into international markets –entry into new sectors and areas with a particularly high growth rate.

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 realized through joint ventures and acquisitions of companies in these sectors.

ICL is acting to build up its presence in growth markets by setting up ICL centers in main target locations: in China, Brazil, and India,

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.

To reinforce research and development efforts, ICL established a technology incubator, ICL Innovation Ltd., using the open innovation approach. The incubator will provide technological support, financing and business support to third parties in Israel and other countries.

D. Mergers, acquisitions and joint ventures

ICL seeks opportunities for business acquirements to expand and establish its core activities, through the acquisition of complementary technologies and related businesses.

E. Reinforcing activities in sustainability, as a source for renewal and development in all areas of the Company

ICL has adopted a corporate social responsibility policy and has adjusted its strategy to this policy. ICL believes that implementation of this policy will lead to sustainable activities and development, for future generations.

In 2012, ICL published a corporate responsibility report for 2011, in accordance with the international reporting principles of the Global Reporting Initiative (GRI).[45] This report summarizes the Company's activities for social, economic and environmental issues, is designed to reinforce the ties between the Company and interested parties and the general public, and is part of the

[45] Global Reporting Initiative – is the accepted and common standard in the world for reporting on corporate social responsibility (CSR) and sustainability. The principles of GRI aim to formulate an accepted reporting method for the three levels of CSR: economic, social and environmental.

strategy to create full transparency in its operations. This is the second report published by the Company that includes all the major ICL plants in Israel and other countries.

F. 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 ICLThe 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.

ICL management recently approved an initiative whose primary purpose is to harmonize and globalize ICL's operational processes through the adoption of a uniform IT (ERP) system for processing and organizing the company's operational activities throughout the world

The Company thinks that a unified and global standard for all of the Group's companies will enable it to realize and implement the significant advantages of ICL as a global company which is spread over tens of countries in five continents, including exploiting synergies and cooperation between ICL companies; transparency and horizontal and vertical transfer of information; effective follow-up of processes and tasks; effective integration of new companies into the Group; minimization of errors and oversights; and improve efficiency and managerial flexibility.

G. 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.

H. 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.

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.

During 2012, ICL formulated a uniform global model of management competencies. This competency model is meant to serve as the foundation of the long-term organizational development plans and to serve as a significant tool for development of human resources. As a continuation fo the competency model and based upon it, various evaluation processes and systematic feedback will be carried out in the company as a basis for the development

plans of the management teams, personal development of senior managers and planning for a management cadre.

5.7 Financial information on geographic segments

For information regarding geographical segments see Note 5 to the Financial Statements for 2012.

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. The functional currency of most foreign subsidiaries is the local currency, therefore the revenue and expenses of these companies in the local non-dollar currency, do not represent exposure. On the other hand, revenue and expenses of these companies in the local non-dollar currency, denominated 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). 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.

For further information about exposure to exchange rate fluctuations and the Company's hedging policy, see section 9 in the Directors Report.

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. . In addition, the volatility and uncertainty in the Euro bloc affect the Group's activities in this market (for further information, see sections 3.2.1 and 3.2.6).

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.

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 third-party liability insurance for

damages caused by its operations, in the amount of $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 Effect of supply and demand

A portion of the activities of ICL are characterized by volatility, which is caused, in addition to seasonality, by factors on the supply side, by entry of new manufacturers and products into the market, or expansion of the production capacity of existing products, and due to 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.

The plan for mining phosphates in Barir Field (South Zohar) is in planning approval stages, and it has not yet been decided whether to deposit it. Residents of Arad and the surrounding Bedouin villages in the area object to deposit of the plan and continuation of advancement of the planning stages in respect thereof, due to the fear of environmental and health dangers they contend will be caused as a result of operation of the mine. The Company believes that the mining activities in Barir Field does not involve any dangers to the environment or to people and, accordingly, the Company proposed to appoint an independent expert that will examine the opposing opinions existing with respect to the matter. After an expert appointed by the Ministry of the Prime Minister expressed his opinion that there is no health hazard in the Barir mine, the Ministry of Health appointed a committee on its behalf to examine the matter before the Ministry formulates an opinion, which at this point has not yet reached a clear position regarding the manner of the examination. The residents of Arad are continuing to object to advancement of the mining plan and even to mining tests. Non-receipt of approval to mine in the Barir field will significantly harm the future mining reserves of the company in the medium and long term.

For details regarding these concessions and permits see Note 24B of the Financial Statements.

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 about activities for preservation of the dike's stability, see section 4.1.18(B) above.

In the area of Sodom, where many of ICL's plants are located, there are occasional flash floods in the stream-beds. 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 magnitude of 20 million tons 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 Note 24C(4) to the Financial Statements.

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. For further information see Note 24C(4) to the Financial Statements.

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

A draft of the final World Bank reports evaluating the feasibility of a canal from the Red Sea to the Dead Sea has been recently published. The objective of the canal is to desalinate water for countries in the region (mainly Jordan), stabilize the level of the Dead Sea and contribute to regional peace. 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.

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 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, 2012

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 2012, 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.

	1-12/2012		1-12/2011		10-12/2012		10-12/2011	
	USD millions	% of sales	USD millions	% of sales	USD millions	% of sales	USD millions	% of sales
Sales	6,672.2		7,067.8		1,338.1		1,712.4	
Gross profit	2,757.2	41.3	3,155.7	44.6	507.1	37.9	775.4	45.3
Operating income	1,576.5	23.6	1,926.0	27.2	194.0	14.5	466.5	27.2
Pre-tax income	1,526.2	22.9	1,871.7	26.5	195.9	14.6	461.5	27.0
Net profit to Company share-holders	1,300.5	19.5	1,511.8	21.4	209.5	15.7	369.6	21.6
EBITDA*	1,911.2	28.6	2,190.2	31.0	315.7	23.6	528.6	30.9
Cash flows from current operations	1,592.7		1,269.4		275.0		344.4	
Investment in property, plant and equipment, less grants	667.8		494.9		145.5		134.1	

* Calculated as follows, in millions of dollars:

	1-12/2012	1-12/2011	10-12/2012	10-12/2011
Net profit to Company shareholders	1,300.5	1,511.8	209.5	369.6
Depreciation and amortization	287.1	267.4	76.8	69.8
Financing expenses, net	58.6	62.3	(0.8)	1.7
Taxes on income	221.0	348.7	(13.8)	87.5
One-time expenses*	44.0	–	44.0	–
Total	1,911.2	2,190.2	315.7	528.6

* Mainly expenses in respect of early retirement plan.

2.2 Results of operations for the period January-December 2012

Sales

Sales of ICL in the reporting period amounted to approximately USD 6,672 million, compared with USD 7,068 million in the corresponding period last year, a decrease of about 5.6%. This decrease is due to a decline in the quantities sold, which gave rise to a decline in sales of approximately USD 396 million, and a change in the currency exchange rates, which caused a decrease in sales of approximately USD 180 million. On the other hand, the decline was partly offset by an increase in selling prices, which led to an increase of about USD 50 million, and from the first-time consolidation of the financial statements of companies acquired during 2012 and 2011, which increased sales by USD 130 million.

Below is a geographical breakdown of sales:

	1-12/2012		1-12/2011	
CIF sales	**USD millions**	**%**	**USD millions**	**%**
Israel	454.5	6.8	376.9	5.3
North America	1,275.2	19.1	1,362.0	19.3
South America	813.7	12.2	665.9	9.4
Europe	2,349.7	35.2	2,418.6	34.2
Asia	1,644.1	24.7	2,093.6	29.6
Rest of the world	135.1	2.0	150.2	2.1
Total	**6,672.2**	**100.0**	**7,067.8**	**100.0**

The breakdown of sales indicates a decrease in sales mainly in Asia, due to non-renewal of potash supply contracts in the second half of 2012 in China and non-renewal of potash supply contracts in India in 2012. Import of the potash to India in 2012 was based on the contracts signed in August 2011. On the other hand, there was an increase in sales in South America, stemming from an increase in sales of potash in this area.

Gross profit

Gross profit amounted to approximately USD 2,757 million, compared with a profit of USD 3,156 million in the corresponding period last year, a decrease of approximately USD 399 million. The gross profit margin out of sales amounted to about 41.3%, compared with about 44.6% in the corresponding period last year.

The decrease in the gross profit compared to the corresponding period last year is mainly due to the following items: a decrease in the quantities sold, of about USD 276 million, the impact of the change in currency exchange rate, of about USD 18 million, an increase in the prices of raw materials and energy, of about USD 104 million and a rise in other operating expenses, of about USD 79 million. This decrease was partly offset by inclusion of the results of companies and operations acquired during 2012 and 2011, in the amount of about USD 30 million, and an increase in selling prices, which increased the gross profit by about USD 49 million.

Selling and marketing expenses

Expenses for this item amounted to approximately USD 806 million, compared with USD 871 in the corresponding period last year, a decrease of approximately USD 65 million. The decrease stems mainly from a decline in quantities and shipping prices, which led to a decrease of approximately USD 92 million. On the other hand, this decrease was partly offset by an increase of approximately USD 15 million in expenses deriving from inclusion of the results of companies acquired during 2012 and 2011, and an increase of approximately USD 10 million in other operating expenses.

General and administrative expenses

These expenses amounted to approximately USD 260 million, compared with USD 277 in the corresponding period last year. The decrease in general and administrative expenses was mainly the result of a decline in the expense recognized in respect of options granted to employees.

Research and development expenses

R&D expenses (net of grants from the Chief Scientist) amounted to approximately USD 77 million, an increase of about USD 5 million compared with the corresponding period last year.

Operating income

Operating income amounted to approximately USD 1,577 million, a decrease of USD 349 million compared with the corresponding period last year. The decrease in operating income stems mainly from the decrease in gross profit as stated above, and from recognition of a non-recurring expense of approximately USD 55 million in respect of early retirement plans in subsidiaries. The decrease was partly offset as a result of the decline in the selling and marketing expenses and general and administrative expenses, as noted above, and from non-recurring income stemming from VAT refunds received by a subsidiary outside of Israel, in the amount of approximately USD 11 million.
The operating income rate as a percentage of the sales turnover is about 23.6%, compared with 27.2% last year. The decrease in the operating income stems mainly from the non-recurring expenses recognized in respect of early retirement plans, along with an increase in prices of inputs, raw materials and energy.

Finance income/expenses

Net finance expenses amounted to approximately USD 58.6 million, compared with expenses of approximately USD 62.2 million in the corresponding period last year. The main factors causing the changes in finance expenses in the period of the report compared with the corresponding period are:

a. An upward revaluation of the shekel against the dollar, at the rate of about 2.3% in the current year, compared with a devaluation of about 7.7% last year caused the result that the expenses from transactions in financial derivatives and from revaluation of net short-term financial liabilities in amounted to about USD one million this year compared with about USD 34 million last year, mainly due to positive fair value of dollar/shekel hedging transactions.
b. In the other direction, expenses in respect of the impact exchange rate differences on provisions for employee benefits, in the amount of about USD 28 million, and an increase in the interest, in the amount of about USD 4 million, relating to these provisions, gave rise to financing expenses, in the amount of about USD 32 million.

(See also Section 9 below.)

Tax expenses

The tax expenses in 2012 amounted to USD 221 million, compared to USD 349 million last year. The pre-tax profit rate is 14.5% compared to 18.6% last year. The lower tax percentage in the reporting period compared with the corresponding period last year was affected by the following factors:

a. Non-recurring deferred tax expenses recognized in 2011, of about USD 38 million, due to passage of the Law for Amendment of the Tax Burden (Legislative Amendments), 2011, which cancelled the tax deductions provided by the Economic Efficiency Law (increase in the Companies Tax rate from 2012 onwards will be 25%).
b. Non-recurring tax income in 2012 stemming from tax refunds in respect of distributions of dividends from subsidiaries operating outside of Israel, in the amount of about USD 21 million.
c. A tax credit received by a subsidiary outside of Israel in 2012, in connection with investments in new production facilities, in the amount of about USD 11 million.
d. Recognition of deferred tax assets in respect of carryforward tax losses of a subsidiary in Israel, in the amount of about USD 10 million.

On the other hand, in 2012, the tax rate on companies operating in Israel increased from 24% to 25%, due to approval of the Law for Amendment of the Tax Burden, as stated above.

The rate of the tax to the pre-tax income in 2012, without the impact of the non-recurring items, as stated in Sections b–d above, is 17.2%.

Net profit

The net profit for the Company's shareholders amounted to approximately USD 1,301 million, compared with USD 1,512 million in the corresponding period last year, a decrease of USD 211 million.

2.3 Results of operations for the period October-December 2012

Sales

Sales of ICL in the reporting period amounted to approximately USD 1,338 million compared with USD 1,712 million in the corresponding period last year, a decrease of about 21.8%.

The decrease stems from a decrease in the quantities sold, which decreased sales by USD 298 million, from a decrease in the selling prices which resulted in a decrease of about USD 57 million in sales and from the impact of the change in the currency exchange rate, which caused a decrease in sale of about USD 24 million.

Below is a geographical breakdown of sales:

	10-12/2012		10-12/2011	
	$ millions	**%**	**$ millions**	**%**
Israel	101.6	7.6	111.0	6.5
North America	284.3	21.2	301.2	17.6
South America	134.5	10.1	134.3	7.8
Europe	519.4	38.8	491.1	28.7
Asia	269.3	20.1	652.2	38.1
Rest of the world	29.0	2.2	22.5	1.3
Total	**1,338.1**	**100.0**	**1,712.3**	**100.0**

The breakdown of sales indicates a decrease in sales and in the proportion of sales in Asia, which stemmed mainly from non-renewal of potash supply contracts in China and India. The increase in sales in Europe derives mainly from an increase in sales of fertilizers in this area.

Gross profit

Gross profit amounted to about USD 507 million, compared with about USD 775 million in the corresponding period last year, a decrease of about USD 268 million. The gross profit margin out of sales turnover is about 37.9%, compared with about 45.3% in the corresponding period last year.

The decrease in the gross profit compared with the corresponding period last year stems mainly from decrease in quantities sold, which caused a decrease of about USD 213 million, as well as by a drop in the selling prices of most of the Company's products, which affected the gross profit in the amount of about USD 52 million and from an increase in raw-material and energy prices, in the amount of about USD 18 million. This decline was partly offset by a decline in the other operating expenses, in the amount of about USD 18 million.

Selling and marketing expenses

Selling and marketing expenses amounted to about USD 184, a decrease of USD 43 million compared with the corresponding period last year. The decrease stems primarily from a decline in the quantities shipped.

General and administrative expenses

General and administrative expenses amounted to USD 68 million, a decrease of about USD 6 million compared with the corresponding period last year.

Research and development expenses

R&D expenses (net of grants from the Chief Scientist) amounted to about USD 21 million, an increase of a USD 3 million compared with the corresponding period last year.

Operating income

The operating income fell by USD 272 million compared with the corresponding period last year, down to USD 194 million. The drop in the operating income stems from the decrease in the gross profit, as stated above, and from non-recurring expenses relating to an early retirement plan, totaling about USD 55 million. The decline was partly offset mainly as a result of a decrease in the selling and marketing expenses, as noted above, and from recognition of non-recurring income stemming from VAT refunds received by a foreign subsidiary, in the amount of about USD 11 million.
The operating income out of the sales turnover is 14.5%, compared with 27.2% in the corresponding period last year. The decline in the marginal operating income stems mainly from non-recurring expenses recognized relating to an early retirement plan.

Financing expenses

The net finance expenses in the quarter declined by about USD 3 million, compared with the corresponding quarter last year. The main factors which caused the changes in the net financing expenses in the quarter compared with the corresponding quarter last year are:

a. There was an upward revaluation of the shekel against the dollar, at the rate of about 4.6%, compared with a devaluation of about 3.0% in the corresponding quarter last year which led to income in the period from transactions in financial derivatives and from revaluation of net short-term financial liabilities amounting to about USD 17 million, compared with income of about USD 2 million in the corresponding quarter last year. The increase in income stemmed mainly from increase in the fair value of dollar/shekel hedging transactions.

c. In the other direction, there was an increase in the financing expenses, in the amount of about USD 23 million, due to the impact of exchange rate differences on provisions for employee benefits.

d. In the quarter, interest income was recorded, in the amount of about USD 4.5 million, compared with interest expenses, in the amount of about USD 6.6 million, in the corresponding quarter last year, mainly due to non-recurring interest income relating to VAT claims and interest income on short-term deposits.

Tax expenses

In the fourth quarter of 2012, tax income was recognized, in the amount of about USD 14 million, compared with an expense of about USD 88 million in the corresponding period last year. The tax income in the period of the report compared with tax expenses in the corresponding period last year were impacted mainly by the following factors:

1. Non-recurring tax income from a tax credit in a foreign subsidiary in respect of distribution of a dividend, in the amount of about USD 14 million.

2. Non-recurring tax income from the effect of not claiming accelerated depreciation in an Israeli subsidiary on the balance of the deferred taxes, in the amount of about USD 10 million.

3. In 2011, deferred tax expenses of about USD 38 million were recorded as a result of enactment of the Law for Amendment of the Tax Burden.

4. The impact of the change in the exchange rate of the dollar against the shekel in the quarter compared with the corresponding period last year, which caused a decline in the tax rate on the companies operating in Israel, the source of which is difference stemming from the measurement basis.

Net profit

The net profit to the Company's shareholders amounted to approximately USD 210 million, compared with about USD 370 million in the corresponding quarter last year, a decrease of about USD 160 million.

3. Operating Segments

ICL's operating segments are presented below according to management of the segments as presented in The Description of the Corporation's Operations.

CIF sales by segment of operation	1-12/2012		1-12/2011		10-12/2012		10-12/2011	
	$ millions	% of sales	$ millions	% of sales	$ millions	% of sales	$ millions	% of sales
ICL Fertilizers	3,812.2	57.1	4,097.6	58.0	709.7	53.0	1,034.2	60.4
ICL Industrial Products	1,436.6	21.5	1,513.0	21.4	326.4	24.4	335.0	19.6
ICL Performance Products	1,476.5	22.1	1,494.8	21.1	339.2	25.3	333.3	19.5
Others and setoffs	(53.0)		(37.6)		(37.2)		9.8	
Total	**6,672.2**		**7,067.8**		**1,338.1**		**1,712.3**	

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

Operating income by segment of operation	1-12/2012		1-12/2011		10-12/2012		10-12/2011	
	$ millions	% of sales	$ millions	% of sales	$ millions	% of sales	$ millions	% of sales
ICL Fertilizers (1)	1,158.9	30.4	1,403.4	34.2	140.0	19.7	364.6	35.3
ICL Industrial Products (2)	230.7	16.1	297.7	19.7	27.2	8.3	63.5	18.9
ICL Performance Products (3)	179.9	12.2	192.9	12.9	32.0	9.4	26.8	8.1
Others and setoffs	7.0		32.0		(5.1)		11.5	
Total	**1,576.5**		**1,926.0**		**194.0**		**466.5**	

(1) Includes a non-recurring expense in respect of an early retirement plan for employees, in the amount of about $33 million, which was recognized during the fourth quarter of 2012.

(2) Includes a non-recurring expense in respect of an early retirement plan for employees, in the amount of about $22 million, which was recognized during the fourth quarter of 2012.

(3) Includes non-recurring income in respect of a VAT refund, in the amount of about $ 11 million, which was received by a foreign subsidiary during the fourth quarter of 2012.

3.1 ICL Fertilizers

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

	1-12/2012	1-12/2011	9-12/2012	9-12/2011
Sales				
Potash	56%	59%	51%	66%
Phosphate	44%	41%	49%	34%
Operating income				
Potash	86%	84%	95%	92%
Phosphate	14%	16%	5%	8%

3.1.1. Results of operations for the period January-December 2012

Sales

The total sales in the period of the report amounted to about USD 3,812 million, a decrease of about USD 285 million compared with the corresponding period last year, constituting a decrease of about 7%.

The decrease in the sales turnover stems mainly from a decline in the quantities sold, mainly of potash, which gave rise to a fall in sales of about USD 291 million, along with the impact of the change in the currency exchange rate, primarily the euro against the dollar, which caused a drop in sales of about USD 108 million. On the other hand, there was a favorable impact due to inclusion of the results of companies acquired during 2011, which increased the sales by about USD 108 million.

Operating income

The operating income in the segment in the period of the report amounted to roughly USD 1,159 million, a decrease of about USD 244 million compared with the corresponding period last year. The rate of the operating income to the sales was about 30.4%, compared with about 34.2% last year.

The decrease in the operating income stems mainly from a decline in quantities sold, which decreased the operating income by about USD 165 million, an increase in the prices of raw materials and energy, which unfavorably impacted the operating income by about USD 50 million, non-recurring expenses relating to an early retirement plan for employees, in the amount of about USD 33 million, and an increase in the prices of inputs and other operating expenses, which decreased the operating income by about USD 11 million. In the other direction, consolidation of the statements of companies acquired in 2011 increased the operating income by about USD 17 million.

Potash

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

Potash – Revenue and Profit

$ millions	1-12/2012	1-12/2011
Revenue *	2,198.3	2,506.2
Operating income	996.5	1,182.0

* Includes revenues from inter-segment sales.

The decrease in revenues in the period of the report compared to the corresponding period last year stems mainly from a decline in the quantities of potash sold, in the amount of about USD 276 million, which was impacted by the non-renewal of the supply agreement to China, in the second half of 2012, and non-renewal of the supply agreement to India in 2012. Import of the potash to India in 2012 was based on the contracts signed in August 2011. In addition, the impact of the change in the currency exchange rate, mainly the euro against the dollar, caused a decrease in sales of about USD 42 million. On the other hand, an increase in the selling prices of potash, net of a decline in the selling prices of by-products, triggered an increase in sales of about USD 11 million.

The decrease in the operating income in the period of the report is mainly due to a decline in the quantities of potash sold, in the amount of about USD 161 million, an increase in the energy prices, in the amount of about USD 20 million, an increase in the prices of inputs and other operating expenses, in the amount of about USD 17 million, and the impact of the change in the currency exchange rate, mainly the euro against the dollar, in the amount of about USD 11 million. The decrease was partly offset due to the change in the currency exchange rate, mainly the shekel against the dollar, in the amount of about USD 16 million, along with an increase in selling prices of about USD 10 million.

Potash – Production, Sales and Closing Inventories

Thousands of tons	1-12/2012	1-12/2011
Production	4,936	4,261
Sales to external customers	4,336	4,904
Sales to internal customers	293	268
Total sales (including internal sales)	4,629	5,172
Closing inventory	1,006	699

Production of potash in 2012 was higher than in 2011, mainly due to an increase in production in Spain along with a strike in the Company's plants in Sodom in the first quarter of 2011, which caused immediate production losses of about 450 thousand tons. Production of potash continues to feel the impact of low production quantities in the United Kingdom. The increase in the closing inventory stems from relatively low sales to China and India, as noted above.

Fertilizers and Phosphates

Revenues from these products derive from sales in Israel and abroad of phosphate rock (as a raw material and for direct fertilization), fertilizers (including phosphate fertilizers and compound fertilizers, liquid fertilizers, slow-release fertilizers, controlled-release fertilizers and fully soluble fertilizers, which including different proportions of nitrogen, phosphorus and potassium), phosphoric acid used as a raw material for fertilizer production (green acid), and other products.

Fertilizers and Phosphates – Revenue and Profit

$ millions	1-12/2012	1-12/2011
Revenue *	1,733.3	1,705.9
Operating income	162.5	221.3

* Includes revenue from inter-segment sales.

The increase in revenues in the period of the report, compared to the corresponding period last year, is mainly due to inclusion of the results of companies consolidated for the first time in 2011, which increased the revenues by about USD 108 million dollars. On the other hand, the fall in the quantities of fertilizers sold decreased the revenues by about USD 5 million dollars, the drop in the selling prices of phosphate fertilizers, decreased the revenues by about USD 10 million dollars and the impact of the change in the currency exchange rates, mainly the euro/dollar rate, led to a decline in the revenues of about USD 66 million dollars.

The decrease in operating income in the year of the report compared with last year is mainly due to the decrease in the quantities and selling prices of phosphate fertilizers, in the amount of about USD 13 million dollars, an increase in raw-material and energy prices, which unfavorably impacted the operating income by about USD 30 million dollars, and non-recurring expenses recognized in connection with an early retirement plan, in the amount of about USD 33 million dollars. The decrease was partly offset as a result of inclusion of the statements of companies acquired during 2011, in the amount of about USD 17 million dollars.

Fertilizers and phosphates – Production and sales

Thousands of tons	1-12/2012	1-12/2011
Phosphate rock		
Production	3,513	3,105
Sales*	739	720
For internal uses	2,491	2,454
Fertilizers		
Production	1,598	1,570
Sales*	1,575	1,638

* To external customers.

Phosphate rock is produced according to demand, both for internal uses and for sales to external customers, while maintaining appropriate inventory levels.
The phosphate markets in 2012 were relatively stable. Demand for phosphate fertilizers declined in the two largest markets, China and India, whereas the market in Brazil started to revive throughout the year. In the remaining markets there was almost no change in demand.

3.1.2. Results of operations for the period October-December 2012

Sales

Sales in the quarter amounted to about USD 710 million, a decrease of about USD 325 million compared with the corresponding quarter last year, constituting about 31.4%.

The decrease in sales in the quarter compared with the corresponding period last year stems mainly from a decline in the quantities sold, mainly of potash, which gave rise to a decline in sales of about

USD 263 million, from a drop in the selling prices, mainly of potash, which decreased the sales by about USD 49 million, and from the impact of the change in the currency exchange rate, mainly the euro against the dollar, which led to a decrease in sales of about USD 15 million.

Operating income

The segment's operating income in the quarter amounted to about USD 140 million, a decrease of about USD 225 million compared with the corresponding quarter last year. The rate of the operating income out of the sales was about 19.7%, compared with about 35.3% last year.

The decrease in the operating income stems mainly from a decline in the quantities of potash sold, which caused a decline in the operating income of about USD 163 million, a drop in the selling prices of potash, which decreased the operating income by about USD 48 million, and from a non-recurring expense recognized in respect of an early retirement plan for employees, in the amount of about USD 33 million. In the other direction, the decrease in the operating income was offset by a decline in the prices of inputs and other operating expenses, in the amount of about USD 18 million.

Potash

Potash – Revenue and Profit

$ millions	10-12/2012	10-12/2011
Revenue *	376.8	695.3
Operating income	134.7	336.9

* Includes revenues from inter-segment sales.

The decrease in the revenues in the quarter compared with the corresponding quarter last year stems mainly from a decline in the sales of potash, which led to a drop in revenues of about USD 258 million, a decline in the selling prices, which caused a decrease of about USD 54 million, and from the impact of the change in the currency exchange rate, mainly the euro against the dollar, which led to a decrease in sales of about USD 7 million.

The decrease in the operating income in the quarter derives mainly from the impact of the decline in the quantities of potash sold, in the amount of about USD 160 million dollars, along with a fall in the potash prices, in the amount of about USD 52 million dollars. The decrease was partly offset by a decline in the prices of inputs and other operating expenses, in the amount of about USD 11 million.

Potash – Production, Sales and Closing Inventory

Thousands of tons	10-12/2012	10-12/2011
Production	1,258	1,191
Sales to external customers	735	1,327
Sales to internal customers	75	52
Total sales (including internal)	810	1,379
Closing inventory	1,006	699

Fertilizers and Phosphates

Fertilizers and Phosphates – Revenue and Profit

$ millions	10-12/2012	10-12/2011
Revenue *	365.1	361.7
Operating income	6.5	28.9

* Includes revenues 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 in the amount of approximately $5 million and from a rise in the quantities sold of phosphate fertilizers and phosphate rock, which increased sales by about USD 4 million, whereas the impact of the change in the currency exchange rate, mainly the euro against the dollar, led to a decrease in sales of about USD 6 million.

The decrease in the operating income in the quarter compared with the corresponding quarter last year stemmed primarily from non-recurring expenses in connection with an early retirement plan for employees, in the amount of about USD 33 million.

Fertilizers and Phosphates – Production and Sales

Thousands of tons	10-12/2012	10-12/2011
Phosphate rock		
Production	941	776
Sales*	250	205
For internal uses	680	618
Fertilizers		
Production	383	342
Sales*	283	260

* To external customers.

3.2 ICL Industrial Products

3.2.1. Results of operations for the period January-December 2012

Sales

The total sales of ICL Industrial Products in the period of the report amounted to about USD 1,437 million, a decrease of about USD 76 million compared with the corresponding period last year. The decrease in sales is due in the main part to a decrease in the quantities sold ,mostly of flame retardants, which decreased the sales by about USD 91 million, and from the impact of the changes in the currency exchange rate, in the amount of about USD 25 million. The decline in sales was partly offset by an increase in the selling prices, mainly of industrial bromine products, in the amount of about USD 39 million.

Operating income

The operating income in the period of the report amounted to about USD 231 million, compared with operating income of about USD 298 million in the corresponding period last year, a decline of about USD 67 million.

The rate of the operating income out of the sales was 16.1%, compared with 19.7% last year.

The decrease in the operating income derived mainly from a decline in the quantities sold, in the amount of about USD 36 million, an increase in the prices of raw materials and energy, in the amount of about USD 27 million, non-recurring expenses in connection with an early retirement plan for employees, in the amount of about USD 22 million, and an increase in other operating expenses, in the amount of about $29 million. The decrease in the operating income was partly offset by an increase in the selling prices, in the amount of about USD 39 million, and from the impact of changes in the currency exchange rate, in the amount of about USD 7 million.

3.2.2. Results of operations for the period October-December 2012

Sales

The total sales of ICL Industrial Products in the quarter amounted to USD 326 million, a decrease of about USD 9 million compared with the corresponding period last year. The decrease in sales stemmed primarily from a decrease in the quantities sold, a decrease in the selling prices and the impact of the change in the currency exchange rate, in the amount of about USD 3 million each.

Operating income

The operating income in the period amounted to about USD 27 million, compared with operating income of about USD 63 million in the corresponding period last year.

The rate of the operating income out of the sales was 8.3%, compared with 18.9% last year.

The operating income decreased mainly as a result of recognition of non-recurring expenses in connection with an early retirement plan for employees, in the amount of about USD 22 million, and from an increase in other operating expense of about USD 12 million.

3.3 ICL Performance Products

3.3.1 Results of operations for the period January-December 2012

Sales:

The total sales in this segment amounted to approximately USD 1,477 million, a decrease of about USD 18 million compared with the corresponding period last year.

The decrease in the total sales stems from a decline in the quantities sold, which gave rise to a decrease of about USD 13 million, and the impact of the change in the currency exchange rate, in the amount of about USD 47 million. The decrease was moderated somewhat by an increase in the selling prices in the amount of about USD 20 million, and from first-time consolidation of companies during 2011, in the amount of about USD 22 million.

Operating income

The operating income in the segment in the period of the report amounted to approximately USD 180 million, a decrease of about USD 13 million compared with the corresponding period last year. The decrease stems mainly from an increase in raw-material and energy prices, in the amount of about USD 27 million, and from the impact of the change in the currency exchange rates, in the amount of about USD 6 million, and an increase in other operating expenses, in the amount of about USD 10 million. The decrease was partly offset by an increase in selling prices, in the amount of about USD 20 million, and by the impact of non-recurring income in respect of a VAT refund, in the amount of about USD 11 million.

3.3.2 Results of operations for the period October-December 2012

Sales

The total sales amounted to USD 339 million, an increase of USD 6 million compared with the corresponding period last year. The increase stems from a rise in the quantities sold, which gave rise to an increase of about USD 9 million, whereas this increase was partly offset by the impact of the changes in the currency exchange rates, in the amount of about USD 5 million.

Operating income

The segment's operating income in the quarter amounted to USD 32 million, an increase of about USD 5 million compared with the corresponding period last year. The increase is attributable to a rise in the quantities sold, in the amount of about USD 4 million and from the impact of non-recurring income in respect of a VAT refund, in the amount of about USD 11 million. This increase was partly offset by an increase in the raw material and energy prices, in the amount of about USD 7 million, and an increase in other operating expenses, in the amount of about USD 3 million.

4. The Financial Position and Sources of Financing of ICL

At December 31, 2012, an increase of USD 117 million was recorded in the net interest-bearing financial liabilities of ICL compared with the balance at the end of 2011, bringing the total to approximately USD 1,557 million. For details of the increase in the financial liabilities, see section 5 below.

For additional details regarding ICL's sources of financing – see Section 5.3 to the Description of the Company's Business Report and Note 18 to the financial statements for 2012.

5. Cash Flows

The cash flows provided by operating activities in the period of the report amounted to approximately USD 1,593 million, compared with USD 1,269 million in the corresponding period last year. The increase in the cash flows was impacted mainly by an increase in the working capital in the corresponding period last year, which was offset by the decline in income in the period of the report versus last year. In addition, the cash flows from operating activities in 2011 were impacted by a one-time payment in the amount of about USD 165 million to the Tax Authorities in Israel as part of an assessments agreement for the years 2004-2008, which was paid in 2011.

The cash flows from operating activities and the increase in the financial liabilities, in the amount of about USD 91million, were the principal source of net financing of investments in property, plant and equipment, in the amount of about USD 668 million and distribution of dividends of about USD 1,019 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. Coverage 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 coverage 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, construction and erection 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 period of the report, investments in property, plant and equipment amounted to approximately USD 668 million, compared with about USD 496 million in the corresponding period last year. Most of the increase in investments stems from dynamic compacting of the dyke surrounding the evaporation ponds of ICL Fertilizers at the Dead Sea, an investment as part of a plan to gradually increase the production capacity at the Sodom plants, commencement of construction of a new power plant at Sodom and improvement of the logistics setup.

