



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 September 30, 2011**

Below is the Directors' Report of Israel Chemicals Ltd. ("ICL" or "the Company") for the period ended September 30, 2011.

### **1. Description of the Company and its Business Environment**

#### **1.1. Description of ICL**

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

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

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

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

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

ICL's operations outside of Israel are primarily in the manufacture of products that are complementary to or are based on its operations in Israel or in related fields. Approximately 95% of all ICL's production is sold outside of Israel.

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

Approximately 5% of ICL's production is sold in Israel. For specific products, ICL and some ICL companies have been declared a monopoly in Israel.

Approximately 43% of ICL's annual sales turnover comes from production outside of Israel.

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

ICL applies an overall policy of sustainable development that integrates social, economic and environmental considerations in all of its business activities. The main points of the policy include

social responsibility, which covers contributing to the community, taking responsibility for the safety, hygiene and the well-being of employees, reducing environmental effects, creating a dialog and transparent communication with the authorities, as well as other subjects.

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

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

ICL Fertilizers also mines and processes phosphate rock from open-pit mines in the Negev region, and at its production facilities in Israel it manufactures sulfuric acid, fertilizer-grade phosphoric acid, phosphate fertilizers, complex fertilizers based mainly on potash and phosphate, and specialty fertilizers. ICL Fertilizers also manufactures fertilizers in Holland, Germany and Belgium. In addition ICL Fertilizers manufactures phosphate-based animal feed additives in Turkey and Israel. ICL Fertilizers markets its products worldwide, and its top sales destinations are Europe, Brazil, India, China and Israel. On 28 February 2011, a transaction was completed for acquisition of the companies, assets, and activities of a specialty fertilizer business unit. The business unit manufactures and sells specialty fertilizers, growing media, plant protection products, grass seeds for commercial nurseries, public parks, sports fields and intensive agriculture. Operations of the acquired unit were integrated into ICL Fertilizers, taking advantage of the marketing, operating and other synergies with ICL's specialty fertilizer activities. Integration of the business unit will expand the range of products offered by ICL Fertilizers in the specialty fertilizer sector. In addition, in April 2011, a company that manufactures and markets specialty fertilizers in Spain was acquired. After balance sheet date another acquisition transaction was signed to acquire an additional 50% in Nutrisi, so that after acquisition ICL's holding is 100% of the shareholding in that company. Nutrisi holds 50% of the shareholders' equity in NU3 who, manufactures soluble NPK fertilizer compounds and liquid fertilizers, and owns two large plants for the production of compounds that are sold all over the world. Closing of the transaction is expected in the fourth quarter of 2011.

- b. **ICL Industrial Products** – ICL Industrial Products manufactures elementary bromine from an end-brine that is created as a by-product of the potash production process in Sdom, as well as bromine-based compounds. ICL Industrial Products is the world's leading manufacturer of elementary bromine, producing about 35% of total global production in the reporting period. ICL Industrial Products uses about 76% of the elementary bromine it produces for manufacturing bromine compounds at its production sites in Israel, Holland and China. In addition, ICL Industrial Products produces and markets flame retardants and other phosphorus-based products in plants in the USA and Germany, produces various salt, magnesia and chlorine products at its production sites in Israel, and also manufactures chlorine-based products in Israel and the USA, and markets its products worldwide.

- c. **ICL Performance Products** – ICL Performance Products purifies some of the fertilizer-grade phosphoric acid manufactured by ICL Fertilizers, purchases purified phosphoric acid from other sources and also manufactures thermal phosphoric acid. The purified phosphoric acid is used in the manufacture of downstream products of high added value – phosphate salts (which in turn are a raw material in the production of food additives), hygiene products, phosphorus derivatives and wildfire retardants and extinguishers. ICL Performance Products also produces specialty products based on aluminum oxide ("alumina") and other raw materials. The main production sites of ICL Performance Products are in Europe (mainly Germany), the USA, Brazil, Israel and China. During the period approximately two thirds of the sales of ICL Performance Products were of pure phosphoric acid of various qualities, and of downstream products of the acid. In June 2011, a transaction was closed for the purchase of the facilities of a Mexican company that manufactures food supplements and specialty chemicals, as well as a sales and distribution network in Mexico and Central and South America.

After balance sheet date Performance Products completed an additional acquisition of the complete operations, production plants and assets and the marketing and distribution network of a company which operates in specialty phosphate-based corrosion resistant products for the paint and coating industry.

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

## 1.2. Business environment and profitability

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

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

Most of ICL's sales are in foreign currency, mainly US dollars and euro. A significant part of its operating expenses in Israel is denominated in shekels; therefore depreciation of the shekel against the dollar has a positive impact on ICL's profitability, while appreciation has the opposite effect. The depreciation of the average exchange rate of the euro against the dollar has a negative impact on ICL's profitability, while appreciation has the opposite impact. Conversely, depreciation of the euro against the dollar improves the competitive ability of ICL's subsidiaries whose functional currency is the euro, compared with competitors whose functional currency is the dollar. The weakening of the dollar against the shekel in the period compared with the corresponding period last year, impacted negatively on ICL's operating income by an estimated USD 32 million and positively of its finance expenses by approximately USD 26 million. ICL has a projected surplus income over expenses in euro for the next 12 months, amounting to approximately USD 350 million, and a projected surplus of expense over income in shekels for the next 12 months, amounting to approximately USD 900 million.<sup>1</sup> ICL hedges against some of these foreign currency exposures.

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

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

After a decrease in grain prices in 2009 following the economic crisis, grain prices rose again in 2010, reaching levels approaching those of peak prices in 2008. The price increases are mainly due to a rise in global consumption of grains that outstripped the pace of production, and an expected fall in grain stocks. This trend continued into 2011. Towards the end of the quarter grain prices fell, seemingly influenced by the negative atmosphere in the world's capital markets and concern about a financial crisis in the euro zone. Nevertheless, grain prices are at high levels from the historical aspect.

The US Department of Agriculture (USDA), in its report published on October 12, 2011, foresees stabilization in the ratio of grain stocks to annual consumption at 20.1% at the end of the 2011/2012 agricultural year (compared with 19.9% at the end of 2010). This is considered a low proportion in historical terms, and supports the high prices of agricultural yields.

During the last months in the pre-season, the financial crisis is darkening the economic atmosphere in the continent. Farmers and fertilizer distributors are wary of commitment, and are especially anxious about holding on to stocks lest prices fall if a crisis occurs as in 2008/09. Nevertheless, the prices of agricultural produce are high, and ensure a decent income for farmers. As the spring fertilizer season approaches in Europe fertilizer demand is expected to resume at the end of the fourth quarter 2011 and the first quarter of 2012.

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

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

Since the middle of 2006, fertilizer and potash prices have soared, reaching an all-time high in the middle of 2008. Most potash sales in the period were at a price of USD 750 to USD 850 (CFR), mainly in Southeast Asia and Brazil. A few sales were made at approximately USD 1,000 per ton (CFR). Following the decline in global demand for fertilizers and potash, as a result of the economic crisis in 2009, prices of fertilizers began to fall. The immediate sharp decline was in nitrogen and phosphorus prices. Potash prices also dropped, although the decrease was not as sharp as the decrease in prices of nitrogen and phosphorus fertilizers. Towards the end of 2009, the global economy started to recover, together with demands in the fertilizer market. According to IFA<sup>3</sup> estimates, global sales of potash in 2010 were about 55.5 million tons, almost double the quantity in 2009 – 29.2 million tons. The IFA also estimates that sales of potash in the first half of 2011 reached 29.45 million tons, which is an increase of about 6% compared with the 27.85 million tons sold in the first half of 2010.

During the third quarter of 2011, ICL Fertilizers signed contracts with a number of customers in China for the supply of 750,000 tons of potash in the second half of 2011. The price of the potash in this transaction is similar to the prices of recent transactions with other manufacturers, and constitutes an increase of USD 70 per ton over the contract prices for the first half of 2011. This quantity is additional to the contracts signed for 500,000 tons for delivery to China in the first half of 2011.

After several months' delay in their negotiations, the Indian importers and the suppliers of potash signed sale contracts during the current quarter at an average price of USD 490 per ton CFR, for a total quantity of 6.2 million tons (which includes an optional quantity of 380,000 tons for the period from August 2011 to March 2012. ICL Fertilizers also entered into agreements with customers in India for the sale of potash in the eight-month period from August 2011 to March 2012, in which it will supply 1,390 thousand tons of potash at an average price of USD 490 per ton CFR. An option was given to purchase another 125,000 tons on the same terms.

The demand for fertilizers in Brazil, and especially potash, has been particularly high this year. In the first nine months of the year, the Brazilian customs authorities reported 5.87 million tons of potash imports, which is an increase of 32% compared with the corresponding period last year, when 4.45 million tons of potash were imported.

The upward trend in demand for phosphate fertilizers that started in the second half of 2009 continued into the second quarter of 2011. On the supply side, environmental regulations restricted production in the USA and an export levy imposed on phosphate fertilizers by the Chinese government diminished the viability of exports for Chinese manufacturers. In addition, the Tunisian exporter GCT suffered various operational problems due to civil rioting and strikes, which disrupted its production and the country's exports.

In September 2011, the Indian importers signed contracts for the purchase of DAP fertilizer for a period of six months (October 2011 to March 2012) at USD 677 per ton, which is a rise of USD 65 compared with the contract price in the first quarter of the year.

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

<sup>3</sup> IFA – Preliminary Annual Potash Statistics 2010 (March 2011).

At the beginning of October 2011, contracts were signed in India for the supply of phosphoric acid in the fourth quarter of the year, at USD 1,080 per ton P<sub>2</sub>O<sub>5</sub>, which is an increase of USD 30 compared with the previous quarter.

The giant project for producing rock and downstream products in Saudi Arabia (Ma'aden) has commenced DAP production, and the first deliveries were recently shipped to India. After the running-in period, which is scheduled for mid-2012, the plant and the mine are expected to produce up to 2.9 million tons per year of phosphate fertilizers, representing about 3.5% of the world's production capacity.

The markets of ICL Industrial Products are largely affected by activities in the electronics, construction, automotive, oil drilling, furniture, textile and water treatment markets. The increased demand for most segment products continues to be positive, together with continued price increases in most products. Higher demand and lower supply of bromine in China resulted in an increase in sale prices of elementary bromine compared to the corresponding period last year and compared to the fourth quarter of 2010. The rise in demand for the segment's products which characterized most of the period, has moderated towards the end of the period, mainly in products intended for the electronics industry. The slow-down that started to be felt in global markets at the end of the period, is slowing demand for electronics products, and for the fire retardants intended for the same market.

In the reporting period an increase in sales and prices of clear brine fluids for oil drilling was recorded compared with the same period in the prior year as a result of the increase in sales in certain areas in the world, caused by an increase in demand and a reduction in exports from Chinese clear brine fluid producers due to the increase in the price of elementary bromine in China.

In April 2010, a drilling rig exploded in the Gulf of Mexico, which is a major sales territory for the Company's products. As a result, the US government announced the suspension of deep sea drilling in this region. And even though in March 2011 the US administration announced an end to the suspension and resumed the grant of deep-water drilling permits, there is little activity there and the segment's sales to the region are low. Nevertheless there was an increase in drilling permits in the area in the third quarter compared to the second quarter.

The operations of ICL Performance Products are affected by competition in the target markets, by price volatility in the fertilizer market, which affects the segment's principal raw materials, and by volatility in energy prices. The level of activity in the markets was adversely affected by the debt crisis in Western Europe and the U.S. Political instability in North Africa and the Middle East also led to a decrease in demand in some countries in these regions.

The third quarter of 2011 was characterized by falling demand for phosphate-based products, notably in the European markets. Price levels, however, remained stable. The level of prices of phosphate-based products in European and U.S. markets were influenced, inter alia, by the level of prices in the fertilizers market, which are rising steadily.

Shipping expenses amounted to about 6% of the total operating costs of ICL in the reporting period. Since 2010, bulk shipping prices have been highly volatile alongside a trend to a decrease in the BDI. Average BDI in the third quarter of 2011 was 1,533 points, a decrease of about 35% compared to the corresponding quarter last year.

Energy costs account for approximately 8% of ICL's total operating costs in the reporting period. Commencing in the third quarter of 2009, energy prices started to rise. During the year there was another rise in prices of oil and oil products compared to the corresponding period last year. The gradual increase in the use of natural gas in ICL's plants in Israel moderates the effect of the increase in prices of oil and oil products on Group results.

- 1.3.** This Directors' Report is attached to the interim financial statements for the period ended September 30, 2011, and assumes that the financial statements are available to the reader. The Directors' Report is in condensed form for the period and assumes that the Periodic Report for 2010 is also available to the reader.

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

## 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.

	1-9/2011		1-9/2010		7-9/2011		7-9/2010		2010	
	USD millions	% of sales	USD millions	% of sales	USD millions	% of sales	USD millions	% of sales	USD millions	% of sales
Sales	5,355.5		4,270.9		1,898.3		1,393.7		5,691.5	
Gross profit	2,380.2	44.4	1,805.1	42.3	871.4	45.9	584.1	41.9	2,432.1	42.7
Operating income	1,459.5	27.3	1,007.0	23.6	556.2	29.3	319.1	22.9	1,346.1	23.7
Profit before tax	1,410.2	26.3	963.2	22.6	542.6	28.6	290.7	20.9	1,295.4	22.8
Net profit to Company shareholders	1,142.2	21.3	779.3	18.2	436.3	23.0	242.9	17.4	1,024.7	18.0
Cash flow from current operations	925.0		1,110.2		498.8		369.6		1,537.0	
EBITDA*	1,661.6	31.0	1,164.2	27.3	631.8	33.3	374.0	26.8	1,572.1	27.6
Investment in property, plant and equipment, less grants	360.8		237.1		156.4		(76.6)		333.4	

\* Calculated as follows, in millions of dollars:

	<u>1-9/2011</u>	<u>1-9/2010</u>	<u>7-9/2011</u>	<u>7-9/2010</u>	<u>2010</u>
Net profit to Company shareholders	1,142.2	779.3	436.3	242.9	1,024.7
Depreciation and amortization	197.7	158.3	75.1	53.9	217.4
Finance expenses (income), net	60.5	45.8	16.3	30.3	53.2
Taxes on income	261.2	180.8	104.1	46.9	266.8
Special or one-time expenses	=	=	=	=	<u>10.0</u>
Total	<u>1,661.6</u>	<u>1,164.2</u>	<u>631.8</u>	<u>374.0</u>	<u>1,572.1</u>

### 2.2. Results of operations for January – September 2011

#### Sales

Sales of ICL in the reporting period amounted to approximately USD 5,356 million, compared with USD 4,271 million in the corresponding period last year, an increase of about 25.4%. This increase is due to an increase in selling prices, which led to an increase of about USD 788 million in sales, first-time consolidation of companies acquired during the reporting period, which increased sales by approximately USD 279 million, and the positive impact of a change in exchange rates which resulted in an increase of about USD 59 million in sales. The increase was partially offset by a decrease in quantities sold, which resulted in a decrease of about USD 41 million in sales. The reduction in the

quantity of sales was caused by, amongst others, the break in shipments of potash from Israel, during the strike in the first quarter as detailed below.

Below is a geographical breakdown of sales:

CIF sales	1-9/2011		1-9/2010		2010	
	USD millions	%	USD millions	%	USD millions	%
Israel	265.9	5.0	243.4	5.7	313.3	5.5
North America	1,061.4	19.8	792.4	18.6	1,052.0	18.5
South America	531.6	9.9	489.0	11.5	620.0	10.9
Europe	1,927.5	36.0	1,414.8	33.1	1,886.2	33.1
Asia	1,441.4	26.9	1,229.2	28.8	1,680.4	29.5
Rest of the world	127.7	2.4	102.1	2.3	139.6	2.5
<b>Total</b>	<b>5,355.5</b>	<b>100.0</b>	<b>4,270.9</b>	<b>100.0</b>	<b>5,691.5</b>	<b>100.0</b>

The breakdown of sales indicates an increase in sales in all geographical areas. In Europe and North America an increase in the percentage of sales is also apparent. The increase stems primarily from the increase in sales of fertilizers and of bromine and bromine products in these regions. The delay in signing a potash supply agreement in India and the strike at Haifa Chemicals led to a decrease in the percentage of sales in Israel and in Asia.

#### **Gross profit**

Gross profit amounted to approximately USD 2,380 million, compared with a profit of USD 1,805 million in the corresponding period last year, an increase of approximately USD 575 million. The gross profit margin as a percentage of sales amounted to about 44.4%, compared with about 42.3% in the corresponding period last year.

The increase in the gross profit margin compared to the corresponding period last year is mainly due to a rise in selling prices, which resulted in an increase of approximately USD 748 million. This increase was partially offset by the effects of a decrease in quantities sold, as noted above, which resulted in a decrease of about USD 45 million and by a rise in the prices of raw materials, which resulted in a decrease of about USD 140 million.

#### **Selling and marketing expenses**

Expenses for this item amounted to approximately USD 644 million, compared with USD 578 million in the corresponding period last year. The increase stems mainly from the first-time consolidation of the results of companies acquired, and from changes in exchange rates.

