



December 12, 2013

Subject: Immediate Report Regarding Rating Update by Standard & Poors Maalot

Further to Section 9.13 Board of Directors Report as of September 30, 2013, the Company wishes to report that the Standard & Poor's Maalot rating agency yesterday published an update on the ratification of an iIAA + rating and the change of the rating outlook to negative. The published rating report is attached hereto.

Sincerely,

Israel Chemicals Ltd.

Standard & Poor's

Maalot

Israel Chemicals Limited

December 11, 2013

Ratings Update

Ratification of iIAA+ rating and change of the rating outlook to negative following structural changes in the fertilizer market and expected increase in leverage.

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Ratings Update

Ratification of iIAA+ rating and change of the rating outlook to negative following structural changes in the fertilizer market and expected increase in leverage.

Abstract

- In recent months, there has been an erosion in the price of potash, and we believe it not unlikely that prices will remain at a relatively low level for the coming years, as a result of structural changes in the fertilizer market, and transition to competition based on the volume of activity.
- The operational performance of ICL is negatively impacted by the changes in the market. Our basic scenario reflects a decrease of approximately 20% in EBITDA in 2013, and continued erosion of operational performance in 2014, which will be partially balanced by an expected increase in the quantity sold.
- We project that in 2014 and 2015, there will be an increase in the company's leverage as a result of weak operational performance, and as a result of implementing an aggressive dividend policy while making significant investments in the maintenance of production means and environmental protection. However, we believe that the company has the flexibility to make changes in its financial policy and investment plan, in order to adjust its level of leverage to the current rating.
- Therefore, we are removing the rating from the Credit Watch list and ratifying the iIAA+ rating of Israel Chemical Limited (ICL), which is active in the fertilizer and special chemical markets. At the same time, we are updating the rating outlook to "negative" from "stable."
- The negative rating outlook reflects the risk that ICL will, in the next two years, deviate from the financial ratios that are defined as appropriate for its current rating, as a result of additional weaknesses in the market conditions, beyond our current rating, and without making changes in its financial policy or investment plan.

The Rating Action

On December 11, 2013, Standard & Poor's Maalot ratified the rating iIAA+ of Israel Chemicals Limited, which is active in the fertilizers and special chemicals market, and simultaneously updated the rating outlook to negative.

Principal Considerations for the Rating

ICL's rating remains based on its strong financial profile and its high position as is one of the leading producers in the international potash and bromine markets. Updating the rating outlook to negative is the result of changes that have occurred in the potash market during recent months, primarily the transition of some companies in the market to a strategy that emphasizes increasing market share at the expense of lowered prices. For a long time, the fertilizer market has been characterized by a high level of concentration, with most of the manufacturers marketing through two commercial corporations, Belarusian Potash Company (PBC) and Canpotex. In our opinion, this contributed to a balanced relationship between supply and demand, and maintaining an optimal price level for most of potash producers. Although the potash market began to experience

a trend towards lower prices in the first half of 2013, the substantive change in the structure of the market occurred following the announcement of Uralkali OJSC that, beginning on July 30, 2013, it intends to cease selling potash through BPC. Instead Uralkali would sell through its direct marketing arm. As a result of this announcement by Uralkali, we placed ICL's rating on the credit watch list with negative implications. The Russian company Uralkali is one of the largest potash companies in the world. In the first half of 2013, there was a decrease of approximately 20% in the amount of potash exported by Uralkali while other companies in the market maintained or increased their market share. In its announcement on July 30, 2013 Uralkali noted that it intends to increase the amount of potash it sells in order to maintain its status in the market. We note that since it made its announcement, Uralkali has implemented its decision. In the last two months, the amounts it has sold reflects almost complete utilization of its production facilities. As a result of these changes, there was a steep drop in the price of potash throughout the entire market. The average price per ton of potash sold by ICL was approximately USD 350 in Q3 2013 in comparison to an average price of USD 410 per ton in the first half of 2013 and average price of approximately USD 450 per ton in 2012.

The change in the dynamics of the market occurred against the background relative weakness in demand for potash during 2012 and 2013 as result, *inter alia*, of lower demand from developing markets, primarily India, which is one of the largest importers of potash in the world. Although the level of uncertainty remains high, we are of the opinion that 2014 will see an international recovery in the demand for potash because farmers need to compensate for the relatively low level of fertilization in previous years, and lower inventory levels.

Given the expectation for increased demand for potash, we estimate that price level in the market will remain stable. According to our basic operational scenario, we estimate that the average sale price for a ton of potash sold by ICL will be in the range USD 320-350 during 2014 and remain without substantial change in 2015. We expect that the amount of potash sold by ICL to external customers will be in the range of approximately 4.9-5.1 million tons in 2014, in comparison to sales of 3.47 million tons in the first nine months of 2013 and 4.34 million tons in 2012. Furthermore, in our opinion, there will be some recovery in the results of the ICL Performance Products and ICL Industrial Products, against the background of expected stability in global economic activity. Accordingly, we expect that the adjusted EBITDA of the company in 2013 will be USD 1.5-1.55, and USD 1.45-1.5 billion in 2014, compared to adjusted EBITDA of USD 1.91 billion in 2012.