8. Human Resources

The total number of employees in ICL at December 31, 2012 was 12,280 compared with 11,910 on December 31, 2011, an increase of 370 employees. For additional details, see section 5.2 of the Description of the Company's Business 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 activities – sales, purchase of materials, selling, marketing expenses and financing expenses, as well as the purchase of property, plant and equipment – are executed mainly in dollars, and so the dollar is used as ICL's functional currency for measurement and reporting.

ICL has a number of consolidated subsidiaries overseas and one local subsidiary, whose currency of operations is their local currency – mainly the shekel, the euro, the pound sterling and the Brazilian real.

Set forth below is a description of ICL's principal exposures 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 on net income/expenses in each currency that is not the functional 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 ICL and some of the ICL subsidiaries operating in Israel are measured in shekels. As a result, ICL is exposed to the difference between the rate of the change in the dollar exchange rate and the measurement base for tax purposes (the shekel) in respect of those companies.

4) ICL companies have severance pay liabilities that 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 liabilities for severance pay.

5) The Group companies have monetary assets and monetary liabilities that 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 based on the exchange rate of the dollar in relation to the reporting currency of these companies at the end of the period. 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 loans bearing variable interest which expose its financial results (financing expenses) and its cash flows to changes in those interest rates.

Regarding the Group's fixed-interest loans, there is exposure to changes in the fair value of the loans due to 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 Group companies, 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 crude oil, 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, 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 the hedging. ICL uses various financial instruments for its hedging activity, including derivatives.

B. Interest rates
ICL's Finance Forum examines the extent of the hedging in order to adjust the structure of the actual interest to the Company's expectations with regard to the Company's expectations regarding the anticipated developments in the interest rate, taking into account the cost of the hedging. The hedging is implemented by using a fixed interest range and by hedging variable interest.

C. Energy prices
Execution of the 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 hedges on part of the exposure to marine bulk transportation prices. Execution of 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 Supervision of the policy for management of market risks and the manner of its implementation

ICL's companies regularly monitor the extent of the exposure and the hedging rates for 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 presentation of the 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 the actual developments and the 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 provided 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 flows according to the international standards. Some of the changes in the fair value of thee derivatives are charged directly to equity. In addition, the Company made an investment in derivatives, in order to hedge the exposure to changes in the cash flows of the

project for construction of the power station in Sodom, in respect of changes in the dollar/euro currency exchange. This hedge meets the conditions for an accounting hedge.

The derivatives transactions are made with banks. ICL believes that the credit risk in respect thereof 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 foreign currency exchange rates.
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.

Base rates at December 31, 2012:

Currency	Exchange rate
NIS/USD	0.26788
EUR/USD	1.31814
GBP/USD	1.61706
JPY/USD	1.16059
BRL/USD	0.488
CNY/USD	0.16043

Update of sensitivity to changes in the exchange rates of balances in the statement of financial position at December 31, 2012:

	Increase (decrease) in fair value		Fair value	Increase (decrease) in fair value	
USD/NIS	**(USD millions)**	**(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	(7.5)	(3.8)	75.1	3.8	7.5
Short-term deposits and loans	(1.4)	(0.7)	13.6	(0.7)	1.4
Trade receivables	(6.7)	(3.4)	67.3	3.4	6.7
Receivables and debit balances	(3.2)	(1.6)	32.4	1.6	3.2
Long-term deposits and loans	(34.5)	(17.2)	344.5	17.2	34.5
Credit from banks and others	25.2	12.6	(252.4)	(12.6)	(25.2)
Trade payables	30.1	15.1	(301.4)	(15.1)	(30.1)
Other payables	22.4	11.2	(224.5)	(11.2)	(22.4)
Bank loans	6.8	3.4	(68.3)	(3.4)	(6.8)
Debentures	37.2	18.6	(372.1)	(18.6)	(37.2)
Options	(48.2)	(25.8)	25.3	35.4	76.9
Forward	(24.6)	(13.7)	5.0	14.5	30.5
Swap	(29.8)	(15.7)	10.8	17.1	36.2
Embedded derivative	(3.0)	(1.5)	0.5	1.5	3.0
Total	(37.2)	(22.5)	(644.2)	34.3	78.2

	Increase (decrease) in fair value		Fair value	Increase (decrease) in fair value	
CPI	**(USD millions)**	**(USD millions)**	**(USD millions)**	**(USD millions)**	**(USD millions)**
Type of instrument	**Increase of 10%**	**Increase of 5%**		**Decrease of 5%**	**Decrease of 10%**
Short-term deposits and loans	0.3	0.2	3.0	(0.2)	(0.3)
Long-term deposits and loans	7.1	3.6	71.4	(3.6)	(7.1)
Credit from banks and others	(0.3)	(0.1)	(2.5)	0.1	0.3
Other payables	(0.1)	(0.1)	(1.1)	0.1	0.1
Long-term bank loans	(6.8)	(3.4)	(68.3)	3.4	6.8
Fixed-interest debentures	(14.1)	(7.0)	(140.7)	7.0	14.1
CPI/USD swap	4.2	2.1	7.1	(2.1)	(4.2)
Forward	6.0	3.0	(0.8)	(3.0)	(6.0)
Embedded derivative	9.9	4.9	5.9	(4.9)	(9.9)
Total	6.2	3.2	(126.0)	(3.2)	(6.2)

	Increase (decrease) in fair value		Fair value	Increase (decrease) in fair value	
EUR/USD	**(USD millions)**	**(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	(9.0)	(4.5)	89.8	4.5	9.0
Short-term deposits and loans	(0.2)	(0.1)	1.7	0.1	0.2
Trade receivables	(29.5)	(14.7)	295.0	14.7	29.5
Receivables and debit balances	(3.5)	(1.7)	34.9	1.7	3.5
Long-term deposits and loans	0.0	0.0	0.5	0.0	0.0
Credit from banks and others	2.0	1.0	(19.9)	(1.0)	(2.0)
Trade payables	16.7	8.4	(167.4)	(8.4)	(16.7)
Other payables	13.4	6.7	(134.3)	(6.7)	(13.4)
Long-term bank loans	28.8	14.4	(287.7)	(14.4)	(28.8)
Options	2.5	1.0	(0.2)	(1.4)	(3.2)
Forward	(5.6)	(2.7)	0.0	2.4	4.6
Embedded derivative	(1.9)	(0.9)	1.1	0.9	1.9
Total	13.7	6.9	(186.5)	(7.6)	(15.4)

	Increase (decrease) in fair value		Fair value	Increase (decrease) in fair value	
GBP/USD	**(USD millions)**	**(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)	2.9	0.1	0.3
Trade receivables	(4.2)	(2.1)	42.0	2.1	4.2
Receivables and debit balances	(0.5)	(0.3)	5.3	0.3	0.5
Trade payables	2.4	1.2	(24.2)	(1.2)	(2.4)
Other payables	1.0	0.5	(10.5)	(0.5)	(1.0)
Forward	(4.7)	(2.2)	(0.1)	2.0	3.8
Total	(6.3)	(3.0)	15.4	2.8	5.4

	Increase (decrease) in fair value		Fair value	Increase (decrease) in fair value	
JPY/USD	**(USD millions)**	**(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	(0.4)	(0.2)	4.2	0.2	0.4
Trade receivables	(1.7)	(0.8)	16.7	0.8	1.7
Long-term deposits and loans	0.0	0.0	0.3	0.0	0.0
Trade payables	0.4	0.2	(3.7)	(0.2)	(0.4)
Other payables	0.0	0.0	(0.3)	0.0	0.0
Options	1.2	0.6	0.8	(0.5)	(1.1)
Forward	1.3	0.7	0.9	(0.8)	(1.6)
Total	0.8	0.5	18.9	(0.5)	(1.0)

	Increase (decrease) in fair value		Fair value	Increase (decrease) in fair value	
BRL/USD	**(USD millions)**	**(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	(0.5)	(0.3)	5.0	0.3	0.5
Trade receivables	(1.2)	(0.6)	11.7	0.6	1.2
Receivables and debit balances	0.0	0.0	0.2	0.0	0.0
Trade payables	0.9	0.4	(8.5)	(0.4)	(0.9)
Other payables	0.1	0.0	(0.9)	0.0	(0.1)
Total	(0.7)	(0.5)	7.5	0.5	0.7

	Increase (decrease) in fair value		Fair value	Increase (decrease) in fair value	
CNY/USD	**(USD millions)**	**(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)	18.3	0.9	1.8
Short-term deposits and loans	(0.1)	(0.1)	1.2	0.1	0.1
Trade receivables	(1.8)	(0.9)	18.4	0.9	1.8
Receivables and debit balances	(0.4)	(0.2)	4.2	0.2	0.4
Credit from banks and others	0.3	0.1	(2.9)	(0.1)	(0.3)
Trade payables	0.9	0.5	(9.4)	(0.5)	(0.9)
Other payables	1.1	0.5	(10.8)	(0.5)	(1.1)
Long-term bank loans	0.3	0.1	(2.6)	(0.1)	(0.3)
Total	(1.5)	(0.9)	16.4	0.9	1.5

Update of sensitivity with respect to instruments hedging marine transportation and energy to changes in the prices of marine transportation and energy as at December 31, 2012.

	Increase (decrease) in fair value		Fair value	Increase (decrease) in fair value	
	(USD millions)	**(USD millions)**	**(USD millions)**	**(USD millions)**	**(USD millions)**
Type of instrument	**Increase of 10%**	**Increase of 5%**		**Decrease of 5%**	**Decrease of 10%**
Marine shipping hedges	2.0	1.0	(16.8)	(1.0)	(2.0)
Energy hedges	1.4	0.7	0.6	(0.6)	(1.2)
Total	3.4	1.7	(16.2)	(1.6)	(3.2)

Update of sensitivity to changes in the LIBOR interest rate at December 31, 2012:

	Increase (decrease) in fair value		Fair value	Increase (decrease) in fair value	
	(USD millions)	**(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	1.5	0.7	(74.4)	(0.8)	(1.5)
Collar transactions	2.5	1.4	(3.6)	(1.4)	(1.5)
Swap transactions	7.8	4.0	(10.8)	(4.1)	(8.2)
NIS/USD swap	2.2	1.1	3.7	(1.1)	(2.2)
Total	14.0	7.2	(85.1)	(7.4)	(13.4)

Update of sensitivity to changes in the index interest rate at December 31, 2012:

Sensitivity to changes in the index interest rate	**Increase (decrease) in fair value**		**Fair value**	**Increase (decrease) in fair value**	
	(USD millions)	**(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	1.8	0.9	(140.7)	(0.9)	(1.9)
Long-term bank loans	3.7	1.9	(68.3)	(2.0)	(4.0)
CPI/USD swap	(0.5)	(0.3)	7.1	0.3	0.5
Total	5.0	2.5	(201.9)	(2.6)	(5.4)

Update of sensitivity to changes in the shekel interest rate at December 31, 2012:

Sensitivity to changes in the shekel interest rate	**Increase (decrease) in fair value**		**Fair value**	**Increase (decrease) in fair value**	
	(USD millions)	**(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	1.6	0.8	(204.2)	(0.8)	(1.7)
NIS/USD swap	(3.2)	(1.6)	5.6	1.6	3.3
Total	(1.6)	(0.8)	(198.6)	0.8	1.6

Update of positions in derivatives at December 31, 2012

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	183,865		275	
Forward – recognized for accounting		234,036		(247)
Call options	29,398		(436)	
Put options	29,376		233	
JPY/USD in USD thousands				
Forward	15,191		907	
Call options	14,500		811	
Put options	14,500		(35)	
NIS/USD in USD thousands				
Forward		260,950		5,021
Call options		701,500		(4,149)
Put options		701,500		29,439
GBP/USD in thousands				
Forward		42,044		(66)
GBP/EUR in USD thousands				
Forward	22,440		(34)	
Call options	3,954		(22)	
Put options	3,954		5	
Other currencies				
Forward	7,778		(8)	
Hedging transactions against rise in marine transportation and energy prices – up to one year	42,141		(11,121)	

Hedging transactions against rise in marine transportation and energy prices – more than one year	15,719		(5,073)	
Swap contracts and futures contracts for the Company's liabilities				
Shekel fixed to variable interest swap contract – up to one year		16,260		256
Shekel fixed to variable interest swap contract – more than one year		53,576		1,641
Swap contract to dollar liability bearing fixed interest from shekel liability bearing fixed interest		34,009		7,066
Swap contract to dollar liability bearing variable interest from index-linked liability bearing fixed interest – not recognized		91,782		2,036
Cash flow swap contract from fixed-interest shekel liability to fixed-interest dollar liability – recognized for accounting		178,553		1,662
Futures contract for CPI purchase – more than one year	53,576		(826)	

For the principal terms of the material derivative instruments used for financial hedging of foreign currency risk – see Note 28E(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	114,262		322,000	48,000	(1,674)		(14,076)	4,923
Collars	25,000		145,000		(172)		(3,452)	

In the swap transactions, the Company replaces the variable interest rate paid on loans received with fixed interest at rates between 1.4% and 4.3%. In cap and floor transactions, the Company fixes the range of variable interest loans in the range of 1% 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 of the Description of the Company's Business Report).

For the CPI-linked and 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. During the third quarter of 2009 the Company acquired derivatives for hedging the exposure to changes in the cash flows of the expanded series B debentures, in respect of changes in the exchange rates of the shekel against the dollar. This hedging transaction was treated as an accounting hedge in the financial statements.

Furthermore, during the third quarter of 2012 the Company acquired a derivative in order to hedge the exposure to changes in the cash flows of a project for construction of a new co-generation power station in Sodom, in respect of changes in the exchange rates of the dollar against the euro. This hedge meets the conditions of an accounting hedge. Changes in the fair value of the derivative used to hedge cash flows, in respect of the effective hedge portion are recorded and recognized in other comprehensive income. In the period of the report, other comprehensive income was recognized in the amount of about USD 15.6 million. Changes in the fair value relating to the non-effective part are recorded in the statement of income.

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.

For details regarding critical accounting estimates – see Note 2E to the financial statements.

11. Details pursuant to Regulation 10(13) regarding description of the liability certificates issued

Debenture series	Original issuance date	Par value on issuance date	Par value outstanding	Balance per books	Accrued interest	Stock market fair/ value	Interest rate	Date of payment of principal interest	Trustee
		NIS thousands		$ thousands					
A	4/27/09	452,350	452,350	134,163	762	140,661	3.4%	Principal – 4/30/14. Interest – bi-annually on 10/31 of each of the years 2009 to 2013, and on 4/30 of each of the years 2010 to 2014	Harmatik
B	4/27/09	60,700	60,700	16,260	143	16,843	5.25%	Principal – 10/31/13. Interest – bi-annually on 10/31 of each of the years 2009 to 2013, and on 4/30 of each of the years 2010 to 2013	Harmatik
B Expansion	9/9/09	675,098	675,098	181,300	1,587	187,320	5.25%	Same dates as B	Harmatik
C	4/27/09	182,105	182,105	43,744	237	44,465	Libor +2.4%	Principal – 10/31/13. Interest – bi-annually on 10/31 of each of the years 2009 to 2013, and on 4/30 of each of the years 2010 to 2013	Harmatik
C Expansion	9/9/09	112,148	112,148	26,885	146	27,384	Libor +2.4%	Same dates as C	Harmatik
D	9/9/09	99,871	99,871	26,754	138	27,289	Libor +1.45%	Principal – 10/31/14. Interest – on the last day of the months January, April, July and October in each of the years 2010 to 2014	Resnick Paz Nevo

None of the said series is significant. Series A is linked to the CPI (base CPI March 2009). Series B, B expanded and D are denominated in shekels. Series C and C expanded are denominated in dollars. The Company is in compliance with the all terms of the debentures and trust certificates and has not been required to take any action based on the demand of the trustees. Regarding the rating of the debentures – see Section 5.3.5 of the Description of the Company's Business Report as at December 31, 2012. Details of the trustees – Hermatik Trustees (1975) Ltd., 113 Hayarkon St., Tel-Aviv 63537, telephone 03–5274867 (contact person Attorney Dan Avnon); Resnick Paz Nevo R.P.N. Trustees (2007) Ltd. 14 Yad Harutzim Street Tel Aviv 6770007, Telephone 03-6389200 (contact person Attorney Gilad Ronen).

12. Events during the period of the report and thereafter

12.1. For details regarding dividend distributions in 2012 subsequent to the period of the report – see Note 25 to the financial statements for 2012.

12.2. On January 1, 2012, the Israeli government approved an outline of principles for a permanent solution for the Dead Sea water level and royalties and on July 8, 2012, an agreement was signed that essentially spells out the outline of principles. For additional details see Note 24 to the 2012 financial statements.

12.3. On November 25, 2012, the subsidiary DSW signed a short-term agreement for supply gas with the partners in the "Tamar" well and a compromise agreement with the partners in the "Yam Thetys" well that was intended to settle the disputes that arose between the parties as a result of non-compliance by Yam Thetys with the gas supply agreement. In addition, on June 4, 2012, East Mediterranean Gas S.A.E. (hereinafter – "EMG"), with which DSW signed an agreement for supply of natural gas to the power station to be constructed in Sodom, gave notice that EMG's gas supplier gave notice of cancellation of the agreement between them. For additional information – see Note 24 to the 2012 financial statements.

12.4. In 2012, there were changes in ICL's senior management personnel. For additional information – see Sections 2.1.6 and 5.2 to the Description of the Company's Business Report.

12.5. The Company's subsidiary, DSW, is constructing a new co-generation plant in Sodom having an electricity production capacity of about 250 megawatts that will supply all the electricity and steam requirements to the production facilities on the Sodom site in the upcoming years. For additional information – see Note 24 to the financial statements for 2012.

12.6. On October 16, 2012, the Court approved a compromise agreement regarding the matter of a class action claim filed against a subsidiary in ICL's Industrial Products segment. For additional information – see Note 24C(3)(d) to the financial statements for 2012.

12.7. On January 9, 2013, a judgment was rendered rejecting the claim filed as part of the third-party notice that was filed by, among others, the Local Industrial Council of Ramat Hovav, against a number of factories in Ramat Hovav, including factories of ICL, regarding claims for damages with respect to bodily injury caused to the plaintiffs as a result of various contaminating elements in the Ramat Hovav Industrial Zone. For additional information – see Note 24C(3)(d) to the financial statements for 2012.

12.8. On July 8, 2012, an agreement was signed between the Ministry of Finance and the subsidiary, DSW, constituting an appendix to the letter received by DSW in December 2007 from the Ministry of Finance wherein it was provided that the share of DSW in the cost of the temporary protections and the beachfront protections in connection with the water level of the Dead Sea ("the Beachfront Protections") is at the rate of 39.5%. For additional information – see Note 24 to the 2012 financial statements.

12.9. For details regarding decisions in the 2012 Annual General Meeting, see Chapter of Additional Details of the Corporation.

12.10. On October 31, 2012 and November 4, 2012, the Company and Israel Corporation Ltd. published Immediate Reports, further to reports in the media, about a possible merger transaction of ICL with Potash Corporation of Saskatchewan. For further details see the Company's Immediate Reports dated October 31, 2012 and from November 4, 2012 (Ref. Nos.: 2012-01-268383 and 2012-01-270408, respectively).

12.11. during the first quarter of 2013, signing of agreements with a number of customers in China and India was completed for supply of potash during 2013.
For additional details regarding sales of potash to customers in China and India in 2012 – see Section 4.1.1 to the Description of the Company's Business Report.

12.12. Subsequent to the date of the financial statements, on February 21, 2013, a subsidiary in the Performance Products segment acquired the production assets and activities of a plant in Knapsack Germany used for marketing and dispatching P255 phosphates. The plant was acquired from the international company, Thermphos International B.V.

12.13. On March 7, 2013, the Finance Committee (the committee that discusses the financial statements and recommends their approval) discussed the financial statements at December 31, 2012 and formulated its recommendations to ICL's Board of Directors which were distributed to all the Board members at that time. The Committee's meeting was divided into two parts. In the first part, the Company's management reviewed the data from the financial statements and the accounting treatment thereof. In the second part, at which only the Board members serving as committee members were present, they held a discussion and formulated the Committee's recommendations to the Board. The Committee members present at the meeting were: Prof. Yair Orgler, Dr. Miriam Haran, Victor Medina, Yaacov Dior and Ovadia Eli. The first part of the meeting was also attended by board members: Yossi Rosen, Avisar Paz, Chaim Erez and Moshe Vidman. Both parts of the meeting were attended by CPA Zion Amsalem, the independent auditor and the following officers: Stefan Borgas, Avi Doitchman, Lisa Haimovitz, Michael Hazan and Amir Benita (for details of the officers' duties, see the chapter, *Additional Details regarding the Corporation* in the periodic Report for 2012).

On March 12, 2013, the Board of Directors approved the financial statements. For steps instituted by the Committee in order to formulate its recommendation – see Sections 2.4 and 2.5 of Chapter D of the Periodic Report for 2012 (Code of Ethics, Corporate Governance, Overall Control and Internal Audit).

12.14. For details regarding the position of the Company's liabilities – see the Immediate Report regarding liabilities by repayment dates which was published by the Company on March 12, 2013 (Ref. No.: 2013-01-002956). The information contained therein is presented here by means of reference.

13. 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. Auditors' fees;

E. Internal auditing of the Company;

F. The Company's code of ethics;

G. Internal compliance programs

See chapter on Ethical Code, Corporate Governance, Control Procedures and Internal Audit in ICL.

For details regarding the connection between the executive remuneration and the contribution to the Company – see Regulation 21 in the Chapter, Additional Details.

For details of the Company's credit rating – see Section 5.3.5 to the Description of the Company's Business Report and the Company's Immediate Report dated September 2, 2009 (Ref. No.: 2009-01-221874.)

14. Social and community involvement of the ICL Group

IC has 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 2012 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 Report.

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 12, 2013

Stefan Borgas, 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, 2012

Contents

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Auditors' Report to the Shareholders of Israel Chemicals Ltd. regarding 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, 2012. 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 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" as amended (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, invoices 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 inventory cost (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 solely to the Audited Control Components, as opposed to internal control over all the significant processes related to the financial reporting and, therefore, our opinion refers solely to the Audited Control Components. In addition, our audit did not relate 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 in particular its internal control components, 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, 2012.

We have also audited, in accordance with generally accepted auditing standards in Israel, the Company's consolidated financial statements as at December 31, 2012 and 2011 and for each of the three years in the period ended December 31, 2012, and our report dated March 12, 2013 expressed an unqualified opinion on those financial statements.

Somekh Chaikin
Certified Public Accountants (Isr.)
March 12, 2013

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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, 2012 and 2011, 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 in the period ended December 31, 2012. 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, 2012 and 2011, and their results of operations, the changes in the equity and their cash flows for each of the three years in the period ended December 31, 2012, 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, 2012, and our report, dated March 12, 2013, expressed an unqualified opinion regarding the effective maintenance of such components.

Somekh Chaikin
Certified Public Accountants (Isr.)

March 12, 2013

Consolidated Statements of Financial Position as at December 31

	Note	2012 US$ thousands	2011 US$ thousands
Current assets			
Cash and cash equivalents		**288,509**	*330,121
Short-term investments, deposits and loans	6	**172,440**	*144,126
Trade receivables	7	**1,074,207**	1,327,513
Other receivables, including derivatives instruments	8, 17, 28	**231,347**	181,531
Income taxes refundable		**63,517**	48,703
Inventories	9	**1,480,044**	1,410,930
Total current assets		**3,310,064**	3,442,924
Non-current assets			
Investments in associated companies	10	**18,392**	29,404
Long-term deposits and receivables	13	**362,818**	270,732
Excess of assets over liabilities in respect of defined benefit plan	22	**69,193**	65,365
Long-term derivative instruments	17, 28	**27,514**	18,229
Non-current inventories	9	**54,993**	48,795
Deferred taxes, net	21	**112,455**	85,356
Property, plant and equipment	14	**3,049,973**	2,575,988
Intangible assets	15	**741,380**	746,305
Total non-current assets		**4,436,718**	3,840,174
Total assets		**7,746,782**	7,283,098

* Reclassified.

	Note	2012 US$ thousands	2011 US$ thousands
Current liabilities			
Credit from banks and others	18	**603,805**	367,148
Trade payables	19	**653,757**	665,028
Provisions	23	**41,177**	47,178
Other payables, including derivative instruments	17, 20, 28	**594,999**	629,385
Income taxes payable		**32,397**	44,784
Total current liabilities		**1,926,135**	1,753,523
Non-current liabilities			
Loans from banks and others	18	**1,195,433**	1,072,207
Debentures	18	**228,708**	485,470
Long-term derivative instruments	17, 28	**23,812**	27,037
Deferred taxes, net	21	**222,553**	180,826
Employee benefits	22	**671,719**	579,560
Provisions	23	**78,418**	79,581
Total non-current liabilities		**2,420,643**	2,424,681
Total liabilities		**4,346,778**	4,178,204
Equity	25		
Share capital		**542,769**	542,377
Share premium		**101,501**	94,798
Capital reserves		**45,638**	884
Retained earnings		**2,945,661**	2,698,856
Treasury shares		**(260,113)**	(260,113)
Total equity attributable to the equity holders of the Company		**3,375,456**	3,076,802
Non-controlling interests		**24,548**	28,092
Total equity		**3,400,004**	3,104,894
Total liabilities and equity		**7,746,782**	7,283,098

Nir Gilad Chairman of the Board of Directors	Stefan Borgas Chief Executive Officer	Avi Doitchman Executive VP, CFO and Strategy

Approval date of the financial statements: March 12, 2013.

The accompanying notes are an integral part of these financial statements.

Consolidated Statements of Income for the Year Ended December 31

	Note	2012 US$ thousands	2011 US$ thousands	2010 US$ thousands
Sales	27A	**6,672,241**	7,067,834	5,691,537
Cost of sales	27B	**3,915,062**	3,912,171	3,259,461
Gross profit		**2,757,179**	3,155,663	2,432,076
Selling, transportation and marketing expenses	27D	**806,310**	870,616	779,809
General and administrative expenses	27E	**259,923**	276,535	245,614
Research and development expenses, net	27C	**77,198**	72,195	64,064
Other expenses	27G	**61,085**	15,391	7,741
Other income	27G	**(23,852)**	(5,039)	(11,279)
Operating income		**1,576,515**	1,925,965	1,346,127
Financing expenses		**92,430**	104,191	85,604
Financing income		**(33,813)**	(41,933)	(32,422)
Financing expenses, net	27F	**58,617**	62,258	53,182
Share in income of associated companies, net of tax	10B	**8,261**	8,001	2,478
Income before taxes on income		**1,526,159**	1,871,708	1,295,423
Taxes on income	21	**221,026**	348,692	266,806
Income for the year		**1,305,133**	1,523,016	1,028,617
Attributable to:				
Equity holders of the Company		**1,300,523**	1,511,821	1,024,740
Non-controlling interests		**4,610**	11,195	3,877
Income for the year		**1,305,133**	1,523,016	1,028,617
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		**1.024**	1.193	0.810
Fully diluted earnings per share		**1.024**	1.188	0.806

The accompanying notes are an integral part of these financial statements.

Consolidated Statements of Comprehensive Income for the Year Ended December 31

	2012	2011	2010
	US$ thousands	US$ thousands	US$ thousands
Income for the year	**1,305,133**	1,523,016	1,028,617
Components of other comprehensive income			
Foreign currency translation differences with respect to foreign operations	**24,424**	(44,309)	(17,709)
Net change in fair value of financial assets available for sale	**–**	(3,756)	(3,324)
Actuarial losses from defined benefit plans	**(43,402)**	(41,460)	(23,463)
Change in fair value of derivatives used for hedging cash flows	**15,634**	(15)	(1,097)
Income tax on components of other comprehensive Income	**9,219**	10,086	2,676
Other comprehensive income (loss) for the year, net of tax	**5,875**	(79,454)	(42,917)
Total comprehensive income for the year	**1,311,008**	1,443,562	985,700
Attributable to:			
Equity holders of the Company	**1,305,219**	1,432,743	981,660
Non-controlling interests	**5,789**	10,819	4,040
Total comprehensive income for the year	**1,311,008**	1,443,562	985,700

The accompanying notes are an integral part of these financial statements.

Consolidated Statements of Changes in Equity

	Attributable to the equity holders of the Company							Non-controlling interests	Total equity
	Share capital	Share premium	Translation reserve for foreign operations	Capital reserves	Treasury shares	Retained earnings	Total		
	US$ thousands								
Balance as at January 1, 2012	**542,377**	**94,798**	**(52,982)**	**53,866**	**(260,113)**	**2,698,856**	**3,076,802**	**28,092**	**3,104,894**
Exercise of options granted to employees	**392**	**6,703**	**–**	**(3,295)**	**–**	**–**	**3,800**	**–**	**3,800**
Share-based payments	**–**	**–**	**–**	**8,668**	**–**	**–**	**8,668**	**–**	**8,668**
Dividends to the equity holders	**–**	**–**	**–**	**–**	**–**	**(1,019,222)**	**(1,019,222)**	**(6,564)**	**(1,025,786)**
Tax benefit in respect of issuance of shares to employees	**–**	**–**	**–**	**189**	**–**	**–**	**189**	**–**	**189**
Change in respect of options of proportionately consolidated company	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(2,769)**	**(2,769)**
Comprehensive income for the year	**–**	**–**	**23,245**	**15,947**	**–**	**1,266,027**	**1,305,219**	**5,789**	**1,311,008**
Balance as at December 31, 2012	**542,769**	**101,501**	**(29,737)**	**75,375**	**(260,113)**	**2,945,661**	**3,375,456**	**24,548**	**3,400,004**

The accompanying notes are an integral part of these financial statements.

Consolidated Statements of Changes in Equity (Cont'd)

	Attributable to the 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
Exercise 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 the 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
Exercise 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 Cash Flows for the Year Ended December 31

	2012	2011	2010
	US$ thousands	US$ thousands	US$ thousands
Cash flows from operating activities			
Income for the year	**1,305,133**	1,523,016	1,028,617
Adjustments for:			
Depreciation and amortization	**287,063**	267,440	217,395
Interest expenses, net	**25,047**	27,992	36,313
Share in losses income of associated companies	**(8,261)**	(8,001)	(2,478)
Capital loss (gain) on sale of property, plant and equipment	**145**	(2,396)	(2,712)
Gain on securities classified as held for trading and available-for-sale	**–**	(4,535)	(3,244)
Share-based payment transactions	**5,899**	12,795	33,159
Revaluation of assets and liabilities denominated in foreign currency	**14,858**	(32,443)	13,394
Gain on sale of activities	**–**	–	(5,587)
Gain on entry of associated company into the consolidation	**(1,945)**	–	–
Income tax expense	**221,026**	348,692	266,806
	1,848,965	2,132,560	1,581,663
Change in inventory	**(64,206)**	(221,818)	109,192
Change in trade and other receivables	**120,891**	(343,553)	(37,405)
Change in trade and other payables	**(81,639)**	182,491	139,647
Change in provisions and employee benefits	**30,222**	(32,320)	22,642
	1,854,233	1,717,360	1,815,739
Income tax paid	**(232,485)**	(422,083)	(240,449)
Interest received	**37,679**	23,699	9,527
Interest paid	**(66,720)**	(49,609)	(47,832)
Net cash provided by operating activities	**1,592,707**	1,269,367	1,536,985
Cash flows from investing activities			
Investment in long-term deposits	**(2,397)**	(2,147)	(11,009)
Proceeds from sale of property, plant and equipment	**2,365**	5,526	5,618
Short-term loans and deposits, net	**(16,065)**	*330,989	(329,089)
Business combinations less cash acquired	**(11,875)**	(437,475)	–
Dividend received from associated companies	**5,866**	8,644	3,661
Acquisition of property, plant and equipment	**(667,753)**	(496,102)	(333,752)
Investment grants received	**–**	1,194	303
Acquisition of intangible assets	**(11,489)**	(17,983)	(14,944)
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	**(5,573)**	(1,617)	–
Proceeds from sale of long-term deposits	**3,241**	3,453	1,952
Net cash used in investing activities	**(703,680)**	(591,097)	(658,478)
Cash flows from financing activities			
Proceeds from exercise of options granted to employees	**3,800**	94	334
Dividend paid to Company's equity holders	**(1,019,222)**	(1,131,033)	(998,251)
Dividend paid to holders of non-controlling interests	**(6,564)**	(1,169)	(3,788)
Receipt of long-term loans	**458,231**	969,174	676,043
Repayment of long-term loans	**(315,926)**	(888,068)	(376,451)
Short-term credit from banks and others, net	**(51,293)**	308,673	(28,446)
Net cash used in financing activities	**(930,974)**	(742,329)	(730,559)
Net increase (decrease) in cash and cash equivalents	**(41, 947)**	(64,059)	147,948
Cash and cash equivalents as at beginning of the year	**330,121**	400,914	257,970
Effect of exchange rate fluctuations on cash and cash equivalents	**335**	(6,734)	(5,004)
Cash and cash equivalents as at end of the year	**288,509**	*330,121	400,914

* Reclassified.

The accompanying notes are an integral part of these financial statements.

Note 1 - General

A. The reporting entity

Israel Chemicals Ltd. (hereinafter – "the Company" or "ICL"), is an Israeli-resident company that was incorporated in Israel and the shares of which 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 above-mentioned 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 they manufacture and/or sell in Israel.

ICL has a prominent status in the world markets for potash, bromine, pure 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 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)).

Note 1 - General (cont'd)

C. Definitions

1. Subsidiary – a company over which the Company has control and the financial statements of which are consolidated as part of the consolidated financial statements.

2. 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.

3. 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, and 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.

4. Investee company – a subsidiary, a proportionately consolidated company or an associated company.

5. 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.