#### **General and administrative expenses**

These expenses amounted to approximately USD 203 million, compared with USD 181 million in the corresponding period last year. The increase in general and administrative expenses was mainly the result of the first-time consolidation in the reporting period of companies and operations acquired.

#### **Research and development expenses**

R&D expenses (net of grants from the Chief Scientist) amounted to approximately USD 55 million, an increase of about USD 9 million compared with the corresponding period last year.

#### **Operating income**

Operating income amounted to approximately USD 1,460 million, an increase of USD 453 million compared with the corresponding period last year. The increase in operating income stems mainly from the increase in gross profit net of the increased sales and marketing expenses, as noted above. Operating income as a percentage of sales turnover is about 27.3%, compared with 23.6% last year. The increase in the operating income margin stems mainly from the increase in selling prices.

#### **Finance income/expenses**

Net finance expenses amounted to approximately USD 61 million, compared with expenses of approximately USD 46 million in the corresponding period last year. The change in finance expenses in the reporting period compared with the corresponding period is mainly due to the following factors:

- a. Expenses in the period from transactions in financial derivatives and from revaluation of net short-term financial liabilities amounting to USD 36 million, compared with revenues of USD 9 million last year.

- b. A decrease of about USD 23 million in finance expenses due to the effect of exchange rate differences on the provisions for employee benefits.
- c. A decrease in net interest expenses, which were USD 20 million in the reporting period compared with USD 28 million in the corresponding period last year.

#### **Tax expenses**

Expenses amounted to USD 261 million, compared to USD 181 million last year. The tax rate on income before tax is 18.5% compared to 18.8% last year.

#### **Net profit**

Net profit for the shareholders of the Company amounted to approximately USD 1,142 million, compared with USD 779 million in the corresponding period last year.

### **2.3. Results of operations for July – September 2011**

#### **Sales**

Sales of ICL in the quarter amounted to approximately USD 1,898 million compared with USD 1,394 million in the corresponding period last year, an increase of about 36.2%.

That increase stems from a rise in selling prices which resulted in an increase of USD 327 million in sales from the first-time consolidation of the results of companies acquired during the quarter, which increased sales by about USD 106 million, the positive effects of change in exchange rates, which increased sales by about USD 26 million, and an increase in quantities sold, which resulted in an increase in sales of about USD 47 million.

Below is a geographical breakdown of sales:

<b>Sales CIF</b>	<b>7-9/2011</b>		<b>7-9/2010</b>	
	<b>\$ millions</b>	<b>%</b>	<b>\$ millions</b>	<b>%</b>
Israel	105.8	5.6	68.5	4.9
North America	341.3	18.0	255.5	18.3
South America	213.0	11.2	191.0	13.7
Europe	618.7	32.6	452.5	32.5
Asia	578.7	30.5	379.5	27.2
Rest of the world	40.8	2.2	46.7	3.4
<b>Total</b>	<b>1,898.3</b>	<b>100.0</b>	<b>1,393.7</b>	<b>100.0</b>

The breakdown of sales indicates an increase in sales in all geographical markets,, which stems mainly from a rise in the selling prices. The rise in the percentage of sales in Asia also stems from the increase in quantities sold to India and China.

#### **Gross profit**

Gross profit amounted to about USD 871 million, compared with USD 584 million in the corresponding period last year, an increase of USD 287 million. The gross profit margin as a percentage of sales turnover is about 45.9%, compared with about 41.9% in the corresponding period last year.

The improvement in the margin compared with last year stems mainly from the rise in selling prices of most of the Company's products, which contributed to an increase of about USD 310 million, and from an increase in quantities sold which resulted in an increase of about USD 22 million. Conversely, a rise in the prices of raw materials led to a decrease of USD 54 million in gross profit.

#### **Selling and marketing expenses**

Selling and marketing expenses amounted to about USD 216, an increase of USD 27 million compared with the corresponding period of the previous year. The increase stems primarily from the first-time consolidation of the results of acquired companies, and the effect of the changes in exchange rates.

#### **General and administrative expenses**

Expenses for this item amounted to USD 72 million, an increase of USD 12 million compared with the corresponding period last year. This increase was affected primarily by the first-time consolidation of companies and operations acquired in the reporting period.

### **Research and development expenses**

R&D expenses amounted to USD 20 million, an increase of USD 4 million compared with the corresponding period last year.

### **Operating income**

Operating income increased by USD 237 million compared with last year, reaching USD 556 million. The increase stems from the above-mentioned increase in gross profit, which was partially offset by a rise in selling and marketing expenses.

Operating income as a percentage of sales turnover is 29.3%, compared with 22.9% in the corresponding period of the previous year.

### **Finance income / expenses**

Net finance expenses in the reporting period amounted to USD 16 million, compared with USD 30 million in the corresponding quarter last year. The decrease in net finance expenses in the quarter compared with the corresponding quarter last year stems primarily from the effect of the change in the shekel/dollar exchange rate on employee benefit liabilities, which contributed about USD 27 million in the quarter compared with expenses of about USD 17 million in the corresponding period last year (a total decrease of about USD 44 million), and from a decrease of USD 2 million in net interest expenses.

Conversely, the decrease in net finance expenses was offset by an increase of USD 31 million in expense from transactions in financial derivatives and from revaluation of short-term net finance liabilities.

### **Tax expenses**

The tax expenses amounted to USD 104 million, compared with USD 47 million in the corresponding period last year. The tax rate on profit before tax is approximately 19.2%, compared with about 16.1% last year. The rise in the tax rate in the quarter compared with the corresponding quarter last year, stems primarily from the effect of the change in the dollar-shekel exchange rate in the reporting period compared with last year, which increased the tax rate of the companies operating in Israel due to differences in respect of the measuring indexes.

### **Net profit**

Net profit for the shareholders of the Company amounted to approximately USD 436 million, compared with USD 243 million in the corresponding quarter last year, an increase of about 80%.

## **3. Operating Segments**

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

CIF sales by operating segment	1-9/2011		1-9/2010		7-9/2011		7-9/2010	
	\$ millions	% of sales	\$ millions	% of sales	\$ millions	% of sales	\$ millions	% of sales
ICL Fertilizers	3,063.4	54.3	2,340.9	52.0	1,126.0	56.1	753.3	51.1
ICL Industrial Products	1,178.0	20.9	966.6	21.5	380.7	19.0	315.5	21.4
ICL Performance Products	1,161.5	20.6	1,013.0	22.5	403.1	20.1	351.9	23.9
Others and setoffs	(47.5)		(49.6)		(11.5)		(27.0)	
<b>Total</b>	<b>5,355.5</b>		<b>4,270.9</b>		<b>1,898.3</b>		<b>1,393.7</b>	

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

Operating income by operating segment	1-9/2011		1-9/2010		7-9/2011		7-9/2010	
	\$ millions	% of sales	\$ millions	% of sales	\$ millions	% of sales	\$ millions	% of sales
ICL Fertilizers	1,038.8	33.9	720.7	30.8	416.3	37.0	212.5	28.2
ICL Industrial Products	234.2	19.9	139.8	14.5	75.9	19.9	52.6	16.7
ICL Performance Products	166.0	14.3	152.3	15.0	52.9	13.1	53.3	15.1
Others and setoffs	20.5		(5.8)		11.1		0.7	
Operating income (consolidated)	<b>1,459.5</b>		1,007.0		<b>556.2</b>		319.1	

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

### 3.1. ICL Fertilizers

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

	<u>1-9/2011</u>	<u>1-9/2010</u>	<u>7-9/2011</u>	<u>7-9/2010</u>	<u>2010</u>
<b><u>Sales</u></b>					
Potash	57%	66%	61%	62%	67%
Phosphate	43%	34%	39%	38%	33%
<b><u>Operating income</u></b>					
Potash	81%	87%	86%	81%	89%
Phosphate	19%	13%	14%	19%	11%

#### Sales

Sales in the reporting period amounted to approximately USD 3,063 million, an increase of USD 722 million compared with the corresponding period last year, representing an increase of about 30.9%.

The increase in sales stems mainly from an increase in the selling prices of potash, phosphate fertilizers and phosphate rock, which led to an increase of approximately USD 567 million in sales, and following the first-time inclusion of the results of the companies acquired in the reporting period, which increased sales by USD 275 million. This increase was partially offset by a decrease in the quantities of potash and phosphate fertilizers sold, which led to a decrease of approximately USD 132 million in sales. The decrease in sales quantities stems, inter alia, from interruption of shipments of potash from Israel during the strike in the first quarter (describe below). In the third quarter, quantities of potash sold increased compared with the corresponding quarter last year, thereby increasing sales by USD 52 million.

#### Profitability

Operating income in the segment in the reporting period amounted to USD 1,039 million, an increase of about USD 318 million compared with the corresponding period last year. The margin of operating income as a percentage of sales was about 33.9%, compared with about 30.8% last year.

The increase in operating income is mainly due to an increase in the selling prices of potash, phosphate fertilizers and phosphate rock, which increased operating income by USD 545 million. This increase was partially offset by an increase in prices of sulfur and other raw materials which resulted in a decrease of about USD 126 million. There was also a decline in quantities of potash and phosphate fertilizers sold, which reduced operating income by USD 76 million, and a change in the shekel-dollar exchange rate, which decreased operating profit by USD 16 million.

## **Potash**

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

### **Potash – Revenue and profit**

<b>\$ millions</b>	<b>1-9/2011</b>	<b>1-9/2010</b>	<b>7-9/2011</b>	<b>7-9/2010</b>	<b>2010</b>
Revenue *	1,810.9	1,586.6	701.8	484.2	2,140.7
Operating income	845.1	625.5	357.7	172.7	857.9

\* Including revenue from inter-segment sales

The increase in revenues in the reporting period compared to the corresponding period of the previous year stems from the increase in potash prices which increased revenues by about USD 318 million. In contrast, the decrease in the quantities sold, stemming inter alia from the interruption of potash shipments from Israel during the strike in the first quarter, reduced sales by USD 94 million.

The increase in operating income is mainly due to the effects of the increase in selling prices of about USD 298 million. This increase was partially offset by a decrease in quantities of potash sold, which reduced the operating income by USD 65 million, and the effects of the change in the shekel-dollar exchange rate, which reduced income by USD 12 million.

In the first quarter of 2011, the Dead Sea Works workers' union announced a strike which was expressed inter alia by a disruption of potash production and maintenance activities. The strike caused immediate production losses of approximately 450 thousand tons, however the production process and the building up stocks of carnallite in the evaporation ponds continued normally. The Company believes that it will succeed in recovering this inventory in its production over the coming years.

During the strike period, potash shipments from Israel were suspended to customers. The Company believes that part of the sales that were not made will be made up by the end of the year.

### **Potash – Production, sales and closing inventories**

<b>Thousands of tons</b>	<b>1-9/2011</b>	<b>1-9/2010</b>	<b>7-9/2011</b>	<b>7-9/2010</b>	<b>2010</b>
Production	3,070	3,067	1,123	1,013	4,251
Sales to external customers	3,577	3,940	1,316	1,212	5,266
Sales to internal customers	215	203	79	74	292
Total sales (including internal sales)	3,793	4,143	1,396	1,286	5,558
Closing inventory	887	1,841	887	1,841	1,610

During the quarter, ICL Fertilizers signed contracts in China with a number of customers for the supply of 750,000 tons of potash in the second half of 2011 at a price similar to that at which transactions were recently made with other manufacturers in the market and which represents an increase of USD 70 per ton compared with contract prices for the first half of the year. This quantity is additional to the contracts signed for delivery of 500,000 tons in the first half of 2011.

In India, ICL Fertilizers signed potash sale agreements for a period of eight months (August 2011 to March 2012), under which ICL Fertilizers will supply 1,390,000 tons of potash at an average price of USD 490 per ton. In addition, ICL Fertilizers has an option to supply another 125,000 tons on the same terms.

On April 12, 2011 the British government approved a £15 million grant to Cleveland Potash Ltd. (CPL), a UK-based company in the ICL Fertilizers segment, to encourage CPL's mining and processing of polyhalite, a mineral used as fertilizer for agriculture and which is found beneath the potash layer in CPL's mine. Geological studies performed by CPL indicate that there are more than one billion tons of polyhalite ore beneath the potash layer in the Company's mine. Polyhalite is a mineral that can be used in its natural form as fertilizer for organic agriculture or as raw material in the production of specialty fertilizers. ICL is considering constructing a plant to produce specialty fertilizers and industrial products based on polyhalite in the Tees Valley area, near its potash mine in the UK. The British government announced that it views with importance the establishment of a production plant and increased mining activities in that it will result in increased employment in the area, therefore it intends to assist and support the establishment of the production facility through the above-mentioned grant.

On April 13, 2011, ICL's board of directors, as part of its streamlining plan for Iberpotash SA, the Spanish subsidiary of ICL Fertilizers, approved the merger of two plants into one site. The Suria production site, including the mine and plant, will be expanded and mining and production at the other site will be terminated. The first stage of the plan, which has been approved, includes expansion of potash production and granulation capacity as well as establishment of a production plant for vacuum salt (salt with high chemical purity) at Suria. The second stage, which has not yet been approved, includes further expansion of potash production capacity, to 1.1 million tons, of which 630,000 tons will be granulated potash and 50,000 tons will be technical potash, as well as a production capacity of 1.5 million tons of vacuum salt. The Company believes that implementation of the first stage of the plan, which will require investment of an estimated €160 million, will be completed at the beginning of 2014. The Company believes that implementation of the first stage of the plan will reduce expenses and contribute to streamlining, which will reduce potash production costs and contribute to conformity with sustainability principles related to environmental protection. Implementation of the second stage will result in higher potash production at one site compared to production at two separate sites. The closing of the second site will not have a material effect on the Company's results in the reporting period.

### **Fertilizers and phosphates**

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

#### **Fertilizers and phosphates – Revenue and profit**

<b>\$ millions</b>	<b>1-9/2011</b>	<b>1-9/2010</b>	<b>7-9/2011</b>	<b>7-9/2010</b>	<b>2010</b>
Revenue *	1,344.2	821.0	458.2	295.7	1,056.3
Operating income	192.4	93.5	55.9	40.1	108.6

\* Including revenue from inter-segment sales

The increase in revenues in the reporting period, compared to the corresponding period last year, is mainly due to the increase in selling prices of phosphate fertilizers and phosphate rock which increased sales by USD 273 million dollars and to inclusion of the results of companies consolidated for the first time which increased income by about USD 275 million dollars. This increase was partially offset by a decrease in the quantity of phosphate fertilizers sold, which reduced sales by USD 38 million.

The increase in operating profit in the reporting period compared with last year is mainly due to the increase in selling prices of phosphate fertilizers and phosphate rock, which contributed to profit of approximately USD 271 million. This increase was partially offset by an increase in inputs, which resulted in a decrease of USD 151 million, and by a decrease in the quantity of phosphate fertilizers sold, which reduced operating profit by USD 11 million.

#### **Fertilizers and phosphates – Production and sales**

<b>Thousands of tons</b>	<b>1-9/2011</b>	<b>1-9/2010</b>	<b>7-9/2011</b>	<b>7-9/2010</b>	<b>2010</b>
<b><u>Phosphate rock</u></b>					
Production of rock	2,329	2,355	762	808	3,135
Sales*	515	503	117	211	636
Phosphate rock used for internal purposes	1,836	1,937	646	688	2,584
<b><u>Fertilizers</u></b>					
Production	1,228	1,273	412	435	1,688
Sales*	1,378	1,414	456	503	1,735

\* To external customers

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

Production of phosphate rock is lower than in the corresponding period last year, mainly due to maintenance work in the production facilities.

On February 28, 2011, a transaction was completed with the American company Scotts Miracle-Gro to acquire the companies, assets and activities of a specialty fertilizer business unit (see section 9.6).

At the beginning of April, the subsidiary in Spain acquired 100% of the interests in A. Fuentes Mendez SA, which manufactures and markets specialty fertilizers in Spain (see Section 9.10).

### **3.2. ICL Industrial Products**

#### **Sales**

Sales of ICL Industrial Products in the reporting period reached approximately USD 1,178 million, an increase of about USD 211 million compared with the corresponding period last year. The increase is due to an increase in selling prices, which contributed to an increase of USD 187 million in sales, mainly due to an increase in selling prices of flame retardants amounting to USD 105 million. Increased quantities sold resulted in an increase of about USD 24 million.

#### **Profitability**

Operating income in the reporting period reached a record USD 234 million, compared with USD 140 million in the corresponding period last year.

The percentage of operating income from sales amounted to about 19.9% compared with operating income of 14.5% last year.

The increase in operating income was mainly due to the increase in selling prices, which contributed to an increase of about USD 187 million in profitability. In addition, the increase in quantities sold and produced contributed to an increase of about USD 6 million in profitability. The increase was partially offset by an increase in raw material and energy prices amounting to USD 40 million, an increase in other expenses, mainly the salary expense, which contributed to a decrease of about USD 40 million, and the weakening of the US dollar against the shekel and the euro which accounted for a decrease of about USD 19 million.

### **3.3. ICL Performance Products**

#### **Sales:**

Sales in this segment amounted to approximately USD 1,162 million, an increase of USD 149 million compared with the corresponding period last year.