In our estimation, the level of the company's leverage can be expected to increase following the expected decline in cash flow, and the need for substantial investments in order to maintain the means of production and for environmental protection, in addition to implementing an aggressive dividend policy. The company is currently in the midst of an investment plan that includes the project for rehabilitating the Dead Sea through salt harvesting, construction of a new power plant to produce electricity, and establishment of a new pumping system in the northern basin of the Dead Sea. In accordance with our basic operational scenario, we assume that the level of investment required for maintaining the current situation and for projects (known as described above) is approximately USD 1 billion for the next three years. Furthermore, the company recently published a new strategy, in which the primary components are accelerating growth by expanding the company's global presence with emphasis on strengthening its standing in developing markets, continuing development of a broad platform for innovation and research, and implementation of an extensive program of streamlining. As part of this new strategy, the company is considering acquisition of companies and activities that will contribute to achieving its

defined goals. Our basic scenario does not take into account the acquisition of new companies or assets. In the event that the company reports progress in respect of said acquisitions transactions, and we have material information on the conditions of the transaction and the sources that will be used for financing it, we will reconsider the basic scenario and its possible influence on the rating.

Another area of uncertainty regarding the operational future of the company follows from the decision of the Minister of Finance in June 2013 to establish a public committee to re-examine the policy for royalties that the State of Israel receives from private entities for using national natural resources. In accordance with the letter of appointment, the committee is examining the policies that were developed for using Dead Sea minerals by the company. The committee is expected to submit its recommendations to the Minister of Finance by June 2014. We note that in January 2012, a new agreement was signed between the company and the government in which context it was decided, *inter alia*, that the annual royalties paid by the company to the government for the sale of potash (for amounts above 1.5 million tons) will increase to 10% from 5% (the royalties are calculated on the basis of the value of the product at the factory gate, minus certain expenses). The position of the company, as submitted to the committee in December 2013, is that the agreement signed obligates the parties and prevents the government from unilaterally increasing its share of the profits. Furthermore, the company claims that the government share in ICL's future profits is higher than similar potash companies in other countries. As of this writing, there is uncertainty regarding the recommendations of the committee and the extent of their influence on the operating results of the company.

We assume that the company will continue to distribute 70% of its net profit as dividends in accordance with its declared policy. Furthermore, our basic scenario includes the distribution of a one-time dividend of USD 500 million in 2014, in accordance with the notice issued by the company in August 2013, even though the final decision regarding the distribution of the dividend is yet to be published.

Our basic scenario projects a ratio of FFO to adjusted debt of approximately 60%-65% in 2013 and 45%-50% in 2014, compared to 82.9% 2012. We estimate that the ratio of debt to adjusted EBITDA will be approximately 1.2x-1.3x in 2013 and approximately 1.8x-1.9x in 2014, compared to 1.1x in 2012. These projected ratios are less favorable than those achieved by the company in recent years and are borderline for the coverage ratios that we have defined as appropriate for the current rating, which are FFO to debt no lower than 45% and debt to EBITDA not exceeding 2.0x. In this context, note that we believe that the company has the flexibility to make changes in its financial policy and investment plan, in order to adjust its level of leverage.

Liquidity

In accordance with our definitions, level of ICL's with liquidity is "adequate." As of September 30, 2013, its cash reserves and short-term investments totaled approximately USD 410 million. The company's total available credit line was USD 730 million (the credit line agreed with a group of international banks in March 2011 for periods of five and six years). In addition, we expect that the company will continue to produce a cash flow from ongoing operations of approximately USD 1.2-1.3 billion *per annum*. We estimate that these sources, in addition to ICL's high level of access to other sources of financing, will continue to support the company's liquidity profile in the coming years, despite its higher than average level of investment of approximately USD 1 billion *per annum*, payment of long-term loans of approximately USD 180 million in 2014, and the distribution of large dividends based on its current policy (70% of the net profit and a special dividend of 0.5 billion in dollars in 2014).

The company has a sufficient spread from the financial conditions in the contracts for loans the company has taken.

Rating Outlook

The negative rating outlook reflects the risk that ICL will, in the next two years, deviate from the financial ratios that are defined as appropriate for its current rating (FFO to debt no lower than 45% and debt to EBITDA not exceeding 2.0x) as a result of additional weakness in market conditions beyond our current estimate, and without making changes in its financial policy or investment program. Furthermore, we will consider a negative rating action if the company undertakes material leveraged acquisition, or implements an aggressive dividend policy for the long-term.

We will act to change the ratings outlook to “stable” if market conditions stabilize, and we are convinced that the company will comply with the financial ratios defined as appropriate for its current rating.

Related research

- Methodology: The relationship between the global rating scale and the local rating scale, February 2013: <http://maalot.co.il/publications/MT20130219144302.pdf>.
- For information regarding the significance of the credit rating, see the article “Maalot and the limits of credit rating,” May 2012, <http://www.maalot.co.il/publications/ART2012052913404.pdf>.

Ratings List

	Current rate	Previous rating
Israel Chemicals Limited	iIAA+/Negative	iIAA+/Watch Negative
Debentures Series A	iIAA+/Negative	iIAA+/Watch Negative
Debentures Series D	iIAA+/Negative	iIAA+/Watch Negative

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