6. Related party – within the meaning thereof in IAS 24 "Related Parties".

7. CPI – the Consumer Price Index as published by the Central Bureau of Statistics.

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 Transition Date"). 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 12, 2013.

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.

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, which 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 tax 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 differ 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.

Presented hereunder is information with respect to critical estimates made while implementing the accounting policies that have a material impact on the financial statements:

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

E. Use of estimates and judgment (cont'd)

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. 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. 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.

In July 2012, the Division of the Capital Market, Insurance and Savings in the Ministry of Finance published a draft of a position paper regarding update of the set of demographic assumptions in the pension funds and life insurance, which included a possible update of the life expectancy tables. As a result, the Company updated its estimates regarding demographic variables on the basis of the updated estimates of the life expectancy included in the position paper. The said update does not have a significant impact on the Company's results of operations.

Measurement of the liability for severance pay is based upon an actuarial assessment, which takes into account various assessments including, 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 on 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.

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

E. Use of estimates and judgment (cont'd)

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 Company's areas of operation, 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.

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.

In the period of the report, the Group examined the useful lives of its property, plant and equipment by making a comparison with the industry in which the Group operates, the level of maintenance of the facilities and the functioning of the facilities over the years. Based on this examination, it was found that in a subsidiary the depreciation period of certain property, plant and equipment items is shorter than the remaining useful lives anticipated for them. On the basis of this evaluation, a change in the economic useful lives of those property, plant and equipment items in that subsidiary was made. As a result, the expected useful lives of these assets were lengthened to a period of 25-40 years, commencing from the beginning of the year. The change in estimate is based on the Group's accumulated experience, and not on changes that took place in the assets or the business environment. A prior evaluation that gave rise to a change in the estimated useful lives of the Group's property, plant and equipment was made in 2007. This evaluation was also based on the experience accumulated by the Group.

As a result of the change in the estimate, the annual depreciation expenses recorded to the cost of sales declined by about $9 million. As a result of lengthening the useful lives of property, plant and equipment, in the period of the report, the Company recognized deferred tax expenses of about $5 million.

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

E. Use of estimates and judgment (cont'd)

4. Impairment of assets

The Company examines at every reporting date whether 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 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.

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.

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.

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

E. Use of estimates and judgment (cont'd)

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. A provision in respect of uncertain tax positions is recorded where it is more likely than not that a flow of economic resources will be required in order to discharge the obligation.

The deferred taxes are computed according to tax rates expected to apply when the timing differences are realized, as stated in Note 3O. 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 for 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.

As at the approval date of the financial statements, the Company is examining which of its activities may utilize the tax benefits provided by the new law.

The balance of the deferred taxes as at December 31, 2012 was not adjusted as a result of the amendment to the Encouragement Law.

7. Inventories

Inventory is measured in the financial statements at the lower of cost or 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. In cases where the replacement value of raw materials serves as the best available evidence for realizable value, 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 measurements 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 measurements 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 are implemented consistently by the Group companies.

A. Basis for Consolidation

1. 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.

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 accounted for 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. Regarding the accounting treatment of jointly-controlled entities commencing from January 1, 2013 – see Section R below.

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, net deriving from transactions with associated companies was eliminated against the investment based on the Group's rights in these investments.

Note 3 - Significant Accounting Policies (cont'd)

A. Basis for Consolidation (cont'd)

5. Non-controlling interests

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. 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 holders of the non-controlling interests and the Company's shareholders.

Transactions with holders of 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.

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 measured in terms of historical cost in a foreign currency are translated using the exchange rate in effect on the date of the transaction.

Note 3 - Significant Accounting Policies (cont'd)

B. Foreign Currency (cont'd)

2. Foreign activities

Assets and liabilities the functional currency of which is not the dollar (foreign activities) include 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 translation reserve for foreign activities. When a foreign activity is realized that causes a loss of control, the accumulated amount in the translation reserve for 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 translation reserve for foreign activities.

C. Financial Instruments

1. 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 committed 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.

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.

Note 3 - Significant Accounting Policies (cont'd)

C. Financial Instruments (cont'd)

1. Non-derivative financial instruments (cont'd)

Cash and cash equivalents

Cash includes cash balances that are available for immediate use and deposits on-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 prices, marine shipping prices, and interest risks. In addition, for purposes of an accounting hedge, the Company holds derivative financial instruments for hedging exposure to changes in the cash flows from debt instruments issued and hedging an undertaking for construction of a new cogeneration power plant in Sodom.

Derivatives are recognized according to fair value and the attributable transaction costs are recorded in the statement of income as incurred. Changes in the fair value of the derivatives are recorded in the statement of income, except for derivatives used to hedge cash flows, as detailed below.

Note 3 - Significant Accounting Policies (cont'd)

C. Financial Instruments (cont'd)

2. Derivative financial instruments (cont'd)

Cash flow hedges

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 capital reserve. With respect to the non-effective part, changes in the fair value are recognized in the statement of income. The amount accumulated in the capital 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.

Where the hedged item is a non-financial asset, the amount recorded in the capital reserve is transferred to the book value of the asset, upon recognition thereof.

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, 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.

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 a provision for impairment.

The cost includes expenses that can be directly attributed to 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' section.

Where significant parts of an item of property, plant and equipment (including costs of major periodic inspections) have different life expectancies, they are treated as separate items (significant components) of 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. Owned land is not depreciated.

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:

	In Years
Land development, roads and structures	10–30
Facilities, machinery and equipment	8–25
Dams and ponds	6–40
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 acquisitions.

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 at cost less accumulated losses from impairment.

2. Costs of exploration and evaluation of resources

Costs incurred in respect of exploration for 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.

Note 3 - Significant Accounting Policies (cont'd)

E. Intangible Assets (cont'd)

3. Other intangible assets

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

Intangible assets with indefinite useful lives are measured according to cost less accumulated losses from impairment.

4. Subsequent costs

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

5. Amortization

Amortization is recorded in the statement of income according to the straight-line method from the date the assets are available for use, 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:

	In Years
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.

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.

Note 3 - Significant Accounting Policies (cont'd)

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 assets are measured and a liability is recognized at an amount equal to the lower of its fair value or 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 their 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 interest rates in respect of those credit sources that were not capitalized specifically. Other borrowing costs are charged to the statement of income as incurred.

I. Impairment

1. <u>Financial assets</u>

   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 otherwise have considered, indications that a debtor or issuer will enter bankruptcy, or the disappearance of an active market for a security.

Note 3 - Significant Accounting Policies (cont'd)

I. Impairment (cont'd)

1. Financial assets (cont'd)

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.

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 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

In every reporting period, an examination is made with respect to whether there are signs indicating an impairment in value of the Group's non-financial assets, other than inventory and deferred tax assets. 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.

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 less 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.

Note 3 - Significant Accounting Policies (cont'd)

I. Impairment (cont'd)

2. Non-financial assets (cont'd)

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.

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 in the current and past periods. The benefit is presented at present value after deducting the fair value of the plan assets. The discount rate for the Group companies operating in countries having a "deep" 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.

Note 3 - Significant Accounting Policies (cont'd)

J. Employee Benefits (cont'd)

2. Defined benefit plans (cont'd)

When on the basis of the calculations 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 or after settlement of the obligation.

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 in 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.

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.

Note 3 - Significant Accounting Policies (cont'd)

J. Employee Benefits (cont'd)

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 entitlement to the benefit is determined. 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.

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, and without taking into account the Company's credit risk. 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. 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.

3. 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.

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 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.

Note 3 - Significant Accounting Policies (cont'd)

L. Revenue Recognition (cont'd)

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 of the total estimated contract costs. When the outcome of a construction contract cannot be reliably estimated, contract revenue is recognized only to the extent of contract costs incurred that are likely to be recovered. 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.

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.

Note 3 - Significant Accounting Policies (cont'd)

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.

In the statements of cash flows, interest received and interest paid are presented as part of cash flows from current operating activities.

O. Taxes on Income

Taxes on income include current and deferred taxes.

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 based on 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.

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.

Note 3 - Significant Accounting Policies (cont'd)

O. Taxes on Income (cont'd)

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 paying company 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 are recorded according to the tax rate applicable to the buying company.

Deferred and current taxes relating to items recognized in shareholders' equity and/or other comprehensive income are recorded directly in shareholders' equity or other comprehensive income, respectively.

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.

Q. Report on Operating Segments

An operating segment is a component of the Group that meets the following three conditions:

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 to 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.

Note 3 - Significant Accounting Policies (cont'd)

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 eliminated).

This Standard will be applied for annual periods beginning on January 1, 2013.

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 standard using the equity method of accounting. Application of the Standard will not have a significant impact on the Company's 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 January 1, 2013 and is to be applied retroactively (except for certain relief enumerated in the Amendment). Application of the Standard will not have a significant impact on the Company's financial statements.

Note 3 - Significant Accounting Policies (cont'd)

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, 2012	**117.9**	**3.733**	**0.759**
December 31, 2011	116.0	3.821	0.774
December 31, 2010	113.5	3.549	0.749
Changes during the year ended:			
December 31, 2012	**1.6%**	**(2.3%)**	**(1.9%)**
December 31, 2011	2.2%	7.7%	3.3%
December 31, 2010	2.6%	(6.0%)	8.0%

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 the cost model or on the 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.

Note 4 - Determination of Fair Values (cont'd)

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 stock-market price on the date of the report.

E. Derivatives

The fair value of forward contracts on foreign currency 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 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 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 on the basis of quotes of 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 liabilities and debentures is determined for disclosure purposes only.

The fair value of marketable debentures is determined based on the stock market prices as at the date of the report. The fair value of the non-marketable debentures 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.

Note 4 - Determination of Fair Values (cont'd)

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.

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 sulfuric 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, Mexico 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.

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 as part of consolidation of the statements.

Note 5 - Operating Segments (cont'd)

B. Operating segment data:

	Fertilizers				Industrial	Performance	Other		
	Potash	Phosphate	Eliminations	Total	products	products	operations	Eliminations	Consolidated
	US$ thousands	US$ thousands	US$ thousands	US$ thousands	US$ thousands	US$ thousands	US$ thousands	US$ thousands	US$ thousands
2012:									
Sales to external customers	1,964,741	1,576,538	–	3,541,279	1,420,814	1,411,035	299,113	–	6,672,241
Inter-segment sales	233,587	156,842	(119,544)	270,885	15,778	65,491	49,907	(402,061)	–
Total revenues	2,198,328	1,733,380	(119,544)	3,812,164	1,436,592	1,476,526	349,020	(402,061)	6,672,241
Operating income	996,491	162,499	(88)	1,158,902	230,708	179,915	9,582		1,579,107
Unallocated expenses and intercompany eliminations									(2,592)
Operating income									1,576,515
Financing expenses									(92,430)
Financing income									33,813
Share in income of associated companies, net of tax									8,261
Income for the year before tax									1,526,159
Other data:									
Segment assets	2,160,132	1,552,201	(86,841)	3,625,492	1,639,399	1,067,675	228,256	449,256	7,010,078
Unallocated assets									736,704
Consolidated total assets									7,746,782
Segment liabilities	645,417	517,776	(60,846)	1,102,347	503,501	338,837	137,450	(78,334)	2,003,801
Unallocated liabilities									2,342,977
Consolidated total liabilities									4,346,778
Capital expenditures	428,474	106,387	–	534,861	139,041	52,972	8,471	–	735,345
Unallocated capital expenditures									677
Total capital expenditures									736,022
Depreciation and amortization	110,217	65,189	–	175,406	62,461	42,646	5,712	–	286,225
Unallocated depreciation and amortization									838
Total depreciation and amortization									287,063

Note 5 - Operating Segments (cont'd)

B. Operating segment data (cont'd):

	Fertilizers								
	Potash	Phosphate	Eliminations	Total	Industrial products	Performance products	Other operations	Eliminations	Consolidated
	US$ thousands	US$ thousands	US$ thousands	US$ thousands	US$ thousands	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	2,506,158	1,705,905	(114,416)	4,097,647	1,513,014	1,494,820	343,880	(381,527)	7,067,834
Operating income	1,181,985	221,264	128	1,403,377	297,712	192,890	38,521		1,932,500
Unallocated expenses and intercompany eliminations									(6,535)
Operating income									1,925,965
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									1,871,708
Other data:									
Segment assets	1,843,665	1,510,908	(74,014)	3,280,559	*1,512,167	1,012,983	187,864	*618,639	6,612,212
Unallocated assets									670,886
Consolidated total assets									7,283,098
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									4,178,204
Capital expenditures	241,707	404,513	–	646,220	117,156	133,782	11,096	–	908,254
Unallocated capital expenditures									701
Total capital expenditures									908,955
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									267,440

* Reclassified.

Note 5 - Operating Segments (cont'd)

B. Operating segment data (cont'd):

	Fertilizers								
	Potash	Phosphate	Eliminations	Total	Industrial products	Performance products	Other operations	Eliminations	Consolidated
	US$ thousands	US$ thousands	US$ thousands	US$ thousands	US$ thousands	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	2,140,689	1,056,340	(89,774)	3,107,255	1,313,192	1,340,028	246,002	(314,940)	5,691,537
Operating income	857,914	108,583	(1,366)	965,131	206,599	185,067	15,192		1,371,989
Unallocated expenses and intercompany eliminations									(25,862)
Operating income									1,346,127
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									1,295,423
Other data:									
Segment assets	1,691,488	852,107	(91,184)	2,452,411	*1,413,572	866,191	190,252	*616,961	5,539,387
Unallocated assets									848,757
Consolidated total assets									6,388,144
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									3,746,914
Capital expenditures									
Unallocated capital expenditures	148,342	59,489	–	207,831	80,173	41,386	15,697	–	345,087
Total capital expenditures									7,475
									352,562
Depreciation and amortization									
Unallocated depreciation and amortization	80,285	39,850	–	120,135	51,001	40,148	5,603	–	216,887
Total depreciation and amortization									508
									217,395

* Reclassified.

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		
	2012	**2011**	**2010**
	US$ thousands	**US$ thousands**	**US$ thousands**
Europe	**2,349,724**	2,418,635	1,886,153
Asia	**1,644,109**	2,093,634	1,680,403
North America	**1,275,164**	1,362,582	1,052,042
South America	**813,723**	665,879	619,992
Other	**135,066**	150,227	139,632
	6,217,786	6,690,957	5,378,222
In Israel	**454,455**	376,877	313,315
	6,672,241	7,067,834	5,691 537

Following is data regarding the distribution of the Group's sales by geographical market (based on asset location):

	For the year ended December 31		
	2012	**2011**	**2010**
	US$ thousands	**US$ thousands**	**US$ thousands**
Israel	**3,634,974**	3,998,286	3,263,297
Europe	**2,601,443**	2,625,047	1,992,833
United States	**1,115,106**	1,031,712	847,812
Other	**407,328**	462,848	372,872
	7,758,851	8,117,893	6,476,814
Intercompany transactions – mainly from Israel	**(1,086,610)**	(1,050,059)	(785,277)
	6,672,241	7,067,834	5,691,537

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		
	2012	**2011**	**2010**
	US$ thousands	**US$ thousands**	**US$ thousands**
Israel	**1,114,310**	1,440,193	997,943
Europe	**282,486**	330,697	181,548
United States	**135,237**	142,924	131,848
Other	**38,559**	54,624	53,287
Offsets	**5,923**	(42,473)	(18,499)
	1,576,515	1,925,965	1,346,127

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		
	2012	2011	2010	2012	2011	2010
	US$ thousands	US$ thousands	US$ thousands	US$ thousands	US$ thousands	US$ thousands
Israel	**4,029,319**	3,780,506	3,322,662	**510,348**	372,663	222,953
Europe	**2,045,970**	1,853,958	1,438,271	**181,316**	356,109	86,856
United States	**971,141**	969,403	718,691	**31,813**	162,732	28,629
Other	**336,272**	395,435	291,578	**11,868**	16,750	6,649
Offsets	**(372,624)**	(387,090)	(231,815)	**–**	–	–
	7,010,078	6,612,212	5,539,387	**735,345**	908,254	345,087

Following are data for depreciation and amortization by geographical area:

	Year ended December 31		
	2012	2011	2010
	US$ thousands	US$ thousands	US$ thousands
Depreciation and amortization:			
Israel	**122,901**	118,705	107,524
Europe	**116,778**	108,252	73,665
United States	**34,545**	32,200	28,940
Other	**12,839**	8,283	7,266
	287,063	267,440	217,395

Note 6 - Short-Term Investments, Deposits and Loans

	As at December 31	
	2012	2011
	US$ thousands	US$ thousands
Held-for-trading securities	**59,728**	36,025
Deposits in banks and financial institutions and short-term loans	**104,309**	*100,208
Current maturities of long-term deposits and receivables	**8,403**	7,893
	172,440	144,126

* Reclassified.

Note 7 - Trade Receivables

	As at December 31	
	2012	2011
	US$ thousands	US$ thousands
Trade – open accounts:		
Outside Israel	**1,007,791**	1,264,077
Domestic (Israel)	**78,123**	74,943
	1,085,914	1,339,020
Less – allowance for doubtful debts	**11,707**	11,507
	1,074,207	1,327,513

Note 8 - Other Receivables, including Derivative Instruments

	As at December 31	
	2012	2011
	US$ thousands	US$ thousands
Government institutions in Israel	**23,427**	23,748
Government institutions outside Israel	**43,456**	27,642
Prepaid expenses	**39,509**	25,562
Advances to suppliers	**6,838**	6,304
Derivative instruments	**40,068**	28,772
Other	**78,049**	69,503
	231,347	181,531

Note 9 - Inventories

	As at December 31	
	2012	2011
	US$ thousands	US$ thousands
Finished products	**848,599**	774,315
Work in progress	**319,776**	320,045
Raw materials and supplies	**256,032**	261,070
Spare parts and maintenance supplies	**110,630**	104,295
	1,535,037	1,459,725
Less – non-current inventory (presented in non-current assets)	**54,993**	48,795
	1,480,044	1,410,930

Note 10 - Investments in Investee Companies

A. Composition of investment in associated companies

	As at December 31	
	2012	**2011**
	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	**18,866**	16,471
Increase in investment	**5,573**	–
Increase in rate of holdings in associated company – initial consolidation	**(14,942)**	–
Differences from translation of financial statements of investees	**3,537**	4,471
	18,392	26,300
Capital notes and long-term loans	**–**	3,104
	18,392	29,404
* Includes goodwill:		
Original amounts	**3,348**	3,348
Amount after accumulated amortization	**1,674**	1,674

B. Movement during the year of the report in the investment in associated companies

	US$ thousands
Balance as at beginning of the year	29,404
Changes during the year:	
Share in earnings	**8,261**
Dividends	**(5,866)**
Increase in investment	**5,573**
Increase in rate of holdings in associated company – initial consolidation	**(18,046)**
Financial-statement translation differences	**(934)**
Balance as at end of the year	**18,392**

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, 2012								
	US$ thousands								
	Current assets	Non-current assets	Total assets	Current liabilities	Non-current liabilities	Total liabilities	Revenues	Expenses	Profit
Associated companies	**84,398**	**33,605**	**118,003**	**48,106**	**69,021**	**117,127**	**307,093**	**283,439**	**23,654**
Jointly controlled entities	**381,354**	**702,750**	**1,084,104**	**229,706**	**567,002**	**796,708**	**389,314**	**348,866**	**40,448**

	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

Note 10 - Investments 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	Company's rights in equity	Amounts provided by the Company to the Subsidiary		Investment in the Subsidiary
			Loans	Guarantees	
			US$ thousands		
2012					
Dead Sea Works Ltd.	Israel	100%	–	–	1,972,305
Dead Sea Bromine Company Ltd.	Israel	100%	–	–	307,685
Rotem Amfert Negev Ltd.	Israel	100%	440,000	–	1,122,854
Dead Sea Periclase Ltd.	Israel	100%	–	–	60,682
Mifalei Tovala Ltd.	Israel	100%	–	–	41,145
Rotem Amfert Negev B.V., The Netherlands	The Netherlands	*32.60%	–	–	27,647
I.D.E. Technologies Ltd.	Israel	50%	–	64,027	111,584
ICL Financing and Issuing Ltd.	Israel	100%	–	–	3
"Ferson" Chemicals Ltd.	Israel	100%	–	–	1,597
ICL Fine Chemicals Ltd.	Israel	100%	–	–	(106)
Dead Sea Magnesium Ltd.	Israel	100%	–	–	52,922
ICL Finance B.V.	The Netherlands	100%	–	–	86,123
ICL Finance Inc., USA	U.S.A.	100%	–	–	29,585
Twincap Forsakrings AB	Sweden	100%	–	–	6,385
Hoyerman	Germany	100%	–	–	166
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

* The balance of the holding is by a subsidiary.

Note 11 - Business Combinations

A. 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 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.

B. 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.

C. 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 11 - Business Combinations (cont'd)

D. Subsequent to the date of the financial statements, on February 21, 2013, a subsidiary in the Performance Products segment acquired the production assets and activities of a plant in Knapsack Germany used for marketing and dispatching P2S5 phosphates. The plant was acquired from the international company, Thermphos International B.V.

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 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 their holdings in the shares of Mekoroth.

In July 2012, the parties agreed with respect to the final language of the compromise agreement. In November 2012 a judgment was rendered approving the compromise arrangement and it was given validity. Pursuant to the compromise agreement, the amount payable to all the shareholders is NIS 96 million. Therefore, and based on the data known to Rotem at the present time, the subsidiary Rotem will be entitled to about $1 million. Trustees on behalf of the parties are expected to examine the rights of the Group members, and based on their examination they will distribute the monies.

Note 13 - Long-Term Deposits and Receivables

A. Composition

	As at December 31	
	2012	**2011**
	US$ thousands	**US$ thousands**
Deposits in banks	**9,973**	10,559
Long-term financial asset (1)	**347,580**	251,868
	357,553	262,427
Less – current maturities	**8,403**	7,893
	349,150	254,534
Other receivables	**13,668**	16,198
	362,818	270,732

(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).

Note 13 - Long-Term Deposits and Receivables (cont'd)

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	
	2012	2012	2011
	%	US$ thousands	US$ thousands
In Israeli currency	5.3	**351,544**	256,550
In foreign currency:			
US dollar	1.5	**5,536**	5,529
Other	0.1	**473**	348
		357,553	262,427

C. The deposits and receivables (net of current maturities) mature in the following years after each reporting date as follows:

	As at December 31	
	2012	2011
	US$ thousands	US$ thousands
Second year	**15,806**	9,759
Third year	**10,294**	9,328
Fourth year	**9,719**	8,915
Fifth year	**9,447**	14,177
Sixth year and thereafter	**303,884**	212,355
	349,150	254,534

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 (2)	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, 2012	635,044	4,276,900	730,542	152,034	222,448	249,285	7,303	6,273,556
Additions	37,143	282,762	144,545	20,034	20,008	199,568	475	704,535
Additions in respect of business combinations	4,970	1,257	–	–	594	–	–	6,821
Disposals	(3,447)	(41,170)	–	(6,722)	(9,374)	–	–	(60,713)
Translation differences	5,030	23,152	4,317	861	2,117	3,874	–	39,351
Balance as at December 31, 2012	678,740	4,542,901	879,404	166,207	235,793	452,727	7,778	6,963,550
Accumulated depreciation (1)								
Balance as at January 1, 2012	326,241	2,718,143	390,849	92,597	169,738	–	–	3,697,568
Additions	17,305	174,585	36,365	6,618	15,162	–	–	250,035
Disposals	(2,533)	(37,994)	–	(6,148)	(9,374)	–	–	(56,049)
Translation differences	3,284	14,367	3,099	467	806	–	–	22,023
Balance as at December 31, 2012	344,297	2,869,101	430,313	93,534	176,332	–	–	3,913,577
Depreciated balance as at December 31, 2012	334,443	1,673,800	449,091	72,673	59,461	452,727	7,778	3,049,973

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 (2)	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

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, 2012 is about $2,344 million (as at December 31, 2011 $2,334 million).

2. Plants under construction – the changes represent additions during the year, net of transfers to property, plant and equipment.

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, 2012	274,959	156,761	109,820	67,174	199,074	19,635	341	6,901	123,637	958,302
Additions	–	456	–	1,411	–	2,855	–	–	6,812	11,534
Additions in respect of business combinations	4,983	–	307	–	4,237	–	–	–	–	9,527
Disposals	–	–	–	–	–	(1,600)	–	–	–	(1,600)
Translation differences	3,000	1,181	463	877	3,515	231	27	115	(2,275)	7,134
Balance as at December 31, 2012	282,942	158,398	110,590	69,462	206,826	21,121	368	7,016	128,174	984,897
Amortization and impairment losses										
Balance as at January 1, 2012	22,533	38,504	9,522	15,944	41,456	4,525	174	5,410	73,929	211,997
Amortization for the year	–	3,249	5,009	4,027	13,034	1,184	56	191	8,462	35,212
Translation differences	320	27	(57)	210	(848)	23	28	97	(1,892)	(2,092)
Disposals	–	–	–	–	–	(1,600)	–	–	–	(1,600)
Balance as at December 31, 2012	22,853	41,780	14,474	20,181	53,642	4,132	258	5,698	80,499	243,517
Amortized balance as at December 31, 2012	260,089	116,618	96,116	49,281	153,184	16,989	110	1,318	47,675	741,380

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, 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
Disposals	–	–	–	–	–	(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

(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.

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	
	2012	**2011**
	US$ thousands	**US$ thousands**
Intangible assets having a defined useful life	**445,819**	458,486
Intangible assets having an indefinite useful life	**295,561**	287,819
	741,380	746,305

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	
	2012	**2011**
	US$ thousands	**US$ thousands**
Goodwill		
Potash, Spain	**4,235**	4,153
Specialty Fertilizers	**65,019**	60,977
Industrial Products, Europe	**38,336**	37,547
Industrial Products, United States	**56,826**	56,826
Performance Products, United States	**11,638**	11,638
Fertilizers, Israel	**20,120**	20,120
Industrial Products, Israel	**3,708**	3,708
Performance Products, Europe	**48,122**	45,063
Performance Products, South America	**12,085**	12,394
	260,089	252,426
Trademarks		
Industrial Products, United States	**13,000**	13,000
Industrial Products, Europe	**8,601**	8,522
Performance Products, United States	**13,871**	13,871
	35,472	35,393
	295,561	287,819

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	9.2%	6.2%	2.0%	5 years
Industrial Products, Europe	9.5%	4.0%	2.0%	5 years
Performance Products, United States	8.0%	2.5%	2.0%	5 years
Performance Products, Europe	10.0%	7.0%	1.5%	5 years
Potash, Spain	10.0%	0.0%	0.0%	5 years
Specialty Fertilizers	9.5%	2.5%	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 an internal valuation made by the Company. 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.

Note 17 - Derivative Instruments

	As at December 31, 2012		As at December 31, 2011	
	Assets	Liabilities	Assets	Liabilities
	US$ thousands		US$ thousands	
Among current assets and liabilities:				
Foreign currency derivative instruments	**39,088**	**(8,243)**	28,001	(25,559)
Interest derivative instruments	**257**	**(1,846)**	400	(1,875)
Commodity and sea freight derivative instruments	**723**	**(13,434)**	371	(13,237)
	40,068	**(23,523)**	28,772	(40,671)
Among non-current assets and liabilities:				
Foreign currency and CPI derivative instruments	**20,950**	**(2,676)**	10,006	(3,734)
Interest derivative instruments	**6,564**	**(17,528)**	8,223	(21,436)
Commodity and sea freight derivative instruments	**–**	**(3,608)**	–	(1,867)
	27,514	**(23,812)**	18,229	(27,037)

Note 18 - Credit and Loans from Banks and Other Credit Providers

A. Composition

	As at December 31	
	2012	2011
	US$ thousands	US$ thousands
Current liabilities		
Short-term credit:		
From financial institutions	**180,289**	329,042
From the parent company (1)	**50,000**	–
From others	**50,000**	–
	280,289	329,042
Current maturities of long-term loans:		
From financial institutions	**53,510**	14,636
From non-marketable debentures	**–**	20,000
From others	**3,067**	3,470
From marketable debentures	**266,939**	–
	323,516	38,106
	603,805	367,148

(1) For details – see Note 30.

	As at December 31	
	2012	2011
	US$ thousands	US$ thousands
Non-current liabilities		
Loans from financial institutions*	**1,190,347**	1,013,713
Loans from others	**61,663**	76,600
	1,252,010	1,090,313
Less – current maturities in respect of loans from financial institutions and others	**56,577**	18,106
	1,195,433	1,072,207
Marketable debentures	**428,647**	418,470
Non-marketable debentures	**67,000**	87,000
	495,647	505,470
Less – current maturities	**266,939**	20,000
	228,708	485,470
Total non-current liabilities	**1,424,141**	1,557,677

* The Group has the right to make early repayment of the loans from financial institutions.

Note 18 - Credit and Loans from Banks and Other Credit Providers (cont'd)

B. Classified by currency and interest rates

	Weighted average interest rate as at December 31	As at December 31	
	2012	2012	2011
	%	US$ thousands	US$ thousands
Current liabilities (without current maturities)			
Short-term credit from financial institutions:			
In dollars	1.0	**156,272**	233,411
In Euro	0.8	**13,067**	80,954
In other currencies	5.3	**10,950**	14,677
Short-term credit from the parent company and others:			
In dollars	1.0	**100,000**	–
		280,289	329,042
Non-current liabilities (including current maturities)			
Loans from financial institution:			
In dollars (1)	1.2	**763,510**	684,310
In Israeli currency – unlinked	4.1	**122,604**	72,165
In Euro (2)	2.1	**289,086**	243,162
In Israeli currency linked to CPI (3)	7.8	**15,147**	14,076
		1,190,347	1,013,713
Loans from others:			
In dollars		**18,580**	31,862
In foreign currencies – mainly Euro	3.2	**8,764**	11,173
In Israeli currency linked to CPI	7.8	**34,319**	33,565
		61,663	76,600
		1,252,010	1,090,313
Non-marketable debentures – in dollars	5.7	**67,000**	87,000
Marketable debentures (4):			
In dollars	3.3	**70,170**	69,612
In Israeli currency –unlinked	5.0	**224,314**	219,648
In Israeli currency – linked to CPI	3.4	**134,163**	129,210
		428,647	418,470
Unutilized long-term credit lines (5):		**702,000**	780,000

(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 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 H., I. and J.

Note 18 - Credit and Loans from Banks and Other Credit Providers (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	
	2012	2011
	US$ thousands	US$ thousands
Second year	**199,418**	299,000
Third year	**74,330**	220,026
Fourth year	**755,713**	202,975
Fifth year	**139,267**	674,205
Sixth year and thereafter	**255,413**	161,471
	1,424,141	1,557,677

D. Restrictions on the Company relating to the grant of credit

As part of the loan agreements the Company has signed, various restrictions were provided including financial covenants, a cross-default mechanism and a negative pledge.

Set forth below is information regarding the financial covenants applicable to the Company as part of the loan agreements and the compliance therewith:

Financial Covenants (1)	Financial Ratio Required under the Agreement	Financial Ratio	
		December 31, 2012	December 31, 2011
The Company's shareholders' equity will not be less than $700 million plus 25% of the annual net income commencing from 2005 and thereafter.	Shareholders' equity greater than $2,690 million	$3,375 million	$3,077 million
The ratio of the EBITDA to the net interest expenses	Equal to or greater than 3.5	74.55	78.24
Ratio of the net financial debt to the EBITDA	Less than 3.5	0.75	0.52
Ratio of the financial liabilities of the subsidiaries to the total assets of the subsidiaries	Less than 10%	4.94%	4.3%
Ratio of the net financial debt to the shareholders' equity	Less than 2.1	0.41	0.37

(1) Examination of compliance with the above financial covenants is made as required based on the data from the Company's consolidated financial statements.

Note 18 - Credit and Loans from Banks and Other Credit Providers (cont'd)

E. Sale of receivables under securitization transaction (cont'd)

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.

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 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 as part of the short-term credit. As at December 31, 2012, utilization of the securitization facility and trade receivables within this framework amounted to $163 million.

Note 18 - Credit and Loans from Banks and Other Credit Providers (cont'd)

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.

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%.

Note 18 - Credit and Loans from Banks and Other Credit Providers (cont'd)

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, $555 million of the credit facility had been utilized.

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.

As at the date of the report, the amount of $200 million had been utilized out of the credit line.

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.

K. On June 26, 2012, the Company received a short-term loan in the amount of $50 million from the Company's controlling shareholder (Israel Corporation Ltd.). The terms of the loan are similar to market conditions. For additional details – see Note 30 "Related Parties".

L. On September 11, 2012, the Company received a loan in the amount of $50 million from a third party, bearing interest at the three-month Libor rate plus a margin of 0.7%. The repayment date of the loan is three months from the date of its receipt. On December 11, 2012, the loan period was extended for an additional three months.

M. On December 2012, the Company signed a loan agreement with a European bank, in the amount of €100 million. As at the date of the financial statements, no amounts had been withdrawn from this loan. The repayment date of the loan is 6 years from the withdrawal date of the loan, and in no case later than December 2021.

Note 19 - Trade Payables

	As at December 31	
	2012	2011
	US$ thousands	US$ thousands
Open accounts	**637,433**	647,030
Checks payable	**16,324**	17,998
	653,757	665,028

Note 20 - Other Payables, including Derivative Instruments

	As at December 31	
	2012	2011
	US$ thousands	US$ thousands
Government of Israel – mainly in respect of royalties	**75,346**	97,934
Employees	**281,476**	284,826
Accrued expenses	**112,442**	120,300
Derivative instruments	**23,523**	40,671
Benefits for early retirement	**25,607**	–
Others	**76,605**	85,654
	594,999	629,385

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, in certain situations, 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, a gradual reduction in the Companies Tax rate to 18% in 2016 and thereafter. Pursuant to the said Amendments, the Companies Tax rate applicable in 2011 is 24%.