The increase was due to an increase in selling prices of some of the segment products, which resulted in an increase of about USD 54 million in sales, and an increase of about USD 52 million as a result of the increase in quantities sold, following the inclusion of a company acquired during the reporting period, which led to an increase in sales of USD 4 million, and as a result of the weakening of the dollar-euro exchange rate amounting to USD 38 million.

#### **Profitability**

Operating income of the segment in the reporting period amounted to approximately USD 166 million, an increase of about USD 14 million compared with the corresponding period last year. The increase is mainly due to the effects of the increase in selling prices, which contributed about USD 54 million, and an increase in quantities sold, which contributed USD 21 million to the increase in operating income. The increase was partially offset by the increase in raw material prices, which reduced operating income by approximately USD 48 million, and an increase in other expenses, mainly transportation expenses, which contributed to a decline of about USD 13 million.

## **4. The Financial Position and Sources of Financing of ICL**

At September 30, 2011, an increase of USD 671 million was recorded in the net interest-bearing financial liabilities of ICL compared with the balance at the end of 2010, bringing the total to approximately USD 1,328 million.

ICL's sources of financing are short- and long-term loans, mostly from international banks, debentures issued to the public and to institutional investors in Israel and the USA, and customer securitization, in which some of the companies in the Group sell customer receivables in return for a credit facility. The total amount of the securitization framework and credit facility amounts to USD 350 million. At September 30, 2011, ICL had used USD 329 million of the securitization facility.

The Company entered a loan agreement in 2007 for the amount of USD 725 million, for a 5 year period which includes a credit line of USD 435 million, as part of the amount of the loan which can be used at any time. The repayment date for the loan is August 2012. As of the balance sheet date the Company used the credit line to its entirety. The loan balance has been classified as part of current liabilities as of September 30, 2011.

On March 14, 2011, ICL entered into an agreement with 17 banks in Europe, the United States and Israel, for a revolving credit facility of USD 675 million. The credit facility is for five years, and is repayable in full at the end of the period. The basic interest rate of the credit facility for up to USD 225 million is Libor + 0.8% and additional 0.15%-0.3% for amounts exceeding USD 225 million. At the reporting date the new credit facility had not been used.

The loan agreements signed by the Company lay down various limitations that include financial covenants, a cross-default mechanism and a negative pledge. The table below shows the financial covenants imposed on the Company in respect of compliance with the terms of the loans:

<b>Financial covenants*</b>	<b>Financial ratio required per agreement at September 30, 2011</b>	<b>Financial ratio at September 30, 2011</b>	<b>Financial ratio at December 31, 2010</b>
The Company's equity shall not be less than USD 700 million plus 25% of annual net profit from 2005 onwards	Shareholders' equity in excess of USD 2,273 million.	USD 3,072 million	USD 2,620 million
Ratio of EBITDA to net interest expenses	Higher than or equal to 3.5	77.86	46.44
Ratio of net financial debt to EBITDA	Less than 3.5	0.49	0.43
Ratio of financial liabilities of the subsidiaries to total assets of the reporting company	Less than 10%	3.41%	3.49%
Ratio of net financial debt to equity	Less than 2.1	0.33	0.38

\* Compliance with the above financial covenants is reviewed as required, based on data from the consolidated financial statements of the Company.

## **5. Cash Flow**

Cash flow generated by operating activities in the reporting period amounted to USD 925 million, compared with USD 1,110.2 million in the corresponding period last year. The decrease in cash flow from operating activities is mainly due to a one-time payment of USD 165 million for income tax as part of the assessment agreement for 2004-2008, and to an increase in working capital, which was partially offset by an increase in profit in the reporting period compared to last year. Cash flow from operating activities and the increase in financial commitments were the main source of net financing of investments of USD 361 million in property, plant and equipment, financing the consideration of about USD 424 million for acquisition of the companies and operations in the reporting period (see section 9.6 and 9.10 for acquisition of operations of a specialty fertilizer business unit) and distribution of a dividend of USD 832 million.

## **6. Investments**

In the reporting period, investments in property, plant and equipment amounted to approximately USD 361 million, compared with about USD 237 million in the corresponding period last year. Most of the increase in investments stems from dynamic compacting of the dyke surrounding the evaporation pond of ICL Fertilizers at the Dead Sea (see section 9.13), and the purchase and refurbishing of isotanks for transporting bromine in the Industrial Products segment.

## 7. Human Resources

The total number of employees in ICL at September 30, 2011 was 11,965 compared with 11,097 on September 30, 2010, an increase of 868 employees. The increase in the number of employees is mainly due to the addition of human resources caused by the acquisition of companies as well as to the completion of investments in new facilities, which have resulted in increased production and the return to pre-economic crisis work formats, mainly in companies abroad.

## 8. Market Risk – Exposure and Management

Base rates as at September 30, 2011:

Currency	Exchange rate
NIS/USD	0.26940
EUR/USD	1.35876
GBP/USD	1.56191
JPY/USD	0.01309
BRL/USD	0.54551
CNY/USD	0.15690

Update of sensitivity to changes in the exchange rates of balances in the statement of financial position at September 30, 2011:

USD/NIS	Increase (decrease) in fair value		Fair value (USD millions)	Increase (decrease) in fair value	
	(USD millions)	(USD millions)		(USD millions)	(USD millions)
	Type of instrument	Increase of 10%	Increase of 5%		Decrease of 5%
Cash and cash equivalents	(9.2)	(4.6)	92.1	4.6	9.2
Short-term deposits and loans	(2.5)	(1.3)	25.4	1.3	2.5
Trade receivables	(8.6)	(4.3)	86.0	4.3	8.6
Receivables and debit balances	(4.1)	(2.1)	41.4	2.1	4.1
Long-term deposits and loans	(22.6)	(11.3)	225.6	11.3	22.6
Credit from banks and others	0.3	0.1	(2.6)	(0.1)	(0.3)
Trade payables	24.4	12.2	(244.2)	(12.2)	(24.4)
Other payables	14.6	7.3	(146.3)	(7.3)	(14.6)
Bank loans	6.5	3.2	(64.9)	(3.2)	(6.5)
Debentures	37.7	18.8	(376.7)	(18.8)	(37.7)
Options	(70.6)	(32.8)	(9.2)	18.4	51.5
Forward	(16.6)	(8.7)	(3.1)	9.6	20.3
Swap	(31.8)	(16.6)	14.5	18.4	38.8
Embedded derivative	1.3	0.7	2.5	(0.7)	(1.3)
Total	(81.2)	(39.4)	(359.5)	27.7	72.8

CPI	Increase (decrease) in fair value		Fair value (USD millions)	Increase (decrease) in fair value	
	(USD millions)	(USD millions)		(USD millions)	(USD millions)
	Type of instrument	Increase of 10%	Increase of 5%		Decrease of 5%
Long-term deposits and loans	7.6	3.8	76.0	(3.8)	(7.6)
Credit from banks and others	(0.3)	(0.1)	(2.5)	0.1	0.3
Other payables	(0.1)	0.0	(0.8)	0.0	0.1
Long-term bank loans	(6.5)	(3.2)	(64.9)	3.2	6.5
Fixed-interest debentures	(14.0)	(7.0)	(140.2)	7.0	14.0
CPI/USD swap	5.0	2.5	8.4	(2.5)	(5.0)
Forward	5.7	2.9	0.1	(2.9)	(5.7)
Embedded derivative	12.9	6.4	11.5	(6.4)	(12.9)
Total	10.3	5.3	(112.4)	(5.3)	(10.3)

	Increase (decrease) in fair value		Fair value (USD millions)	Increase (decrease) in fair value	
	(USD millions)	(USD millions)		(USD millions)	(USD millions)
EUR/USD	Increase of 10%	Increase of 5%		Decrease of 5%	Decrease of 10%
Cash and cash equivalents	(14.6)	(7.3)	145.8	7.3	14.6
Short-term deposits and loans	(5.6)	(2.8)	55.8	2.8	5.6
Trade receivables	(35.8)	(17.9)	357.9	17.9	35.8
Receivables and debit balances	(2.4)	(1.2)	23.9	1.2	2.4
Long-term deposits and loans	(0.2)	(0.1)	2.4	0.1	0.2
Credit from banks and others	12.1	6.1	(121.5)	(6.1)	(12.1)
Trade payables	21.9	10.9	(218.8)	(10.9)	(21.9)
Other payables	9.9	5.0	(99.3)	(5.0)	(9.9)
Long-term bank loans	23.3	11.6	(232.5)	(11.6)	(23.3)
Options	29.4	15.0	3.9	(8.2)	(20.5)
Forward	19.1	9.1	(0.7)	(8.0)	(15.4)
Embedded derivative	(0.1)	0.0	10.3	0.0	0.1
Total	57.0	28.4	(72.8)	(20.5)	(44.4)

	Increase (decrease) in fair value		Fair value (USD millions)	Increase (decrease) in fair value	
	(USD millions)	(USD millions)		(USD millions)	(USD millions)
GBP/USD	Increase of 10%	Increase of 5%		Decrease of 5%	Decrease of 10%
Cash and cash equivalents	(0.3)	(0.2)	3.5	0.2	0.3
Short-term deposits and loans	(3.3)	(1.7)	33.1	1.7	3.3
Trade receivables	(5.7)	(2.9)	57.1	2.9	5.7
Receivables and debit balances	0.0	0.0	(0.1)	0.0	0.0
Credit from banks and others	0.9	0.4	(8.5)	(0.4)	(0.9)
Trade payables	1.5	0.7	(14.6)	(0.7)	(1.5)
Other payables	0.7	0.3	(6.9)	(0.3)	(0.7)
Forward	(4.9)	(2.3)	0.3	2.1	4.0
Total	(11.3)	(5.5)	63.8	5.3	10.4

	Increase (decrease) in fair value		Fair value (USD millions)	Increase (decrease) in fair value	
	(USD millions)	(USD millions)		(USD millions)	(USD millions)
GBP/EUR	Increase of 10%	Increase of 5%		Decrease of 5%	Decrease of 10%
Forward	(2.4)	(1.3)	0.2	1.4	3.0
Options	(3.2)	(1.0)	0.0	0.6	1.9
Total	(5.6)	(2.3)	0.2	2.0	4.9

	Increase (decrease) in fair value		Fair value (USD millions)	Increase (decrease) in fair value	
	(USD millions)	(USD millions)		(USD millions)	(USD millions)
JPY/USD	Increase of 10%	Increase of 5%		Decrease of 5%	Decrease of 10%
Cash and cash equivalents	(0.8)	(0.4)	8.2	0.4	0.8
Trade receivables	(1.9)	(1.0)	19.5	1.0	1.9
Receivables and debit balances	0.0	0.0	0.4	0.0	0.0
Long-term deposits and loans	0.0	0.0	0.2	0.0	0.0
Credit from banks and others	0.0	0.0	0.0	0.0	0.0
Trade payables	0.5	0.3	(5.1)	(0.3)	(0.5)
Other payables	0.1	0.0	(0.7)	0.0	(0.1)
Long-term bank loans	0.0	0.0	(0.1)	0.0	0.0
Options	1.5	0.7	(0.5)	(1.6)	(3.7)
Forward	1.1	0.6	0.0	(0.7)	(1.4)
Total	0.5	0.2	21.9	(1.2)	(3.0)

	Increase (decrease) in fair value		Fair value	Increase (decrease) in fair value	
	(USD millions)	(USD millions)		(USD millions)	(USD millions)
<b>BRL/USD</b>					
Type of instrument	Increase of 10%	Increase of 5%		Decrease of 5%	Decrease of 10%
Cash and cash equivalents	(0.5)	(0.2)	4.6	0.2	0.5
Trade receivables	(0.8)	(0.4)	7.8	0.4	0.8
Receivables and debit balances	0.0	0.0	0.1	0.0	0.0
Trade payables	0.5	0.3	(5.4)	(0.3)	(0.5)
Other payables	0.1	0.0	(0.5)	0.0	(0.1)
Total	(0.7)	(0.3)	6.6	0.3	0.7

	Increase (decrease) in fair value		Fair value	Increase (decrease) in fair value	
	(USD millions)	(USD millions)		(USD millions)	(USD millions)
<b>CNY/USD</b>					
Type of instrument	Increase of 10%	Increase of 5%		Decrease of 5%	Decrease of 10%
Cash and cash equivalents	(2.0)	(1.0)	20.4	1.0	2.0
Short-term deposits and loans	(0.4)	(0.2)	3.7	0.2	0.4
Trade receivables	(2.0)	(1.0)	20.3	1.0	2.0
Receivables and debit balances	(0.3)	(0.1)	2.7	0.1	0.3
Credit from banks and others	0.3	0.2	(3.1)	(0.2)	(0.3)
Trade payables	1.0	0.5	(10.2)	(0.5)	(1.0)
Other payables	0.5	0.3	(5.2)	(0.3)	(0.5)
Long-term loans from banks	0.0	0.0	0.0	0.0	0.0
Total	(2.9)	(1.3)	28.6	1.3	2.9

**Update of sensitivity to changes in marine transportation prices of balance-sheet items at September 30, 2011:**

	Increase (decrease) in fair value		Fair value	Increase (decrease) in fair value	
	(USD millions)	(USD millions)		(USD millions)	(USD millions)
Type of instrument	Increase of 10%	Increase of 5%		Decrease of 5%	Decrease of 10%
Hedging of marine transportation	4.0	2.0	(15.0)	(2.0)	(4.0)

**Update of sensitivity to changes in the LIBOR interest rate at September 30, 2011:**

	Increase (decrease) in fair value		Fair value	Increase (decrease) in fair value	
	(USD millions)	(USD millions)		(USD millions)	(USD millions)
Type of instrument	Increase of 1%	Increase of 0.5%		Decrease of 0.5%	Decrease of 1%
Fixed-interest debentures	2.2	1.1	(92.3)	(1.2)	(2.3)
Collar transactions	4.4	2.2	(7.1)	(2.3)	(3.3)
Swap transactions	5.5	2.8	(10.4)	(2.6)	(2.5)
Other options	1.4	0.7	(2.7)	(0.8)	(1.6)
NIS/USD swap	4.9	2.5	6.0	(2.0)	(1.6)
Total	18.4	9.3	(105.6)	(8.9)	(11.3)

**Update of sensitivity to changes in the index interest rate at September 30, 2011:**

<b>Sensitivity to changes in the index interest rate</b>	<b>Increase (decrease) in fair value</b>		<b>Fair value</b>	<b>Increase (decrease) in fair value</b>	
	<b>(USD millions)</b>	<b>(USD millions)</b>		<b>(USD millions)</b>	<b>(USD millions)</b>
<b>Type of instrument</b>	<b>Increase of 1%</b>	<b>Increase of 0.5%</b>		<b>Decrease of 0.5%</b>	<b>Decrease of 1%</b>
Fixed-interest debentures	3.3	1.7	(140.2)	(1.7)	(3.4)
Long-term bank loans	3.6	1.8	(64.9)	(1.9)	(3.9)
CPI/USD swap	(1.1)	(0.6)	8.4	0.6	1.1
<b>Total</b>	<b>5.8</b>	<b>2.9</b>	<b>(196.7)</b>	<b>(3.0)</b>	<b>(6.2)</b>

**Update of sensitivity to changes in the shekel interest rate at September 30, 2011:**

<b>Sensitivity to changes in the shekel interest rate</b>	<b>Increase (decrease) in fair value</b>		<b>Fair value</b>	<b>Increase (decrease) in fair value</b>	
	<b>(USD millions)</b>	<b>(USD millions)</b>		<b>(USD millions)</b>	<b>(USD millions)</b>
<b>Type of instrument</b>	<b>Increase of 1%</b>	<b>Increase of 0.5%</b>		<b>Decrease of 0.5%</b>	<b>Decrease of 1%</b>
Fixed-interest debentures	3.9	2.0	(209.4)	(2.0)	(4.0)
NIS/USD swap	(7.5)	(3.8)	7.8	3.8	7.7
<b>Total</b>	<b>(3.5)</b>	<b>(1.8)</b>	<b>(201.6)</b>	<b>1.8</b>	<b>3.7</b>

Update of positions in derivatives at September 30, 2011

Hedging transactions against the effect of changes in exchange rates on cash flow USD thousands				
	Nominal value Up to one year		Fair value Up to one year	
	Long	Short	Long	Short
<b>Transactions in dollars against other currencies</b> (direction of transaction in derivatives is dollar purchase)				
<b>EUR/USD in USD thousands</b>				
Forward	171,123		(661)	
Call options	147,795		(2,577)	
Put options	148,152		6,452	
<b>JPY/USD in USD thousands</b>				
Forward	12,499		(18)	
Call options	35,000		286	
Put options	35,000		(762)	
<b>NIS/USD in USD thousands</b>				
Forward		185,881		(3,107)
Call options		470,121		(12,806)
Put options		502,662		3,540
<b>GBP/USD in thousands</b>				
Forward		44,439		251
<b>GBP/EUR in USD thousands</b>				
Forward	26,475		226	
Call options	14,674		(98)	
Put options	14,674		87	
<b>Hedging transactions against rise in ocean freight and energy prices – up to one year</b>				
	32,263		(10,243)	
<b>More than one year</b>				
	22,333		(4,769)	
<b>Swap contracts and futures contracts for the Company's liabilities</b>				
Israeli fixed to variable interest swap contract		70,232		1,803
Fixed interest dollar liability to variable interest dollar liability swap contract from CPI-linked fixed interest liability – not recognized		38,892		8,441
Fixed interest shekel to dollar liability fixed-interest swap contract from fixed-interest shekel liability		91,782		3,220
Cash flow swap contract from fixed-interest shekel liability to fixed-interest dollar liability – recognized for accounting		178,553		2,825
Futures contract for CPI purchase – more than one year	53,291		137	

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

	Nominal value in USD thousands	Carrying amount/fair value	Average transaction rate
<b>Forward transactions</b>			
USD/NIS	185,881	(3,107)	3.65
EUR/USD	171,123	(661)	1.35

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

Interest-hedging transactions – for hedging against changes in variable interest rate (LIBOR) on dollar loans (in 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		20,000	331,262	48,000		399	(17,136)	6,308
Collars			220,000				(6,272)	
Other options			30,000				(2,661)	

In swap transactions, the Company replaces the variable interest rate paid on loans received for fixed interest with rates between 2.5% and 4.3%. In cap and floor transactions, the Company fixes the float of variable interest loans in the range of 1% to 5.25%.

In 2009, the Company issued listed debentures amounting to NIS 1.6 million. Some of these series are denominated in shekels, some are linked to the CPI and bear fixed interest, and some are linked to the USD (see section 5.3.5 in Chapter A of the Periodic Report – Description of the Corporation's Business).

For the CPI-linked shekel liabilities, the Company has swap and hedging transactions from shekel to dollar. In addition, the Company has derivatives to hedge most of the exposure to changes in the CPI.

In addition, during the third quarter of 2009 the Company invested in derivatives for hedging the exposure to changes in the cash flows of the expanded series 2 debentures, in respect of changes in the exchange rates of the shekel against the dollar. This hedging transaction was accounted for in the financial statements as accounting hedging. As a result of the accounting hedging, the Company recognized some of the changes in the fair value of the derivatives (loss of USD 5.5 million) in capital reserve.

None of the other hedging transactions made by the Company are accounted for as an accounting hedge in the financial statements.

## **9. Update on the description of the Company's business and material events during and after the balance sheet period**

- 9.1** On March 27, 2011, the board of directors of ICL resolved to distribute a cash dividend of USD 170 million (net dividend less the subsidiary's share is USD 169.7 million), which was distributed on May 12, 2011.
- 9.2** On May 15, 2011, the board of directors of ICL resolved to distribute a cash dividend of USD 195 million (net dividend less the subsidiary's share is USD 194.7 million), which was distributed on June 28, 2011.
- 9.3** On August 16, 2011, the board of directors of ICL resolved to distribute a cash dividend of USD 298 million (net dividend less the subsidiary's share is USD 297.5 million), which was distributed on September 26, 2011.
- 9.4** After the balance sheet date, on November 20, 2011, the Board of Directors of ICL resolved to distribute a cash dividend of USD 300 million (net dividend less the share of a subsidiary is USD 299.5 million), which will be distributed on December 22, 2011.
- 9.5** On September 30, 2010 the collective work agreement for Dead Sea Works ("DSW"), a company in the Fertilizer Segment expired. On November 18, 2010, the General Union declared a labor dispute at Dead Sea Works relating to disagreements during the negotiation process for signing the new collective agreement. On January 4, 2011, the Workers' Council of DSW declared a strike, reflected in work sanctions that restricted production and maintenance activities, which affected the operations of DSW and other plants on the DSW site. These sanctions disrupted production processes to the extent of suspension of plant production and potash shipments to the Company's customers. On February 16, 2011, the management of DSW and the Workers' Council reached a memorandum of understanding regarding the labor agreement for the coming years and the sanctions ended. On April 14, 2011 a new collective agreement was signed for five years, ending in September 2015. In September 2011 a new labor agreement in Rotem was signed for a term of five years which will terminate in July 2016.

- 9.6** On February 28, 2011, a transaction was completed for acquisition from the American company Scotts Miracle-Gro of the companies, assets and activities of a specialty fertilizer business unit called The Global Professional Business. For further information, see Note 5(5) to the financial statements.
- 9.7** On December 12, 2010, a subsidiary in the fertilizers segment entered into a conditional agreement with East Mediterranean Gas S.A.E for the supply of 0.2 BCM of natural gas to a power station that DSW is considering establishing at Sdom. Pursuant to the agreement, DSW has an option to purchase a further quantity of natural gas of up to 0.53 BCM. The option was exercisable to March 31, 2011. The total monetary value of the agreement for the entire contractual period until 2030, consistent with the component for the current cost of generating electricity, is USD 370-460 million assuming that the option is not exercised. In March 2011, the option period was extended to December 31, 2011.
- 9.8** On March 14, 2011 the State of Israel filed a statement of claim against a subsidiary (DSW), in the arbitration according to the Dead Sea Concession Law, 5721-1961. In the statement of claim, the state is claiming USD 265 million for a shortfall in royalties from 2000 to 2009, bearing interest and linkage differences; USD 26 million for the increased rate of royalties, as from 2010, proportionately to the annual quantity of potash sales exceeding 3 million tons; and a change in the formula for calculating royalties for metallic magnesium sales. On July 31, 2011, DSW filed its statement of defense. At the reporting date, each of the parties had appointed an arbitrator on its behalf and they appointed the third arbitrator. For further information, see Note 5(9) to the financial statements.
- 9.9** On March 14, 2011, the Company entered into an agreement with a group of 17 banks, most of them international, for a credit facility of USD 675 million for five years from the date the credit facility was granted. A credit facility for USD 225 million will be provided at a base interest rate of Libor + 0.8%, and for use of credit in amounts exceeding USD 225 million, additional interest of 0.15%-0.3% will be charged.
- 9.10** In April 2011, a subsidiary in Spain acquired 100% of the interests in A. Fuentes Mendez, SA ("the acquired company"), which manufactures and markets specialty fertilizers in Spain. The financial statements of the acquired company have been included in the Company's consolidated financial statements as from the second quarter of 2011.
- 9.11** On April 14, 2011, the Supreme Court handed down an order nisi to the State, ordering it to adopt one of the permanent solutions for protection of the Dead Sea within three months from the order. A hearing of the application was held on November 7, 2011, and the court ordered a further extension of 60 days for continued discussions between the parties. In June 2011 a notice was published by the Prime Minister's Office to the effect that the solution preferred by the Prime Minister is full harvest of the salt from the bed of the pond and its removal to the Northern section of the Dead Sea. Following the notice, on July 3, 2011, the Company announced that talks were ongoing between its representatives and officials from the Ministry of Finance regarding all the matters involved in application of the harvesting solution, including the allocation of financing.

Further to the media publicity in the matter of the internal opinion of the Deputy Attorney General (Economic – Fiscal), prepared at the request of the Ministry of Finance, concerning the preferred permanent solution to the level of the Dead Sea and how that solution should be financed, the Company announced on September 11, 2011 that at a meeting between the Minister of Finance, Mr. Yuval Steinetz, and the Chairman of the Board of Israel Corporation, Mr. Amir Elstein, it was decided to expedite the negotiations between the Company and the Ministry of Finance and to strive jointly for an agreed solution to the issues involved – a solution will reflect the public interest while acknowledging the importance of the contribution of the subsidiary Dead Sea Works to the residents of the Negev and to the economy of the country.

The discussions with the Treasury Ministry are continuing. See immediate reports from September 11, 2011 (ref: 2011-01-269844) and from November 17, 2011 (ref: 2011-01-330438).

There is under preparation a national outline plan for the Dead Sea area (including the concession area) known as TAMA 13. The policy statement of the outline plan was recently approved by the National Council. The document presents a vision according to which the region in which the Company operates will continue to serve industry, tourism and settlement, while preserving environmental aspects. The next step will be to prepare the regional outline plan on the basis of the policy statement. For further information see the Company's immediate report dated July 3, 2011 (ref. 2011-01-199626) and Section 4.1.17(a), Description of the Corporation's Affairs for 2010.

- 9.12** On April 4, 2011, the Attorney General submitted his position regarding the settlement of the class action suit filed against a subsidiary in the ICL Industrial Products segment, which stated that he opposes the settlement agreement. The Company filed its response to the position of the Attorney General. The court decided that notwithstanding the Company's response, the Attorney General would continue to oppose the settlement agreement and that there would be a hearing of the motion for certification of the claim as a class action on October 25, 2011. At that hearing, the Court decided that the parties should file a document within 30 days, clarifying the relationship between the benefits proposed in the settlement agreement and the present and future terms of the business license, and the Attorney General would be permitted to respond to it within another 30 days. Based on the contents of that document and of the Attorney General's response, the Court will decide on further proceedings in the case. For further details see Note 24C(3)(d) to the Company's financial statements of 2010.
- 9.13** During the second quarter, ICL Fertilizers completed the dynamic compression of the dike surrounding its evaporation pond at the Dead Sea – as part of the comprehensive engineering plan to reinforce the stability of the dike and also commenced building the new partition to reduce seepage from the dike to the minimum possible. The construction of the partition is estimated at a cost of approximately USD 470 million and includes the raising of the dike by approximately one meter. The project is expected to be completed during 2014. For additional details see The Description of the entity's operations for 2010 section 4.1.17(c).
- 9.14** During the quarter, a subsidiary, Dead Sea Bromine Ltd received draft "Additional conditions for the Business of Bromine". According to the draft, commencing from 2012 until 2016, transportation of bromine via Haifa port will be restricted gradually by 50% in 2012 to 30%, of the total exports in 2016. In 2010 Dead Sea Bromine transported approximately 60% of Bromine exports via Haifa Port. Dead Sea Bromine has commenced evaluations of transporting bromine in accordance with the draft. For additional details see The Description of the entity's operations for 2010 section 4.2.14(D).
- 9.15** Further to section 4.2.14(C1) in The Description of the entity's operations for 2010, under the initiation of the Ramat Hovav Council and in agreement with the Environmental Ministry, the outline of the evaporation ponds of the Ramat Hovav plants has been changed so that part will be established on the basis of the existing ponds. Industrial Products will commence construction of the evaporation ponds in accordance with the outline and timeframe which will be agreed by all the relevant parties.
- 9.16** In July 2011, Bromine Compounds in Ramat Hovav received draft conditions for its business permit relating to air quality. The plant is in negotiations with the authorities to consolidate the final conditions of the draft regulations. For further details see The Description of the entity's operations for 2010 section 4.2.14(C4).
- 9.17** Further to Section 24C(2) of the financial statements at December 31, 2010, on August 8, 2011, 2,430 banana plantation workers from the Philippines filed a claim in the court in California against subsidiaries. For more details, see Note 5(13) to the financial statements for the reporting period.
- 9.18** On August 16, 2011, the Board of Directors of the Company approved, after approval by the Audit Committee, renewal of the purchase of policies for the insurance of directors and officers in the Company in accordance with the terms of the "framework decision", as approved by the Board of Directors and the Audit Committee of the Company on August 30, 2001 and amended in a resolution of the general meeting of the Company on November 10, 2008, as well as the how the premium will be divided between ICL and Israel Corporation Group for the joint layer. See also the immediate report on August 17, 2011 (ref. 2011-01-243654).
- 9.19** On October 5, 2011, the Annual General Meeting of the shareholders of the Company approved, after approval by the Audit Committee and the Board of Directors the following decisions:
- a. To re-appoint current directors in the Company (who are not external directors) for an additional term of office as directors in the Company, to the end of the next Annual General Meeting.
  - b. To pay maximum compensation to directors, as is paid to external directors or expert external directors, as the case may be. Nevertheless, pursuant to the resolution of the Special General Meeting of the shareholders of the Company on July 20, 2009, the Company will not pay compensation to directors who are officers in Israel Corporation in respect of their service on the Board of Directors of the Company. The directors will continue to enjoy the existing insurance arrangements, exemption from liability and undertaking to indemnify that are in place in the Company.
  - c. To pay maximum compensation to directors in the Company in respect of their service as directors of the subsidiaries. On the matter of compensation of directors who are officers in Israel Corporation, see sub-section b. above.

- d. To appoint Mr. Ovadia Eli as a director in the Company to the end of the next Annual General Meeting, and approval for Mr. Eli's entitlement to all the terms customary in the Company for directors serving in it, including annual compensation and attendance compensation in respect of his service as a director in the Company and in a subsidiary of the Company.
- e. To approve grant of insurance, exemption from liability and an undertaking to indemnify for Mr. Ovadia Eli, in accordance with existing arrangements in the Company.
- f. To approve the appointment of Mr. Yaakov Dior as an external director in the Company for a three-year term of office commencing October 5, 2011.
- g. To approve grant of insurance, exemption from liability and an undertaking to indemnify for Mr. Yaakov Dior, in accordance with existing arrangements in the Company.
- h. To approve amendment of the Company's Articles of Association, inter alia, so as to add articles whose purpose is to adapt the provisions of the Articles of Association in the matter of indemnity and insurance to the Administrative Enforcement Proceedings Efficiency at the Securities Authority Law (Legislative Amendments), 2011.
- i. To approve amendment of the notes for exemption from liability, insurance and undertaking to indemnify which were granted in the past by the Company, in accordance with the resolutions of the general meetings of the shareholders of the Company on November 25, 2001 and August 30, 2007 ("the Indemnity Notes"), for directors in the Company who are serving and will serve from time to time as officers in Israel Corporation, the controlling shareholder in the Company, and for such directors who will serve in the Company from time to time (directors serving as officers in the controlling shareholder).
- j. To approve amendment of the Indemnity Notes granted in the past by the Company to officers in the Company (including directors), who are not directors serving as officers in the controlling shareholder, and to such officers who will serve in the Company from time to time.
- k. To approve the Company's engagement in an agreement for receipt of management services from Israel Corporation and/or from H.L. Management & Consulting (1986) Ltd.
- l. To re-appoint the firm of KPMG Somekh Chaikin & Co. as the Company's auditors to the end of the next Annual General Meeting of the Company, and to authorize the Board of Directors to set its fees.

For additional details, see the Company's immediate report dated October 6, 2011 (ref. 2011-01-29419383).

**9.20** On November 16, 2011 the Audit Committee of the Company allocated the period during which events are covered by the arrangements stated in the notes of exemption and undertakings to indemnify that have been issued and/or may be issued from time to time, in accordance with the standing resolutions regarding Directors of the Company who are serving or may serve at some time as officers in Israel Corporation, the controlling shareholders in the Company and Directors who, as stated, might serve in the Company at some time. The period is for nine years from the date of the decision. See the immediate report from November 17, 2011 (ref: 2011-01-330087).

**9.21** On November 14, 2011 the finance committee discussed the financial statements at September 30, 2011 and submitted its recommendations to ICL's Board of Directors which was distributed to all the members of the board of directors on the same day. The committee meeting was divided into two parts. In the first part, the Company's management reviewed the data in the financial statements and their accounting treatment. The second part, which was attended only by the board members serving as committee members, consisted of a discussion in which they formulated their recommendations for the board. The committee members who attended the meeting were Professor Yair Orgler, Dr Miriam Haran, Victor Medina, Yaacov Dior and Ovadia Eli. Also present at the first part of the meeting were the board members Nir Gilad, Yossi Rosen, Avisar Paz, Eran Sarig and Chaim Erez. The Company's auditor Zion Amsalem was present at the whole meeting, as were the following officers: Akiva Mozes, Asher Grinbaum, Avi Doitchman, Asher Rapaport, Eli Amit, Herzel Bar-Niv, Lisa Haimovitz, Osi Sesler and Amir Benita. (For details of the titles of the officers, see the chapter *Additional details of the corporation* in the Periodic Report for 2010).

On November 20, 2011 the Board of Directors approved the financial statements. For measures taken by the committee in respect of formulation of its recommendation, see sections 2.4 and 2.5 of Chapter D of the Periodic Report for 2010 (*Ethical code, corporate governance, internal auditing controls*).

**9.22** For details of the Company's financial liabilities see the immediate report in relation to financial liabilities in accordance with the repayment date that was published by the Company on November 20, 2011 (ref: 2011-01-332307) the information contained therein is included in this report by reference.

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

Date: November 20, 2011

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**Akiva Mozes, CEO**

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**Nir Gilad, Chairman of the Board**

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

**Israel Chemicals Ltd.**  
**Condensed Consolidated Interim  
Financial Statements**

**As at September 30, 2011  
(Unaudited)**

**In thousands of U.S. Dollars**

**Condensed Consolidated Interim Financial Statements as at September 30, 2011 (Unaudited)**

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**Contents**

	<b>Page</b>
Auditors' Review Report	2
Condensed Consolidated Interim Statements of Financial Position	3
Condensed Consolidated Interim Statements of Income	5
Condensed Consolidated Interim Statements of Comprehensive Income	6
Condensed Consolidated Interim Statements of Changes in Equity	7
Condensed Consolidated Interim Statements of Cash Flows	10
Notes to the Condensed Consolidated Interim Financial Statements	12



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

### **Introduction**

We have reviewed the accompanying financial information of Israel Chemicals Ltd. and its subsidiaries, including the condensed consolidated interim statement of financial position as at September 30, 2011 and the related condensed consolidated interim statements of income, comprehensive income, changes in equity and cash flows for the nine-month and three-month periods then ended. The Board of Directors and Management are responsible for preparation and presentation of this interim financial information in accordance with IAS 34 "*Interim Financial Reporting*", and are also responsible for preparation of the financial information for this interim period in accordance with Section D of the Securities Regulations (Periodic and Immediate Reports), 1970. Our responsibility is to express a conclusion on this interim financial information based on our review.