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, was cancelled and commencing from 2012 and thereafter the Company Tax rate will be 25%.

The impact of the legislation on the financial statements for 2011 was expressed by recognition of tax expenses, in the amount of about $38 million, against adjustment of the deferred tax balances.

3. Tax benefits under the Law for the Encouragement of Capital Investments, 1959 (hereinafter – "The Encouragement Law")

a) Benefitted Enterprises

The production facilities of some of the subsidiaries in Israel (hereinafter – "the Subsidiaries") received "Benefitted Enterprise" status under the Encouragement Law, including Amendment No. 60 to the Law published in April 2005.

Note 21 - Taxes on Income (cont'd)

A. Taxation of companies in Israel (cont'd)

3. Tax benefits under the Law for the Encouragement of Capital Investments, 1959 (hereinafter – "The Encouragement Law") (cont'd)

a) Benefitted Enterprises (cont'd)

The main tax benefits available to the abovementioned companies are:

1) Reduced tax rates

During the benefits period – 10 years commencing in the first year in which the companies earn taxable income from the Benefited Enterprises (provided the maximum period to which it is restricted by law has not elapsed) – tax applies to the income of the companies from the Benefited Enterprises they own at the rates 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 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 Sections b and c below). The temporary difference related to distribution of a dividend from exempt income as of December 31, 2012, in respect of which deferred taxes were not recognized, is in the amount of $1,508 million.

The part of the taxable income entitled to benefits at reduced tax rates is calculated on the basis of the ratio of the turnover of the "Benefited Enterprise" to the Company's total turnover. 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".

Note 21 - Taxes on Income (cont'd)

A. Taxation of companies in Israel (cont'd)

3. Tax benefits under the Law for the Encouragement of Capital Investments, 1959 (hereinafter – "The Encouragement Law") (cont'd)

a) Benefitted Enterprises (cont'd)

2) 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.

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.

b) Preferred Enterprises

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. A company 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 election year, provided that the minimum qualifying investment began in 2010.

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.

Note 21 - Taxes on Income (cont'd)

A. Taxation of companies in Israel (cont'd)

3. Tax benefits under the Law for the Encouragement of Capital Investments, 1959 (hereinafter – "The Encouragement Law") (cont'd)

b) Preferred Enterprises (cont.)

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. The Company has Preferred Enterprises at the tax rate of 10%.

Nonetheless, tax benefits to which a Benefited Plant is entitled will not be cancelled 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.

c) Trapped Earnings Law – Temporary Order

On November 5, 2012, the Knesset passed Amendment No. 69 and Temporary Order to the Law for the Encouragement of Capital Investments, 1959 (hereinafter – "the Temporary Order"), which offers a reduced tax rate arrangement to companies that received an exemption from Companies Tax under the aforesaid law. The Temporary Order provides that companies that choose to apply the Temporary Order (effective for one year), will be entitled to a reduced tax rate on the "release" of exempt profits (hereinafter – "the Beneficiary Companies Tax Rate"). The release of exempt profits will make it possible to distribute them without additional tax at the company level and will also make it possible to use the profits without the restrictions that applied to the use of the exempt profits.

The Beneficiary Companies Tax Rate will be determined according to the rate of exempt profits the company chooses to release from its entire exempt profits, and will be between 40% and 70% of the Companies Tax rate that would have applied to the revenue in the year it was produced if it had not been exempt, but in any event no less than 6%.

Note 21 - Taxes on Income (cont'd)

A. Taxation of companies in Israel (cont'd)

3. Tax benefits under the Law for the Encouragement of Capital Investments, 1959 (hereinafter – "The Encouragement Law") (cont'd)

c) Trapped Earnings Law – Temporary Order (cont.)

Furthermore, a company that chooses to pay the Beneficiary Companies Tax Rate will have to invest in an industrial enterprise up to 50% of the tax saving it obtained, within a period of 5 years beginning from the year of notice. Failure to comply with this condition will require the company to pay additional Companies Tax.

4. The Law for the Encouragement of Industry (Taxation), 1969

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.

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, amongst others, to offset its tax losses against the taxable income of the other.

5. 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 2011 and 2012.

The amendment has no impact on the Group's financial statements.

Note 21 - Taxes on Income (cont'd)

B. Taxation of companies outside of Israel

Subsidiaries 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 24.5%.
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 25%*.

* Commencing from April 1, 2012, the tax rate in the United Kingdom was reduced to 25%.

C. Carried forward tax losses

As at December 31, 2012, the balances of the carryforward tax losses of subsidiaries, for which deferred taxes were created, amount to about $105 million (December 31, 2011 – about $69 million).

The balances of the carryforward tax losses of subsidiaries, for which deferred taxes were not created is about $24 million.

As at the date of the report, the capital losses for tax purposes available for carryforward to future years amount to about $65 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 the Group companies have from a 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.

D. 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).

Note 21 - Taxes on Income (cont'd)

E. Deferred income taxes

1. The composition of the deferred taxes and the changes therein, are as follows:

	In respect of financial position					
	Depreciable property, plant and equipment	Inventories	Provisions for employee benefits	Other	In respect of carryforward tax losses (see E above)	Total
	US$ thousands	US$ thousands	US$ thousands	US$ thousands	US$ thousands	US$ thousands
Balance as at January 1, 2011*	(164,267)	35,385	89,542	2,237	58,303	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*	2,949	(168)	(3,525)	(1,215)	(32)	(1,991)
Amounts recorded in the statement of income*	(111,693)	8,394	15,658	3,230	(18,523)	(102,934)
Balance as at December 31,2011*	(300,676)	42,193	115,092	3,787	44,134	(95,470)
Changes in 2012:						
Changes in respect of business combinations	**72**	**–**	**–**	**(1,211)**	**–**	**(1,139)**
Amounts recorded to a capital reserve	**–**	**–**	**8,906**	**189**	**(1,889)**	**7,206**
Translation differences	**(1,055)**	**159**	**954**	**(517)**	**449**	**(10)**
Amounts recorded in the statement of income	**(32,815)**	**3,693**	**14,196**	**(21,599)**	**15,840**	**(20,685)**
Balance as at December 31,2012	**(334,474)**	**46,045**	**139,148**	**(19,351)**	**58,534**	**(110,098)**

* Reclassified.

2. Deferred taxes are presented in the statement of financial position as follows:

	As at December 31	
	2012	2011
	US$ thousands	US$ thousands
As part of non-current assets	**112,455**	85,356
As part of non-current liabilities	**(222,553)**	(180,826)
	(110,098)	(95,470)

Note 21 - Taxes on Income (cont'd)

E. Deferred income taxes (cont'd)

3. The currencies in which the deferred taxes are denominated:

	As at December 31	
	2012	**2011**
	US$ thousands	**US$ thousands**
Dollar	**(7,557)**	15,104
Euro	**(6,085)**	(9,434)
Shekels	**(104,632)**	(117,308)
Other	**8,176**	16,168
	(110,098)	(95,470)

4. For companies in Israel – the deferred taxes as at December 31, 2012 are computed mainly at the weighted-average tax rate of 23% (December 31, 2011 – 23%). Regarding companies outside of Israel – see B above.

F. Taxes on income included in the income statements:

1. Composition

	For the year ended December 31		
	2012	**2011**	**2010**
	US$ thousands	**US$ thousands**	**US$ thousands**
Current taxes	**205,055**	253,783	216,867
Deferred taxes	**22,014**	69,052	11,900
Taxes in respect of prior years *	**(6,043)**	25,857	38,039
	221,026	348,692	266,806

* Including deferred taxes in respect of prior years.

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		
	2012	**2011**	**2010**
	US$ thousands	**US$ thousands**	**US$ thousands**
Income before taxes on income, as reported in the statements of income	**1,526,159**	1,871,708	1,295,423
Statutory tax rate	**25%**	24%	25%
Theoretical tax expense on this income	**381,540**	449,210	323,856
Less – tax benefits arising from reduced tax rate applicable to an "Approved Enterprise" and "Benefited Enterprise"	**121,266**	127,917	*83,198
	260,274	321,293	*240,658
Add (less) – the tax effect of:			
Differences between the basis of measurement for tax purposes and for financial reporting purposes (the dollar)	**(8,312)**	8,476	(5,051)
Differences in respect of foreign subsidiaries	**24,186**	26,256	17,120
Non-deductible expenses	**9,268**	8,316	14,599
Additional deduction for tax purposes of foreign subsidiaries	**(56,647)**	(43,958)	(16,364)
Taxes in respect of prior years	**(6,043)**	25,857	*17,039
Elimination of tax calculated in respect of the Company's share in profits of associated companies	**(2,065)**	(1,920)	(620)
Other differences	**365**	4,372	(575)
Taxes on income included in the income statements	**221,026**	348,692	266,806

* Reclassified.

Note 21 - Taxes on Income (cont'd)

J. Taxes on income relating to equity items

	For the year ended December		
	2012	2011	2010
	US$ thousands	US$ thousands	US$ thousands
Tax recorded in other comprehensive income			
Actuarial gains from defined benefit plan	**8,906**	8,900	1,937
Change in fair value of financial assets available-for-sale	**–**	1,329	331
Change in fair value of derivatives used for hedging cash flows	**313**	(143)	408
Taxes in respect of exchange rate differences on equity loan to a subsidiary included in translation differences	**(1,889)**	4,027	25,148
	7,330	14,113	27,824

	For the year ended December		
	2012	2011	2010
	US$ thousands	US$ thousands	US$ thousands
Tax recorded directly in equity			
Tax benefit in respect of issuance of shares to employees	**189**	(1,070)	(211)

Note 22 - Employee Benefits

A. Composition

	As at December 31	
	2012	2011
	US$ thousands	US$ thousands
Present value of funded obligations	**785,965**	689,814
Less – fair value of plan assets	**706,742**	610,750
	79,223	79,064
Present value of unfunded obligations	**410,169**	351,335
Post-retirement medical benefits	**7,666**	7,143
Recognized liability for defined benefit obligations	**497,058**	437,542
Liability for severance benefits	**131,075**	76,653
Total liability for employee benefits recognized in the statement of financial position	**628,133**	514,195

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	
	2012	2011
	US$ thousands	US$ thousands
As part of non-current assets	**69,193**	65,365
As part of non-current liabilities	**671,719**	579,560
As part of current liabilities	**25,607**	–
	628,133	514,195

Components of the plan's assets:

	As at December 31	
	2012	2011
	US$ thousands	US$ thousands
Equity instruments	**202,171**	165,585
Debt instruments	**457,149**	407,979
Deposits with insurance companies	**47,422**	37,186
	706,742	610,750

B. Linkage terms

	As at December 31	
	2012	2011
	US$ thousands	US$ thousands
Dollar	**15,559**	15,189
Euro	**169,541**	132,772
Shekel	**389,292**	300,454
British pound	**51,524**	63,452
Other	**2,217**	2,328
	628,133	514,195

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.

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 statements of financial position since they are not under the control and management of the companies.

c) As to the balance of the liabilities that are not funded, as above, a provision is made in the financial statements based on an actuarial calculation.

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 companies) 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.

Note 22 - Employee Benefits (cont'd)

D. Pension and early retirement (cont'd)

2. In addition to the above, some Group companies have entered into an agreement with a funds – 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 statements of financial position since they are not under the control and management of the companies.

3. 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 trips. 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		
	2012	**2011**	**2010**
	US$ thousands	**US$ thousands**	**US$ thousands**
Obligation in respect of defined benefit plan at beginning of the year	**1,048,292**	1,019,376	942,822
Current service costs	**34,568**	34,574	31,531
Interest costs	**49,627**	53,237	49,808
Employee contributions	**700**	649	359
Benefits paid	**(46,225)**	(52,924)	(52,302)
Actuarial losses recognized in equity	**86,237**	15,557	42,873
Increase in liabilities as part of business combinations	**533**	24,912	–
Past service cost	**1,901**	115	160
Changes in respect of exchange rate differences	**12,067**	(37,083)	29,286
Changes in respect of translation differences	**16,100**	(10,121)	(25,161)
Obligation in respect of defined benefit plan at end of the year	**1,203,800**	1,048,292	1,019,376

Note 22 - Employee Benefits (cont'd)

F. (cont'd)

(2) Movement in plan assets for defined benefit plans

	For the year ended December 31		
	2012	**2011**	**2010**
	US$ thousands	**US$ thousands**	**US$ thousands**
Fair value of plan assets at beginning of the year	**610,750**	618,014	578,535
Expected return on plan assets	**27,170**	34,730	31,621
Actuarial gains (losses) recognized in equity	**42,835**	(25,903)	19,410
Employer contributions	**35,712**	21,767	19,244
Employee contributions	**871**	703	239
Increase in assets as part of business combinations	**–**	16,353	–
Benefits paid	**(30,708)**	(27,182)	(32,638)
Changes in respect of exchange rate differences	**6,052**	(22,614)	16,426
Changes in respect of translation differences	**14,060**	(5,118)	(14,823)
Fair value of plan assets at end of the year	**706,742**	610,750	618,014

(3) Expense recognized in the income statement

	For the year ended December 31		
	2012	**2011**	**2010**
	US$ thousands	**US$ thousands**	**US$ thousands**
Current service costs	**34,568**	34,574	31,531
Interest costs	**49,627**	53,237	49,808
Expected return on plan assets	**(27,170)**	(34,730)	(31,621)
Past service cost	**1,901**	115	160
Exchange rate differences, net	**6,015**	(14,469)	12,860
	64,941	38,727	62,738

The expense is recognized in the following line items in the income statement:

	For the year ended December 31		
	2012	**2011**	**2010**
	US$ thousands	**US$ thousands**	**US$ thousands**
Cost of sales	**26,916**	28,160	25,701
Selling and marketing and transport expenses	**2,333**	2,827	1,873
General and administrative expenses	**4,413**	2,484	3,105
Research and development expenses	**906**	1,103	852
Other income	**1,901**	115	160
Financing expenses	**28,472**	4,038	31,047
	64,941	38,727	62,738

Note 22 - Employee Benefits (cont'd)

F. (cont'd)

(4) Actual and expected return

	For the year ended December 31		
	2012	2011	2010
	US$ thousands	US$ thousands	US$ thousands
Actual return on plan assets	**70,005**	8,800	51,031
Expected return on plan assets	**27,170**	34,730	31,621

(5) Actuarial gains and losses recognized directly in equity

	For the year ended December 31		
	2012	2011	2010
	US$ thousands	US$ thousands	US$ thousands
Cumulative amount (before tax) as at January 1	**130,915**	89,455	65,992
Actuarial gains recognized during the period	**43,402**	41,460	23,463
Cumulative amounts (before tax) as at December 31	**174,317**	130,915	89,455
Deferred taxes in respect of actuarial gains and losses recognized directly in equity	**(43,200)**	(34,294)	(25,394)
	131,117	96,621	64,061

(6) Actuarial assumptions

Principal actuarial assumptions at the reporting date (expressed as weighted averages):

	2012	2011	2010
	%	%	%
Discount rate as at December 31	**4.2**	4.9	5.3
Expected return on plan assets as at January 1	**4.8**	5.6	5.8
Future salary increases	**3.8**	4.2	4.2
Future pension increase	**2.5**	2.6	2.8

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.

Note 22 - Employee Benefits (cont'd)

F. (cont'd)

(7) Historical information

	As at December 31		
	2012	**2011**	**2010**
	US$ thousands	**US$ thousands**	**US$ thousands**
Present value of the obligation under defined benefit plans	**1,203,800**	1,048,292	1,019,376
Fair value of plan assets	**706,742**	610,750	618,014
Deficit in the plan	**497,058**	437,542	401,362
Adjustments of liabilities stemming from past experience	**(13,323)**	(8,713)	(6,929)
Adjustments of assets stemming from past experience	**18,655**	(15,830)	19,570

G. Early retirement plans

In the months of November and December 2012, the Board of Directors of subsidiaries approved plans whereby a number of the subsidiaries' employees were permitted to take early retirement prior to the retirement age provided by law. In the statement of income for 2012, an expense was included in the amount of about $55 million in respect of the said early retirement plans.

H. The amount recognized in respect of defined contribution plans in 2012 is about $25.5 million (in 2011, an expense was recognized in the amount of about $25 million).

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, 2012	1,901	81,398	5,107	38,353	126,759
Provisions made during the period	**–**	**12,258**	**1,565**	**1,137**	**14,960**
Provisions reversed during the period	**(59)**	**(5,986)**	**(3,003)**	**(914)**	**(9,962)**
Effect of the passage of time (due to discounting)	**–**	**1,913**	**–**	**194**	**2,107**
Payments during the period	**(71)**	**(11,867)**	**(253)**	**(2,926)**	**(15,117)**
Translation differences	**109**	**737**	**2**	**–**	**848**
Balance as at December 31, 2012	**1,880**	**78,453**	**3,418**	**35,844**	**119,595**

Presentation in the statement of financial position:

	As at December 31	
	2012	2011
	US$ thousands	US$ thousands
In current liabilities	**41,177**	47,178
In non-current liabilities	**78,418**	79,581
	119,595	126,759

B. Restoration of mines, mining sites and waste removal

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.

1. 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.

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 $27,371 thousand (€20,767 thousand). As at December 31, 2012, a provision has been included in the Spanish subsidiary's books in the amount of $17,282 thousand (€13,112 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 within the plant's premises 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 Be'er 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 $570 million.

2. Certain subsidiaries have entered into agreements with suppliers for acquisition of property, plant and equipment. As at December 31, 2012, the subsidiaries had commitments for investments of about $834 million.

3. A subsidiary in England has entered into several contracts for the lease of land used to mine potash. The lease fees are generally determined based on the quantity of potash mined in each lease area. The contracts are generally signed for periods of between 35 and 50 years. As at the date of the report, the balance of the periods covered by the lease contracts ranges between 8 and 26 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.

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, 2012 is about $8.2 million.

6. In 2008, a subsidiary in Spain signed an agreement with another company, Petroleum Oil & Gas Espania – ("Petroleum"), for 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 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.

Note 24 - Commitments, Concessions and Contingent Liabilities (cont'd)

A. Commitments (cont'd)

8. ICL holds 50% of I.D.E. Technologies Ltd. (hereinafter – "IDE"). IDE is engaged in the following areas: construction and sale of facilities for water desalinization, sale of water, operation and maintenance of water treatment facilities, desalinization of water and production and development of industrial evaporators and heat pumps – all of these activities are carried on in and outside of Israel. IDE has a number of plants that were constructed in a contractual framework of establishment, construction, operation and transfer to the customer after the agreement period (BOT agreements). As at the date of the financial statements, IDE has a number of valid BOT agreements, as follows: IDE signed agreements with the State of Israel for construction and operation of facilities for desalinization of water in Ashkelon, Hadera and Soreq. The agreements were signed through designated subsidiaries, at the rate of 50% in Ashkelon and Hadera and 51% in Soreq. The facility in Ashkelon produces at an annual rate of more than 118 million cubic meters of desalinized water. The period of the agreement ends in 2027. The facility in Hadera produces at an annual rate of about 127 million cubic meters of desalinized water. The period of the agreement ends in 2032.

   The facility in Soreq is under construction and is expected to produce at the annual rate of 150 million cubic meters of desalinized water. The agreement is for a period of 26.5 years, commencing from November 2010. The facility is expected to commence its activities in 2013.

   The facilities will be transferred to the State at the end of the agreement period.

   In addition, during 2012, IDE signed an agreement for construction of a water desalinization facility in California, in the United States, having an annual production capacity of 50 million cubic meters. Construction of the facility is expected to be completed within 3 years, where after its completion IDE is expected to operate the facility for the customer in the framework of an operation agreement.

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 under this contract was supposed to end on September 2015.

   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.

Note 24 - Commitments, Concessions and Contingent Liabilities (cont'd)

A. Commitments (cont'd)

9. (cont'd)

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 it would appear, based on the data provided in the above-mentioned notice 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 in 2012 amounted to about 50%.

Based on the notification of the Yam Thetys Group supply of the gas from the Tamar field is expected to begin in April 2013. Yam Thetys committed to supply gas to its customers from the Tamar field. On November 25, 2012, DSW and the Yam Thetys Group reached a compromise agreement that was intended to settle the disputes that arose between the parties as a result of non-compliance by Yam Thetys with the supply agreement. Pursuant to the compromise agreement, the Yam Thetys partners agreed to extend the Yam Thetys agreement up to September 30, 2017.

In addition, concurrent with the compromise agreement, DSW signed a short-term supply agreement with the partners in the "Tamar" well (hereinafter – "the Tamar Group") for acquisition of additional quantities of gas (hereinafter – "the Tamar Agreement"), which together with the quantities of gas to be acquired under the agreement with Yam Thetys, should provide the company all its gas needs in that period, including the quantities it needs to operate the power station it intends to construct in Sodom. The gas supply period under the Tamar Agreement will commence upon operation of the Sodom power station, which is expected to start in the second half of 2015, and will come to an end on September 30, 2017.

The price of the gas provided in the Tamar Agreement is linked to the electricity production tariff, as it will be determined from time to time by the Authority for Public Services – Electricity, and includes a "floor" price.

During the interim period, which will commence upon fulfillment of the conditions provided in the Tamar Agreement, supply of the gas to DSW, pursuant to the Tamar Agreement, will be subject to the quantities of natural gas available at that time, after supply of gas to other customers of the Yam Thetys Group and of Tamar Group with which agreements were signed prior to the signing of the Tamar Agreement. The Interim Period will come to an end upon expansion of the supply capacity of the transport system from the Tamar well.

The Tamar Agreement is contingent on receipt of approval of the Restrictive Business Practices Authority, if and to the extent such approval is required, as well as approval of the National Site Plan for construction of the power station DSW intends to construct in Sodom. As at the date of the report, these approvals had not yet been received.

Note 24 - Commitments, Concessions and Contingent Liabilities (cont'd)

A. Commitments (cont'd)

9. (cont'd)

DSW anticipates that the amount of the annual consumption of the gas, after operation of the power station, as is expected to be received based on the Yam Thetys agreement and the Tamar Agreement, will be about BCM 0.76.

On December 5, 2012, the Council for Gas Matters published Decision No. 6/2012 regarding arrangement of use of the capacity of the natural gas pipeline from the Tamar well to the exit point of the natural gas from the receiving station in Ashdod (hereinafter – "the Decision of the Gas Authority" and "the Gas Pipeline"). The Decision of the Gas Authority notes that the capacity of the Gas Pipeline is limited and that it is unable to supply all of the demand anticipated in the upcoming years. Accordingly, the Decision of the Gas Authority provides, among other things, that upon a shortage of capacity in the Gas Pipeline, the capacity in the Gas Pipeline will be allocated on a pro rata basis between all the consumers connected to the national transport system, based on the formula provided in the Decision of the Gas Authority. As part of the Decision of the Gas Authority, a number of limited exceptions were provided to the pro rata mechanism in connection with assurance of capacity for supply of certain quantities of natural gas to consumers of the gas distribution network, as well giving preference with respect to utilization of the gas reserves in the "linepack" transport pipeline to consumers that signed an agreement with the Yam Thetys Group and/or the Tamar Group prior to August 14, 2012 (a preference that will apply to the Yam Thetys agreement but will not apply to the Tamar Agreement). This arrangement of transport capacity is different than the provisions included in the Tamar Agreement with respect to allocation of the Gas Pipeline capacity at times of shortages of capacity. To the best of the knowledge of the Company and its legal advisors, the Decision of the Gas Authority also applies the pro rata mechanism provided in the Decision to the Yam Thetys agreement, whereas prior to the Decision of the Gas Authority supply of the gas to the Company under the Yam Thetys agreement was not subject to such a mechanism. Nonetheless, the pro rata mechanism provided in the Decision of the Gas Authority should act to increase the quantity of gas supplied to the Company at a time of a shortage of capacity in the Gas Pipeline under the Tamar Agreement. As at the date of the report, how the Decision of the Gas Authority will be implemented and/or its impact on the the Yam Thetys agreement and the Tamar Agreement are not known.

The actual amount of the savings due to acquisition of the gas pursuant to the said agreements will be impacted by all the conditions, mainly the time of commencement of supply of the gas from the Tamar well, the price of crude oil, the price of electricity, availability of capacity in the Gas Pipeline and the scope and pace of consumption of the natural gas.

On June 4, 2012, East Mediterranean Gas S.A.E. (hereinafter – "EMG"), with which DSW signed an agreement for supply of natural gas to the power station to be constructed in Sodom, gave notice that EMG's gas supplier gave notice of cancellation of agreement between them and that it is forced to accept the cancellation notice of the gas supplier. The Company reserves its rights against EMG.

Note 24 - Commitments, Concessions and Contingent Liabilities (cont'd)

A. Commitments (cont'd)

10. On June 28, 2012, DSW entered into agreements regarding a project to construct a new dual-fuel cogeneration plant in Sdom (hereinafter – "the Project") with a production capacity of 330 tons of steam per hour and 250 megawatts of electricity that will fulfill all the electricity and steam requirements of the production plants at the Sdom site in the upcoming years. The project is expected to be completed in the middle of 2015. The cost of the project is estimated at about $320 million. The construction agreements are linked to the exchange rate of the euro.

    The Company invested in foreign-currency hedging transactions to hedge the exposure to changes in the Project's cash flows deriving from changes in the dollar/euro exchange rate. This hedging transaction meets the criteria of an accounting hedge. Changes in the fair value of the derivative used to hedge cash flows, in respect of the effective hedging component, are recorded and recognized in other comprehensive income. Changes in the fair value of the derivative relating to the ineffective portion are recorded in the statement of income. In the period of the report, the amount of about $17 million was recognized in other comprehensive income.

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.

    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.

    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.

    As part of the agreement with the State of Israel signed in July 2012, regarding performance of a harvest of the salt, it was also agreed with the Government regarding an increase in rate of the royalties to 10% (in place of 5%) in respect of sales of potash in a quantity in excess of 1.5 tons per year.

Note 24 - Commitments, Concessions and Contingent Liabilities (cont'd)

B. Concessions (cont'd)

1. Dead Sea Works Ltd. (DSW) (cont'd)

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.

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.

As part of the arbitration proceedings, statements of claims were filed by the parties, affidavits were submitted, opinions of experts were filed and meetings were held where witnesses and experts were heard. The arbitration proceedings have not yet been completed.

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, commencing from 2010.

After studying 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.

Note 24 - Commitments, Concessions and Contingent Liabilities (cont'd)

B. Concessions (cont'd)

1. Dead Sea Works Ltd. (DSW) (cont'd)

In 2012 and 2011, DSW paid royalties to the Government of Israel in the amount of about $125,401 thousand and about $76,410 thousand, respectively.

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.

In September 2012, a committee was set up by the CEO of the Ministry of Energy and Water, to examine the phosphates sector, including representatives of the Ministry of Energy and Water, from the Geological Institute and the Ministry of Employment, Trade and Industry, in order to look into use of the phosphate resource in Israel, and to submit recommendations regarding the annual quantity of mining of phosphates, the manner of use of the phosphates layers and the stages for restoring the mine areas. The committee has not yet completed its work.

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.

In 2012 and 2011, Rotem paid $5,567 thousand and $4,198 thousand, respectively, in royalties to the Government of Israel.

Note 24 - Commitments, Concessions and Contingent Liabilities (cont'd)

B. Concessions (cont'd)

2. Rotem (cont'd)

Planning and building:

The mining and quarrying activities require zoning approval of the site based on a plan in accordance with the Planning and Building Law, 1965. These plans are updated, as needed, from time to time. As at the date of the report, there are various requests at different stages of deliberations before the planning authorities.

At the end of 2009, at the recommendation of a team accompanying preparation of a new site plan for the Zin-Oron area, the District Board approved extension of the execution stages of the site plan from 1991, which zones the Zfir site (Zin-Oron) for mining up to the end of 2013.

The plan for mining phosphates in Barir Field (South Zohar) is in planning approval stages, and it has not yet been decided whether to deposit it. Residents of Arad and the surrounding Bedouin villages in the area object to deposit of the plan and continuation of advancement of the planning stages in respect thereof, due to the fear of environmental and health dangers they contend will be caused as a result of operation of the mine. The Company believes that the mining activities in Barir Field does not involve any dangers to the environment or to people and, accordingly, the Company proposed to appoint an independent expert that will examine the opposing opinions existing with respect to the matter. After an expert appointed by the Ministry of the Prime Minister expressed his opinion that there is no health hazard in the Barir mine, the Ministry of Health appointed a committee on its behalf to examine the matter before the Ministry formulates an opinion, which at this point has not yet reached a clear position regarding the manner of the examination. The residents of Arad are continuing to object to advancement of the mining plan and even to mining tests. If mining approval is not received in Barir Field, this will significantly impact the company's future mining reserves in the medium and long term.

3. A subsidiary in Spain from the ICL Fertilizers segment was granted mining rights based on legislation of the Government of Spain from 1973. Further to the legislation, the Government of the Catalana region issued special regulations whereby the subsidiary, a company from the ICL Fertilizers segment, individual licenses for each of 126 of the different relevant sites for the current mining activities and possibilities for the future. Some of the licenses are valid up to 2037 and the rest are effective up to 2067. The mining royalties in 2012 amounted to about €0.2 million. Regarding an additional area beyond the areas referred to above, "Reserva" Catalana submitted a request to extend, commencing from October 2012, the concession period for a period of 30 years. At the present time, no mining activities are being carried out in this area. The administrative activities to extend the concession period have not yet been completed by the National Mining Authorities.

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 2012, mining royalties amounted to about £2.6 million.

Note 24 - Commitments, Concessions and Contingent Liabilities (cont'd)

B. Concessions (cont'd)

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, 2012, the total guarantees provided to external parties amount to $81 million. The guarantees provided by the Company in respect of loans taken out by the subsidiaries amount to about $1,192 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 (hereinafter 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.

   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 (hereinafter also – "the Macassa Claim" or "the Claim"). 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.

Note 24 - Commitments, Concessions and Contingent Liabilities (cont'd)

C. Contingent liabilities (cont'd)

2. (cont'd)

During February 2012, the Claim was amended such that about 500 additional plaintiffs from the Philippines were added. On April 24, 2012, the subsidiaries filed a request for summary dismissal of the amended claim for reasons of expiration of the Statute of Limitations, and on June 14, 2012 the claim of the plaintiffs regarding Macassa against the subsidiaries was rejected.

Regarding the other defendants in the Macassa matter, on July 31, 2012, the Claim against them was rejected except against one defendant who contended that the Court did not have jurisdiction with respect to it. So long as there is no final decision regarding rejection for reasons of expiration of the Statute of Limitations against most of the defendants and regarding the Court's jurisdiction against the additional defendant, there is exposure that all the defendants will file a third-party notification against the subsidiaries for participation in the Macassa Claim.

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. Based on this in the opinion of Company Management, based on the estimation of its legal advisors, it is not possible to estimate the results of the above claims. Nonetheless, it is estimated that the exposure of the Company and the subsidiaries in connection with the above-mentioned claims, in an amount of more than $20 million, is low.

3. Ecology

a) 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 six months (which ended in June 2007) regarding emissions into the air 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.

In December 2007, updated business license conditions were issued to Bromine Compounds Ltd. under which the treatment of effluents 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 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. New dates were set, as a result of a postponement stemming from continuation of the statutory processes, which are also acceptable to the Ministry of Environmental Protection and the Local Industrial Council of Ramat Hovav. Operation of all six ponds will be executed gradually commencing from March 2013 and ending in July 2013.

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 work plan 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 dependents), 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 time of preparation of this report, the damages quantified in the claims amount to approximately NIS 139 million ($37 million), as valued on the date of filing of the claims, plus linkage differences 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.

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)

In these cases, the stage of hearing of the proofs has been completed. On October 10, 2012, the plaintiff's summations were submitted. The defendant's summations are expected to be submitted on March 11, 2013. As the first matter, 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.

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$129 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.

Note 24 - Commitments, Concessions and Contingent Liabilities (cont'd)

C. Contingent liabilities (cont'd)

3. Ecology (cont'd)

b) (cont'd)

In these cases the stage of hearing of the proofs has been completed. Regarding the initial stage, wherein the court is considering 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 and between June 2012 and December 2012 summations were submitted on behalf of the parties. 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 approximately $64 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 liability for 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.

Subsequent to the date of the report, on January 9, 2013, a judgment was rendered rejecting the claim against the defendants, including ICL's plants.

On February 20, 2013, the plaintiffs filed an appeal with the Supreme Court. In the Company's estimation, based on the assessment of its legal advisors, the chances that the appeal will be accepted are low and, accordingly, no provision was included in the financial statements.

Note 24 - Commitments, Concessions and Contingent Liabilities (cont'd)

C. Contingent liabilities (cont'd)

3. Ecology (cont'd)

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.

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 October 16, 2012, a court decision was rendered approving the revised compromise agreement, whereby the financing amount for the educational activities was updated to NIS 1 million.

Note 24 - Commitments, Concessions and Contingent Liabilities (cont'd)

C. Contingent liabilities (cont'd)

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 million tons 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 Hamei Zohar hotels, the town of Neve Zohar and other facilities and infrastructures 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 have been underway for 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. In July 2012, an agreement was signed with the Government, the highlights of which are set forth below:

A. Planning and execution of the Salt Harvesting will be performed by DSW.

B. 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.

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 the Company's estimates regarding the Dead Sea protections, the total cost of the Salt Harvesting was estimated, as at October 2010, at NIS 7 billion. The Government will bear 20% of the amount of the cost of the Salt Harvesting. The Government's maximum commitment is linked to the CPI and bears interest at the rate of 7%. The Government's share in financing of the salt harvest also includes an amount of $30 million received by the Government in 1992 as a one-time dividend as DSW's share in the permanent solution for the water level of the Dead Sea.