### **Scope of Review**

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

### **Conclusion**

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

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

Somekh Chaikin  
Certified Public Accountants (Isr.)

November 20, 2011

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

	September 30 2011 <u>(Unaudited)</u> <u>US\$ thousands</u>	September 30 2010 <u>(Unaudited)</u> <u>US\$ thousands</u>	December 31 2010 <u>(Audited)</u> <u>US\$ thousands</u>
<b>Current assets</b>			
Cash and cash equivalents	384,334	307,880	400,914
Short-term investments, deposits and loans	255,901	214,022	493,201
Trade receivables	1,350,471	969,365	949,692
Other receivables and debit balances, including derivative Instruments	209,278	151,827	145,007
Income taxes refundable	11,900	30,758	27,171
Inventories	1,268,973	1,053,662	1,114,134
<b>Total current assets</b>	<b>3,480,857</b>	<b>2,727,514</b>	<b>3,130,119</b>
<b>Non-current assets</b>			
Investments in associated companies	30,187	28,105	28,124
Long-term deposits and receivables	244,177	204,876	205,580
Excess of assets over liabilities in respect of defined benefit plan	68,053	70,176	83,325
Long-term derivative instruments	23,130	26,715	36,308
Non-current inventories	57,042	64,699	50,010
Deferred taxes, net	101,315	100,398	120,305
Property, plant and equipment	2,486,528	2,162,824	2,190,594
Intangible assets	778,414	549,411	543,779
<b>Total non-current assets</b>	<b>3,788,846</b>	<b>3,207,204</b>	<b>3,258,025</b>
<b>Total assets</b>	<b>7,269,703</b>	<b>5,934,718</b>	<b>6,388,144</b>

	September 30 2011	September 30 2010	December 31 2010
	(Unaudited)	(Unaudited)	(Audited)
	US\$ thousands	US\$ thousands	US\$ thousands
<b>Current liabilities</b>			
Credit from banks and others	1,138,333	26,220	53,017
Trade payables	671,567	502,011	521,258
Provisions	76,629	* 50,787	55,037
Dividend payable	-	-	169,703
Other payables, including derivative instruments	532,563	532,246	625,369
Income taxes payable	71,443	27,863	41,427
<b>Total current liabilities</b>	<b>2,490,535</b>	1,139,127	1,465,811
<b>Non-current liabilities</b>			
Loans from banks and others	345,170	940,223	981,194
Debentures	495,927	516,005	528,728
Long-term derivative instruments	29,640	30,277	24,070
Deferred taxes, net	141,327	98,096	99,105
Employee benefits	589,244	598,033	580,503
Provisions	78,005	* 79,161	67,503
<b>Total non-current liabilities</b>	<b>1,679,313</b>	2,261,795	2,281,103
<b>Total liabilities</b>	<b>4,169,848</b>	3,400,922	3,746,914
<b>Equity</b>			
Share capital	542,273	541,309	541,858
Share premium	93,768	86,853	90,675
Capital reserves	33,648	42,526	37,544
Retained earnings	2,663,232	2,101,602	2,210,143
Treasury shares	(260,113)	(260,113)	(260,113)
<b>Total equity attributable to the equity holders of the Company</b>	<b>3,072,808</b>	2,512,177	2,620,107
<b>Non-controlling interest</b>	<b>27,047</b>	21,619	21,123
<b>Total equity</b>	<b>3,099,855</b>	2,533,796	2,641,230
<b>Total liabilities and equity</b>	<b>7,269,703</b>	5,934,718	6,388,144

\* Reclassified

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Nir Gilad Chairman of the Board of Directors	Akiva Mozes Chief Executive Officer	Avi Doitchman Executive Vice President, CFO

Date the financial statements were approved: November 20, 2011.

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

**Condensed Consolidated Interim Statements of Income**

	For the nine month period ended		For the three month period ended		For the
	September 30	September 30	September 30	September	year ended
	2011	2010	2011	2010	December 31
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	US\$ thousands	US\$ thousands	US\$ thousands	US\$ thousands	US\$ thousands
Sales	<b>5,355,473</b>	4,270,894	<b>1,898,335</b>	1,393,715	5,691,537
Cost of sales	<b>2,975,228</b>	2,465,813	<b>1,026,966</b>	809,582	3,259,461
<b>Gross profit</b>	<b>2,380,245</b>	1,805,081	<b>871,369</b>	584,133	2,432,076
Selling, transportation and marketing expenses	<b>643,666</b>	577,576	<b>216,179</b>	189,041	779,809
General and administrative expenses	<b>202,668</b>	180,483	<b>71,972</b>	60,047	245,614
Research and development expenses, net	<b>54,622</b>	45,768	<b>19,862</b>	16,145	64,064
Other expenses	<b>21,625</b>	4,779	<b>8,175</b>	153	7,741
Other income	<b>(1,843)</b>	(10,560)	<b>(993)</b>	(382)	(11,279)
<b>Operating income</b>	<b>1,459,507</b>	1,007,035	<b>556,174</b>	319,129	1,346,127
Financing expenses	<b>89,439</b>	59,881	<b>33,309</b>	30,771	85,604
Financing income	<b>(28,893)</b>	(14,049)	<b>(17,048)</b>	(472)	(32,422)
<b>Financing expenses, net</b>	<b>60,546</b>	45,832	<b>16,261</b>	30,299	53,182
Share in income of associated companies, net of tax	<b>11,261</b>	2,024	<b>2,696</b>	1,851	2,478
<b>Income before taxes on income</b>	<b>1,410,222</b>	963,227	<b>542,609</b>	290,681	1,295,423
Taxes on income	<b>261,182</b>	180,815	<b>104,106</b>	46,878	266,806
<b>Income for the period</b>	<b>1,149,040</b>	782,412	<b>438,503</b>	243,803	1,028,617
<b>Attributable to:</b>					
Equity holders of the Company	<b>1,142,206</b>	779,311	<b>436,302</b>	242,865	1,024,740
Non-controlling interest	<b>6,834</b>	3,101	<b>2,201</b>	938	3,877
<b>Income for the period</b>	<b>1,149,040</b>	782,412	<b>438,503</b>	243,803	1,028,617
<b>Earnings per share attributable to the equity holders of the Company:</b>					
	\$	\$	\$	\$	\$
Basic earnings per share	<b>0.901</b>	0.616	<b>0.344</b>	0.192	0.810
Diluted earnings per share	<b>0.896</b>	0.614	<b>0.342</b>	0.191	0.806

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

### Condensed Consolidated Interim Statements of Comprehensive Income

	For the nine month period ended		For the three month period ended		For the
	September 30	September 30	September 30	September 30	year ended
	2011	2010	2011	2010	December 31
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	US\$ thousands	US\$ thousands	US\$ thousands	US\$ thousands	US\$ thousands
<b>Income for the period</b>	<b>1,149,040</b>	782,412	<b>438,503</b>	243,803	1,028,617
<b>Components of other comprehensive income (loss)</b>					
Foreign currency translation differences with respect to foreign operations	(6,036)	(5,716)	(69,527)	68,695	(17,709)
Net change in fair value of financial assets available for sale	(3,756)	(5,181)	-	1,532	(3,324)
Actuarial losses from defined benefit plan	(39,966)	(66,621)	(42,974)	(18,683)	(23,463)
Change in fair value of derivatives used to hedge cash flows	(3,172)	(2,426)	3,610	(1,293)	(1,097)
Income tax on components of other comprehensive income	14,785	13,388	12,772	1,207	2,676
<b>Other comprehensive income (loss) for the period, net of tax</b>	<b>(38,145)</b>	(66,556)	<b>(96,119)</b>	51,458	(42,917)
<b>Total comprehensive income for the period</b>	<b>1,110,895</b>	715,856	<b>342,384</b>	295,261	985,700
<b>Attributable to:</b>					
Equity holders of the Company	1,103,802	712,555	339,667	294,499	981,660
Non-controlling interest	7,093	3,301	2,717	762	4,040
<b>Total comprehensive income for the period</b>	<b>1,110,895</b>	715,856	<b>342,384</b>	295,261	985,700

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

## Condensed Consolidated Interim Statements of Changes in Equity

	Attributable to equity holders of the Company							Non-controlling interest	Total equity	
	Share capital	Share premium	Translation reserve from foreign operations	Reserve from available for sale assets	Capital reserves	Treasury shares	Retained earnings	Total		
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	
	US\$ thousands	US\$ thousands	US\$ thousands	US\$ thousands	US\$ thousands	US\$ thousands	US\$ thousands	US\$ thousands	US\$ thousands	
<b>For the nine-month period ended September 30, 2011</b>										
<b>Balance as at January 1, 2011 (Audited)</b>	<b>541,858</b>	<b>90,675</b>	<b>(9,049)</b>	<b>2,427</b>	<b>44,166</b>	<b>(260,113)</b>	<b>2,210,143</b>	<b>2,620,107</b>	<b>21,123</b>	<b>2,641,230</b>
Exercise of options allotted to employees	415	3,093	-	-	(3,508)	-	-	-	-	-
Share-based payments	-	-	-	-	11,661	-	-	11,661	-	11,661
Dividends to equity holders	-	-	-	-	-	-	(661,846)	(661,846)	(1,169)	(663,015)
Tax benefit in respect of allotment of shares to employees	-	-	-	-	(916)	-	-	(916)	-	(916)
Comprehensive income for the period	-	-	(6,295)	(2,427)	(2,411)	-	1,114,935	1,103,802	7,093	1,110,895
<b>Balance as at September 30, 2010 (Unaudited)</b>	<b>542,273</b>	<b>93,768</b>	<b>(15,344)</b>	<b>-</b>	<b>48,992</b>	<b>(260,113)</b>	<b>2,663,232</b>	<b>3,072,808</b>	<b>27,047</b>	<b>3,099,855</b>
	Attributable to equity holders of the Company							Non-controlling interest	Total equity	
	Share capital	Share premium	Translation reserve from foreign operations	Reserve from available for sale assets	Capital reserves	Treasury shares	Retained earnings	Total		
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	
	US\$ thousands	US\$ thousands	US\$ thousands	US\$ thousands	US\$ thousands	US\$ thousands	US\$ thousands	US\$ thousands	US\$ thousands	
<b>For the nine-month period ended September 30, 2010</b>										
<b>Balance as at January 1, 2010 (Audited)</b>	<b>541,028</b>	<b>84,059</b>	<b>8,823</b>	<b>5,420</b>	<b>19,660</b>	<b>(260,113)</b>	<b>2,374,883</b>	<b>2,773,760</b>	<b>21,089</b>	<b>2,794,849</b>
Exercise of options allotted to employees	281	2,794	-	-	(2,741)	-	-	334	-	334
Share-based payments	-	-	-	-	24,243	-	-	24,243	-	24,243
Dividends to equity holders	-	-	-	-	-	-	(998,250)	(998,250)	(3,370)	(1,001,620)
Tax benefit in respect of allotment of shares to employees	-	-	-	-	(465)	-	-	(465)	-	(465)
Change in respect of options of proportionately consolidated company	-	-	-	-	-	-	-	-	599	599
Comprehensive income for the period	-	-	(5,916)	(4,678)	(1,820)	-	724,969	712,555	3,301	715,856
<b>Balance as at September 30, 2010 (Unaudited)</b>	<b>541,309</b>	<b>86,853</b>	<b>2,907</b>	<b>742</b>	<b>38,877</b>	<b>(260,113)</b>	<b>2,101,602</b>	<b>2,512,177</b>	<b>21,619</b>	<b>2,533,796</b>

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

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

	Attributable to equity holders of the Company							Non-controlling interest	Total equity	
	Share capital	Share premium	Translation reserve from foreign operations	Reserve from available for sale assets	Capital reserves	Treasury shares	Retained earnings	Total		
	(Unaudited) US\$ thousands	(Unaudited) US\$ thousands	(Unaudited) US\$ thousands	(Unaudited) US\$ thousands	(Unaudited) US\$ thousands	(Unaudited) US\$ thousands	(Unaudited) US\$ thousands	(Unaudited) US\$ thousands	(Unaudited) US\$ thousands	
<b>For the three-month period ended September 30, 2011</b>										
<b>Balance as at July 1, 2011</b>	<b>542,162</b>	<b>92,683</b>	<b>54,699</b>	-	<b>44,375</b>	<b>(260,113)</b>	<b>2,553,748</b>	<b>3,027,554</b>	<b>24,330</b>	<b>3,051,884</b>
Exercise of options allotted to employees	111	1,085	-	-	(1,196)	-	-	-	-	-
Share-based payments	-	-	-	-	3,816	-	-	3,816	-	3,816
Dividends to equity holders	-	-	-	-	-	-	(297,483)	(297,483)	-	(297,483)
Tax benefit in respect of allotment of shares to employees	-	-	-	-	(746)	-	-	(746)	-	(746)
Comprehensive income for the period	-	-	(70,043)	-	2,743	-	406,967	339,667	2,717	342,384
<b>Balance as at September 30, 2011</b>	<b>542,273</b>	<b>93,768</b>	<b>(15,344)</b>	-	<b>48,992</b>	<b>(260,113)</b>	<b>2,663,232</b>	<b>3,072,808</b>	<b>27,047</b>	<b>3,099,855</b>
	Attributable to equity holders of the Company							Non-controlling interest	Total equity	
	Share capital	Share premium	Translation reserve from foreign operations	Reserve from available for sale assets	Capital reserves	Treasury shares	Retained earnings	Total		
	(Unaudited) US\$ thousands	(Unaudited) US\$ thousands	(Unaudited) US\$ thousands	(Unaudited) US\$ thousands	(Unaudited) US\$ thousands	(Unaudited) US\$ thousands	(Unaudited) US\$ thousands	(Unaudited) US\$ thousands	(Unaudited) US\$ thousands	(Unaudited) US\$ thousands
<b>For the three-month period ended September 30, 2010</b>										
<b>Balance as at July 1, 2010</b>	541,195	85,956	(65,964)	(825)	32,247	(260,113)	2,053,261	2,385,757	21,812	2,407,569
Exercise of options allotted to employees	114	897	-	-	(1,011)	-	-	-	-	-
Share-based payments	-	-	-	-	8,274	-	-	8,274	-	8,274
Dividends to equity holders	-	-	-	-	-	-	(176,690)	(176,690)	(1,140)	(177,830)
Tax benefit in respect of allotment of shares to employees	-	-	-	-	337	-	-	337	-	337
Change in respect of options of proportionately consolidated company	-	-	-	-	-	-	-	-	185	185
Comprehensive income for the period	-	-	68,871	1,567	(970)	-	225,031	294,499	762	295,261
<b>Balance as at September 30, 2010</b>	<b>541,309</b>	<b>86,853</b>	<b>2,907</b>	<b>742</b>	<b>38,877</b>	<b>(260,113)</b>	<b>2,101,602</b>	<b>2,512,177</b>	<b>21,619</b>	<b>2,533,796</b>

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

**Condensed Consolidated Interim Statements of Changes in Equity (cont'd)**

	Attributable to equity holders of the Company							Non-controlling	Total	
	Share capital	Share premium	Translation reserve from foreign operations	Reserve from available for sale assets	Capital reserves	Treasury shares	Retained earnings	interest	equity	
	(Audited)	(Audited)	(Audited)	(Audited)	(Audited)	(Audited)	(Audited)	(Audited)	(Audited)	
US\$ thousands	US\$ thousands	US\$ thousands	US\$ thousands	US\$ thousands	US\$ thousands	US\$ thousands	US\$ thousands	US\$ thousands	US\$ thousands	
<b>For the year ended December 31, 2010</b>										
<b>Balance as at January 1, 2010</b>	541,028	84,059	8,823	5,420	19,660	(260,113)	2,374,883	2,773,760	21,089	2,794,849
Exercise of options allotted to employees	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 allotment 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
<b>Balance as at December 31, 2010</b>	<b>541,858</b>	<b>90,675</b>	<b>(9,049)</b>	<b>2,427</b>	<b>44,166</b>	<b>(260,113)</b>	<b>2,210,143</b>	<b>2,620,107</b>	<b>21,123</b>	<b>2,641,230</b>

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

**Condensed Consolidated Interim Statements of Cash Flows**

	For the nine month period ended		For the three month period ended		For the year ended
	September 30 2011	September 30 2010	September 30 2011	September 30 2010	December 31 2010
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	US\$ thousands	US\$ thousands	US\$ thousands	US\$ thousands	US\$ thousands
<b>Cash flows from operating activities</b>					
Income for the period	1,149,040	782,412	438,503	243,803	1,028,617
Adjustments:					
Depreciation and amortization	197,663	158,321	75,097	53,899	217,395
Interest expenses, net	19,512	29,375	9,050	11,561	36,313
Share in income of associated companies, net of tax	(11,261)	(2,024)	(2,696)	(1,851)	(2,478)
Gain on sale of property, plant and equipment	(1,049)	(2,910)	(1,016)	(344)	(2,712)
Gain on securities classified as held for trading and available-for-sale	(4,535)	-	-	-	(3,244)
Share-based payment transactions	11,661	24,842	3,816	8,459	33,159
Revaluation of assets and liabilities denominated in foreign currency	(19,516)	(7,823)	(18,974)	14,083	13,394
Gain on sale of an activity	-	(5,587)	-	-	(5,587)
Income tax expenses	261,182	180,815	104,106	46,878	266,806
	<u>1,602,697</u>	<u>1,157,421</u>	<u>607,886</u>	<u>376,488</u>	<u>1,581,663</u>
Change in inventories	(80,058)	152,898	(56,530)	23,058	109,192
Change in trade and other receivables	(358,549)	(44,880)	31,888	52,067	(30,468)
Change in trade and other payables	117,956	71,825	35,153	(32,080)	139,647
Change in provisions and employee benefits	(2,284)	5,991	(22,659)	22,895	15,705
	<u>1,279,762</u>	<u>1,343,255</u>	<u>595,738</u>	<u>442,428</u>	<u>1,815,739</u>
Income taxes paid	(338,163)	(204,043)	(90,449)	(54,685)	(240,449)
Interest received	18,343	8,729	7,050	4,832	9,527
Interest paid	(34,928)	(37,743)	(13,558)	(23,005)	(47,832)
<b>Net cash provided by operating activities</b>	<u>925,014</u>	<u>1,110,198</u>	<u>498,781</u>	<u>369,570</u>	<u>1,536,985</u>
<b>Cash flows from investing activities</b>					
Investment in long-term deposits	(1,974)	(1,089)	(863)	-	(11,009)
Proceeds from sale of property, plant and equipment	3,389	5,173	1,335	376	5,618
Short-term deposits and loans, net	237,664	(53,555)	(57,858)	(48,805)	(329,089)
Business combinations less cash acquired	(424,100)	-	-	-	-
Dividend received from associated companies	5,215	3,118	1,161	889	3,661
Acquisition of property, plant and equipment	(361,805)	(237,055)	(157,397)	(76,636)	(333,752)
Investment grants received	1,014	-	1,014	-	303
Acquisition of intangible assets	(11,810)	(8,163)	(3,309)	(3,241)	(14,944)
Sale of securities classified as available-for-sale	14,421	-	-	-	9,356
Proceeds from sale of an activity	-	9,426	-	-	9,426
Proceeds from realization of long-term deposits	2,926	3,032	953	-	1,952
<b>Net cash used in investment activities</b>	<u>(535,060)</u>	<u>(279,113)</u>	<u>(214,964)</u>	<u>(127,417)</u>	<u>(658,478)</u>

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

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

	For the nine month period ended		For the three month period ended		For the year ended
	September 30 2011	September 30 2010	September 30 2011	September 30 2010	December 31 2010
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	US\$ thousands	US\$ thousands	US\$ thousands	US\$ thousands	US\$ thousands
<b>Cash flows from financing activities</b>					
Proceeds from exercise of options allotted to employees	-	334	-	-	334
Dividend paid to the Company's equity holders	(831,549)	(985,002)	(297,483)	(213,871)	(998,251)
Dividend paid to non-controlling interest	(1,169)	(3,370)	-	(1,140)	(3,788)
Receipt of long-term loans	219,976	563,788	46,454	8,337	676,043
Repayment of long-term loans	(128,761)	(349,918)	(3,980)	(35,575)	(376,451)
Short-term credit from banks and others, net	334,506	(8,047)	85,507	18,010	(28,446)
<b>Net cash used in financing activities</b>	<b>(406,997)</b>	<b>(782,215)</b>	<b>(169,502)</b>	<b>(224,239)</b>	<b>(730,559)</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(17,043)</b>	<b>48,870</b>	<b>114,315</b>	<b>17,914</b>	<b>147,948</b>
Cash and cash equivalents at beginning of the period	400,914	257,970	271,275	281,324	257,970
Effect of changes in the exchange rate on cash and cash equivalents	463	1,040	(1,256)	8,642	(5,004)
<b>Cash and cash equivalents at end of the period</b>	<b>384,334</b>	<b>307,880</b>	<b>384,334</b>	<b>307,880</b>	<b>400,914</b>

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

**Notes to the Condensed Consolidated Interim Financial Statements as at September 30, 2011 (Unaudited)****Note 1 - The Reporting Entity**

Israel Chemicals Ltd. (hereinafter - “the Company” or “ICL”), is an Israeli-resident company that was incorporated in Israel and whose shares are traded on the Tel-Aviv Stock Exchange. The Company’s registered office is 23 Aranha St., Tel-Aviv, Israel, and its subsidiaries and associated companies (hereinafter – “the Group”) constitute a multi-national group operating primarily in the fertilizers and specialty chemicals sectors, in three main operating segments: fertilizers (including potash and phosphate products), industrial products and performance products. In addition, the Group has activities in a number of other segments. The Company is a subsidiary of Israel Corporation Ltd.

The Group’s activities are based principally on natural resources – potash, bromine, magnesium and salt produced from the Dead Sea and phosphate rock mined from the State’s southern region, all in accordance with concessions and licenses from the State of Israel. The activities are also based on potash and salt mines in the United Kingdom and Spain, as well as on lease agreements and licenses from the appropriate authorities in these countries. The Company is engaged in the extraction of these minerals and the sale thereof throughout the world, as well as in the development, manufacture and marketing of downstream derivative 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.

The Group’s main production facilities are located in Israel, Germany, the United States, the Netherlands, Spain, the United Kingdom, China, Brazil and France. In addition, the Group has additional production facilities in Austria, Belgium, Turkey, Argentina and Australia.

The Group’s activities outside of Israel are mainly in the manufacture of products using or based on the Group’s activities in Israel or in related areas. About 95% of the Group’s output is sold to customers outside of Israel.

**Note 2 - Basis of Preparation of the Financial Statements****A. Declaration of compliance with International Financial Reporting Standards (IFRS)**

The condensed consolidated interim financial statements were prepared in accordance with IAS 34, “Interim Financial Reporting” and do not include all of the information required in complete, annual financial statements. These statements should be read together with the financial statements as at and for the year ended December 31, 2010 (hereinafter: “the annual financial statements”). In addition, these financial statements were prepared in accordance with the provisions of Section D of the Securities Regulations (Periodic and Immediate Reports), 1970.

The condensed consolidated interim financial statements were approved for publication by the Group’s Board of Directors on November 20, 2011.

Notes to the Condensed Consolidated Interim Financial Statements as at September 30, 2011 (Unaudited)**Note 2 - Basis of Preparation of the Financial Statements (cont'd)****B. Functional currency and presentation currency**

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

**C. Use of estimates and judgment**

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

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

**Note 3 - Significant Accounting Policies**

**A.** The Company's accounting policies in these condensed consolidated interim financial statements are the policies that were applied in the annual financial statements as at December 31, 2010.

**B. New Standards not yet adopted:**

**(1) IFRS 11 *Joint Arrangements* (hereinafter – "IFRS 11").** IFRS 11 replaces the requirements of IAS 31 *Interests in Joint Ventures* (hereinafter – IAS 31) and amends part of the requirements in IAS 28 *Investments in Associates*. The standard defines a joint arrangement as an arrangement over which two or more parties have joint control (as defined in IFRS 10).

Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

According to the standard, joint ventures shall only be accounted for using the equity method (the option to apply the proportionate consolidation method has been removed).

IFRS 11 is applicable retrospectively for annual periods beginning on or after January 1, 2013, but there are specific requirements for retrospective implementation in certain cases. Early adoption is permitted providing that disclosure is provided and that the entire consolidation suite is adopted at the same time, meaning also the two additional standards published – IFRS 10 *consolidated financial statements* and IFRS 12 *disclosure of involvement with other entities*.

As a result of applying the standard ICL will cease to proportionately consolidate joint ventures under joint control. These joint ventures will be accounted for using the equity method. The impact of discontinuance of the consolidation on ICL's financial statements is not expected to be material.

**Notes to the Condensed Consolidated Interim Financial Statements as at September 30, 2011 (Unaudited)**

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

- (2) **Amendment to IAS 19, Employee benefits (hereinafter – “the amendment”).** The amendment introduces a number of changes to the accounting treatment of employee benefits.

The key changes are as follows:

The amendment eliminates the possibility of recognizing actuarial gains and losses directly in profit or loss. As a result, all actuarial gains and losses will be recognized immediately in equity through other comprehensive income.

The amendment requires immediate recognition of past service costs regardless of whether the benefits have vested or not.

The calculation of net financing income or expense will be determined by applying the discount rate used to measure the defined benefit obligation to the net defined benefit liability (asset). Accordingly, calculation of actuarial gains or losses will also change.

The amendment changes the definitions of short-term employee benefits and of other long term employee benefits, so that the distinction between the two will depend on when the entity expects the benefits to be wholly settled, rather than when settlement is due.

The amendment enhances the disclosure requirements for defined benefit plans, in an effort to provide better information about the characteristics of defined benefit plans and the risks that entities are exposed to through participation in those plans.

The definition of termination benefits has been clarified so that termination benefits are recognized at the earlier of when the entity recognizes, in accordance with IAS 37, Provisions, Contingent Liabilities and Contingent Assets, costs for a restructuring that includes the payment of termination benefits, and when the entity can no longer withdraw the offer of the termination benefits.

The amendment is applicable retrospectively (excluding certain exceptions stated in the standard) for annual periods beginning on or after January 1, 2013. Early adoption is permitted providing that disclosure is provided.

The Group has started assessing the effects of adopting the amendment in its financial statements, with no intention of early adoption.

Notes to the Condensed Consolidated Interim Financial Statements as at September 30, 2011 (Unaudited)**Note 3 - Significant Accounting Policies (cont'd)****C. Indices and Exchange Rates**

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

	<u>Consumer Price Index</u>	<u>Dollar–NIS exchange rate</u>	<u>Dollar–Euro exchange rate</u>
Rates of change for the nine months ended:			
<b>September 30, 2011</b>	<b>2.2%</b>	<b>4.6%</b>	<b>(1.7%)</b>
September 30, 2010	1.9%	(2.9%)	5.9%
Rates of change for the three months ended:			
<b>September 30, 2011</b>	<b>0.0%</b>	<b>8.7%</b>	<b>6.6%</b>
September 30, 2010	1.2%	(5.4%)	(9.8%)
For the year ended December 31, 2010	2.6%	(6.0%)	8.0%

**Note 4 - Business Segments****A. General**

The Group operates in the segments that are described below:

ICL Fertilizers - ICL Fertilizers mines and processes potash, mines and processes phosphate rock, and produces agricultural phosphoric acid, phosphate fertilizers, compound fertilizers, based mainly on potash and phosphate, and specialty fertilizers. ICL Fertilizers markets these products worldwide, mainly to Europe, Brazil, India, China and Israel. This segment is comprised of two sub-segments: potash and phosphate. ICL Fertilizers extracts potash from the Dead Sea and mines potash from subterranean mines in the UK and in Spain. ICL Fertilizers mines phosphate rock from open-air mines in the Negev, and also produces sulphuric and phosphoric acid in Israel and fertilizers in Israel, the Netherlands and Germany. In addition, the activities of Mifalei Tovala Ltd., which is engaged in the transportation of cargo, mainly of ICL companies in Israel, are included in the ICL Fertilizers segment.

ICL Industrial Products - ICL Industrial Products produces bromine out of a solution that is created as a by-product of the potash production process in Sdom, as well as bromine-based compounds. ICL Industrial Products uses most of the bromine it produces for self-production of bromine compounds on production sites in Israel, the Netherlands and China. In addition, ICL Industrial Products extracts salt, magnesia and chlorine from the Dead Sea brine, and produces chlorine-based products in Israel and the United States. Furthermore, ICL Industrial Products produces and markets flame retardants and other products made from phosphorus.

ICL Performance Products - ICL Performance Products processes some of the agricultural phosphoric acid produced by ICL Fertilizers, using it to produce downstream products with high added value. These products include phosphoric acid (food grade and technical grade), phosphate salts, food additives, and hygiene products for the food industry. ICL Performance Products also produces specialty products, based on aluminum compounds, and other raw materials. Production is mostly carried out on production sites in Europe, (particularly in Germany) and the United States, as well as in Israel, China, and other countries.

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

## Notes to the Condensed Consolidated Interim Financial Statements as at September 30, 2011 (Unaudited)

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

## B. Information on business segments

	Fertilizers				Industrial Products	Performance Products	Other activities	Eliminations	Consolidated
	Potash	Phosphate	Eliminations	Total					
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)					
	US\$ thousands	US\$ thousands	US\$ thousands	US\$ thousands					
<b>Nine-month period ended September 30, 2011</b>									
Sales to external parties	1,640,376	1,222,954	-	2,863,330	1,167,974	1,106,587	217,582	-	5,355,473
Inter-segment sales	170,517	121,294	(91,714)	200,097	10,019	54,937	25,817	(290,870)	-
Total sales	<u>1,810,893</u>	<u>1,344,248</u>	<u>(91,714)</u>	<u>3,063,427</u>	<u>1,177,993</u>	<u>1,161,524</u>	<u>243,399</u>	<u>(290,870)</u>	<u>5,355,473</u>
Income from ordinary activities	<u>845,088</u>	<u>192,390</u>	<u>1,272</u>	<u>1,038,750</u>	<u>234,236</u>	<u>166,041</u>	<u>26,802</u>		<u>1,465,829</u>
Unallocated expenses and intercompany eliminations									(6,322)
Operating income									<u>1,459,507</u>
Financing expenses									(89,439)
Financing income									28,893
Share in income of associated companies, net of tax									11,261
Income before taxes on income									<u>1,410,222</u>
Capital expenditures	172,550	357,232	-	529,782	82,495	109,870	8,310	-	730,457
Unallocated capital expenditures									240
Total capital expenditures									<u>730,697</u>
Depreciation and amortization	77,202	42,460	-	119,662	43,320	29,298	4,838	-	197,118
Unallocated depreciation and amortization									545
Total depreciation and amortization									<u>197,663</u>

## Notes to the Condensed Consolidated Interim Financial Statements as at September 30, 2011 (Unaudited)

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

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

	Fertilizers				Industrial Products	Performance Products	Other activities	Eliminations	Consolidated
	Potash	Phosphate	Eliminations	Total					
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)					
	US\$ thousands	US\$ thousands	US\$ thousands	US\$ thousands	US\$ thousands	US\$ thousands	US\$ thousands	US\$ thousands	
<b>Nine-month period ended September 30, 2010</b>									
Sales to external parties	1,451,757	724,165	-	2,175,922	957,651	971,202	166,119	-	4,270,894
Inter-segment sales	134,882	96,870	(66,819)	164,933	8,950	41,759	17,603	(233,245)	-
Total sales	<u>1,586,639</u>	<u>821,035</u>	<u>(66,819)</u>	<u>2,340,855</u>	<u>966,601</u>	<u>1,012,961</u>	<u>183,722</u>	<u>(233,245)</u>	<u>4,270,894</u>
Income from ordinary activities	<u>625,500</u>	<u>93,472</u>	<u>1,779</u>	<u>720,751</u>	<u>139,785</u>	<u>152,334</u>	<u>13,859</u>		1,026,729
Unallocated expenses and intercompany eliminations									(19,694)
Operating income									<u>1,007,035</u>
Financing expenses									(59,881)
Financing income									14,049
Share in income of associated companies, net of tax									2,024
Income before taxes on income									<u>963,227</u>
Capital expenditures	106,907	42,517	-	149,424	52,280	27,945	12,373	-	242,022
Unallocated capital expenditures									328
Total capital expenditures									<u>242,350</u>
Depreciation and amortization	58,022	28,779	-	86,801	36,761	30,182	4,188	-	157,932
Unallocated depreciation and amortization									389
Total depreciation and amortization									<u>158,321</u>

## Notes to the Condensed Consolidated Interim Financial Statements as at September 30, 2011 (Unaudited)

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

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

	Fertilizers				Industrial Products	Performance Products	Other activities	Eliminations	Consolidated
	Potash	Phosphate	Eliminations	Total					
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)					
	US\$ thousands	US\$ thousands	US\$ thousands	US\$ thousands	US\$ thousands	US\$ thousands	US\$ thousands	US\$ thousands	
<b>Three-month period ended September 30, 2011</b>									
Sales to external parties	638,981	412,444	-	1,051,425	377,462	383,863	85,585	-	1,898,335
Inter-segment sales	62,827	45,707	(33,946)	74,588	3,198	19,285	11,304	(108,375)	-
Total sales	<u>701,808</u>	<u>458,151</u>	<u>(33,946)</u>	<u>1,126,013</u>	<u>380,660</u>	<u>403,148</u>	<u>96,889</u>	<u>(108,375)</u>	<u>1,898,335</u>
Income from ordinary activities	<u>357,700</u>	<u>55,943</u>	<u>2,637</u>	<u>416,280</u>	<u>75,889</u>	<u>52,892</u>	<u>11,059</u>		<u>556,120</u>
Unallocated expenses and intercompany eliminations									<u>54</u>
Operating income									<u>556,174</u>
Financing expenses									(33,309)
Financing income									17,048
Share in income of associated companies, net of tax									<u>2,696</u>
Income before taxes on income									<u>542,609</u>
Capital expenditures	80,224	32,855	-	113,079	35,169	20,164	3,436	-	171,848
Unallocated capital expenditures									<u>30</u>
Total capital expenditures									<u>171,878</u>
Depreciation and amortization	28,769	19,666	-	48,435	14,398	10,401	1,619	-	74,853
Unallocated depreciation and amortization									<u>244</u>
Total depreciation and amortization									<u>75,097</u>