E. 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. 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. The agreement further provides that if legislation is enacted that changes the specific fiscal policy in connection with profits or royalties deriving from mining of quarries from the Dead Sea, DSW's consent will not apply to an increase in the rate of royalties above on the surplus quantities referred to above, commencing from the time the additional tax is to be collected as stated in the legislation and the matter will be returned to arbitration. If such a situation does occur, the matter of the royalties' rate on the surplus quantity above three million tons per year will be transferred to arbitration and each side will be permitted to raise any contention it could have raised immediately preceding signing of the above-mentioned agreement.

Note 24 - Commitments, Concessions and Contingent Liabilities (cont'd)

C. Contingent liabilities (cont'd)

4. Increase in level of Pond 150 (cont'd)

In addition, an appendix to the agreement from 2007 was signed relating to additional protections of beachfronts that are to be executed in order to permit strengthening of the water level. Based on the appendix to this agreement, the level of DSW's participation in the beachfront protection will be 39.5%.

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 be finished 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.

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.

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. The petition was rejected by the Supreme Court.

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 that relates to the urgent interim defenses that are also to permit raising the existing dykes in Pond 5 up to a certain level was approved by the Government and entered into effect.

Note 24 - Commitments, Concessions and Contingent Liabilities (cont'd)

C. Contingent liabilities (cont'd)

4. Increase in level of Pond 150 (cont'd)

An additional plan relating to the ability to make land examinations in the area was also recently approved by the Government. Approval of the plan in its stages, on the relevant dates is essential for continuation of DSW's production process, and delays could have an unfavorable impact on the process and, accordingly, could give rise to damage/losses. In order to advance execution of the pumping station and the salt harvesting set-up, a hearing was held before the full Board where the location of the pumping station was approved.

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 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 $37 million as of December 31, 2012, the Company and the subsidiaries have recorded provisions as at that date of about $4 million. In addition, part of the above claims is 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.

Note 25 - Equity

A. Composition:

	As at December 31, 2012		As at December 31, 2011	
	Authorized	Issued and paid	Authorized	Issued and paid
Ordinary shares of NIS 1 par value	**1,484,999,999**	**1,294,703,031**	1,484,999,999	1,293,098,052
Special State share of NIS 1 par value	**1**	**1**	**1**	1

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, 2012 was NIS 44.64.

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 Company assets, 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 its holder the right, ability or actual possibility to appoint, directly or indirectly, such number of the Company's directors equal to half or more 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.

   During the months January–March 2007, 11.8 million options were issued from the plan, of which 2.2 million were issued to the prior CEO.

Note 25 – Equity (cont'd)

C. Share-based payments to employees (cont'd)

1. (cont'd)

The options from the 2007 plan 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 approval date of the Board of Directors, and one-third at the end of 36 months from the approval date of the Board of Directors. Each portion was locked up for exercise for one additional year after it vested. The expiration date of the options was 60 months after the approval of the Board of Directors.

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 previous 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 in three equal portions: one-third at the end of 12 months from the date of the Board's approval; one-third at the end of 24 months from the date of the Board's approval; and one-third vested subsequent to the date of the financial statements, on January 7, 2013, at the end of 36 months from the date of the Board's approval. 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.

On November 26, 2012, the Company's Board of Directors approved an issuance of up to 12,000,000 non-marketable options for no consideration to 416 ICL officers and senior employees in Israel and overseas. On December 27, 2012, 11,999,400 options were issued. The issuance included a material private placement of 1,190,000 options to the Company's CEO. This plan includes a "ceiling" for the value of the shares as at the exercise date where if the closing price of a Company share is higher than twice the exercise price ("the Share Value Ceiling"), the factor for calculation of the exercise will be adjusted such that the number of the shares to be exercised will be equal to the factor for the number of the options exercised at the Share Value Ceiling. The options may be exercised in three equal portions on December 26, 2013, 2014, and 2015. The expiration date of the options for the first and second portions is at the end of 48 months from the approval of the Board and the expiration date of the options for the third portion is at the end of 60 months from the issuance date.

Upon exercise, every option may be converted into one ordinary share of NIS 1 par value of the subsidiary. The ordinary shares issued as a result of exercise of the options have the same rights as the Company's ordinary shares, immediately upon their issuance. The options issued to the employees in Israel are covered by the provisions of Section 102 of the Income Tax Ordinance (New Version) and the regulations promulgated thereunder. The Company elected that the issuance will be made through a trustee, under the Capital Gains Track.

The exercise premium is linked to the CPI that is "known" on the date of payment. In a case of distribution of a dividend by the Company, the exercise premium is reduced, on the "ex-dividend" date, by the amount of the dividend per share (gross), based on the amount thereof in shekels on the effective date.

Note 25 – Equity (cont'd)

C. Share-based payments to employees (cont'd)

1. (cont'd)

The options are not marketable and may not be transferred.

The fair value of the options granted under the 2007 and 2010 plans as stated above was estimated on the basis of the Black & Scholes model for the pricing of options. The fair value of the option issued in the said 2012 plan was valued on the basis of a binomial model to value options. The parameters used in applying the models are as follows:

	2007 Plan	2010 Plan	2011 Plan
Share price (in NIS)	25.59	53.1	46.6
CPI-linked exercise price (in NIS)	25.59	53.1	46.6
Expected volatility:			
First and second increment	24.60%	54.98%	36.7%
Third increment	24.60%	48.45%	44.2%
Life of options (in years):			
First and second increment	4	2.5	4
Third increment	4	3.5	5
Risk-free interest rate:			
First and second increment	3.34%	0.59%	0.22%
Third increment	3.34%	1.29%	0.54%
Economic value (in $ millions)	17.9	54.3	37.7

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 from the 2007 plan was fully recognized up to December 31, 2010.

The cost of the benefit embedded in the options from the 2010 and 2012 plans is recognized in the statement of income over the vesting period of each portion. Accordingly, in 2011–2012, the Company included expenses of about $15.5 million and about $6.5 million, respectively.

Note 25 – Equity (cont'd)

C. Share-based payments to employees (cont'd)

1. (cont'd)

Subsequent to the date of the report, 6,633,574 options from the 2010 plan were exercised for 312,558 of the Company's ordinary shares. After exercise of the options for shares, the Company's issued and paid-up capital is 1,295,015,589 ordinary shares of NIS 1 par value.

The movement in the options during 2011 and 2012 are as follows:

	Number of options 2007 Plan	Number of options 2010 Plan	Number of options 2012 Plan
Balance as at January 1, 2011	5,148,336	10,930,500	–
Movement in 2011:			
Exercised during the year	(2,991,740)	–	–
Forfeited during the year	–	(72,000)	–
Total options outstanding as at December 31, 2011	2,156,596	10,858,500	–
Movement in 2012:			
Exercised during the year	**(2,156,596)**	**(3,333)**	**–**
Forfeited during the year	**–**	**(11,000)**	**–**
Total options outstanding as at December 31, 2012	**–**	**10,844,167**	**11,999,400**

Note 25 – Equity (cont'd)

D. Dividends

Date of the decision of the Board of Directors to distribute the dividend	Actual date of distribution of the dividend	Gross amount of the dividend distributed (in millions of $)	Net amount of the distribution (net of the share of a subsidiary) (in millions of $)	Amount of the dividend per share
March 23, 2010	April 27, 2010	155	154.7	$0.12
May 24, 2010	June 28, 2010	668	666.8	$0.53
August 23, 2010	September 20, 2010	177	176.7	$0.14
November 22, 2010	January 12, 2011	170	169.7	$0.13
March 27, 2011	May 15, 2011	170	169.7	$0.13
May 15, 2011	June 28, 2011	195	194.7	$0.15
August 16, 2011	September 26, 2011	298	297.5	$0.23
November 20, 2011	December 22, 2011	300	299.5	$0.24
March 26, 2012	April 30, 2012	260	259.5	$0.20
May 22, 2012	June 26, 2012	200	199.7	$0.16
August 14, 2012	September 12, 2012	285	284.5	$0.22
November 20, 2012	December 19, 2012	276	275.5	$0.22

Subsequent to the date of the report, on March 12, 2013, the Company's Board of Directors decided to distribute a dividend in the amount of $147 million (the net dividend, less the share of a subsidiary, amounts to $146.7 million), about $0.12 per share. The dividend will be distributed on April 25, 2013.

E. Translation reserve for foreign operations

The translation reserve includes all translation differences arising from translation of financial statements of foreign operations.

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 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, and the change in the fair value in respect of an investment in a derivative, for hedging the exposure to changes in the cash flows of a project for construction of a new combination power station in Sodom, in connection with changes in the rates of exchange of the dollar against the euro (see Note 28E(2)).

I. Treasury shares

1) As at December 31, 2012 and 2011, a subsidiary holds 2,216,131 ordinary shares of NIS 1 par value of ICL.

   On September 3, 2008, the Company's Board of Directors decided to approve that the Company may acquire, from time to time, up to June 30, 2009, 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.

2) 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.

Note 26 - Pledges and Restrictions Placed in Respect of Liabilities

A. The Company has undertaken various obligations in respect of loans and credit received from non-Israeli banks. Included in the above is a negative pledge whereby the Company has committed to the lenders, among other things, to restrict guarantees and indemnities to third parties (other than the guarantees in respect to subsidiaries up to an agreed amount for $550 million. The Company 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. The Company 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 18D.

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 relating to the grants.

Note 27 - Details of Statement of Income Items

A. Sales

	For the year ended December 31		
	2012	**2011**	**2010**
	US$ thousands	**US$ thousands**	**US$ thousands**
Sales	**6,502,698**	6,891,565	5,599,563
Construction contracts	**120,857**	126,729	56,251
Concession agreements	**48,686**	49,540	35,723
	6,672,241	7,067,834	5,691,537

Note 27 - Details of Statement of Income Items (cont'd)

B. Cost of sales (1)

	For the year ended December 31		
	2012	2011	2010
	US$ thousands	US$ thousands	US$ thousands
Materials and spare parts	**1,580,143**	1,765,881	1,209,112
Power and energy	**407,694**	392,978	336,822
Labor and related expenses	**789,134**	826,992	706,220
Subcontracted work	**403,242**	392,366	291,438
Depreciation and amortization	**229,283**	211,674	166,502
Other production expenses	**349,099**	342,925	294,290
Logistics and port expenses	**88,336**	66,315	57,696
	3,846,931	3,999,131	3,062,080
Decrease (increase) in inventories of finished products and work in progress	**68,131**	(86,960)	197,381
	3,915,062	3,912,171	3,259,461
(1) Net of amounts capitalized to property, plant and equipment under construction	**10,890**	12,359	21,240
By sources of income			
Sales	**3,769,479**	3,776,917	3,191,180
Construction contracts	**109,906**	94,935	37,495
Concession agreements	**35,677**	40,319	30,786
	3,915,062	3,912,171	3,259,461

C. Research and development expenses, net

	For the year ended December 31		
	2012	2011	2010
	US$ thousands	US$ thousands	US$ thousands
Amount of expenses	**77,844**	72,327	64,648
Less – grants and participations, see Note 24A(5)	**646**	132	584
	77,198	72,195	64,064

Note 27 - Details of Statement of Income Items (cont'd)

D. Selling, transport and marketing expenses

	For the year ended December 31		
	2012	2011	2010
	US$ thousands	US$ thousands	US$ thousands
Transport and insurance	**511,364**	602,782	567,801
Salaries and related expenses	**146,944**	139,707	110,157
Agents' commissions	**28,699**	30,029	25,345
Other	**119,303**	98,098	76,506
	806,310	870,616	779,809

E. General and administrative expenses

	For the year ended December 31		
	2012	2011	2010
	US$ thousands	US$ thousands	US$ thousands
Salaries and related expenses	**146,541**	151,304	151,305
Buildings maintenance	**15,191**	14,150	11,733
Legal advice	**10,990**	11,974	8,491
Other*	**87,201**	99,107	74,085
	259,923	276,535	245,614
* Including movement in doubtful debts	**1,410**	2,229	(173)

Note 27 - Details of Statement of Income Items (cont'd)

F. Financing income and expenses

	For the year ended December 31		
	2012	2011	2010
	US$ thousands	US$ thousands	US$ thousands
Financing income recorded in the income statements:			
Interest income from bank deposits	**30,733**	22,613	10,408
Net change in fair value of derivative financial instruments	**3,080**	–	18,770
Gain on sale of financial assets available-for-sale	**–**	4,535	3,244
Net gain from changes in exchange rates	**–**	14,785	–
	33,813	41,933	32,422
Financing expenses recorded in the income statements:			
Interest expenses to banks and others	**57,689**	50,605	46,721
Financing expenses in relation to employee benefits	**31,465**	8,374	35,058
Bank commissions	**2,756**	3,050	3,037
Provision for impairment of financial assets available for sale	**–**	44,734	–
Net loss from changes in exchange rates	**4,015**	–	3,924
Financing expenses	**95,925**	106,763	88,740
Net of borrowing costs capitalized	**3,495**	2,572	3,136
	92,430	104,191	85,604
Net financing expenses recorded in the income statements	**58,617**	62,258	53,182

G. Other income and expenses

	For the year ended December 31		
	2012	2011	2010
	US$ thousands	US$ thousands	US$ thousands
Gain on sale of activities	**–**	–	5,587
Gain on increase in rate of holdings in associated company	**1,945**	–	–
Capital gains from sale of fixed assets, net	**–**	2,396	2,712
VAT refund and deductions	**15,267**	–	–
Other	**6,640**	2,643	2,980
Other income recorded in the income statements	**23,852**	5,039	11,279
Expenses from acquisition of subsidiary	**–**	10,914	**–**
Expenses in respect of early retirement (1)	**55,332**	2,360	**–**
Disposal of plants that were taken out of use	**1,533**	–	3,548
Provision in respect of customer claim	**–**	–	3,700
Past service cost	**1,901**	115	160
Other	**2,319**	2,002	333
Other expenses recorded in the income statements	**61,085**	15,391	7,741

(1) See Note 22D.

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 (non-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 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.

Note 28 - Financial Instruments and Risk Management (cont'd)

B. Groups and measurement bases of financial assets and financial liabilities

	As at December 31, 2012			
	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	–	288,509	–	–
Investments in deposits and short-term loans	59,728	112,712	–	–
Trade receivables	–	1,074,207	–	–
Other receivables and debit balances, including derivative instruments	40,068	144,931	–	–
Deposits and other long-term receivables	–	353,779	–	–
Long-term derivative instruments	27,514	–	–	–
Total financial assets	127,310	1,974,138	–	–
Short-term credit from banks and others	–	–	–	(603,805)
Trade payables	–	–	–	(653,757)
Other payables and credit balances including derivative instruments	–	–	(23,523)	(463,691)
Long-term loans from banks and others	–	–	–	(1,424,141)
Long-term derivative instruments	–	–	(23,812)	–
Total financial liabilities	–	–	(47,335)	(3,145,394)
Total financial instruments, net	127,310	1,974,138	(47,335)	(3,145,394)

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.

In addition, the Company has an additional self-participation (deductible) of a cumulative annual amount of $3.5 million through a captive company that is a reinsurance company wholly owned by 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.

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	
	2012	2011
	Carrying amount	
	US$ thousands	US$ thousands
Cash and cash equivalents	**288,509**	*330,121
Investments, deposits and short-term loans	**172,440**	*144,126
Trade receivables	**1,074,207**	1,327,513
Other receivables, including derivative instruments	**184,999**	149,665
Deposits and other long-term receivables	**353,779**	264,654
Long-term derivative instruments	**27,514**	18,229
	2,101,448	2,234,308

The maximum exposure to credit risk for trade receivables, at the reporting date by geographic region was:

	As at December 31	
	2012	2011
	Carrying amount	
	US$ thousands	US$ thousands
Eastern Europe	**29,950**	23,912
Western Europe	**354,281**	341,031
North America	**153,111**	197,632
South America	**136,423**	86,593
India	**125,837**	314,576
China	**91,949**	198,126
Israel	**74,066**	69,150
Other	**108,590**	96,493
	1,074,207	1,327,513

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	
	2012		2011	
	Gross	Impairment	Gross	Impairment
	US$ thousands	US$ thousands	US$ thousands	US$ thousands
Not past due	**924,921**	**(1,055)**	1,229,776	(481)
Past due up to 3 months	**125,484**	**(1,055)**	87,245	(1,430)
Past due 3 to 6 months	**13,664**	**(233)**	6,807	(181)
Past due 6 to 9 months	**12,139**	**(747)**	3,632	(39)
Past due 9 to 12 months	**987**	**(987)**	1,687	(491)
Past due over 12 months	**8,719**	**(7,630)**	9,873	(8,885)
	1,085,914	**(11,707)**	1,339,020	(11,507)

The movement in the provision for impairment in respect of trade receivables during the year was as follows:

	For the year ended December 31	
	2012	2011
	NIS thousands	NIS thousands
Balance as at January 1	**11,507**	6,248
Impairment loss on trade receivables recognized in the period	**1,484**	1,536
Trade receivables written off as uncollectible	**(791)**	(675)
Cancellation of provisions	**(748)**	(878)
First time consolidation	**76**	6,148
Changes due to translation differences	**179**	(872)
Balance as at December 31	**11,707**	11,507

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, 2012				
	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)	**280,289**	**283,300**	**–**	**–**	**–**
Trade payables	**653,757**	**653,757**			
Other payables	**463,691**	**463,691**	**–**	**–**	**–**
Non-convertible debentures (including current maturities)	**495,647**	**290,055**	**169,664**	**78,497**	**–**
Long-term bank loans (including current maturities)	**1,252,010**	**75,130**	**53,888**	**943,933**	**266,997**
	3,145,394	**1,765,933**	**223,552**	**1,022,430**	**266,997**
Financial liabilities – derivative instruments utilized for economic and accounting hedging					
Interest rate swaps and options	**19,374**	**1,846**	**5,501**	**9,451**	**2,576**
Foreign exchange derivatives	**10,919**	**8,243**	**2,676**	**–**	**–**
Commodity and sea freight derivative instruments	**17,042**	**13,434**	**3,608**	**–**	**–**
	47,335	**23,523**	**11,785**	**9,451**	**2,576**

Note 28 - Financial Instruments and Risk Management (cont'd)

D. Liquidity risk (cont'd)

	As at December 31, 2012				
	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	–

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 $67 million. The liability in respect of the debentures, which bear 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 in cases where 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	
	2012	2011
	US$ thousands	US$ thousands
Fixed rate instruments:		
Financial assets	**195,928**	262,427
Financial liabilities	**(539,351)**	(537,115)
	(343,423)	(274,688)
Variable rate instruments		
Financial assets	**559,072**	440,231
Financial liabilities	**(1,488,595)**	(1,387,710)
	(929,523)	(947,479)

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 (except for the interest rates), in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 2011.

	As at December 31, 2012			
	Influence on profit (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	**9,379**	**4,689**	**(4,689)**	**(9,379)**
Cylinder instruments	**(1,458)**	**(1,442)**	**1,430**	**2,540**
Exchange instruments	**(8,225)**	**(4,063)**	**3,967**	**7,840**
	(304)	**(816)**	**708**	**1,001**
Changes in shekel interest				
Non-derivative instruments	**(1,900)**	**(950)**	**950**	**1,900**
Exchange instruments	**625**	**310**	**(306)**	**(608)**
	(1,275)	**(640)**	**644**	**1,292**
Changes in euro interest				
Non-derivative instruments	**2,228**	**1,114**	**(1,114)**	**(2,228)**
Changes in other currencies interest				
Non-derivative instruments	**(412)**	**(206)**	**206**	**412**

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, 2012			
	Carrying amount (fair value)	Stated amount	Maturity date	Interest rate range
	US$ thousands	US$ thousands	Years	%
Dollar				
SWAP contracts from fixed interest to variable interest	**4,923**	**48,000**	**1–3**	**4.63%**
SWAP contracts from variable interest to fixed interest	**(15,750)**	**436,262**	**1–6**	**1%–4.3%**
Cylinder instruments	**(3,623)**	**170,000**	**1–4**	**1%–3.75%**
Shekel				
SWAP contracts from fixed interest to variable interest	**1,897**	**69,837**	**1–2**	**3.4%–5.25%**

	As at December 31, 2011			
	Carrying amount (fair value)	Stated amount	Maturity date	Interest rate range
	US$ thousands	US$ thousands	Years	%
Dollar				
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%
Shekel				
SWAP contracts from fixed interest to variable interest	1,936	68,228	1–2	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.

Note 28 - Financial Instruments and Risk Management (cont'd)

E. Market risk (cont'd)

2. Currency risk (cont'd)

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.

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.

The Company made an investment in a derivative, to hedge the exposure to changes in the cash flows of a project for construction of a power plant in Sodom, deriving from changes in the dollar/euro exchange rate. The expected cost of the project comes to approximately $320 million. This hedging transaction meets the criteria of an accounting hedge. Accordingly, changes in the fair value of the derivative used to hedge cash flows, in respect of the effective hedging component, are recorded and recognized in other comprehensive income. Changes in the fair value of the derivative relating to the non-effective portion are recorded in the statement of income. In the period of the report, the amount of about $14 million was recognized in other comprehensive income.

Note 28 - 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	
	2012	**2011**
	Impact on profit (loss)	**Impact on profit (loss)**
	US$ thousands	**US$ thousands**
Non-derivative financial instruments		
Dollar/Euro	**(1,776)**	173
Dollar/NIS	**57,388**	41,824
Dollar/British sterling	**4,526**	6,527
Dollar/Japanese yen	**(824)**	(1,465)
Dollar/Chinese yuan	**(1,927)**	(2,575)

A weakening of 10% of the US$ against the currencies above would have the same effect but in the opposite direction.

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, 2012 and December 31, 2011. 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, 2012			
	Increase 10%	Increase 5%	Decrease 5%	Decrease 10%
	US$ thousands	US$ thousands	US$ thousands	US$ thousands
Euro/Dollar				
Forward transactions	**(5,625)**	**(2,664)**	**2,411**	**4,603**
Options	**2,522**	**997**	**(1,420)**	**(3,176)**
Dollar/NIS				
Forward transactions	**(24,642)**	**(13,655)**	**14,478**	**30,515**
Options	**(48,216)**	**(25,813)**	**35,426**	**26,931**
SWAP	**(25,953)**	**(13,645)**	**14,853**	**31,485**
Embedded derivative	**(2,986)**	**(1,493)**	**1,493**	**2,986**
JPY/Dollar				
Forward transactions	**1,299**	**680**	**(752)**	**(1,588)**
Options	**1,202**	**613**	**(532)**	**(1,120)**
GBP/Dollar				
Forward transactions	**(4,678)**	**(2,217)**	**2,006**	**3,827**
CPI				
Embedded derivative	**9,855**	**4,928**	**(4,928)**	**(9,855)**
Forward transactions	**5,957**	**2,979**	**(2,979)**	**(5,957)**
SWAP	**4,227**	**2,114**	**(2,114)**	**(4,227)**
GBP/Euro				
Forward transactions	**(2,037)**	**(1,068)**	**1,181**	**2,490**
Options	**(452)**	**(255)**	**104**	**319**

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, 2012		
	Carrying amount	Stated amount	Average exchange rate
	US$ thousands	US$ thousands	
Forward contracts			
NIS/Dollar	**5,021**	**260,950**	**3.8**
Dollar/Euro	**27**	**50,203**	**1.32**
Dollar/JPY	**907**	**15,191**	**81**
Euro/GBP	**(34)**	**22,440**	**81.4**
Dollar/GBP	**(66)**	**42,044**	**1.62**
Other	**(8)**	**7,778**	**–**
CPI	**(826)**	**53,576**	**–**
Currency and interest SWAPs of NIS and CPI to dollars	**10,764**	**304,344**	**–**
Put options			
NIS/Dollar	**29,439**	**701,500**	**3.86**
Dollar/Euro	**233**	**29,376**	**1.28**
Dollar/JPY	**(35)**	**14,500**	**79.13**
Euro/GBP	**5**	**3,954**	**0.79**
Call options			
NIS/dollar	**(4,149)**	**701,500**	**3.87**
Dollar/euro	**(436)**	**29,398**	**1.28**
Dollar/JPY	**811**	**14,500**	**81.76**
Euro/GBP	**(22)**	**3,954**	**0.79**
Embedded derivative			
Euro/dollar	**1,059**	**–**	**–**
Dollar/NIS	**526**	**–**	**–**
CPI	**5,903**	**–**	**–**

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, 2011		
	Carrying amount	Stated amount	Average exchange rate
	US$ thousands	US$ thousands	
Forward contracts			
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	–
Put options			
NIS/Dollar	5,752	647,305	3.6
Dollar/Euro	6,933	79,593	1.36
Dollar/JPY	(381)	30,500	7.4
Call options			
NIS/dollar	20,214	631,355	3.64
Dollar/euro	(658)	78,426	1.38
Dollar/JPY	(345)	30,500	82
Embedded derivative			
Euro/NIS	4,210	–	–
Dollar/NIS	1,140	–	–
CPI	7,688	–	–

The maturity date of all of the derivatives used to economically hedge foreign currency risk is up to a year.

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, 2012						
	US$	Euro	GBP	NIS	CPI	JPY	Other
Non-derivative instruments:							
Cash and cash equivalents	82,540	89,818	2,858	75,050	–	4,213	34,030
Investments, deposits and short-term loans	148,721	1,688	–	13,568	3,003	–	5,460
Trade receivables	583,748	294,987	41,995	80,688	–	16,664	56,125
Other receivables	67,749	34,945	5,275	32,435	–	16	4,511
Deposits and other long-term receivables	8,485	494	–	273,117	71,390	280	13
Total financial assets	891,243	421,932	50,128	474,858	74,393	21,173	100,139
Credit from banks and other credit providers	328,088	19,904	–	249,901	2,535	–	3,377
Trade payables	117,577	167,428	24,243	314,764	–	3,662	26,083
Other payables	92,675	134,284	10,458	209,276	1,051	339	15,608
Long-term loans from banks and others	847,632	287,715	–	104,993	181,094	46	2,661
Total financial liabilities	1,385,972	609,331	34,701	878,934	184,680	4,047	47,729
Total non-derivative financial instruments, net	(494,729)	(187,399)	15,427	(404,076)	(110,287)	17,126	52,410
Derivative instruments:							
Forward transactions	–	50,204	42,044	260,950	53,576	(15,191)	(30,218)
Put options	–	22	–	–	–	–	–
Cylinder	–	29,376	–	701,500	–	14,500	3,954
SWAPS – dollar into shekel and CPI	–	–	–	270,335	24,242	–	–
Total derivative instruments	–	79,602	42,044	1,232,785	77,818	(691)	(26,264)
Net exposure	(494,729)	(107,797)	57,471	828,709	(32,469)	16,435	26,146

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, 2011						
	US$	Euro	GBP	NIS	CPI	JPY	Others
Non-derivative instruments:							
Cash and cash equivalents	98,764	58,607	35,224	97,260	–	4,339	35,927
Investments, deposits and short-term loans	113,907	961	–	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	1,189,019	357,371	75,627	363,523	72,934	27,777	101,055
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	1,475,405	646,554	35,123	700,332	180,013	5,344	65,066
Total non-derivative financial instruments, net	(286,386)	(289,183)	40,504	(336,809)	(107,079)	22,433	35,989
Derivative instruments:							
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	–	(232,779)	–	1,095,578	91,234	(44,661)	19,193
Net exposure	(286,386)	(521,962)	40,504	758,769	(15,845)	(22,228)	55,182

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 $60 million. The impact of the change in the fair value of this investment will be recorded in the statement of income under financing expenses.

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, 2012 was US$16.3 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.

	As at December 31, 2012		As at December 31, 2011	
	Carrying amount	Fair value	Carrying amount	Fair value
	US$ thousands	US$ thousands	US$ thousands	US$ thousands
Debentures bearing fixed interest:				
Marketable	**331,724**	**344,824**	322,721	337,599
Non-marketable	**67,000**	**74,419**	87,000	93,678
	398,724	**419,243**	409,721	431,277

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, 2012 is 1.3% (December 31, 2011 – 3.2%).

The fair value of the marketable debenture is based on the stock market price as at the date of the report.

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, 2012		
	Level 1	Level 2	Total
	US$ thousands	US$ thousands	US$ thousands
Securities held for trading purposes	**59,728**	**–**	**59,728**
Derivatives used for hedging	**–**	**20,247**	**20,247**
	59,728	**20,247**	**79,975**

Note 29 - Earnings per Share

Basic earnings per share

Calculation of the basic earnings per share for the year ended December 31, 2012, is based on the earnings allocated to the holders of the ordinary shares divided by the weighted-average number of ordinary shares outstanding, calculated as follows:

	For the year ended December 31		
	2012	2011	2010
	US$ thousands	US$ thousands	US$ thousands
Earnings attributed to holders of the ordinary shares	**1,300,523**	1,511,821	1,024,740

Weighted-average number of ordinary shares:

	For the year ended December 31		
	2012	2011	2010
	US$ thousands	US$ thousands	US$ thousands
Balance as at January 1	**1,268,508**	1,266,583	1,263,638
Plus – options exercised for shares	**1,501**	1,116	787
Weighted-average number of ordinary shares used in computation of the basic earnings per share	**1,270,009**	1,267,699	1,264,425

Note 29 - Earnings per Share (cont'd)

Diluted earnings per share

Calculation of the diluted earnings per share for the year ended December 31, 2012, is based on the earnings allocated to the holders of the ordinary shares divided by the weighted-average number of potential diluted ordinary shares, calculated as follows:

	For the year ended December 31		
	2012	2011	2010
	US$ thousands	US$ thousands	US$ thousands
Earnings attributed to the ordinary shareholders (diluted)	**1,300,523**	1,511,821	1,024,740

Weighted average of ordinary shares (diluted):

	For the year ended December 31		
	2012	2011	2010
	US$ thousands	US$ thousands	US$ thousands
Weighted average of ordinary shares used in the computation of the basic earnings per share	**1,270,009**	1,267,699	1,264,425
Effect of stock options	**108**	5,246	7,173
Weighted average of ordinary shares used in the computation of the diluted earnings per share	**1,270,117**	1,272,945	1,271,598

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 31, 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 (vehicle and telephone). 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).

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 17 key management personnel including directors, in 2011 – key 14 management personnel) comprised:

	For the year ended December 31	
	2012	2011
	US$ thousands	US$ thousands
Short-term benefits	**8,087**	7,979
Post-employment benefits	**733**	741
Share-based payments	**2,023**	4,910
Total *	**10,843**	13,630
* To interested parties employed by the Company	**3,746**	4,477
* To interested parties not employed by the Company	**1,359**	2,334

C. Ordinary transactions that are not exceptional

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 the meaning of this term 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 undertaking that is tested for Negligible Status, the parameters will be checked, as long as they are relevant, and on the basis of the Company's consolidated financial statements, reviewed or audited, as applicable, prior to the transaction as detailed below:

Assets ratio – the amount of the assets in the transaction (assets acquired or sold) 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.

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 a future transaction, an examination is to be made of, among other things, the probability that the transaction will occur.

D. Transactions with related and interested parties

	For the year ended December 31	
	2012	2011
	US$ thousands	US$ thousands
Sales	**13,940**	11,674
Cost of sales (1)	**94,512**	72,528
Selling, transport and marketing expenses (2)	**35,403**	41,159
Management fees to the parent company (2)	**3,792**	3,500

(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.

(2) 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.

On June 26, 2012, the Company received a short-term loan in the amount of $50 million from the Company's controlling shareholder (Israel Corporation Ltd.) that bears interest at the 3-month Libor rate plus a margin of 0.7% (1.22%). The loan's repayment date was set as September 24, 2012. On September 24, 2012, the period of the loan was extended for an additional three months, to December 26, 2012, and the interest rate was updated based on the three-month Libor rate plus a margin of 0.7% (1.073%). On December 26, 2012, the period of the loan was extended for an additional three months, and the interest rate was updated based on the three-month Libor rate plus a margin of 0.7% (1.01%). The terms of the loan are the same as market terms.

Note 30 – Related and Interested Parties (cont'd)

E. Balances with interested parties

1) Composition:

	As at December 31	
	2012	**2011**
	US$ thousands	**US$ thousands**
Long-term deposits, net of current maturities	**999**	1,152
Current maturities of long-term deposits	**200**	230
Other current assets	**9,425**	671
Other current liabilities (D2)	**74,823**	13,322

2) 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 made pursuant to the exchange rate on the date of distribution.

Note 31- Group Entities

		Percentage of shareholding in	
The Holding Company	**The Investee Company**	**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.	Hoyermann Chemie GmbH , Germany	100.00	100.00

* The investee is also held by other Group companies.

** There are preferred shares

*** In Liquidation/inactive.

**** The company is held by other group companies, where the holding percentage is changed from time to time according to the provisions of the Articles of Association.