## Notes to the Condensed Consolidated Interim Financial Statements as at September 30, 2011 (Unaudited)

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

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

	Fertilizers				Industrial Products	Performance Products	Other activities	Eliminations	Consolidated
	Potash	Phosphate	Eliminations	Total					
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)					
	US\$ thousands	US\$ thousands	US\$ thousands	US\$ thousands	US\$ thousands	US\$ thousands	US\$ thousands	US\$ thousands	
<b>Three-month period ended September 30, 2010</b>									
Sales to external parties	436,443	255,431	-	691,874	312,697	339,989	49,155	-	1,393,715
Inter-segment sales	47,709	40,244	(26,506)	61,447	2,801	11,907	3,269	(79,424)	-
Total sales	484,152	295,675	(26,506)	753,321	315,498	351,896	52,424	(79,424)	1,393,715
Income from ordinary activities	172,733	40,095	(311)	212,517	52,613	53,346	7,268		325,744
Unallocated expenses and inter-company eliminations									(6,615)
Operating income									319,129
Financing expenses									(30,771)
Financing income									472
Share in income of associated companies, net of tax									1,851
Income before taxes on income									290,681
Capital expenditures	29,317	13,489	-	42,806	19,987	14,509	2,764	-	80,066
Unallocated capital expenditures									2
Total capital expenditures									80,068
Depreciation and amortization	20,350	9,667	-	30,017	13,147	9,172	1,411	-	53,747
Unallocated depreciation and amortization									152
									53,899

## Notes to the Condensed Consolidated Interim Financial Statements as at September 30, 2011 (Unaudited)

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

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

	Fertilizers				Industrial Products	Performance Products	Other activities	Eliminations	Consolidated
	Potash	Phosphate	Eliminations	Total					
	(Audited)	(Audited)	(Audited)	(Audited)					
	US\$ thousands	US\$ thousands	US\$ thousands	US\$ thousands	US\$ thousands	US\$ thousands	US\$ thousands	US\$ thousands	
<b>2010:</b>									
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 sales	<u>2,140,689</u>	<u>1,056,340</u>	<u>(89,774)</u>	<u>3,107,255</u>	<u>1,313,192</u>	<u>1,340,028</u>	<u>246,002</u>	<u>(314,940)</u>	<u>5,691,537</u>
Income from ordinary activities	<u>857,914</u>	<u>108,583</u>	<u>(1,366)</u>	<u>965,131</u>	<u>206,599</u>	<u>185,067</u>	<u>15,192</u>		1,371,989
Unallocated expenses and intercompany eliminations									(25,862)
Operating income									<u>1,346,127</u>
Financing expenses									(85,604)
Financing income									32,422
Share in income of associated companies, net of tax									2,478
Income before tax									<u>1,295,423</u>
Capital expenditures	148,342	59,489	-	207,831	80,173	41,386	15,697	-	345,087
Unallocated capital expenditures									7,475
Total capital expenditures									<u>352,562</u>
Depreciation and amortization*	80,285	39,850	-	120,135	51,001	40,148	5,603	-	216,887
Unallocated depreciation and amortization									508
Total depreciation and amortization									<u>217,395</u>

\* Depreciation and amortization includes impairment of property, plant and equipment. (See Note 16(B) to the Company's annual financial statements as of December 31, 2010).

**Notes to the Condensed Consolidated Interim Financial Statements as at September 30, 2011 (Unaudited)****Note 5 - Additional Information**

- (1) On March 27, 2011, the Company's Board of Directors decided to distribute a dividend in the amount of \$170 million (the net dividend, less the share of a subsidiary, amounts to \$169.7 million), about \$0.13 per share. The dividend was distributed on May 12, 2011.
- (2) On May 15, 2011, the Company's Board of Directors decided to distribute a dividend in the amount of \$195 million (the net dividend, less the share of a subsidiary amount to \$194.7 million), about \$0.15 per share. The dividend was distributed on June 28, 2011.
- (3) On August 16, 2011, the Company's Board of Directors decided to distribute a dividend in the amount of \$298 million (the net dividend, less the share of a subsidiary amount to \$297.5 million), about \$0.23 per share. The dividend was distributed on September 26, 2011.
- (4) Subsequent to the date of the report, on November 20, 2011, the Company's Board of Directors decided to distribute a dividend in the amount of \$300 million (the net dividend, less the share of a subsidiary amount to \$299.5 million), about \$0.24 per share. The dividend will be distributed on December 22, 2011.
- (5) During the period of the report 2,308,041 options were exercised for 1,540,990 of the Company's ordinary shares.  
Subsequent to the date of the report 161,781 options were exercised for 94,038 of the Company's ordinary shares. After exercise of the options, the Company's issued and paid-up share capital is 1,292,807,801 ordinary shares for NIS 1 par value.
- (6) On February 28, 2011, ICL completed the 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 \$8 million, were recorded in other expenses.

The total sales of the Business Unit, for the year ended September 30, 2010, were about \$242 million (the total sales are not taken from the Seller's audited financial statements and were prepared in order to reflect the total sales of the Business Unit as an independent unit).

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.

**Notes to the Condensed Consolidated Interim Financial Statements as at September 30, 2011 (Unaudited)****Note 5 - Additional Information (cont'd)**

(6) (cont'd)

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.

(7) On April 13, 2011, as part of the efficiency plan of Iberpotash S.A., a Spanish subsidiary in the ICL Fertilizers segment, the Board of Directors of ICL approved combination of the company's activities from two sites into one site. As part of this step, the production activities on the Suria site will be expanded, which include a mine and a factory, and the activities (mine and factory) on the second site will be discontinued. In the first stage of the plan, approval was granted for expansion of the potash production capacity, the potash granulation capacity, and construction of a plant for production of vacuum salt (salt with a high purity level) in Suria. In the second stage, which has not yet been approved, an additional expansion is planned of the potash production capacity, which will bring the potash production capacity to about 1.1 million tons, of which about 630 thousand tons of granulated potash and about 50 thousand tons of technical potash, as well as a production capacity of about 1.5 million tons of vacuum salt.

In the Company's estimation, execution of the first stage of the plan is expected to be completed in the beginning of 2014.

In the Company's estimation, execution of the first stage will lead to savings and greater efficiency that will contribute to reduction of the potash production costs, as well as improvement of the extent of the production's compliance with the sustainability values relating to the environmental protection.

Execution of the second stage is expected to result in production of a larger quantity of potash in one mine and factory as opposed to production in mines and factories located on two different sites.

The impact of the shutdown and discontinuance of the activities of the second site on the Company's results in the period of the report is not significant.

**Notes to the Condensed Consolidated Interim Financial Statements as at September 30, 2011 (Unaudited)****Note 5 - Additional Information (cont'd)**

- (8) 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 consideration less the balance of cash in the Acquired Company amounted to about \$122 million. The consideration was allocated as follows: \$20 million for Working Capital, \$62 million to property, plant and equipment, \$38 million to identifiable intangible assets and \$24 million to deferred tax liabilities. The remaining \$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 beginning of the second quarter of 2011.
- (9) Further to Note 24 B (1) to the financial statements as at December 31, 2010, the State and DSW decided on January 9, 2011 to turn to arbitration for purposes of deliberating and deciding the issue of the manner of calculation of the royalties by the concessionaire, payment of the royalties with respect to the excess above 3 million tons of potash per year commencing from 2010 and thereafter, and royalties to be paid for magnesium metals and payments or refunds (if any) deriving from these matters. Each of the parties appointed an arbitrator on its behalf and these arbitrators have appointed the third arbitrator.

On March 14, 2011 a claim was received that was filed by the State of Israel against DSW in the framework of the arbitration. In the 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 an additional amount of \$ 26 million due to the increase in the rate of royalties, as from 2010, with respect to an annual amount of sales higher than 3 million tons of potash and the change in the method of calculating royalty payments from the sale of metal magnesium.

On July 31, 2011 the Company submitted its defense to the arbitrators appointed.

Study of the State’s allegations in respect of prior years indicates that they do not include any new material arguments that were not known to DSW and which in respect thereto 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.

As regards the increase in the rate of royalties as from 2010 in respect of sales of more than 3 million tons of potash a year, due to the fact that this is a new matter for which the parties have not yet been provided instructions as to which parameters should be considered in order to decide on a royalty rate higher than the present rate (5%), and due to the fact that the arbitration proceeding is at its inception, the Company is unable to determine a certain outcome in the possible range of outcomes between the present rate of royalty and the maximum rate of royalty that is likelier than other outcomes. Therefore the Company recorded a provision in the amount of half of the difference.

**Notes to the Condensed Consolidated Interim Financial Statements as at September 30, 2011 (Unaudited)****Note 5 - Additional Information (cont'd)**

- (10) Further to that stated in Note 24C(4) to the financial statements as at December 31, 2010, regarding the rise in the level of Pond 150 on April 14, 2011, the Supreme Court handed down an order nisi to the State, ordering it to adopt one of the permanent solutions for protection of the Dead Sea within three months from the order. On November 7, 2011, a hearing was held on the application and the Court instructed with respect to an additional extension of 60 days for purposes of continuation of the talks between the parties. In June 2011 a notice was published by the Prime Minister's Office to the effect that the solution preferred by the Prime Minister is full harvest of the salt from the bed of the pond and its removal to the Northern section of the Dead Sea. Following the notice, on July 3, 2011, the Company announced that talks were ongoing between its representatives and officials from the Ministry of Finance regarding all the matters involved in application of the harvesting solution, including the allocation of financing. A national outline plan for the Dead Sea area (including the concession area) known as TAMA 13 is under preparation. The policy statement of the outline plan has been recently approved by the National Council. The document presents a vision according to which the Company's region of operation will continue to serve industry, tourism and the community, while preserving environmental aspects. The next step will be to prepare the regional outline plan on the basis of the policy statement.
- (11) Further to Note 24 C (2) to the financial statements as at December 31, 2010, on August 8, 2011, 2,430 workers at banana plantations in the Philippines filed claims to 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 in the 1970's and 1980's. Substantially similar lawsuits are pending in Hawaii (the subsidiaries are a party to one of them). In each pending lawsuit the plaintiffs allege similar personal injury in essence, as a result of the production and use of DBCP by banana plantation workers, each in different country of origin, but similar in allegations and claims. Due to the short time since the filing of claims, the Company's legal advisors opinion regarding the pending lawsuits is that it is not possible at this stage to estimate the claims amount and chances to be realized.

See Note 24 to the annual financial Statements as at December 31, 2010 regarding the rest of the contingent liabilities of the Company and its subsidiaries.

- (12) 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 repaid in one lump-sum at the end of the period. In case of using up to \$225 million of the available credit, the basic interest is Libor + 0.8%. In case of higher use of the credit, an additional interest of 0.15%-0.3% will be charged.

**Notes to the Condensed Consolidated Interim Financial Statements as at September 30, 2011 (Unaudited)****Note 5 - Additional Information (cont'd)**

(12) (cont'd)

As part of the loan agreement, the Company committed to maintain certain financial ratios in the consolidated statement of financial position. Pursuant to these financial covenants the ratio between the net debt and the EBITDA is not to exceed 3.5, the ratio of the EBITDA to the interest expense is to be at least 3.5 and the Company's capital is not to drop below \$1,700 million plus 25% of the net income for 2010 and the following years on a cumulative basis. In addition, the financial liabilities of the subsidiaries is limited to 10% of the total assets in the Group's consolidated statement (in certain cases the loans of the subsidiaries are not included in the said limitation). Up to and as at September 30, 2011, the Company is in compliance with the above-mentioned financial ratios.

(13) On October 30, 2011 the Government of Israel approved the tax recommendations of the committee for socio-economic change headed by Prof. Manuel Trajtenberg. In this framework, increase of the Companies Tax to 25% and increase in the tax on interest, real capital gains and real betterment were approved commencing from 2012. Legislative processes have to be completed for these Government approved changes in the tax rates to become effective. As at the date of approval of the financial statements, the required legislative processes had not yet been completed. The changes in the tax rates that were approved in the aforesaid Government decision do not have an effect on the measurement of deferred tax assets and deferred tax liabilities in the financial statements as at September 30, 2011, since their legislation had not yet begun as at that date.

If and when the legislation will begin and be completed, its effect on the financial statements as at September 30, 2011 would have been reflected in an increase in deferred tax balances in the amount of about \$40 million.

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

## **Israel Chemicals Ltd.**

**Separate Interim Financial Information  
presented in accordance with Regulation 38D  
of the Securities Regulations  
(Periodic and Immediate Reports), 1970**

**Condensed Financial Data Related to the Company  
from the Condensed Consolidated Interim  
Financial Statements as at September 30, 2011  
(Unaudited)**

**Separate Interim Financial Information presented in accordance with Regulation 38D of the Securities Regulations (Periodic and Immediate Reports), 1970  
Condensed Financial Data Related to the Company from the Condensed Consolidated Interim Financial Statements as at September 30, 2011**

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**Contents**

	<b><u>Page</u></b>
Auditors' Report	2
Condensed Details of Interim Financial Position	3
Condensed Details of Interim Profit and Loss	5
Condensed Details of Interim Comprehensive Income	6
Condensed Details of Interim Cash Flows	7
Additional information	9



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**To: The shareholders of Israel Chemicals Ltd.**

**Subject: Special auditors' report on separate financial data according to Regulation 38D of the Securities Regulations (Periodic and Immediate Reports) – 1970**

### *Introduction*

We have reviewed the separate interim financial information presented in accordance with Regulation 38D of the Securities Regulations (Periodic and Immediate Reports) – 1970 of Israel Chemicals Ltd. (hereinafter - the Company), as at September 30, 2011 and for the nine-month and three-month periods then ended. The separate interim financial information is the responsibility of the Company's Board of Directors and of its Management. Our responsibility is to express a conclusion on the separate interim financial information based on our review.

### *Scope of Review*

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

### *Conclusion*

Based on our review, nothing has come to our attention that causes us to believe that the accompanying separate interim financial information is not prepared, in all material respects, in accordance with Regulation 38D of the Securities Regulations (Periodic and Immediate Reports) – 1970.

Somekh Chaikin  
Certified Public Accountants (Isr.)

November 20, 2011

## Financial Data Related to the Company from the Condensed Consolidated Interim Financial Statements

### Condensed Details of Interim Financial Position as at

	September 30 2011	September 30 2010	December 31 2010
	(Unaudited)	(Unaudited)	(Audited)
	US\$ thousands	US\$ thousands	US\$ thousands
<b>Current assets</b>			
Cash and cash equivalents	204,931	21,765	115,682
Short-term investments, deposits and loans	432	17,565	157,500
Investee companies - current account	273,272	468,662	649,365
Other receivables, including derivative instruments	1,947	5,106	4,455
Income taxes refundable	8,314	-	-
<b>Total current assets</b>	<b>488,896</b>	513,098	927,002
<b>Non-current assets</b>			
Investments in investee companies	3,265,231	2,943,188	3,056,038
Long-term deposits and receivables	7,777	8,074	8,158
Loans to subsidiaries	570,000	440,000	440,000
Long-term derivative instruments	23,130	26,715	36,308
Deferred taxes, net	8,032	8,419	9,192
Property, plant and equipment	1,135	758	1,302
<b>Total non-current assets</b>	<b>3,875,305</b>	3,427,154	3,550,998
<b>Total assets</b>	<b>4,364,201</b>	3,940,252	4,478,000

**Financial Data Related to the Company from the Condensed Consolidated Interim Financial Statements**

	<b>September 30 2011</b>	<b>September 30 2010</b>	<b>December 31 2010</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>	<b>(Audited)</b>
	<b>US\$ thousands</b>	<b>US\$ thousands</b>	<b>US\$ thousands</b>
<b>Current liabilities</b>			
Credit from banks and others	<b>51,989</b>	252,280	282,027
Credit from investee companies	<b>328,699</b>	129,272	265,236
Dividend payable	-	-	169,703
Other payables, including derivative instruments	<b>35,678</b>	36,609	67,819
Income taxes payable	-	2,157	833
<b>Total current liabilities</b>	<b>416,366</b>	420,318	785,618
<b>Non-current liabilities</b>			
Loans from banks and others	-	150,000	120,000
Loans from investee companies	<b>404,142</b>	383,522	473,522
Debentures	<b>428,927</b>	429,005	441,728
Long-term derivative instruments	<b>26,069</b>	30,277	21,274
Employee benefits	<b>15,889</b>	14,953	15,751
<b>Total non-current liabilities</b>	<b>875,027</b>	1,007,757	1,072,275
<b>Total liabilities</b>	<b>1,291,393</b>	1,428,075	1,857,893
<b>Equity</b>			
Share capital	<b>542,273</b>	541,309	541,858
Share premium	<b>93,768</b>	86,853	90,675
Capital reserves	<b>33,648</b>	42,526	37,544
Retained earnings	<b>2,663,232</b>	2,101,602	2,210,143
Treasury shares	<b>(260,113)</b>	(260,113)	(260,113)
<b>Total equity attributable to the holders of the Company's rights</b>	<b>3,072,808</b>	2,512,177	2,620,107
<b>Total liabilities and equity</b>	<b>4,364,201</b>	3,940,252	4,478,000

Nir Gilad

Chairman of the Board of Directors

Akiva Mozes

Chief Executive Officer

Avi Doitchman

Executive Vice President, CFO

Approval date of the financial statements: November 20, 2011.