Note 31- Group Entities (cont'd)

		Percentage of shareholding in	
The Holding Company	**The Investee Company**	**Shares conferring rights to profits**	**Voting shares**
Dead Sea Works Ltd.			
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
Ashli Chemicals (Holland) B.V., Israel			
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
Cleveland Potash ltd (CPL), U.K			
Cleveland Potash ltd (CPL), U.K	Constantine & Company (Export)lLimited	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

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** There are preferred shares

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Note 31- Group Entities (cont'd)

		Percentage of shareholding in	
The Holding Company	**The Investee Company**	**Shares conferring rights to profits**	**Voting shares**
ICL Iberia SCS, Spain			
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 Adtivos Servicios De Mexico, S.A. DE C.V.*	100.00	100.00
ICL Iberia SCS, Spain	ICL Fostfatos 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
ICL Iberia SCS, Spain	BK Giulini Iberica S.L., Spain	100.00	100.00
Grupo Empresarial Agromediterráneo, S.L., Spain			
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
Grupo Empresarial Agromediterráneo, S.L	Agrocallejas mediterranea, S.L. Unipersonal, Spain	100.00	100.00

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Note 31- Group Entities (cont'd)

		Percentage of shareholding in	
The Holding Company	**The Investee Company**	**Shares conferring rights to profits**	**Voting shares**
Antonio Fuentes Méndez, S.A, Spain			
Antonio Fuentes Méndez, S.A, Spain	Importaciones y Tránsitos, S.A., Spain*	28.00	28.00
Fomento y Desarrollo Agrícola, S.L, Spain			
Fomento y Desarrollo Agrícola, S.L, Spain*	Importaciones y Tránsitos, S.A., Spain	72.00	72.00
Medentech Limited, Ireland			
Medentech Limited, Ireland	Patentwise Limited, Ireland ***	100.00	100.00
Dead Sea Bromine Company Ltd.			
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.	ICL Management & Trading India Private Limited., India	100.00	100.00

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Note 31- Group Entities (cont'd)

		Percentage of shareholding in	
The Holding Company	**The Investee Company**	**Shares conferring rights to profits**	**Voting shares**
Bromine Compounds Ltd.			
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
ICL-IP Europe B.V., The Netherlands			
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 Ltd., Brasil*	90.95	90.95
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
ICL- IP Terneuzen BV, The Netherlands			
ICL- IP Terneuzen BV, The Netherlands	Bromisa Industrial e Commercial Ltda, Brasil*	9.05	9.05
Rotem Amfert Negev B.V., The Netherlands			
Rotem Amfert Negev B.V., The Netherlands	Eurocil Holding B.V., The Netherlands **	0	41.90

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Note 31- Group Entities (cont'd)

		Percentage of shareholding in	
The Holding Company	**The Investee Company**	**Shares conferring rights to profits**	**Voting shares**
Tami IMI Institute for R&D Ltd.			
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., Israel***	22.20	22.20
Tami IMI Institute for R&D Ltd.	ICL Innovation Ltd, Israel	100.00	100.00
Rotem Amfert Negev Ltd.			
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., Israel	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
Fertilizers and Chemicals Ltd.			
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
Industrial Chemical Equipment Ltd.			
Industrial Chemical Equipment Ltd., Israel	Agripo Management services Ltd., Israel***	50.00	50.00

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Note 31- Group Entities (cont'd)

		Percentage of shareholding in	
The Holding Company	**The Investee Company**	**Shares conferring rights to profits**	**Voting shares**
ICL Holding The Netherlands Cooperatief U.A., The Netherlands			
ICL Holding The Netherlands Cooperatief U.A., The Netherlands	Everris International B.V, The Netherlands	100.00	100.00
Everris International B.V, The Netherlands			
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
Eurocil Holding B.V., The Netherlands			
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	BKG Finance NE BV , The Netherlands	100.00	100.00
ICL Brasil Ltda., Brasil			
ICL Brasil Ltda., Brasil	FosBrazil S.A, Brazil	44.00	44.00
Pekafert B.V., The Netherlands			
Pekafert B.V., The Netherlands	Eurocil Luxembourg SA, Luxembourg*	99.00	99.00
Pekafert B.V., The Netherlands	Clearon Corp. , U.S.A.	100.00	100.00

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Note 31- Group Entities (cont'd)

		Percentage of shareholding in	
The Holding Company	**The Investee Company**	**Shares conferring rights to profits**	**Voting shares**
Eurocil Luxembourg S.A, Luxembourg			
Eurocil Luxembourg S.A, Luxembourg	Anti-Germ Austria GmbH, Austria	100.00	100.00
Eurocil Luxembourg S.A, Luxembourg	Anti-Germ Deutschland GmbH, Germany	100.00	100.00
Eurocil Luxembourg S.A, Luxembourg	ICL France S.A.S, France	100.00	100.00
Eurocil Luxembourg S.A, Luxembourg	Euro Clearon B.V, The Netherlands	100.00	100.00
Eurocil Luxembourg S.A, Luxembourg	Specialty Technologies Europe B.V., The Netherlands	100.00	100.00
Anti-Germ Austria GmbH, Austria			
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
Anti-Germ Slovakia s.r.o., Slovakia			
Anti-Germ Slovakia s.r.o., Slovakia	Anti-Germ CZ s.r.o; Czech Republic	2.00	2.00
Speciality Technologies Europe B.V. The Netherlands			
Speciality Technologies Europe B.V. The Netherlands	Scora S.A, France	100.00	100.00

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Note 31- Group Entities (cont'd)

		Percentage of shareholding in	
The Holding Company	**The Investee Company**	**Shares conferring rights to profits**	**Voting shares**
Rotem Holding G.M.B.H., Germany			
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	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 Versicherungvermittlung GmbH, Germany	100.00	100.00
Rotem Holding G.M.B.H., Germany	ICL IP Bitterfeld GmbH, Germany	100.00	100.00

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** There are preferred shares

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Note 31- Group Entities (cont'd)

		Percentage of shareholding in	
The Holding Company	**The Investee Company**	**Shares conferring rights to profits**	**Voting shares**
Fibrisol Service Australia Pty. Ltd., Australia			
Fibrisol Service Australia Pty. Ltd., Australia	Everris Australia Pty. Ltd. , Australia	100.00	100.00
BK Giulini Leather Chemistry Co. Ltd. Hong Kong,			
BK Giulini Leather Chemistry Co. Ltd. Hong Kong	BKG Performance Products Jiangyin Co. Ltd., China*	11.00	11.00
Flexotex GmbH , Germany			
Flexotex GmbH , Germany	BKG Finance Gmbh, Germany	100.00	100.00
Flexotex GmbH , Germany	BKG Finance Sup GmbH, Germany	100.00	100.00
ICL North America Inc, USA			
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
ICL Performance Products Inc, U.S.A			
ICL Performance Products Inc, U.S.A	ICL Performance Products LP, U.S.A*,**	99.00	99.00
ICL Performance Products Inc, U.S.A	ICL Performance Products LLC, U.S.A	100.00	100.00
ICL Performance Products Inc, U.S.A	ICL Performance Products Canada Limited; Canada	100.00	100.00
ICL Performance Products LLC, U.S.A			
ICL Performance Products LLC	ICL Performance Products LP, USA*,**	1.00	1.00

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** There are preferred shares

*** In Liquidation/inactive.

**** The company is held by other group companies, where the holding percentage is changed from time to time according to the provisions of the Articles of Association.

Note 31- Group Entities (cont'd)

		Percentage of shareholding in	
The Holding Company	**The Investee Company**	**Shares conferring rights to profits**	**Voting shares**
BKG Personal Care Co., Ltd.Hong Kong			
BKG Personal Care Co., Ltd.Hong Kong	BKG Performance Products Jiangyin Co., Ltd. Jiangyin, China*	35.95	35.95
BKG Puriphos B.V, The Netherlands			
BKG Puriphos B.V, The Netherlands	ICL ASIA Ltd, Hong Kong	100.00	100.00
ICL ASIA Ltd, Hong Kong			
ICL ASIA Ltd, Hong Kong	ARM Ltd., Hong Kong	100.00	100.00
ICL ASIA Ltd, Hong Kong	ICL Fertilizers (India) Private Ltd., India	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., China	100.00	100.00
ARM Ltd., Hong Kong			
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

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** There are preferred shares

*** In Liquidation/inactive.

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Note 31- Group Entities (cont'd)

		Percentage of shareholding in	
The Holding Company	**The Investee Company**	**Shares conferring rights to profits**	**Voting shares**
BK Giulini Hong Kong Limited, Hong Kong			
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
B.K. Giulini GmbH , Germany			
B.K. Giulini GmbH , Germany	Fibrisol Muscalla GmbH, Germany*	65.35	65.35
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*, Argentina	5.00	5.00
Rhenoflex GmbH , Germany			
Rhenoflex GmbH , Germany	Gurit Worbla GmbH , Germany	100.00	100.00

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** There are preferred shares

*** In Liquidation/inactive.

**** The company is held by other group companies, where the holding percentage is changed from time to time according to the provisions of the Articles of Association.

Note 31- Group Entities (cont'd)

		Percentage of shareholding in	
The Holding Company	**The Investee Company**	**Shares conferring rights to profits**	**Voting shares**
Amsterdam Fertilizers B.V., The Netherlands			
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), The Netherlands ****	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	Nutrisi Holding NV , Belgium*	100.00	100.00
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., Brazil	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
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
Amsterdam Fertilizers B.V., The Netherlands	Eurocil Luxembourg SA, Luxembourg*	1.00	1.00

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** There are preferred shares

*** In Liquidation/inactive.

**** The company is held by other group companies, where the holding percentage is changed from time to time according to the provisions of the Articles of Association.

Note 31- Group Entities (cont'd)

		Percentage of shareholding in	
The Holding Company	**The Investee Company**	**Shares conferring rights to profits**	**Voting shares**
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	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, The Nethrelands			
ICL Fertilizers Europe CV, The Nethrelands	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 beschränkt haftende OHG, Germany	Tiami Vattenkemi AB, Sweden	100.00	100.00
ICL Holding Germany GmbH, Germany			
ICL Holding Germany GmbH, Germany	ICL Holding beschränkt haftende OHG, Germany*	5.00	5.00

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*** In Liquidation/inactive.

**** The company is held by other group companies, where the holding percentage is changed from time to time according to the provisions of the Articles of Association.

Note 31- Group Entities (cont'd)

		Percentage of shareholding in	
The Holding Company	**The Investee Company**	**Shares conferring rights to profits**	**Voting shares**
Incap B.V, The Netherlands			
Incap B.V, The Netherlands	Intracap Insurance Ltd., Switzerland	100.00	100.00
Mifalei Tovala Ltd.			
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
I.D.E. Technologies Ltd.			
I.D.E. Technologies Ltd.	Ambient Technologies Inc., U.S.A	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	50.00	49.998
I.D.E. Technologies Ltd.	OTID desalination partnership, Israel	50.00	50.00

* The investee is also held by other Group companies.

** There are preferred shares

*** In Liquidation/inactive.

**** The company is held by other group companies, where the holding percentage is changed from time to time according to the provisions of the Articles of Association.

Note 31- Group Entities (cont'd)

		Percentage of shareholding in	
The Holding Company	**The Investee Company**	**Shares conferring rights to profits**	**Voting shares**
I.D.E. Technologies Ltd. (cont'd)			
I.D.E. Technologies Ltd.	West Galile Desalination Company Ltd., Israel ***	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.	Sorek Desalination Ltd., Israel	51.00	51.00
I.D.E. Technologies Ltd.	Sorek Desalination Partnership., Israel	51.00	51.00
I.D.E. Technologies Ltd.	Sorek Operation and maintenance company Ltd., Israel	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., Israel	51.00	51.00
Ambient Technologies Inc., U.S.A			
Ambient Technologies Inc., U.S.A	Larnaca Water Partners, Israel*	5.00	5.00
Ambient Technologies Inc., U.S.A	IDE Technologies India Private Ltd. , India*	1.00	1.00

* The investee is also held by other Group companies.

** There are preferred shares

*** In Liquidation/inactive.

**** The company is held by other group companies, where the holding percentage is changed from time to time according to the provisions of the Articles of Association.

Note 31- Group Entities (cont'd)

		Percentage of shareholding in	
The Holding Company	**The Investee Company**	**Shares conferring rights to profits**	**Voting shares**
Dead Sea Magnesium Ltd.			
Dead Sea Magnesium Ltd.	M.R.I. Research & Development Ltd.,Israel	99.00	77.78
Dead Sea Magnesium Ltd.	Dead Sea Magnesium Inc., U.S.A	100.00	100.00
Dead Sea Magnesium Ltd.	Israeli Light Metal Initiative Ltd., Israel	9.00	9.00

* The investee is also held by other Group companies.

** There are preferred shares

*** In Liquidation/inactive.

**** The company is held by other group companies, where the holding percentage is changed from time to time according to the provisions of 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, 2012

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, 2012

Contents

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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, 2012 and 2011, and for each of the three years, the last of which ended December 31, 2012. The separate financial data is 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 is 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 12, 2013

Financial Data Related to the Company from the Consolidated Financial Statements as at December 31

Details of financial position

	Additional information	2012 US$ thousands	2011 US$ thousands
Current assets			
Cash and cash equivalents		**57,901**	70,025
Short-term investments, deposits and loans		**19,656**	421
Investee companies – current account		**502,887**	492,469
Other receivables, including derivative instruments	3	**4,248**	2,210
Income taxes refundable		**10,439**	8,755
Total current assets		**595,131**	573,880
Non-current assets			
Investments in investee companies		**3,792,851**	3,285,807
Long-term deposits and receivables		**7,294**	7,624
Loans to subsidiaries		**570,000**	570,000
Long-term derivative instruments	3, 6	**17,515**	18,229
Deferred taxes, net	5	**7,778**	9,584
Property, plant and equipment		**1,082**	1,044
Total non-current assets		**4,396,520**	3,892,288
Total assets		**4,991,651**	4,466,168

Financial Data Related to the Company from the Consolidated Financial Statements as at December 31

	Additional information	2012 US$ thousands	2011 US$ thousands
Current liabilities			
Credit from banks and others	4	**396,974**	22,106
Credit from investee companies		**233,805**	293,364
Other payables, including derivative instruments	3	**44,940**	53,283
Total current liabilities		**675,719**	368,753
Non-current liabilities			
Loans from investee companies		**741,558**	561,482
Debentures	4	**161,708**	418,470
Long-term derivative instruments	3, 6	**20,204**	25,171
Employee benefits		**17,006**	15,490
Total non-current liabilities		**940,476**	1,020,613
Total liabilities		**1,616,195**	1,389,366
Equity			
Share capital		**542,769**	542,377
Share premium		**101,501**	94,798
Capital reserves		**45,638**	884
Retained earnings		**2,945,661**	2,698,856
Treasury shares		**(260,113)**	(260,113)
Total equity attributable to the owners of the Company		**3,375,456**	3,076,802
Total liabilities and equity		**4,991,651**	4,466,168

Nir Gilad Chairman of the Board of Directors	Stefan Borgas Chief Executive Officer	Avi Doitchman Executive VP, CFO and Strategy

Approval date of the financial statements: March 12, 2013.

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 2012 US$ thousands	2011 US$ thousands	2010 US$ thousands
Financing income		**18,480**	19,858	4,699
Expenses				
General and administrative		**43,814**	47,208	61,373
Financing		**43,219**	33,680	42,153
		87,033	80,888	103,526
Income from investee companies, net		**1,373,792**	1,580,674	1,152,809
Income before taxes on income		**1,305,239**	1,519,644	1,053,982
Taxes on income	5	**4,716**	7,823	29,242
Income for the year attributable to the owners of the Company		**1,300,523**	1,511,821	1,024,740

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		
	2012	**2011**	**2010**
	US$ thousands	**US$ thousands**	**US$ thousands**
Income for the year attributable to the owners of the Company	**1,300,523**	1,511,821	1,024,740
Other comprehensive income components			
Change in fair value of financial assets available for Sale	**–**	(3,756)	(3,324)
Net actuarial losses from defined benefit plans	**–**	–	(804)
Change in fair value of derivatives used for hedging cash flows	**(1,250)**	(15)	(1,097)
Income taxes in respect of other comprehensive income components	**313**	1,234	490
Other comprehensive income (loss) in respect of investee companies, net	**5,633**	(76,541)	(38,345)
Other comprehensive income (loss) for the year, net of tax	**4,696**	(79,078)	(43,080)
Total comprehensive income for the year attributable to the owners of the Company	**1,305,219**	1,432,743	981,660

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		
	2012	2011	2010
	US$ thousands	US$ thousands	US$ thousands
Cash flows from operating activities			
Income for the year	**1,300,523**	1,511,821	1,024,740
Adjustments for:			
Depreciation and amortization	**430**	372	399
Interest expenses, net	**15,569**	17,908	19,646
Gain on securities classified as available-for-sale	**–**	(4,535)	(3,244)
Income from investee companies, net	**(1,373,792)**	(1,580,674)	(1,152,809)
Share-based payment transactions	**8,668**	15,476	32,518
Revaluation of assets and liabilities denominated in foreign currency	**5,828**	(741)	11,382
Income tax expense	**4,716**	7,823	29,242
Gain on sale of property, plant and equipment	**(28)**	–	–
	(38,086)	(32,550)	(38,126)
Change in other receivables	**(2,046)**	2,114	(1,782)
Change in trade and other payables	**(7,251)**	25,533	(7,364)
Change in employee benefits	**1,516**	(261)	2,006
	(45,867)	(5,164)	(45,266)
Income tax paid	**(147,799)**	(293,653)	(123,152)
Interest received	**760**	3,485	1,584
Interest paid	**(17,800)**	(20,079)	(20,115)
Net cash used in operating activities relating to the Company	**(210,706)**	(315,411)	(186,949)
Net cash provided by operating activities relating to investee Companies	**1,019,588**	1,479,909	1,361,372
Net cash provided by operating activities	**808,882**	1,164,498	1,174,423
Cash flows from investing activities			
Receipt from sale of investment securities available-for-sale	**–**	14,421	9,356
Acquisition of property, plant and equipment	**(504)**	(114)	(649)
Short-term deposits and loans, net	**(20,058)**	143,414	(143,414)
Proceeds from sale of property, plant and equipment	**64**	–	–
Net cash provided by (used in) investing activities relating to the Company	**(20,498)**	157,721	(134,707)
Net cash provided by (used in) investing activities relating to investee companies	**(13,532)**	26,896	(81,023)
Net cash provided by (used in) investing activities	**(34,030)**	184,617	(215,730)
Cash flows from financing activities			
Proceeds from options allotted to employees	**3,800**	94	334
Dividends paid	**(1,019,222)**	(1,131,033)	(998,251)
Long-term loan received	**–**	–	120,000
Repayment of long-term loans	**–**	(150,000)	–
Short-term credit from banks and others	**107,929**	(229,921)	(558,040)
Net cash used in financing activities relating to the Company	**(907,493)**	(1,510,860)	(1,435,957)
Net cash flows from financing activities relating to investee companies	**120,517**	116,088	540,218
Net cash used in financing activities	**(786,976)**	(1,394,772)	(895,739)
Net increase (decrease) in cash and cash equivalents	**(12,124)**	(45,657)	62,954
Cash and cash equivalents as at beginning of the year	**70,025**	115,682	52,728
Cash and cash equivalents as at end of the year	**57,901**	70,025	115,682

The accompanying additional information is an integral part of the separate financial data.

Additional information to Separate Financial Data

1 - General

Presented hereunder is financial data from the Group's consolidated financial statements as at December 31, 2012 (hereinafter – "the Consolidated Financial Statements"), which are issued as part of the Periodic Reports and which relate to the Company itself (hereinafter – "the Separate Financial Data") and is 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 in which the financial data was 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.

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 flows 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			
	2012		2011	
	Assets	Liabilities	Assets	Liabilities
	US$ thousands		US$ thousands	
Among current assets and liabilities:				
Foreign currency derivative instruments	**2,237**	**–**	–	(2,117)
Interest derivative instruments	**257**	**(1,846)**	400	(1,875)
	2,494	**(1,846)**	400	(3,992)
Among non-current assets and liabilities:				
Foreign currency derivative instruments	**10,951**	**(2,676)**	10,006	(3,735)
Interest derivative instruments	**6,564**	**(17,528)**	8,223	(21,436)
	17,515	**(20,204)**	18,229	(25,171)

4 - Credit from Banks and Others

A. Composition

	As at December 31	
	2012	2011
	US$ thousands	US$ thousands
Current liabilities		
Short-term credit:		
From financial institutions	**30,035**	22,106
From the parent company	**50,000**	–
From others	**50,000**	–
	130,035	22,106
Current maturities of long-term loans from financial institutions	**266,939**	–
	396,974	22,106

	As at December 31	
	2012	2011
	US$ thousands	US$ thousands
Non-current liabilities		
Marketable debentures	**428,647**	418,470
Less – current maturities in respect of loans from financial institutions	**266,939**	–
	161,708	418,470

B. Classified by currency and interest rates

	Weighted average interest rate as at December 31	As at December 31	
	2012	2012	2011
	%	US$ thousands	US$ thousands
Current liabilities (without current maturities)			
Short-term credit from financial institutions in dollars	1.2	**30,035**	22,106
Short-term credit in dollars:			
From the parent company (1)	1.0	**50,000**	–
From others (1)	1.0	**50,000**	–
		130,035	22,106

(1) For details – see Item 7(F,G).

4 - Credit from Banks and Others (cont'd)

	Weighted average interest rate as at December 31	As at December 31	
	2012	2012	2011
	%	US$ thousands	US$ thousands
Non-current liabilities (including current maturities)			
Marketable debentures (1):			
In dollars	3.2	**70,170**	69,612
In Israeli currency – unlinked	5.0	**224,314**	219,648
In Israeli currency – linked to CPI	3.4	**134,163**	129,210
		428,647	418,470

(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	
	2012	2011
	US$ thousands	US$ thousands
Second year	**161,708**	263,125
Third year	**–**	155,345
	161,708	418,470

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.

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, 2011	(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
Changes in 2012:				
Amounts recorded in equity	**–**	**–**	**189**	**189**
Amounts recorded in income	**19**	**(55)**	**(1,959)**	**(1,995)**
Balance as at December 31, 2012	**(32)**	**4,049**	**3,761**	**7,778**

The deferred taxes as at December 31, 2012 are calculated at a tax rate of 25% (December 31, 2011 – 25%).

5 - Taxes on Income (cont'd)

B. Taxes on income included in the income statements:

	For the year ended December 31		
	2012	2011	2010
	US$ thousands	US$ thousands	US$ thousands
Current taxes	**7,039**	9,393	7,734
Deferred taxes	**765**	(1,697)	(2,393)
Taxes in respect of prior years*	**(3,088)**	127	23,901
	4,716	7,823	29,242

* Includes deferred taxes relating to prior years.

C. Taxes on income regarding equity items

	For the year ended December		
	2012	2011	2010
	US$ thousands	US$ thousands	US$ thousands
Taxes recorded in other comprehensive income			
Actuarial gains from defined benefit plan	**–**	48	(249)
Change in fair value of financial assets available-for-sale	**–**	1,329	331
Change in fair value of derivatives used for hedging cash flows	**313**	(143)	408
	313	1,234	490

	For the year ended December		
	2012	2011	2010
	US$ thousands	US$ thousands	US$ thousands
Taxes recorded directly in equity			
Tax benefit in respect of issuance of shares to employees	**189**	(1,070)	(211)
	189	(1,070)	(211)

6 - Financial Instruments and Risk Management

A. General

The Company has extensive international activity 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 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 the entire 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 constitute accounting hedges.

The transactions in derivatives are executed with large financial institutions in Israel and abroad, and therefore in the opinion of Company management the credit risk in their respect is low.

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. 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 the purpose of updating the policies if required. Company management implements the policies determined, while taking into consideration actual and anticipated market developments.

6 - Financial Instruments and Risk Management (cont'd)

B. Groups and measurement bases of financial assets and financial liabilities

	As at December 31, 2012			
	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	–	57,901	–	–
Investments in deposits and short-term loans	8,036	11,620	–	–
Other receivables and debit balances, including derivative instruments	2,494	1,754	–	–
Deposits and other long-term receivables	–	7,294	–	–
Long-term derivative instruments	17,515	–	–	–
Total financial assets	28,045	78,569	–	–
Short-term credit from banks and others	–	–	–	(396,974)
Other payables, including derivative instruments	–	–	(1,846)	(29,429)
Long-term loans from banks and others	–	–	–	(161,708)
Long-term derivative instruments	–	–	(20,204)	–
Total financial liabilities	–	–	(22,050)	(588,111)
Total financial instruments, net	28,045	78,569	(22,050)	(588,111)

6 - Financial Instruments and Risk Management (cont'd)

C. Credit risk

(1) General

Deposit credit risks - The Company deposits the balance of its liquid financial assets only in bank deposits. The deposits are held in leading banks with an appropriate spread between the banks and a preference for 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	
	2012	2011
	Carrying amount	
	US$ thousands	US$ thousands
Cash and cash equivalents	**57,901**	70,025
Investment deposits and short-term loans	**19,656**	421
Other receivables, including derivative instruments	**4,248**	2,073
Deposits and other long-term receivables	**7,294**	7,624
Long-term derivative instruments	**17,515**	18,229
	106,614	98,372

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.

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, 2012				
	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)	**130,035**	**131,571**	**–**	**–**	**–**
Other payables	**29,429**	**29,429**	**–**	**–**	**–**
Non-convertible debentures (including current maturities)	**428,647**	**286,223**	**165,831**	**–**	**–**
	588,111	**447,223**	**165,831**	**–**	**–**
Financial liabilities – derivative instruments utilized for economic and accounting hedging					
Derivatives on exchange rates	**2,676**	**–**	**2,676**	**–**	**–**
Interest rate swaps and options	**19,374**	**1,846**	**5,501**	**9,451**	**2,576**
	22,050	**1,846**	**8,177**	**9,451**	**2,576**
	610,161	**449,069**	**174,008**	**9,451**	**2,576**

6 - Financial Instruments and Risk Management (cont'd)

D. Liquidity risk (cont'd)

	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					
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	–
	476,259	75,909	18,131	437,339	–
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	–
	29,163	3,992	6,468	18,703	–
	505,422	79,901	24,599	456,042	–

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 Company's non-derivative interest-bearing financial instruments:

	As at December 31	
	2012	2011
	Carrying amount	
	US$ thousands	US$ thousands
Fixed rate instruments:		
Financial assets	**2,176**	2,490
Financial liabilities	**(331,724)**	(322,722)
	(329,548)	(320,232)
Variable rate instruments:		
Financial assets	**63,457**	75,580
Financial liabilities	**(226,959)**	(117,854)
	(163,502)	(42,274)

(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 (excluding interest rates), in particular foreign currency rates, remained constant. The analysis is performed on the same basis for 2011.

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, 2012			
	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	**1,626**	**813**	**(813)**	**(1,626)**
Cylinder instruments	**(1,458)**	**(1,442)**	**1,430**	**2,540**
SWAP instruments	**(8,225)**	**(4,063)**	**3,967**	**7,840**
	(8,057)	**(4,692)**	**4,584**	**8,754**
Changes in shekel interest				
Non-derivative instruments	**10**	**5**	**(5)**	**(10)**
SWAP instruments	**625**	**310**	**(306)**	**(608)**
	635	**315**	**(311)**	**(618)**
	(7,422)	**(4,377)**	**4,273**	**8,136**

	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
	(2,681)	(1,854)	1,634	3,277
Changes in shekel interest				
Non-derivative instruments	(200)	(100)	100	200
	(2,881)	(1,954)	1,734	3,477

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, 2012			
	Carrying amount (fair value)	Notional amount	Maturity date	Interest rate range
	US$ thousands	US$ thousands	Years	%
US dollar				
Interest rate swaps from fixed into variable	**4,923**	**48,000**	**1–3**	**4.63%**
Interest rate swaps from variable into fixed	**(15,750)**	**436,262**	**1–6**	**1%–4.3%**
Cylinder instruments	**(3,623)**	**170,000**	**1–4**	**1%–3.75%**
NIS				
Interest rate swaps from fixed into variable	**1,897**	**69,837**	**1–2**	**3.4%–5.25%**

(2) Currency risk

The Company is exposed to currency risk on sales, assets and liabilities 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 cash flows, resulting from existing assets and liabilities, and from sales and purchases of goods and services within the framework of firm or anticipated commitments (based on a budget of up to one year) 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 (US$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 US$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 transactions in derivatives 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 for a 4-year period. 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 derivates (a loss of US$2.7 million) to capital reserves in other comprehensive income.

6 - Financial Instruments and Risk Management (cont'd)

E. Market risk (cont'd)

(2) Currency risk (cont'd)

(a) Sensitivity analysis

An appreciation of 10% of the US$ against the shekels would have increased (decreased) profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remained constant.

	As at December 31	
	2012	2011
	Impact on profit (loss) in US$ thousands	
Non-derivative financial instruments		
Dollar/NIS	**36,370**	32,739

A depreciation 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, 2012 and December 31, 2011. Any change in the dollar-shekel exchange rate 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, 2012			
	Increase 10%	Increase 5%	Decrease 5%	Decrease 10%
	US$ thousands	US$ thousands	US$ thousands	US$ thousands
Dollar/NIS Forward	**(1,876)**	**(983)**	**1,086**	**2,293**
Dollar/GBP Forward	**(4,678)**	**(2,217)**	**2,006**	**3,827**
Dollar / NIS SWAP	**(25,953)**	**(13,645)**	**14,853**	**31,485**
CPI				
Forward	**5,957**	**2,971**	**(2,979)**	**(5,957)**
SWAP	**4,227**	**2,114**	**(2,114)**	**(4,227)**

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, 2012		
	Carrying amount	Notional amount	Average exchange rate
	US$ thousands	US$ thousands	%
Forward			
CPI	**(826)**	**53,576**	**–**
Dollar / NIS	**641**	**20,000**	**3.86**
Dollar / GBP	**(66)**	**42,044**	**1.62**
SWAP			
Dollar / NIS	**3,698**	**270,335**	**–**
Dollar / CPI	**7,066**	**34,009**	**–**

	As at December 31, 2011		
	Carrying amount	Notional amount	Average exchange rate
	US$ thousands	US$ thousands	%
SWAP			
Dollar / NIS	(111)	270,553	3.8
Dollar / CPI	6,662	38,892	3.8

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, 2012				
	US$	Euro	GBP	NIS	CPI
Non-derivative financial instruments:					
Cash and cash equivalents	**23,981**	**63**	**24**	**33,833**	**–**
Investments deposits and short-term loans	**11,620**	**–**	**–**	**8,036**	**–**
Other receivables	**1,380**	**–**	**–**	**374**	**–**
Deposits and other long-term receivables (including current maturities)	**5,118**	**–**	**–**	**–**	**2,176**
Total financial assets	**42,099**	**63**	**24**	**42,243**	**2,176**
Credit from banks and other credit providers	**192,628**	**–**	**–**	**204,346**	**–**
Other payables	**–**	**–**	**–**	**29,429**	**–**
Long-term loans from banks and other credit providers (including current maturities)	**–**	**–**	**–**	**27,545**	**134,163**
Total financial liabilities	**192,628**	**–**	**–**	**261,320**	**134,163**
Total non-derivative financial instruments, net	**(150,529)**	**63**	**24**	**(219,077)**	**(131,987)**
Derivative instruments:					
Forwards	**–**	**–**	**42,044**	**–**	**53,576**
SWAPs Dollar to NIS and CPI	**–**	**–**	**–**	**270,553**	**34,099**
Total derivative instruments	**–**	**–**	**42,044**	**270,553**	**87,585**
Net exposure	**(150, 529)**	**63**	**42,068**	**51,476**	**(44,402)**

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, 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)**

6 - Financial Instruments and Risk Management (cont'd)

F. Fair value of financial instruments

The Company's financial instruments mostly include non-derivative assets, such as: cash and cash equivalents, investments, deposits and short-term loans, receivables and debit balances, investments and long-term receivables; non-derivative financial liabilities, such as: short-term credit, payables 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 details the stated value and the fair value of financial instrument groups presented in the financial statements not in accordance with their fair value.

	As at December 31, 2012	
	Carrying amount	Fair value
	US$ thousands	US$ thousands
Marketable debentures	**331,724**	**344,824**

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

	For the year ended December 31		
	2012	2011	2010
	US$ thousands	US$ thousands	US$ thousands
Dividends from investee companies	**811,500**	1,198,311	1,356,758
Management fees from investee companies	**42,006**	42,828	35,422
Financing income from investee companies, net	**26,086**	13,083	2,536

C. Financial guarantees

The Company is a guarantor of the liabilities of its subsidiaries to banks in an unlimited amount. As at the date of the report, the balance of the subsidiaries' bank liabilities for which the Company has provided a guarantee is $1,192 million.

7 - Arrangements and Transactions with Investee Companies (cont'd)

D. Loans

Loans between the Company and investee companies in Israel are provided on the same terms as the Company received and on the condition that the terms of the loan will not be below the minimum interest required under the tax law in Israel. In the course of drafting the financial statements, loans were granted under such terms.

E. Dividends

Date of dividend distribution	Distributing company	Dividend amount ($ millions)
April 15, 2010	Dead Sea Works	400
April 29, 2010	IDE	5
April 29, 2010	HVB Inc.	9
May 30, 2010	Dead Sea Bromine	56
June 28, 2010	Dead Sea Works	500
June 28, 2010	Rotem Amfert Negev	10
August 31, 2010	Dead Sea Bromine	17
September 20, 2010	Dead Sea Works	130
September 20, 2010	Rotem Amfert Negev	10
November 30, 2010	Dead Sea Bromine	20
January 1, 2011	Tovala	5
January 12, 2011	Dead Sea Works	150
January 12, 2011	Rotem Amfert Negev	45
February 25, 2011	HVB Inc.	2
March 31, 2011	Dead Sea Works	400
March 31, 2011	Dead Sea Bromine	38
March 31, 2011	Rotem Amfert Negev	25
April 3, 2011	IDE	5
May 12, 2011	Rotem Amfert Negev	40
May 12, 2011	Tovala	10
May 15, 2011	Dead Sea Bromine	25
June 28, 2011	Dead Sea Works	140
August 31, 2011	Dead Sea Bromine	31
September 21, 2011	Dead Sea Works	150
September 21, 2011	Rotem Amfert Negev	60
November 20, 2011	Dead Sea Bromine	23
December 15, 2011	Dead Sea Works	225
December 15, 2011	Rotem Amfert Negev	25
December 21, 2011	HVB Inc.	153
March 11, 2012	Tovala	6
March 20, 2012	IDE	8
April 30, 2012	Dead Sea Works	180
April 30, 2012	Rotem Amfert Negev	20
May 21, 2012	Dead Sea Bromine	40

7 - Arrangements and Transactions with Investee Companies (cont'd)

E. Dividends (cont'd)

Date of dividend distribution	Distributing company	Dividend amount ($ millions)
June 12, 2012	Dead Sea Works	140
June 12, 2012	Rotem Amfert Negev	30
August 14, 2012	Dead Sea Bromine	41
September 3, 2012	Dead Sea Works	150
November 20, 2012	Dead Sea Bromine	22
December 5, 2012	Dead Sea Works	150
December 5, 2012	Rotem Amfert Negev	25

Subsequent to the date of the financial statements, on March 6, 2013, a subsidiary, Tovala, declared distribution of a dividend, in the amount of $25 million.

Subsequent to the date of the financial statements, on March 10, 2013, a subsidiary, Dead Sea Bromine, declared distribution of a dividend, in the amount of $40 million.

Subsequent to the date of the financial statements, on March 11, 2013, the subsidiaries Dead Sea Works and Rotem Amfert Negev, declared distribution of dividends, in the amounts of $80 million and $40 million, respectively.

F. On June 26, 2012, the Company received a short-term loan in the amount of $50 million from the Company's controlling shareholder (Israel Corporation Ltd.), bearing annual interest at the three-month Libor rate plus a margin of 0.7% (1.22%). The loan was due on September 24, 2012. The loan was extended by an additional three months, to December 26, 2012, and the interest rate was revised accordingly to the three-month LIBOR rate plus a margin of 0.7% (1.073%). On December 26, 2012, the period of the loan was extended for an additional three months, and the interest rate was updated based on the three-month Libor rate plus a margin of 0.7% (1.01%). The terms of the loan are the same as market terms.

G. On September 11, 2012, the Company received a loan from a third party in the amount of $50 million, bearing interest at the three-month LIBOR interest rate plus a margin of 0.7%. The loan is due three months from the grant date. On December 11, 2012, the loan was extended by an additional three months.

Chapter D – Code of Ethics, Corporate Governance, 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 Governance

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 Governance:

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. Yaacov 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 Yaacov 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 2012 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 2012, ICL's Board of Directors convened for 16 meetings and the boards of the segments held 21 meetings.
For information about the attendance rate of directors at ICL board meetings, see the Corporate Governance questionnaire attached to Other Information.

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. ICL's Audit Committee has 6 directors – three external and 2 independent. In 2012, the committee held 11 meetings in addition to the 9 meetings of the audit committees held by the segments. For information about the attendance rate of members, see the Corporate Governance questionnaire attached to Other Information.
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. 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 2012 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.

The committee numbers 6 members, as follows:
Prof. Yair Orgler, committee chairman and external director, with accounting and financial expertise.
Dr. Miriam Haran, external director
Mr. Yaacov Dior, external director, with accounting and financial expertise
Mr. Victor Medina, independent director, with accounting and financial expertise
Mr. Baiga Shochat, independent director, with accounting and financial expertise
Mr. Ovadia Eli

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.

Compensation Committee: On November 14, 2012, ICL's Board of Directors appointed a Compensation Committee in accordance with Amendment 20 of the Companies Law, 1999. The committee has three external directors.

The main tasks of the Compensation Committee are as follows:

(1) To recommend compensation policy for officers to the Board of Directors, and to recommend, once every three years, approval of the continued validity of the compensation policy that was set for a period exceeding three years.

(2) To recommend an up-date, from time to time, of the compensation policy and its implementation to the Board of Directors.

(3) To approve transactions regarding the conditions for an officer's terms of service and employment, which require the approval of the Compensation Committee in accordance with the Companies Law.

In 2012, the committee did not convened.

Human Resources Committee: The Human Resources Committee deals with issues relating to human resources in ICL. For example, the committee discusses the terms of officers and employees, remuneration for promotion, training of successors, labor relations, etc. The committee has six members, of whom two are external directors and one is an independent director. In 2012, the committee held 9 meetings. For information about the attendance rate, see the Corporate Governance questionnaire attached to Other Information.

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 28, 2013 the Board of Directors of ICL discussed the Description of the Corporations' Business (Barnea Report).
On March 7, 2013, the Finance Committee (the committee that discusses the financial statements and recommends their approval) discussed the Periodic Report, the Directors' Report and the financial statements for 2012 and formulated its recommendations to the Board of Directors of ICL. The Committee's recommendations were distributed to the Board of Directors on March 7, 2013. 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 and Ovadia Eli. The first part of the meeting was also attended by Board members: Yossi Rosen, Avisar Paz, Haim Erez and Moshe Vidman.

On March 12, 2013, the Board of Directors of ICL discussed the entire set of reports and approved them. Mr. Zion Amsalem, the external auditor and the following officers: Stefan Borgas (Except for meeting of February 28, 2013), Avi Doitchman, Asher Grinbaum (Participated in the meeting dated March 12,2013), Eli Amit (Except for meeting of March 7,2013), Lisa Haimovitz, Yakir Menashe (Participated in the meeting dated March 12,2013), Amir Benita, Michael Hazzan participated in all these meetings. For the functions of these officers, see Chapter of Additional Details of the Corporation.

2.6 Salary of the external auditor

In 2013, 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 7.7 million as follows:

	2012				**2011**			
	Fees ($,000)		**No. of hours**		**Fees ($,000)**		**No. of hours**	
	Israel	**Abroad**	**Israel**	**Abroad**	**Israel**	**Abroad**	**Israel**	**Abroad**
Audit and tax services	2,458	4,081	37,499	23,314	2,511	4,382	36,971	26,546
Other services*	270	883	2,486	2,248	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 has approved an internal procedure for the identification, reporting and approval of transactions with officers and controlling shareholders or transactions with other segments in which each of them has a personal interest.
The procedure sets 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.

In addition, the Audit Committee approved a procedure for classifying a transaction as an extraordinary transaction or as a transaction that is not extraordinary.

These procedures are designed to supplement and not to 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 extended in 2010 until 2013. On March 12, 2013 the appointment period was extended for an additional period of three years.

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 Zohar 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 ,2010 and 2013 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 2015, in addition to a detailed annual work plan for 2013. 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 and 2012.

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 2012, the mapping process of internal auditing was completed for ICL companies in Israel and other countries.

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 2012, the internal auditor invested 702 hours in ICL and a further 2,007 hours in audit of subsidiaries. These hours were broken down into 558 audit hours overseas and 2,151 audit hours in Israel. This is in addition to the audit work in the segments, which is carried out mainly by segment employees. In 2012, 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 in Israel (IIA Israel).

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 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 2012, 129 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 2012, ICL's Audit Committee held 5 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 2012, the audit committees of the segments held 21 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 2012, the amount paid to the auditor totaled approximately $180 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 2012

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, 2012
Report date	March 12, 2013

Regulation 9D – Table of Liabilities by date of repayment

See the Table of Liabilities by date of repayment as at March 12, 2013, reference number 2013-01-002956.

Regulation 10A – Summary financial statements for 2012 and for each of the quarters of 2012 (thousands of US dollars)

USD (thousands)	**Year 2012**	**Quarter 10-12/2012**	**Quarter 7-9/2012**	**Quarter 4-6/2012**	**Quarter 1-3/2012**
Sales	6,672,241	1,338,051	1,817,471	1,964,621	1,552,098
Cost of sales	3,915,062	830,947	1,031,519	1,111,913	940,683
Gross Profit	**2,757,179**	**507,104**	**785,952**	**852,708**	**611,415**
Selling, transportation and marketing expenses	806,310	184,451	214,391	229,541	177,927
General and administrative expenses	259,923	67,805	62,588	62,187	67,343
R&D expenses – net	77,198	20,712	18,428	19,180	18,878
Other expenses	61,085	57,675	2,711	318	381

Other income	(23,852)	(17,583)	(82)	(3,665)	(2,522)
Profit from ordinary operations	**1,576,515**	**194,044**	**487,916**	**545,147**	**349,408**
Finance expenses	92,430	-	23,816	37,767	31,366
Finance revenue	(33,813)	(781)	(10,402)	(9,199)	(13,950)
Financing costs, net	**58,617**	**(781)**	**13,414**	**28,568**	**17,416**
Share in income (loss) of affiliates, net of tax	8,261	1,114	2,631	2,713	1,803
Profit before income tax	**1,526,159**	**195,939**	**477,133**	**519,292**	**333,795**
Income tax	221,026	(13,790)	81,022	109,494	44,300
Profit for the period	**1,305,133**	**209,729**	**396,111**	**409,798**	**289,495**
Attributable to:					
Shareholders of the Company	1,300,523	209,510	394,815	407,262	288,936
Non-controlling interests	4,610	219	1,296	2,536	559
Profit for the period	**1,305,133**	**209,729**	**396,111**	**409,798**	**289,495**

Regulation 11 – List of investments in subsidiaries and affiliates at the date of Report on Financial Condition

See details of investments in the appendix attached at the end of this portion of the report.

Regulation 13 – Income of subsidiaries and affiliates, for the period of the report

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.	859,134	882,441	620,000	14,522	(3,662)
Dead Sea Bromine Ltd.	154,930	144,860	103,000	7,426	5,659
Rotem Amfert Negev Ltd.	259,778	234,384	75,000	17,202	23,304
IDE Technologies Ltd.[1]	11,588	12,353	8,000	450	4

[1] A company proportionately consolidated. The data are for 50% of the profits.

Mifalei Tovala Ltd.	6,851	6,767	5,500	329	_
Dead Sea Magnesium Ltd.	2,926	2,477	_	871	634
ICL Finance BV	2,529	4,208	-	-	1,759

Following the date of the Report, on March 11, 2013, the Dead Sea Works and Rotem Amfert Negev subsidiaries declared dividend payments of $80- million and $40- million, respectively.

Following the date of the Report, on March 10, 2013, the Dead Sea Bromine subsidiary declared a dividend payment of $ 40-million.

Following the date of the Report, on March 6, 2013, the Mifalei Tovala subsidiary declared a dividend payment of $ 25-million.

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. 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. The updated remainder of options under the plan (following cancellation of several options due to the retirement of employees) is 10,847,500. Of this quantity, in 2012, 3,333 options were exercised for 22 shares. In 2013, as at the reporting date, 6,633,574 options have been exercised for 312,558 shares. These options constitute the remainder of exercisable shares under this plan.

C. On November 26, 2012 the Board of Directors of ICL approved an allotment of 11,999,400 non-negotiable options, for no consideration, to officers and employees.

For further details see Note 25 to the 2012 Financial Statements of the Company.

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)	**Remuner-ation (1)**	**Bonus paid in 2010 for 2009** (16) (2)	**Share-based payment**	**Total**
				NIS Thousands				
Akiva Mozes (3)	CEO until Sept 20, 2012	100%	0.03%	1,898	3,956(4)	3,455(5)	(11)2,513	9,924
Stefan Borgas (6)	CEO from Sept 20, 2012	100%	____	1,062	4,282	(7)	(12)	4,282
Asher Grinbaum (8)	Executive VP	100%	0.00%	1,586	2,764	1,848	(13)800	5,412
Dani Chen (9)	CEO, ICL Fertilizers	100%	0.00%	1,343	2,296	1,708	(14)800	4,804
Nissim Adar (10)	CEO, ICL Industrial Products	100%	0.00%	1,344	2,315	1,855	(15)800	4,970

(1) The salary set out in the above table includes all of the following components: monthly salary, social benefits, social provisions and incidental expenses, company car and reimbursement of telephone expenses. (For Akiva Mozes – includes 13th salary as well.)

(2) The bonus that appears in the above table represents the bonus with respect to 2012 profits as was approved by ICL's audit committee on March 11, 2013 and board of directors on March 12, 2013. With

regard to the bonus formula in accordance with the Company's bonus procedures, according to which the officers' bonuses specified in the table were calculated, see below under the heading the Link Between Officers' Remuneration and Their Contribution to the Company.

(3) Akiva. Mozes terminated his term of office as the Company CEO on September 20, 2012. According to the employment contract, between Mr. Mozes and the Company, signed in 1995 and amended in 2000, salary updates, as approved by decisions of the Board of directors from time to time, Mr. Mozes salary as at December 31, 2012 is NIS 197,177,000. Mr. Mozes' salary is linked to the consumer price index. Mr. Mozes is also entitled to a 13th monthly 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, taking into account the seniority he accumulated in the Group's companies and based on his last monthly salary times the number of years of employment in the Group. Under his employment contract, Mr. Mozes received severance pay calculated at his last monthly salary multiplied by the number of years of employment since January 1995. In addition, under his employment contract, Mr. Mozes is entitled to utilize accumulated vacation days up to the maximum of 55 days and to a 12 month acclimatization period that will begin on the date on which his term of office ends, and during which he is entitled to all the employment terms and payments he is entitled to during his employment, as though he continued his office as CEO of the Company. For further details, see section 5.2 A to the Description of the Company's Business.

(4) The amount that appears in the table under the column "Salary" represents the Akiva Mozes's salary for the period until the termination of his term of office as Company CEO (until September 20, 2012). The amount that appears under the column "Remuneration" represents the remuneration component for the entire year 2012.

(5) The amount of the bonus is for the period until the termination of Akiva Mozes's term of office as Company CEO (until September 20, 2012). As specified in comment (3) above, Akiva Mozes is entitled to an acclimation period of 12 months. Accordingly, for the period from the date on which his term of office is terminated through the end of 2012, Akiva Mozes will be paid a bonus of NIS 1,333,000 which will be calculated using the formula prescribed in the Company's bonus procedures, as set out below under the heading Link between the Officers' Remuneration and their Contribution to the Company

(6) Stefan Borgas has served as the Company's CEO since September 20, 2012. Mr. Borgas's employment agreement is for an unlimited period and may be terminated by either party at any time. His monthly salary, as at December 31, 2012, is USD 83,333. Stefan Borgas's salary is paid in Israeli currency at the representative exchange rate on the date of payment. In addition to his monthly salary, Stefan Borgas will be entitled to monthly participation for the cost of a residence, in an amount of up to USD 8,250 net, for the shorter period between the duration of his employment with the Company or for a period of three years. He also received a non-recurring lump sum for participation in relocation costs to Israel in the amount of USD 100,000. In addition, Mr. Borgas is also entitled to coverage for the cost of air tickets for two annual vacations in Europe for him and for his family, as well as participation in his medical insurance. Other than in the event that rights to compensation are revoked under Israeli law, Stefan Borgas will be eligible to a prior notice payment equivalent to 6 months salary if his resignation is at his request, and equivalent to 12 months salary if his resignation is initiated by the Company, in addition to the amounts provided regularly for pension and compensation, the severance compensation for Mr. Borgas will be calculated and paid based on the seniority he accumulates in the Company and on the basis of his last monthly salary multiplied by the number of years he is employed in the Company. For further information concerning the terms of Mr. Borgas's employment, see immediate report dated September 24, 2012 (Ref. No.: 2012-01-244113).

(7) Under Mr. Borgas's employment agreement the amount of the annual bonus to be paid to Mr. Borgas will not exceed the amount of USD 1.25 million and will not fall below the amount of USD 0.5 million. ICL's Remuneration Committee and Board of Directors decided that since the Company will, in the coming months, adopt a remuneration policy as set forth in sections 267A and 247B of the Companies Law, the amount of the bonus that will be paid to Mr. Borgas for 2012 will be calculated according to the formula for determining the bonus amount for the Company's CEO, which will be set as part of the Company's remuneration policy to be adopted as aforesaid and according to the pro rata amount for 2012 during which Mr. Borgas served as Company CEO (i.e. 27% of the bonus amount calculated as aforesaid). The bonus for 2012 will be paid to Mr. Borgas soon after the Company has adopted the remuneration policy.

(8) Asher Grinbaum served 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 twice 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 it is ended by one of the parties giving prior written 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, 2012 is NIS 134,000. In addition Mr. Grinbaum is entitled to sums 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.

(9) 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 twice 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 it is ended by one of the parties giving prior written notification. Mr. Chen 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, 2012 is about NIS 114,000. In addition Mr. Chen is entitled to sums 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.

(10) 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 twice 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 it is ended by one of the parties giving prior written 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, 2012 is about NIS 114,000. In addition 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.

(11) 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 under the Company's options plan for 2010. The options are exercisable into Company shares at an exercise price of NIS 53.1 in three tranches, 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 tranches and NIS 19.3 for the third tranche, based upon the price of the share of NIS 1 par value in the Tel Aviv Stock Exchange on the eve of the allotment, which was NIS 53.1, the same as the exercise price. [The amount in the table reflects the expense recorded by the Company, for granting the options on the basis of accounting principles].

(12) On November 26, 2012 the board of directors approved an allotment of 1,190,000 non-negotiable options, free of charge, for Stefan Borgas under the Company's option plan for 2012. On December 30, 2012 the options were assigned to a trustee in Mr. Borgas's favor. The options are exercisable into Company shares at an exercise price of NIS 46.6 (subject to adjustments) and in three tranches beginning in January 2015. The weighted financial value of these options, on date of approval, was NIS 11.9 for the first and second tranches, and NIS 12.7 for the third tranche. No expenses were recorded in the 2012 financial statements for the options awarded to Mr. Borgas. The exercise price for converting the options into shares as at the date of publication of the financial statements is NIS 46.38. This price is 3.4% lower than the last share price on the date of publication of the financial statements. For additional information regarding the method of calculating the financial value of the options, immediately before approval of allocation and for additional information see outline of a material private placement published by the Company on November 27, 2012 (Ref. No.: 2012-01-290622) ("the Outline").

(13) 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, under the Company's options plan for 2010. The options are exercisable into Company shares at an exercise price of NIS 53.1 in three tranches, 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 tranches, and NIS 19.3 for the third tranche, based upon the price of the share of NIS 1 par value in the Tel Aviv Stock Exchange on the eve of the allotment, which was NIS 53.1, the same as the exercise price. The amount that appears in the table reflects the Company's indirect expenses for the allotment of all the options and this is based on generally accepted accounting principles. Asher Grinbaum exercised 233,333 options of the first and second tranches and the options of the third tranche are exercisable up to January 7,2014. The exercise price for the options as at the day of publication of this report is NIS 46.92. This price is 2% Lower 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 Company's Business.]

On November 26, 2012 an allotment of 380,000 non-negotiable options was approved, free of charge, for Asher Grinbaum under the Company's option plan for 2012. On December 30, 2012 the options were assigned to a trustee in Mr. Grinbaum's favor. The options are exercisable into Company shares at an exercise price of NIS 46.6 (subject to adjustments) and in three tranches beginning in January 2015. The weighted financial value of these options, on date of approval, was NIS 11.9 for the first and second tranches, and NIS 12.7 for the third tranche. The exercise price for converting the options into shares as

at the date of publication of the financial statements is NIS 46.38. This price is 3.4% lower than the last share price on the date of publication of the financial statements. For further details, regarding the method for calculating the financial value of the options, immediately before approval of allocation and for additional information, see the Outline.

(14) 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 under the Company's options plan for 2010. 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 tranches and NIS 19.3 for the third tranches, based upon the price of the share of NIS 1 par value in the Tel Aviv Stock Exchange on the eve of the allotment, which was NIS 53.1, the same as the exercise price. Dani Chen exercised 233,333 options of the first and second tranches. The third tranche options are exercisable until January 7,2014. The exercise price for the options as at the day of publication of this report is NIS 46.92. This price is 2% lower 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 Company's Business.]

On November 26, 2012 an allotment of 380,000 non-negotiable options were approved, free of charge, for Dani Chen under the Company's option plan for 2012. The options are exercisable into Company shares at an exercise price of NIS 46.6 (subject to adjustments) and in three tranches beginning in January 2015. The weighted financial value of these options, on date of approval, was NIS 11.9 for the first and second tranches, and NIS 12.7 for the third tranche. The exercise price for converting the options into shares as at the date of publication of the financial statements is NIS 46.38. This price is 3.4% lower than the last share price on the date of publication of the financial statements. For further details regarding the method for calculating the financial value of the options, immediately before approval of allocation and for additional information, see the Outline.

The amount appearing in the table reflects the aggregate expenditure recorded by the Company with regard to granting of options, based on generally accepted accounting principles.

(15) 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, under the Company's options plan for 2010. 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, which was NIS 53.1, the same as the exercise price. The amount that appears in the table reflects the Company's indirect expenses for the allotment of the options and this is based on generally accepted accounting principles. Nissim Adar exercised 233,333 options from the first and second tranches and the options from the third tranche are exercisable until January 7,2014. The exercise price for the options as at the day of publication of this report is NIS 46.92. This price is 2% Lower 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 Company's Business.

On November 26, 2012 an allotment of 380,000 non-negotiable options was approved, free of charge, for Nissim Adar under the Company's option plan for 2012. On December 30, 2012 the options were assigned to a trustee in Nissim Adar's favor. The options are exercisable into Company shares at an exercise price of NIS 46.6 (subject to adjustments) and in three tranches beginning in January 2015. The weighted financial value of these options, on date of approval, was NIS 11.9 for the first and second tranches, and NIS 12.7 for the third tranche. The exercise price for converting the options into shares as at the date of publication of the financial statements is NIS 46.38. This price is 3.4% lower than the last share price on the date of publication of the financial statements. For further details regarding the method for calculating the financial value of the options, immediately before approval of allocation and for additional information, see the Outline.

(16) The bonus set out in the above table represents the bonus for 2012 profits as approved by ICL's audit committee on March 11,2013 and the board of directors on March 12, 2013. For details concerning the formula prescribed in the Company's bonus procedures, according to which the officers' bonuses specified in the table were calculated, see below under the heading Link between the Officers' Remuneration and their Contribution to the Company.

In 2012 the sum of USD 1,115 Thousands was paid as compensation to the Board of Directors, according to Company regulations 4 and 5 (rules in relation to remuneration expenses to external Directors, 2000.

In 2012, the Company paid its controlling shareholder, Israel Corporation Ltd. ("Israel Corp.") management fees in the amount of USD 3.5 million per year plus VAT in accordance with the management agreement

between the Company and Israel Corp. ("the Management Agreement"). Subsequent to receipt of the approval of the Company's audit committee and the board of directors, on October 5, 2011, the general meeting approved the Company engaging in the management agreement for a period of three years from January 1, 2012 through December 31, 2014

Link between the Officers' Remuneration and their Contribution to the Company

On November 14, 2012 the Company's board of directors appointed a remunerations committee, in accordance with the provisions of section 118A of the Companies Law, 1999 ("the Companies Law"). The members of the remunerations committee are: External directors: Yaakov Dior, Chair; Prof. Yair Orgler and Dr. Mickey Haran. The remunerations committee will act to formulate remuneration policies for Company officers, which will be adopted by the Company's board of directors, in accordance with the provisions of section 118B of the Companies Law

On March 12, 2013, the Board of Directors of the Company discussed in connection to the officers' remuneration for the reporting year, as specified in the table above, and their contribution to the Company, and whether such remuneration is fair and reasonable. Information of the overall remuneration and all its components were presented to the Board of Directors.

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 overall remuneration and its components were presented before the board.

The officers' salary component was examined by the board of directors based on the following criteria: (1) to promote of the Company's objectives, its work schedule and long term policies; (2) to create appropriate incentives for the Officers, taking into account, inter alia, the Company's risk management policy; (3) the size of the Company and the nature of its operations (and for this purpose, the comparable data prepared by an external consulting company regarding the salary data for companies with similar operations was presented to the board of directors, as set out below); (4) all the components of the officers' remuneration and employment terms; (5) the officers' education, qualifications, expertise, professional experience, position, responsibilities and achievements, while examining personal performance and achievements in promoting the various managerial goals they are responsible for and the achievement of the Company's goals; (6) the ratio between the terms of employment of the officers and the salaries of the other employees of the Company, and in particular the ratio of the average salary to the external salary of employees as aforesaid, and the impact of the gap between them on the working relationships in the Company; (7) the link between the variable components and the fixed components included in the officers remuneration.

The bonus component - on March 11, 2013 the Company's audit committee and on March 12, 2013 the Company's board of directors approved bonuses for the officers as set forth in the table. The bonus component in the officers' remuneration specified in the foregoing table was fixed according to the formula set in the bonus procedures which are carried out in the Company since 2005, and which were approved under the updated formula by the board of directors in 2008 ("Bonus Procedures"). Since the formula for calculating bonuses was set, as aforesaid, in the bonus procedures prior to Amendment 20 to the Companies Law coming into effect, these bonuses should be seen as bonuses that have already been approved, as required by law, and therefore do not require re-approval by the competent organs in the Company as set out in section 272 of the Companies Law. Nonetheless, in accordance with the Company's internal procedures and until the approval of the remunerations policies by the Company, the annual bonuses granted to officers of the Company are examined by the audit committee and board of directors before they are awarded and is also what was done with regard to the bonus component for the officers as specified in the above table.
Pursuant to the bonus procedures, a formula was prescribed for bonuses granted to officers in the Company's head office (including the CEO) based on the weighted average of the rise or fall in operating profit of the Company compared with the previous year, while the bonuses granted to the managers of the segments specified in the foregoing table, are calculated by a formula based on attributing different weights to the Company's financial results (operating profit and net income), the financial results of the segments and compliance with strategic goals (such as compliance with safety and ecology goals), as well as savings and efficiency goals. The relevant officer's compliance with the goals is determined by using evaluation sheets filled out by the persons in charge of that officer, in which they are required to give grades regarding various parameters in the officer's performance. These grades are weighted using a formula prescribed in the bonus procedures, in order to obtain a result that reflects the rate of compliance of the relevant officers with the set goals. In this regard it should be noted that in years when the Company's operating and net profit margins increase significantly compared with the previous year, the audit committee and board of directors decided to set a maximum increase rate for the amount of the grant reached by using the formula prescribed in the

procedures, so that the officers received a bonuses in amounts lower than the amount they would have been entitled to receive if the formula prescribed in the bonus procedures was applied technically.
In 2012 there was a decline in the Company's operating and net profit compared to 2011, at an average weighted rate of 16%, and therefore, with regard to the Company's head office officers, the bonuses for 2012 decreased compared with the bonus granted in 2011, by 16%. The bonus of Mr. Dani Chen, CEO of ICL Fertilizers was reduced by approximately 15% and the bonus of Mr. Nissim Adar, CEO of ICL Industrial Products was reduced by approximately 14%. The sum of bonuses paid to the last two executive officers was determined according to the formula, as described above.

In examining the fairness and reasonability of the bonus component for the officers specified in the table, which were approved in accordance with the provisions of the bonus procedures, the board of directors examined the criteria set in the bonus procedures and the foregoing criteria that were examined as part of the officers' salary component.

Equity based remuneration component was examined by the board of directors for the approval of employee option plans for 2010 and 2012 (see immediate reports dated January 7, 2010 and November 27, 2012 (Ref. No.: 2010-01-348021 and 2012-01-290622, respectively)) and based on assessment of the officers, their contribution to the Company, their achievements in promoting the Company's various goals, their seniority in the Company and the desire of the board to retain the backbone of the Company's management over the years. The equity based remuneration is designed to strengthen the link between the officers' remuneration and the Company's long term profitability.

The directors were presented with the comparable figures prepared by leading outside consulting firms, which compared and analyzed data on salaries, bonuses and equity based remuneration for officers in similar positions in public companies abroad operating in ICL's areas of operation, and of Israeli companies whose sales are greater than USD 1 billion. In accordance with the foregoing opinion, apparently the bonuses granted to the officers as specified in the foregoing table, and their other bonus components, are within the range for comparable companies. The board of directors noted that the financial figures characteristic of most Israeli companies included in the analysis by the consultant company is significantly lower than ICL's figures and therefore the remuneration figures of these companies do not necessarily represent a relative comparison.

In the board of directors discussion, the board examined the criteria noted above (concerning the salary components, bonus and equity based component) concerning each officer individually. The directors noted that the link between the terms of employment for each such officer and the average salary and median salary for the Company's employees is reasonable and that it did not believe that it would have an impact on labor relations in the Company. Subsequent to the discussion, and considering all the criteria noted above, and that were weighted with regard to each with regard to the various salary components and considering the outside opinion presented as aforesaid, and with regard to each officer separately, the board of directors confirmed that there is a link between the remuneration for each officer specified in the above table and their contribution to the Company and that the entire remuneration and all its components constitute fair and reasonable consideration for the contribution of each of the officers to the Company's operations and its business and financial results, as set out below.

Below are explanations from the Audit Committee and the Board of Directors regarding the remuneration of the officers. The Board of Director's considerations took into account the fact that when approving salary updates, bonuses and share-based remuneration, the Board examined the officers' remuneration components and the total compensation terms for each officer, and believes that these were fair and reasonable at the date of approval.

a. **Akiva Mozes, who served as President and CEO of the Company until September 20, 2012** – During the 13 years of Mr. Mozes's term of office the Company attained outstanding business achievements and became a leading global company in several areas of operation. These achievements are explained, inter alia, by proactive actions taken by the Company's management headed by Mr. Mozes. The Board of Directors confirmed that the amount of the bonus for Mr. Mozes in 2012 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 strategy outlined for it, its financial results, including in relation to comparable companies, and that Mr. Mozes's contribution to ICL is significant and important, 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. **Stefan Borgas**, the Company‘s CEO since September 20, 2012 – for further information concerning the audit committee and board of directors’ consideration with regard to the terms of employment of Mr. Borgas see immediate report dated September 24, 2012 (Ref. No.: 2012-01-244113). For further information regarding the audit committee and board of directors reasons for granting options to Mr. Borgas, see the Outline.

c. **Asher Grinbaum, Executive VP and COO** – During 2012, Mr. Grinbaum led the Company to important achievements in operation, overall maintenance, and the risk management of the Group, in which the decrease in the Company’s exposure to operational and regulatory risks is significant Mr. Grinbaum headed the complex and innovative assimilation of the Clean Air Law and emission records. 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, environmental quality, the Company’s operating results and achievements.

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 2012 Danny Chen successfully guided the potash segment operations and achieved good and stable results, and all against the background of challenging conditions in the global potash market. Furthermore, Danny Chen contributed significantly in applying the Dead Sea Salt Harvesting Project which is a complex, challenging project and the establishment of the new power plant in Sdom. 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 of 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** –Nissim Adar has overall responsibility for all the companies in the ICL Industrial Products segment in Israel and abroad. In 2012 ICL Industrial Products achieved its second best results compared with previous years against the background of a sharp drop in the global fire retardant segment. Furthermore, Nissim Adar headed substantial development of new products. 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.

With regard to the management agreement - the board of directors determined that the management fee that the Company paid in 2012 to Israel Corp., under the management agreement, was fair and reasonable, for the reasons based on which the audit committee and the board of directors approved the engagement in the management agreement in August 2011. For further details concerning the foregoing reasons see sections 4 and 7.2 to the report convening the general meeting under which the engagement in the management agreement was published on August 31, 2011 (Ref. No.: 2011-01-258699).

Regulation 21A – Control in the Corporation

Controlling shareholder of the corporation is the Israel Corporation Ltd (no: 520028010)

Israel Corp. Ltd. is a public company listed for trading on the TASE. Based on the information ICL received from Israel Corp., Millennium Investments Elad Ltd. ("Millennium") is a controlling shareholder in the Company. To the best of the company's knowledge, the control in Millennium is held by: Mashat (Investments) Ltd. ("Mashat") which holds 80% of Millennium's share capital and the balance of the shares (20%) is held by Ex-T Investments Ltd. ("Ex-T Investments"). Mashat is a private company, which is wholly owned by a Dutch company, Ansonia Holdings B.V. ("Ansonia"). Ansonia is a wholly owned subsidiary of Jelamy Corporation N.V. (registered in the Antilles Islands), which is a wholly owned subsidiary of the Liberian company, Court Investments Ltd. ("Court"). Court is a wholly owned subsidiary of a foreign trust, (Discretionary Trust), where Mr. Idan Ofer is the principal beneficiary. Ex-T Investments is a private, wholly owned subsidiary of Ex-T Holdings Ltd. ("Ex-T Holdings"). The regular shares of Ex-T Holdings are held, in equal parts, by Orona Investments Ltd., which is indirectly controlled by Mr. Ehud Angel and Lynav Holdings Ltd. ("Lynav"), a company controlled by a foreign discretionary trust, where Mr. Idan Ofer is the principal beneficiary. Mr. Ehud Angel has a special share which awards him, inter alia, under certain limitations and for certain issues, an additional vote on the Board of Directors of Ex-T Holdings.

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 and up to the approval date of the report, or which are still in effect.

<u>Transactions included in section 270(4) of the Companies Law, 5759-1999 ("the Companies Law"):</u>

(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 work 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 work 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. 2007-01-377743) and the Immediate Report dated August 17, 2011 (ref. no. 2011-01-243654).

On August 29, 2012, subsequent to approval by the Company's Board of Directors and Audit Committee, ICL's general meeting approved a framework resolution, pursuant to the Companies Regulations (Relief for Transactions with Interested Parties), 2000 to acquire an insurance policy for two tier cover against officers' liability. The first tier, which is shared with Israel Corp., has liability limit of up to USD 20 million (with payment of premiums split at 42.5% for ICL and 57.5% for Israel Corp.) and the second tier is separate and independent with liability limit of up to USD 200 million. This framework resolution is valid for three years as of 2012, provided that the Audit Committee and Board of Directors approve every renewal of the policy, and that the terms for purchasing the policy and the split of premium payments between ICL and Israel Corp. for the shared tier comply with the terms of the framework resolution. For further information see Immediate Report dated July 22, 2012 (Ref. No. 2012-01-190464).