The notes to the interim separate financial data are an integral part thereof.

**Financial Data Related to the Company from the Condensed Consolidated Interim Financial Statements****Condensed Details of Interim Profit and Loss**

	<u>For the nine-month period ended</u>		<u>For the three-month period ended</u>		<u>For the</u>
	<u>September 30</u>	<u>September 30</u>	<u>September 30</u>	<u>September 30</u>	<u>year ended</u>
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>December 31</u>
	<u>(Unaudited)</u>	<u>(Unaudited)</u>	<u>(Unaudited)</u>	<u>(Unaudited)</u>	<u>(Audited)</u>
	<u>US\$ thousands</u>	<u>US\$ thousands</u>	<u>US\$ thousands</u>	<u>US\$ thousands</u>	<u>US\$ thousands</u>
Financing income	<b>4,225</b>	4,129	<b>1,024</b>	101	4,699
<b>Expenses</b>					
General and administrative	<b>36,400</b>	46,162	<b>11,527</b>	14,554	61,373
Financing	<b>16,307</b>	40,642	<b>6,463</b>	11,845	42,153
	<b>52,707</b>	86,804	<b>17,990</b>	26,399	103,526
<b>Income from investee companies, net</b>	<b>1,197,072</b>	857,448	<b>452,164</b>	271,760	1,152,809
<b>Income before taxes on income</b>	<b>1,148,590</b>	774,773	<b>435,198</b>	245,462	1,053,982
Taxes on income	<b>6,384</b>	(4,538)	<b>(1,104)</b>	2,597	29,242
<b>Income for the period attributed to the owners of the Company</b>	<b>1,142,206</b>	779,311	<b>436,302</b>	242,865	1,024,740

The notes to the interim separate financial data are an integral part thereof.

## Financial Data Related to the Company from the Condensed Consolidated Interim Financial Statements

### Condensed Details of Interim Comprehensive Income

	For the nine-month period ended		For the three-month period ended		For the
	September 30	September 30	September 30	September 30	year ended
	2011	2010	2011	2010	December 31
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	US\$ thousands	US\$ thousands	US\$ thousands	US\$ thousands	US\$ thousands
<b>Income for the period attributed to the owners of the Company</b>	<b>1,142,206</b>	779,311	<b>436,302</b>	242,865	1,024,740
<b>Components of other comprehensive income</b>					
Net change in fair value of financial assets available for sale	(3,756)	(5,181)	-	1,532	(3,324)
Actuarial gains (losses) from defined benefit plan	-	756	-	-	(804)
Change in fair value of derivatives used for hedging cash flows	(3,172)	(2,426)	3,610	(1,293)	(1,097)
Income taxes in respect of components of other comprehensive income	2,090	869	(867)	358	490
Other comprehensive income (loss) in respect of investee companies, net	(33,566)	(60,774)	(99,378)	51,037	(38,345)
Other comprehensive income (loss) for the period, net of tax	(38,404)	(66,756)	(96,635)	51,634	(43,080)
<b>Total comprehensive income for the period attributed to the owners of the Company</b>	<b>1,103,802</b>	712,555	<b>339,667</b>	294,499	981,660

The notes to the interim separate financial data are an integral part thereof.

**Financial Data Related to the Company from the Condensed Consolidated Interim Financial Statements****Condensed Details of Interim Cash Flows**

	For the nine-month period ended		For the three-month period ended		For the
	September 30	September 30	September 30	September 30	year ended
	2011	2010	2011	2010	December 31
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	US\$ thousands	US\$ thousands	US\$ thousands	US\$ thousands	US\$ thousands
<b>Cash flows from operating activities</b>					
Income for the period	1,142,206	779,311	436,302	242,865	1,024,740
Adjustments for:					
Depreciation and amortization	275	317	136	104	399
Interest expenses, net	11,444	18,703	1,323	9,003	19,646
Gain on realization of securities classified as available-for-sale	(4,535)	-	-	-	(3,244)
Income from investee companies, net	(1,197,072)	(857,448)	(452,164)	(271,760)	(1,152,809)
Share based payment transactions	11,661	24,243	3,816	8,274	32,518
Revaluation of assets and liabilities denominated in foreign currency	2,393	16,041	(2,319)	13,008	11,382
Taxes on income	6,384	(4,538)	(1,104)	2,597	29,242
	<u>(27,244)</u>	<u>(23,371)</u>	<u>(14,010)</u>	<u>4,091</u>	<u>(38,126)</u>
Change in other receivables	2,376	(2,534)	1,327	(2,106)	(1,782)
Change in trade and other payables	16,582	(8,722)	6,859	(8,653)	(7,364)
Change in employee benefits	138	1,160	(1,008)	972	2,006
	<u>(8,148)</u>	<u>(33,467)</u>	<u>(6,832)</u>	<u>(5,696)</u>	<u>(45,266)</u>
Income tax paid	(267,267)	(113,327)	(47,142)	(41,868)	(123,152)
Interest received	2,864	367	2,790	33	1,584
Interest paid	(10,164)	(14,096)	(79)	(5,149)	(20,115)
<b>Net cash used in operating activities related to the Company</b>	<u>(282,715)</u>	<u>(160,523)</u>	<u>(51,263)</u>	<u>(52,680)</u>	<u>(186,949)</u>
Net cash provided by operating activities related to investee companies	1,155,648	1,337,604	300,595	196,826	1,361,372
<b>Net cash provided by operating activities</b>	<u>872,933</u>	<u>1,177,081</u>	<u>249,332</u>	<u>144,146</u>	<u>1,174,423</u>

The notes to the interim separate financial data are an integral part thereof.

**Financial Data Related to the Company from the Condensed Consolidated Interim Financial Statements****Condensed Details of Interim Cash Flows (cont'd)**

	For the nine-month period ended		For the three-month period ended		For the
	September 30	September 30	September 30	September 30	year ended
	2011	2010	2011	2010	December 31
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	US\$ thousands	US\$ thousands	US\$ thousands	US\$ thousands	US\$ thousands
<b>Cash flows from investing activities</b>					
Receipt from sale of investment in securities available-for-sale	14,421	-	-	-	9,356
Acquisition of property, plant and equipment	(108)	(23)	(30)	(2)	(649)
Short term loans and deposits, net	143,414	-	-	-	(143,414)
<b>Net cash provided by (used in) investing activities related to the Company</b>	<b>157,727</b>	<b>(23)</b>	<b>(30)</b>	<b>(2)</b>	<b>(134,707)</b>
Net cash provided by (used in) investing activities related to investee companies	246,093	(99,820)	39,911	(50,435)	(81,023)
<b>Net cash provided by (used in) investing activities</b>	<b>403,820</b>	<b>(99,843)</b>	<b>39,881</b>	<b>(50,437)</b>	<b>(215,730)</b>
<b>Cash flows from financing activities</b>					
Proceeds from options issued to employees	-	334	-	-	334
Dividend paid	(831,549)	(985,002)	(297,483)	(213,871)	(998,251)
Receipt of long-term loans	-	120,000	-	-	120,000
Repayment of long-term loans	(120,000)	-	-	-	-
Short-term credit from banks and others	(230,038)	(557,787)	454	208	(558,040)
<b>Net cash used in financing activities related to the Company</b>	<b>(1,181,587)</b>	<b>(1,422,455)</b>	<b>(297,029)</b>	<b>(213,663)</b>	<b>(1,435,957)</b>
Net cash provided by (used in) financing activities related to investee companies	(5,917)	314,254	138,773	64,043	540,218
<b>Net cash used in financing activities</b>	<b>(1,187,504)</b>	<b>(1,108,201)</b>	<b>(158,256)</b>	<b>(149,620)</b>	<b>(895,739)</b>
<b>Net increase in cash and cash equivalents</b>	<b>89,249</b>	<b>(30,963)</b>	<b>130,957</b>	<b>(55,911)</b>	<b>62,954</b>
Cash and cash equivalents as at the beginning of the period	115,682	52,728	73,974	77,676	52,728
<b>Cash and cash equivalents as at the end of the period</b>	<b>204,931</b>	<b>21,765</b>	<b>204,931</b>	<b>21,765</b>	<b>115,682</b>

The notes to the interim separate financial data are an integral part thereof.

**Financial Data Related to the Company from the Condensed Consolidated Interim Financial Statements as at September 30, 2011**

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**Additional Information****Note 1 - General**

The separate interim financial information is presented in accordance with Regulation 38D of the Securities Regulations (Periodic and Immediate Reports) - 1970, and does not include all the information required by Regulation 9C and the 10<sup>th</sup> Addendum to the Securities Regulations (Periodic and Immediate Reports) - 1970 regarding the separate financial information of a corporation. It should be read in conjunction with the separate financial information as at and for the year ended December 31, 2010 and in conjunction with the condensed consolidated interim financial statements as at September 30, 2011.

**In this interim financial information:**

- (A) The Company - Israel Chemicals Ltd.
- (B) Subsidiaries - Companies, including partnerships, whose financial statements are fully consolidated, directly or indirectly, with the financial statements of the Company.
- (C) Investee companies - Subsidiaries and companies, including partnerships or joint ventures, the Company's investment in which is included in the financial statements, directly or indirectly, on the equity basis.

**Note 2 - Significant Accounting Principles Applied in the Condensed Consolidated Interim Financial Information**

The accounting principles in this condensed interim financial information are in accordance with the accounting principles detailed in the separate financial information as at December 31, 2010.

**Note 3 - Material Relationships, Commitments and Transactions with Investee Companies**

On January 1, 2011, a dividend in the amount of \$4.5 million was received from the subsidiary Tovala.

On January 12, 2011, dividends in the amount of \$150 million and \$45 million were received from the subsidiaries Dead Sea Works and Rotem Amfert Negev, respectively.

On February 25, 2011, a dividend in the amount of \$2 million was received from the subsidiary Hy Yield Bromine Inc.

On March 31, 2011, dividends in the amount of \$400 million, \$38 million and \$25 million were received from the subsidiaries Dead Sea Works, Dead Sea Bromine and Rotem Amfert Negev, respectively.

On April 3, 2011, a dividend from the proportionately consolidated company, IDE, in the amount of \$5 million was received.

### **Note 3 - Material Relationships, Commitments and Transactions with Investee Companies (cont'd)**

On May 12, 2011, dividends in the amount of \$40 million and \$9.5 million were received from the subsidiaries Rotem Amfert Negev and Tovala, respectively.

On May 15, 2011, a dividend in the amount of \$25 million was received from the subsidiary Dead Sea Bromine.

On June 28, 2011, a dividend in the amount of \$140 million was received from the subsidiary Dead Sea Works.

On August 31, 2011 a dividend in the amount of \$31 million was received from the subsidiary Dead Sea Bromine.

On September 15, 2011 dividends in the amount of \$150 million and \$60 million were received from the subsidiaries Dead Sea Works and Rotem Amfert Negev, respectively.

After the date of this report, on November 17, 2011 a dividend in the amount of \$24 million was declared by the subsidiary Dead Sea Bromine.

After the date of this report, on November 20, 2011 dividends in the amount of \$225 million and \$25 million were declared by the subsidiaries Dead Sea Works and Rotem Amfert Negev, respectively.

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**Quarterly Report regarding Effectiveness of the Internal Control over the Financial Reporting and the Disclosure in accordance with Regulation 38C(a):**

The management, under the supervision of the Board of Directors of Israel Chemicals Ltd. (hereinafter – “the Corporation”), is responsible for determining and maintaining proper internal control over the Corporation’s financial reporting and disclosure.

Regarding this matter, the members of management are:

1. Akiva Mozes, CEO
2. Asher Grinbaum, Deputy CEO and COO
3. Yossi Shahar, Deputy CEO and Business Development
4. Nissim Adar, CEO of ICL Industrial Products
5. Dani Chen, CEO of ICL Fertilizers
6. Lisa Haimovitz, General Counsel and Company Secretary
7. Herzel Bar-Niv, VP of International taxation
8. Avi Doitchman, Executive Vice President and CFO
9. Nathan Dreyfuss, VP of Finance
10. Amir Benita, ICL Controller
11. Osnat Sessler, VP of Investor Relations and Communications
12. Eli Amit, Senior VP of Economics
13. Asher Rapaport, Senior VP of Human Resources

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 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 requirement.

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.

In the quarterly report regarding the effectiveness of internal control over financial reporting and disclosure which was attached to the quarterly report for the period ending September 30, 2011 (hereinafter: the last quarterly report regarding internal controls), concluded that the internal controls are effective.

Up to the date of the report, no event or matter came to the attention of the Board of Directors and management that would require a change in the evaluation of the internal controls, as was presented in the last annual report regarding internal controls.

As of the report date, based on the evaluation of the internal controls in the last quarterly report regarding internal controls, and based on the information that came to the attention of management and the Board of Directors as above, the internal controls are effective.

Date: November 20, 2011

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Akiva Mozes  
Chief Executive  
Officer

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Nir Gilad  
Chairman of the  
Board of Directors

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Avi Doitchman  
Executive Vice President,  
CFO

## **Declaration of the CEO in accordance with Regulation 38C(d)(1):**

I, Akiva Mozes, declare that:

1. I have examined the Periodic Report of Israel Chemicals Ltd. (hereinafter – “the Corporation”) as at September 30, 2011 (hereinafter – “the Statements”);
2. As far as I am aware, the Statements do not include a misrepresentation of a material fact and they do not lack a material fact that is required so that the representations included therein, in light of the circumstances in which such representations were included, will not be misleading with reference to the period covered by the Statements;
3. As far as I am aware, the financial statements and other financial information included in the Statements properly reflect, in all material respects, the Corporation’s financial position, results of operations and cash flows as at the dates and for the periods to which the Statements relate;
4. I have disclosed to the Corporation’s auditors, Board of Directors and Audit and Financial Statements Committees, based on my most up-to-date estimation with respect to the internal control over the Corporation’s financial reporting and disclosure:
  - A) All the significant deficiencies and weaknesses in determination or operation of the internal control over the financial reporting and disclosure that might reasonably have an unfavorable impact on the Corporation’s ability to gather, process, summarize or report financial information in such a manner that could cause doubt with respect to the reliability of the financial report and preparation of the financial statements in accordance with the provisions of law;and –
  - B) Every fraud, whether or not significant, wherein the CEO is involved or a party under his direct supervision or other employees are involved that have a significant function in the internal control over the financial reporting and disclosure;
5. I, alone or together with others in the Corporation:
  - A) Have determined controls and procedures, or have verified the determination and existence of controls and procedures under my supervision, which are designed to ensure that significant information relating to the Corporation including subsidiaries as defined in the Securities Law (preparation of annual financial statements), 1993, 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) No event or matter that happened during the period since the last reporting period and this reporting period has come to my attention, which would require a change in the conclusion by the Board of Directors and management in relation to the effectiveness of the internal controls over financial reporting and disclosure of the Corporation.

Nothing in that stated above detracts from my responsibility or the responsibility of any other person under any law.

Date: November 20, 2011

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Akiva Mozes, CEO

**Declaration of the most senior officer in the finance area in accordance with Regulation 38C(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”) as at September 30, 2011 (hereinafter – “the Statements”);
2. As far as I am aware, the financial statements and the other financial information included in the Statements do not include a misrepresentation of a material fact and they do not lack a material fact that is required so that the representations included therein, in light of the circumstances in which such representations were included, will not be misleading with reference to the period covered by the Statements;
3. As far as I am aware, the financial statements and other financial information included in the Statements properly reflect, in all material respects, the Corporation’s financial position, results of operations and cash flows as at the dates and for the periods to which the Statements relate;
4. I have disclosed to the Corporation’s auditors, Board of Directors and Audit and Financial Statements Committees, based on my most up-to-date estimation with respect to the internal control over the Corporation’s financial reporting and disclosure:
  - A) All the significant deficiencies and material weaknesses in determination or operation of the internal control over the financial reporting and disclosure to the extent it relates to the financial statements and the other financial information included in the Statements, which could reasonably have an adverse impact on the Corporation’s ability to gather, process, summarize or report financial information in such a manner that could cause doubt with respect to the reliability of the financial report and preparation of the financial statements in accordance with the provisions of law; and –
  - B) Every fraud, whether or not significant, wherein the CEO is involved or a party under his direct supervision or other employees are involved that have a significant function in the internal control over the financial reporting and disclosure;
5. I, alone or together with others in the Corporation:
  - A) Have determined controls and procedures, or have verified the determination and existence of controls and procedures under my supervision, which are designed to ensure that significant information relating to the Corporation including subsidiaries as defined in the Securities Law (preparation of annual financial statements), 1993, 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) No event or matter that happened during the period since the last reporting period and this reporting period has come to my attention, which would require a change in the conclusion by the Board of Directors and management in relation to the effectiveness of the internal controls over financial reporting and disclosure of the Corporation.

Nothing in that stated above detracts from my responsibility or the responsibility of any other person under any law.

Date: November 20, 2011

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Avi Doitchman, Executive Vice President, CFO