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 Law[2]). 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

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 from a qualitative perspective. 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.

[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 influence the profitability, property or liabilities of the company.

In reviewing whether a future event is insignificant, the level of probability of the event actually occurring should also be examined.

Regulation 24 – Holdings of interested parties and senior officers at the date of the report

See the Company's Immediate Report dated February 17,2013 (Ref.No.: 2013-01-040956)

Regulation 24A – Registered and issued capital and convertible securities at the date of the report

See Note 25 to the 2012 Financial Statements of the Company

Regulation 24B – Shareholders' register

See the shareholders register and equity balance of the Company as at March 13, 2013.

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

External 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: yes, President and 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: President and CEO of Israel Corporation Ltd (June 1,2007); 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.;

Community service: Atidim, Daroma-Tzafona – promotion and integration in social and industrial action in outlying areas

Director in corporations: Companies fully owned by Israel Corporation Ltd, 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.; Qoros Automotive Co. Ltd. (Formerly known as Chery Quantum Auto Co. Ltd. 2007)

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: Michael Neeman Boulevard 18, Tel Aviv

Citizenship: Israeli

External 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: 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 – September 23, 2012); 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. <u>Prof. Yair Orgler</u>

ID no. 1210541 **Date of birth:** October 10, 1939

Address: 19 Yaakov Zrubavel, Tel Baruch, Tel Aviv

Citizenship: Israeli

External 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 and the remunerations committee.

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; 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. <u>Chaim Erez</u>

ID no.9415142 **Date of birth:** November 11, 1935

Address: 9A Mendes, Tel Hashomer

Citizenship: Israeli

External director: No

Independent director: No

Commencement of office: February 1, 1996

Member of board of directors committees: audit committee and human resources 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:** September 13,1949

Address: 5, Kadish Luz St., Jerusalem

Citizenship: Israeli

External 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 and the remunerations 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 on the board in the Company for Environmental Services (2008-2012)

Director in corporations: ICL subsidiaries: Dead Sea Works Ltd., Rotem Amfert Negev Ltd.; Chairman, Consumer Council, BTGR, a Ma'ala Organization .

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

External 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: Mizrachi –Tefahot Bank - Chairman; 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, Shoresh

Citizenship: Israeli

External 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, Chairman of the Board of Aptateck Ltd.

Family member of an interested party in the corporation: No

Having accounting and financial expertise: Yes

8. <u>Avisar Paz</u>

ID no. 54190921 **Date of birth:** January 29, 1957

Address: Israel Corporation, Millennium Tower, 23 Aranha Street, Tel Aviv.

Citizenship: Israeli

External director: No

Independent director: No

Commencement of office: April 1, 2001

Member of board of directors committees: is not a 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. <u>Avraham (Baiga) Shochat</u>

ID no. 7613086 **Date of birth:** June 14, 1936

Address: 2/22 Dan Hausner Street, Tel Aviv

Citizenship: Israeli

External 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 of Mizrahi Tefahot Bank Ltd. (until September 20, 2012)

Director in corporations: Alon USA; Direct Insurance - Financial Investments Ltd, Chairman of the Board, Citipass Ltd.; Israel Infrastructure Fund; 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.; Trustee on 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. <u>Eran Sarig</u>

ID: 027219062 **Date of birth**: April 3, 1974

Address: 23 Aranha, Tel Aviv

Citizenship: Israeli

External 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, Director of Better Place Inc .

Family member of an interested party in the corporation: No

Having accounting and financial expertise: Yes

11. <u>Ovadia Eli</u>

ID: 43699875 **Date of birth**: May 22, 1945

Address: Sharret 69, Afula

Citizenship: Israeli

External 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 Basisiim 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

External director: Yes.

Independent director: Yes

Commencement of office: October 5, 2011

Member of the board of directors committees: Finance committee; Audit Committee and Remunerations 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 KNEH HAKOL Ltd.

Director in corporations: External Director of Clal Insurance Holdings Ltd.; Chairman of the Board of Cellarix Mobile Payments Ltd (Until January 21, 2013).; 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. Stefan Borgas, CEO

ID no. CRYLLCRV **Date of birth:** September 11, 1964

Commencement of office: September **2**0, 2012

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 Business Administration from the University of Saarbrucken (Germany), MBA from University of St. Gallen (Switzerland)

Business experience in the last five years:
CEO of Lonza-Group (2004-2012), director at Syngenta Group (Since 2009).

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), 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; chairman of the environment committee of the Manufacturers Association; member of management committee of the "To See" Association.

3. **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

4. **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

5. **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

6. **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: VP, 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)

7. **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.

8. **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

9. 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, Director of Dead Sea Magnesium Ltd. Subsidiary.

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)

10. 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, 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, investor relations and communications at ICL.

11. 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, Economics.

12. 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: VP Of Human Resources; 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: VP Regulatory Affairs; Assistant to the CEO

13. 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.; Ferson Chemical

Materials Ltd.; ICL Fine Chemicals 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 from Tel Aviv University and an M.A. in Economics from Bar Ilan University

Business experience in the last five years: ICL Finance manager

14. <u>Hezi Israel</u>

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.

Officers whose tenure ended during the reporting period and up to the publication date

name	Previously Position held in the corporation	Commencement of office	Date completing tenure
Akiva Mozes	CEO	April 14, 1999	September **2**0, 2012
Yossi Shahar	Executive Vice President of Business Development	January 1, 2008	March 31, 2012
Nathan Dreyfuss	VP Finance	March 1, 1994	April 30, 2012
Asher Rapaport	Senior VP, Human Resources	November 1, 2006	February 3, 2013

Regulation 27 – The auditors of the Corporation

KPMG Somekh Chaikin - 23 Aranha Street, Tel Aviv 64739

Regulation 29A (1) – Resolutions adopted by the Board of Directors in respect of distribution of a dividend

A. On March 26, 2012, the board of directors resolved to distribute a dividend to the shareholders amounting to USD 260 million (the net dividend, less the share of the subsidiary, is USD 259.5 million), The dividend was distributed on April 30, 2012.

B. On May 22, 2012, the board of directors resolved to distribute a dividend to the shareholders amounting to USD 200 million (the net dividend, less the share of the subsidiary, is USD 199.7 million). The dividend was distributed on June 26, 2012.

C. On August 14, 2012, the board of directors resolved to distribute a dividend to the shareholders amounting to USD 285 million (the net dividend, less the share of the subsidiary, is USD 284.5 million). The dividend was distributed on September 12, 2012.

D. On November 20, 2012, the board of directors resolved to distribute a dividend to the shareholders amounting to USD 276 million (the net dividend, less the share of the subsidiary, is USD 275.5 million). The dividend was distributed on December 19, 2012.

E. Subsequent to the reporting date, on March 12, 2013, the board of directors resolved to distribute a cash dividend of USD 147 million, to be distributed on April 25, 2013.

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 August 29, 2012, the Annual General Meeting of the Shareholders of the Company approved, after a recommendation of Finance Committee and the Approval of 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 2012 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 external 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 and Mr. Ovadia Eli, 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 external 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 External 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 Fertilizers[3] 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 External Directors" and "Level" in the Remuneration Regulations for External Directors[5]. In accordance with the Management Agreement, as defined in Regulation 22 As mentioned above, 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 Prof. Yair Orgler as an external director in the Company, for a three year term of office commencing September 5, 2012.

5. To approve exemption of liability and indemnity obligations for Prof. Yair Orgler in accordance with the Company's arrangement, and this in accordance with the resolution of the Company's general meeting of December 17, 2001, August 30, 2007, and October 5, 2011 and as approved from time to time for the Company's officers. Prof. Orgler 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), of August 29, 2012, and as approved from time to time for the Company's officers.

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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 External 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.

6. To approve the appointment of Dr. Miriam Haran as an external director in the Company, for a term of three years, to commence on August 29, 2012.

7. To approve exemption of liability and indemnity undertakings for Dr. Miriam Haran in accordance with the Company's existing arrangements, pursuant to the resolution adopted by the Company's general meetings dated December 17, 2001, August 30, 2007 and October 5, 2011 and as may be approved periodically for the Company's officers. Dr. Haran 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), as of August 29, 2012, and as will be approved from time to time for the Company's officers.

8. To approve the Company's engagement in an officers' insurance policy (including for officers who the controlling shareholder in the Company may consider as having a personal interest in their inclusion in the insurance policy), who serve in the Company today and as will serve in the Company from time to time, and to approve the framework transaction under which the Audit Committee and Board of Directors of the Company may approve the renewal of the insurance cover during the three (3) years commencing on September 1, 2012.

For further information see Immediate Report on the outcome of the general meeting dated August 30, 2012 (Ref. No. 2012-01-224235).

Regulation 29A – Resolutions of the company

On March 4, 2012, the board of directors of ICL approved insurance cover, exemption from liability and indemnification undertakings for Messrs. Yakir Menashe, Michael Hazzan and Yehezkel Israel.

On September 24, 2012, the board of directors of ICL approved insurance cover, exemption from liability and indemnification undertakings Mr. Stefan Borgas (for further information see Immediate Report dated September 24, 2012, Ref.No.: 2012-01-244125).

For details regarding the decision to approve insurance cover, exemption from liability and indemnification undertaking for the Company's directors see Regulation 22 of the foregoing Regulations – Transactions with the Controlling Shareholder.

Israel Chemicals Ltd.

Signatories and their positions:

1. Stefan Borgas, CEO

2. Avi Doitchman, Executive Vice President, CFO & Strategy

Signed on: March 12, 2013

Israel Chemicals Ltd.
Investments in subsidiaries and affiliates at December 31, 2012
(NIS)

			ICL investments		Control	
Company (subsidiary or affiliate)	**Class of shares**	**Paid up capital and payments on account**	**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%
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	1,302,274	1,302,274	22,149,172	50%	50%
Magnesium Dead Sea Ltd.	Ordinary	486,041,528	486,041,528	1,367,543,865	100%	100%
	Extraordinary	1	-		-	-
	Total	486,041,529	486,041,528	1,367,543,865	100%	100%

Corporate Governance Questionnaire

"Interested Party", "Independent Director", "External Director", "Board of Directors Committee", "Public Company", "Personal Interest", "Transaction", "Action", "Relation", "Control", "Articles of Association" - as defined in section 1 of the Companies Law.

"Periodic Report" - As this term is defined in Chapter B of the Reporting Regulations;

"Quarterly Report" - As this term is defined in Chapter D of the Reporting Regulations;

"The Committee", "Declaration", "Financial Statements Review Committee" - As defined in the Approval of Financial Statements Regulations;

"Relationship" - as this term is defined in section 240 of the Companies Law;

"Companies Law" – the Companies Law, 5750-1999

"Securities Law" – the Securities Law, 5728-1968

"Professional Qualifications", "Accounting and Financial Expertise" - as defined in the Companies Regulations (Conditions and Qualifications for a Director with Accounting and Financial Expertise and for a Director with Professional Qualifications), 2005;

"Insurer", "Reporting Year" - as defined in the Reporting Regulations;

"Executive Officer" - as defined in section 37(D) of the Securities Law;

"Control", "Controlling Shareholder" - as defined in sections 1 or 268 of the Companies Law, accordingly;

"Reporting Year" - meaning from January 1, 2012 through December 31, 2012;

"Corporation" - a reporting corporation that is a public company as this term is defined in the Companies Law (this includes a bank and an insurer which are public companies), or a foreign corporation;

"Bank" - as defined in the Securities Law;

"Foreign Corporation" - a company that was incorporated outside of Israel and whose shares were offered to the public in Israel, as set forth in section 39A of the Securities Law;

"Financial Statement Approval Regulations" - Companies Regulations (Guidelines and Conditions for approving Financial Statements) 2010;

"Reporting Regulations" - Securities Regulations (Periodic and Immediate Reports), 1970.

		Board of Directors Independence	**True**	**False**	**Guideline**
1.		Did two or more external directors hold office in the Company during each reporting year? *This question can be answered True, if the period during which two external directors did not hold office does not exceed 90 days, as provided in section 363a (B) (10) of the Companies Law, nonetheless for any (True/False) answer, the period (in days) during which two or more external directors did not hold office in any reporting year, should be indicated (including a term of office approved retrospectively, while differentiating between the various external directors):* Director A: _____ Director B: _____. The number of external directors who held office in the Company at the publication date of this questionnaire: 3.	✓		**Mandatory Guideline** Section 239 of the Companies Law.
2.	A.	The number of independent directors who held office in the Company at publication date of this questionnaire: 2 in addition to the external directors.	_		Companies Law - section 1

	B.	At date of publication of this questionnaire - - In a company that has a controlling shareholder or a shareholder who holds a controlling block (in this section - Controlling Shareholder) - at least one third of the Board members are independent. - In a company that has no controlling shareholder - the majority of the Board members are independent.	✓		of the first Addendum (Recommended Corporate Governance Guidelines) and Regulation 10(B) (9A) and 48(c) (9A) of the Reporting Regulations.
	C.	The Company prescribed in its Articles of Association that a minimum proportion[1]/number of independent directors will hold office. If your answer is True, please indicate - The rate/number of independent directors prescribed in the Articles of Association: _____. In practice, the Company complied with the provisions of the Articles of Association during the reporting year (with respect to the office of independent directors): ☐True ☐False (Mark an X in the box provided).		X	
3.		A survey conducted among the external directors (and the independent directors) during the reporting year found that they are in compliance of the provisions of sections 240 (b) and (f) of the Companies Law regarding the absence of relationship between the external directors (and independent directors) who held office in the Company and they are in compliance with the conditions required for holding office as an external director (or independent director). If your answer is True - please indicate the entity that conducted such survey: The Company secretary	✓		Sections 240(b), 241, 245A and 246 of the Companies Law
4.		None of the directors who held office in the Company during the reporting year are subordinate[2] to the CEO, directly or indirectly, (other than a director who represents the employees, if the Company has employee representation) If your answer is False (i.e. a director is subordinate to the CEO as aforesaid) - please indicate the number of directors who do not comply with the foregoing restriction: _____.	✓		Companies Law - section 3 of the first Addendum (Recommended Corporate Governance Guidelines.
5.		Prior to commencing any Board meeting, the Company asked each director participating in the discussion and/or in the vote for disclosure concerning his/her having a personal interest and/or conflict of interest in the topic on the agenda for that meeting, accordingly.[3] In addition, please indicate whether the directors who informed of the existence of personal interest and/or conflict of interest participated in said discussion and/or vote (other than a discussion and/or vote in which a majority of the directors had such personal interest, as set forth in section 278 (b) of the Companies Law): ☐True. The number of such directors who participated in the discussion and/or vote: _____. (Please insert additional lines according to the number of			Sections 255, 269 and 278 of the Companies Law

[1] In this questionnaire the term "proportion" - a certain number out of all the directors. Thus, for example, a company that prescribed a proportion of one third independent directors, will indicate 1/3.
[2] Holding office as a director in an investee will not be deemed as being "subordinate" in the matter of this question.
[3] In a year of initial implementation, the company may refrain from answering this question.

		discussions/votes that took place in the reporting year). ☐False			
6.		During the reporting year the Board of Directors did not refuse to provide professional consultation services at the expense of the Company, at the request of a director, pursuant to section 266 (a) of the Companies Law, if required. **X** Not relevant (the Board did not receive such request).			Section 266 (a) of the Companies Law.
7.		The controlling shareholder (including a relative and/or representative acting on his/her behalf), who is not a director or other executive officer in the Company, did not participate in the Board meetings held during the reporting year. If your answer is False (i.e. a controlling shareholder and/or his/her relative and/or representative who is not a Board member and/or executive officer in the Company participated in Board meetings, as aforesaid) - please note the following details concerning the participation of the additional person in the Board meetings, as aforesaid: Identity: _____. Position: _____ Details of the relationship to the controlling shareholder (if the individual who participated is not the controlling shareholder): _____ Was this due to the presentation of a specific topic: ☐YES ☐NO (Mark an X in the appropriate box). The extent of his/her participation in Board meetings held during the reporting year: _____. ☐Not applicable (the Company has no controlling shareholders).	✓		Section 106 of the Companies Law.
		Directors' qualifications and skills			
8.		The Company's Articles of Association do not include a provision restricting the option of immediately terminating the office of all the Company's directors who are not external directors (in this matter - an ordinary majority decision is not considered a restriction). If your answer is False (i.e., there is such restriction), please indicate -	✓		Sections 85 and 222 of the Companies Law, section 46B of the Securities Law
	A	The term of office set in the Articles of Association for a director: From date of appointment and/or selection until the closest annual general meeting.			
	B	The majority required as prescribed in the Articles of Association for terminating the terms of office of the directors: Ordinary majority			
	C.	The requisite quorum prescribed in the Articles of Association for a general meeting convened to terminate the term of office of directors: Ordinary majority			
	D	The majority required to change these provisions in the Articles of Association: Ordinary majority			
9.		All the directors who held office in the Company during the reporting year declared, prior to the date for the convening of the general meeting at which their appointment was on the agenda, that they have the required qualifications (with details) and the ability to devote appropriate time for carrying out their duties and that the restrictions	✓		**Mandatory provision** sections 224A and

		envisaged in sections 226 and 227 of the Companies Law are not applicable to them; and with respect to independent directors, they are also in compliance with the provisions of paragraphs (1) and (2) of the definition of an "independent director", in section 1 of the Companies Law. If your answer is False - please note the names of the directors who are not in compliance with the foregoing: _____.			224B of the Companies Law
10.		The Company has a training program for new directors, regarding the Company's area of business and the laws applicable to the Company and its directors, as well as a plan for further training of directors in office, which is adapted, inter alia, to the director's position in the Company. If your answer is True - please indicate whether the program was implemented during the reporting year: True ✓ ☐False (Mark an X in the appropriate box).	✓		Companies Law - section 4 (a) of the first Addendum (Recommended Corporate Governance Guidelines).
11.		The chairman of the Board of Directors (or another person so appointed by the Board) is responsible for integrating the corporate governance guidelines applicable to the Company and informs the directors of issues relating to corporate governance during the reporting year. If the Board of Directors appointed another person to the position of responsibility (replacing the chairman of the Board), please indicate his/her name and position: _____	✓		Companies Law - section 4 (b) of the first Addendum (Recommended Corporate Governance Guidelines).
12.	A.	The Company prescribed a minimum number of directors on the Board who are required to have accounting and financial expertise. If your answer is True - please indicate the minimum number set: 3	✓		Mandatory provision section 92(a)(12) of the Companies Law
	B.	During each reporting year, in addition to the external director with accounting and financial expertise, other directors with accounting and financial expertise served on the Board of Directors. The number of such directors was determined by the Board of Directors. *You may answer True for this question if the period during which no other directors with accounting and financial expertise held office on the Board did not exceed 60 days, nonetheless if your answer is (True/False), please indicate the period (in days) during which no such directors served on the Board: _____.*	✓		Mandatory provision section 219(d) of the Companies Law
	C.	The number of directors who held office during the reporting year was: Directors with accounting and financial expertise: 10 Directors with professional qualifications: 1 *If there were such changes in the number of directors during the reporting year, please provide information of the lowest number (other than during a period of 60 days from the change) of each class of directors who held office during the reporting year.*	_		Sections 92(A)(12), 219(D), 240(1a) of the Companies Law and Regulations 10(B)(9)(a) and

									48(C)(9) of the Reporting Regulations.
13.	A.	On the date of appointment of an external director during the reporting year, the Company was in compliance with the provisions of section 239(D) of the Companies Law concerning the composition of the Board of Directors, with regard to representation of both men and women. ☐Not relevant (no external director was appointed during the reporting year)					✓		Mandatory provision section 239(d) of the Companies Law
	B.	Throughout the reporting year the Board of Directors was composed of both men and women. If your answer is False - please indicate the period (in days) during which this did not occur: _____. *You may answer True for this question if the period during which the Board did not include both men and women did not exceed 60 days, nonetheless if your answer is (True/False), please indicate the period (in days) during which the Board did not include both men and women: _____.*					✓		Companies Law - section 2 of the first Addendum (Recommended Corporate Governance Guidelines).
	C.	The number of men and of women serving on the Company's Board of Directors at the date of publication of this questionnaire: Men: 11 Women: 1							
		<u>Board Meetings (and convening of General Meetings)</u>							
14.	A.	The number of Board meetings held during each quarter in the reporting year: First quarter of 2012: 4 Second quarter of 2012: 4 Third quarter of 2012: 6 Fourth quarter of 2012: 2							Sections 97, 98 and 224A of the Companies Law
	B.	Please indicate, alongside the names of the Company's directors who held office during the reporting year, their participation rate in Board meetings (in this subsection - including meetings of the Board of Directors committees to which they belong, as noted below) held during the reporting year (and with regard to their term of office): *(Please insert additional lines according to the number of directors)*							
		Director's Name:	Participation in Board meetings	Participation in Audit committee meetings (with regard to directors who are members of this committee)	Participation in Finance committee meetings (with regard to directors who are members of this committee)	Participation in HR committees meetings (with regard to directors who are members of this committee)	Participation In PPLP Committee Meetings (with regard to directors who are members of this committee)		
	1	Nir Gilad	100%	-	-	100% HR			
	2	Avraham (Baiga) Shochat:	90%	82%	100%	90% HR			
	3	Yossi Rosen	81%	-	-	100%	75%		
	4	Avisar Paz	90%	-	-	-	-		
	5	Mr. Chaim Erez	100%	100%	-	100%	100%		
	6	Mr. Victor	100%	91%	100%	-	100%		

		Medina:							
	7	Yair Orgler	95%	100%	100%	100%			
	8	Eran Sarig	90%	-	-				
	9	Yaacov Dior	100%	100%	100%				
	10	Dr. Miriam Haran:	100%	91%	100%	100%	100%		
	11	Ovadia Eli	100%	-	100%				
	12	Moshe Vidman:	95%	-	-	-	100%		
15.		During the reporting year, the Board of Directors held at least one discussion concerning the management of the Company's businesses by the CEO and his subordinate officers, at which they were not present, after they were given the opportunity of expressing their position.					✓		Companies Law - section 5 of the first Addendum (Recommended Corporate Governance Guidelines).
16.		An annual general meeting was convened during the reporting year (no later than fifteen months following the last annual general meeting).					✓		Mandatory provision section 60 of the Companies Law
		<u>Separation of CEO and Board Chair roles</u>							
17.		Throughout the reporting year the Board of Directors of the Company was chaired by a chairperson. *You may answer True for this question if the period during which the Board was not chaired by a chairperson did not exceed 60 days (as set forth in section 363A(2) of the Companies Law) nonetheless if your answer is (True/False), please indicate the period (in days) during which the Board was not chaired by a chairperson: _____.*					✓		Mandatory provision section 94 (A) of the Companies Law
18.		Throughout the reporting year the Company was managed by a CEO. *You may answer True for this question if the period during which the Company was not managed by a CEO did not exceed 90 days (as set forth in section 363A(6) of the Companies Law) nonetheless if your answer is (True/False), please indicate the period (in days) during which the Company was not managed by a CEO: _____.*					✓		Mandatory provision section 119 of the Companies Law
19.		In a company where the chairperson of the Board of Directors also acts as the CEO and/or exercises his/her authority, the CEO/Chair duality was approved in accordance with the provisions of section 121 (C) of the Companies Law. If your answer is True - please refer here to the immediate report for the general meeting at which such duality and/or exercise of authority was approved: _____. X Not applicable (since such duality does not exist in the Company)							Mandatory provision section 95 and 121 of the Companies Law
20.		Is the CEO related to the chairperson of the Board? If your answer is NO (i.e. the CEO is related to the Board chair) - א. please indicate the relationship between the parties: _____. ב. The office was approved in accordance with section 121(C) of the Companies Law: ☐YES ☐NO (Mark an X in the appropriate box).					✓		Mandatory provision section 95 and 121 of the Companies Law
21.		Controlling shareholders or their relatives do not serve as CEO or as other senior officers in the Company (other than as directors).					✓		Section 106 of the

		☐Not applicable (the Company has no controlling shareholders).			Companies Law.
		Audit Committee			
22.		All the external directors served on the Audit Committee during the reporting year.	✓		**Mandatory Guideline** Section 115 of the Companies Law.
23.		The Audit Committee chairperson is an external director.	✓		**Mandatory Guideline** Section 115 of the Companies Law.
24.		The following persons did not serve on the Audit Committee:			**Mandatory Guideline** Section 115 of the Companies Law.
	A.	Controlling shareholders or their relatives ☐Not applicable (the Company has no controlling shareholders).	✓		
	B.	Chairperson of the Board of Directors	✓		
	C.	A director employed by the Company or by the Company's controlling shareholders or by another company controlled by them.	✓		
	D.	A director who regularly provides services for the Company or the Company's controlling shareholders or a company controlled by them.	✓		
	E.	A director whose primary source of income is the controlling shareholder. ☐Not applicable (the Company has no controlling shareholders).	✓		
25.		Persons who are not eligible to be a member of the Audit Committee, including controlling shareholders or their relatives, did not participate in Audit Committee meetings during the reporting year, other than pursuant to the provisions of section 115(E) of the Companies Law.	✓		**Mandatory Guideline** Section 115 (a) of the Companies Law.
26.		The requisite quorum for discussion and taking decisions at all Audit Committee meetings held during the reporting year was a majority of the committee members, whereby the majority of the participants were independent directors and at least one was an external director. If your answer is False - please indicate the number of meetings at which this requirement did not exist: _____.	✓		Mandatory Guideline section 116A of the Companies Law
27.		The Audit Committee held at least one meeting during the reporting year with the participation of the internal comptroller and its auditor, accordingly, and in the absence of Company officers who are not members of the Audit Committee, concerning flaws in the management of the corporations business.	✓		**Mandatory Guideline** section 117(1) of the Companies Law -

					section 6 of the first Addendum (Recommended Corporate Governance Guidelines).
28.		Every Audit Committee meeting with the participation of persons who are not eligible to be members of the committee, was with the approval of the committee chairperson and/or at the request of the committee (with respect to the Company's legal counsel and secretary, who are not a controlling shareholder or relative of the controlling shareholder).	✓		**Mandatory Guideline** section 115(d) of the Companies Law
29.		During the reporting year, arrangements were effective, as set by the Audit Committee, regarding the manner in which Company employees are treated with regard to flaws in the management of its businesses and with regard to protection that will be provided for whistleblowing.	✓		**Mandatory Guidelines** section 117(d) of the Companies Law
		<u>Duties of the Financial Statements Review Committee ("the Committee") prior to the approval of the Financial Statements</u>			
30.	A.	The Committee's recommendations concerning the financial statements issued in the reporting year were brought to the Board of Directors within reasonable time prior to the discussion by the Board and all flaws or problems discovered during the examination were reported to the Board of Directors.	✓		**Mandatory Guideline** Regulation 2(3) of the Financial Statement Approval Regulations, and the guideline for disclosing the procedure for approving the financial statements.
	B.	Please indicate the time (in days) set by the Board of Directors as reasonable time for receiving the Committee's recommendations prior to the Board meeting at which the periodic or quarterly statements will be approved. 3.			
	C.	The actual number of days that elapsed between the date on which the recommendations were sent to the Board of Directors and the date on which the Financial Statements were approved: First quarterly statements for 2012: 5. Second quarterly statements for 2012: 5 Third quarterly statements for 2012: 5 Fourth quarterly statements for 2012: 5			
31.		The Company's auditor was invited to all meetings of the Committee and of the Board of Directors, and the internal comptroller received notice of the convening of such meetings, at which the Company's financial statements for the quarters of the reporting year were discussed.	✓		**Mandatory Guideline** section 168 of the Companies Law, regulation 2(2) of the Financial

					Statement Approval Regulations.
32.	The Committee was in compliance, throughout the reporting year, with all the conditions as set forth below:				**Mandatory Guideline** Regulation 3 of the Financial Statement Approval Regulations
	A.	The number of Committee members was not less than three (during the Committee's discussion and approval of the said reports).	✓		
	B.	All the conditions prescribed in section 115 (b) and (c) of the Companies Law existed (with regard to the office of the members of the Audit Committee).	✓		
	C.	The Committee chairperson is an external director.	✓		
	D.	All the Committee's members are directors and the majority are independent directors.	✓		
	E.	All the members of the Committee are able to read and understand financial statements and at least one of the independent directors has accounting and financial expertise.	✓		
	F.	The Committee members provided declarations prior to their appointment.	✓		
	G.	The requisite quorum for the Committee discussions and dicisions was a majority of its members, provided that the majority of the participants were independent directors and at least one was an external director.	✓		
	If your answer is False concerning one or more of the subsections to this question, please specify which of the foregoing conditions did not exist: _____.				
		Auditor			
33.		The Audit Committee (and/or the Financial Statements Review Committee) was convinced that the scope of the auditor's work regarding audit services during the reporting year and the auditor's fee for the number of auditing hours during the reporting year, are appropriate for carrying out a proper audit.	✓		Section 117 (5) of the Companies Law.
34.		Prior to the appointment of the auditor, the Audit Committee (and/or the Financial Statements Review Committee) sent its recommendations to the relevant organ within the Company, with regard to the scope of the auditors' work and their fee. ☐ **Not applicable**: An auditor was not appointed For the first time during the reporting year. If your answer is True - please indicate whether the relevant organ within the Company acted in accordance with the recommendations of the Audit Committee (and/or the Financial Statements Review Committee). ☐True ☐False (if your answer is False, please specify in the concluding notes to this questionnaire, how the relevant organ (indicating its name) was convinced concerning the scope of the auditors' work and their fee. (Mark an X in the appropriate box).	-		Section 117 (5) of the Companies Law.
35.		The Audit Committee (and/or the Financial Statements Review Committee) examined whether, during the reporting year, there were any restrictions on the auditor's work.	✓		The Securities Law and its Regulations (regarding "Duly

					Audited Statements).
36.		The Audit Committee (and/or the Financial Statements Review Committee) discussed, during the reporting year, the findings of the audit and their implications, with the auditors.	✓		Regulation 2 of the Financial Statement Approval Regulations, the Companies Law - section 6 of the first Addendum (Recommended Corporate Governance Guidelines).
37.		The Audit Committee (and/or the Financial Statements Review Committee) was satisfied, prior to the appointment of the auditors, that their qualifications were appropriate for carrying out the audit of the Company, in view of the nature and complexity of the Company's operations. ☐**Not applicable**: An auditor was not appointed For the first time during the reporting year.			The Securities Law and its Regulations (regarding "Duly Audited Statements).
38.		Please specify the number of years in office of the partner attending to the audit accounting firm (as the Company's auditor) Since 2006.			The Securities Law and its Regulations (regarding "Duly Audited Statements).
39.		The auditors participated at all the meetings of the Financial Statements Review Committee to which they were invited.	✓		section 168 (b) of the Companies Law, regulation 2 of the Financial Statement Approval Regulations.
		Transactions with Interested Parties			
40.		The Company adopted procedures, approved by the Audit Committee, dealing with interested party transactions, in order to ensure that such transactions are duly approved.	✓		Sections 117, 253, 255 and 270-278 of the Companie

					s Law
41.		The controlling shareholder or a relative (including a company under their control) are not employed by the Company and do not provide it with management services. If your answer is False (i.e. the controlling shareholder or a relative are employed by the Company or do provide it with management services) please indicate - the number of persons employed by the Company from amonth the controlling shareholders and/or relatives (including companies under their control) is: No workers are employed, as in this section. Where their employment contracts and/or management service agreements duly approved by the organs prescribed by law: X YES ☐NO (Mark an X in the appropriate box). ☐Not applicable (the Company has no controlling shareholders). _____.		X	Section 270 (4) of the Companie s Law.
42.		To the best of the Company's knowledge, the controlling shareholder does not have other businesses in the Company's area of operations (in one or more area). If the answer is False, please indicate whether and arrangement has been made between the Company and its controlling shareholder for the area of operations: ☐ YES ☐ NO (Mark an X in the appropriate box). ☐Not applicable (the Company has no controlling shareholders).	✓		Section 254 of the Companie s Law, section 36 of the Securities Law (Important Information for a Reasonabl e Investor)

Notes:

Note concerning the significance of Question # :

With regard to question 41 above, the Company and Israel Corporation Ltd. have a management services agreement.

Chairperson of the Board of Directors: _____
Nir Gilad

Chairperson of the Audit Committee: _____
Yair Orgler

Chairperson of the Financial Statements Review Committee: _____
Yair Orgler

Date of signature: March 12, 2013

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. Stefan Borgas, CEO
2. Asher Grinbaum, Deputy CEO and COO
3. Nissim Adar, CEO of ICL Industrial Products
4. Dani Chen, CEO of ICL Fertilizers
5. Avi Doitchman, Executive VP, CFO and Strategy
6. Eli Amit, Senior VP of Economics
7. Hezi Israel, VP Business Development and Strategy
8. Yakir Menashe, VP of Human Resources
9. Lisa Haimovitz, VP General Counsel and Company Secretary
10. Herzel Bar-Niv, VP of International taxation
11. Amir Benita, VP Accounting
12. Osnat Sessler, VP of Investor Relations and Communications
13. Michael Hazan, VP Finance
14. Israel Dreyfuss, ICL Controller

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: Financial Statement Closing Process; Entity Level Controls; 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, 2012 is effective.

Date: March 12, 2013

Stefan Borgas 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, Stefan Borgas, declare that:

1. I have examined the Periodic Report of Israel Chemicals Ltd. (hereinafter – "the Corporation") for 2012 (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 12, 2013

_____

Stefan Borgas, 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 2012 (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 12, 2013

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Avi Doitchman, Executive VP,
CFO and Strategy