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ISRAEL CHEMICALS LIMITED

(An Israeli Corporation)

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

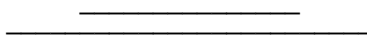
AT SEPTEMBER 30, 2002

(Unaudited)

ISRAEL CHEMICALS LIMITED
(An Israeli Corporation)
CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
AT SEPTEMBER 30, 2002
(Unaudited)

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November 24, 2002

The Board of Directors
Israel Chemicals Limited
Tel-Aviv

Re: Review of unaudited condensed consolidated interim financial statements for the periods ended September 30, 2002

At your request, we have reviewed the condensed consolidated interim balance sheet of Israel Chemicals Limited (“the Company”) and its subsidiaries as of September 30, 2002 and the condensed consolidated interim statements of income, changes in shareholders’ equity and cash flows for the nine and three month periods then ended, expressed in new Israeli shekels (NIS) adjusted on the basis of the changes in the exchange rate of the U.S. dollar. Our review was performed in accordance with the procedures prescribed by the Institute of Certified Public Accountants in Israel. Inter alia, these procedures include: reading of the aforementioned financial statements, reading of minutes of meetings of shareholders, the board of directors and its committees, and making inquiries of Company officers responsible for financial and accounting matters.

We were furnished with the reports of other auditors on their review of the condensed interim financial statements of subsidiaries, whose assets as of September 30, 2002 constitute approximately 49% of total consolidated assets included in the condensed consolidated interim balance sheet as of September 30, 2002 and whose sales constitute approximately 57% of the total consolidated sales included in the condensed consolidated interim statements of income for the nine and three month periods ended September 30, 2002. The interim financial statements of associated companies were also reviewed by other auditors.

Since our review was limited in scope and did not constitute an audit in accordance with generally accepted auditing standards, we do not express an opinion on the abovementioned condensed consolidated interim financial statements.

During our review, including perusal of the review reports of the other auditors referred to above, nothing came to our attention that indicated that significant changes should be made in the aforementioned condensed statements in order for them to be considered as drawn up in conformity with generally accepted accounting principles and with the Israeli Securities Regulations (Periodic and Immediate Reports), 1970.

We draw attention to the uncertainty in respect of contingent liabilities of the Company and certain subsidiaries, as discussed in note 11c to the 2001 annual financial statements and note 3 to these condensed financial statements. In respect of certain of these contingent liabilities, provisions have been included in these condensed financial statements in amounts which, in the opinion of management of the said companies, are considered sufficient to cover any liability that may arise as a result thereof; no provisions have been made in respect of the other contingent liabilities the amounts or ultimate outcome of which cannot be determined at this stage.

The accompanying financial statements are a translation into U.S. dollars of the abovementioned unaudited consolidated interim statements in adjusted NIS, in accordance with the principles described in note 2b to the 2001 annual financial statements.

(---)

Kesselman & Kesselman

Certified Public Accountants (Israel)

A member of PriceWaterhouseCoopers International

ISRAEL CHEMICALS LIMITED
(An Israeli Corporation)
CONDENSED CONSOLIDATED BALANCE SHEET
AS OF SEPTEMBER 30, 2002
TRANSLATED INTO U.S. DOLLARS (note 1b)

	September 30		December 31,
	2002	2001	2001
	(Unaudited)		(Audited)
	In thousands		
A s s e t s			
CURRENT ASSETS:			
Cash and cash equivalents	24,071	22,031	15,566
Short-term investments, deposits and loans	31,247	28,308	25,498
Accounts receivable:			
Trade	390,026	*372,553	354,366
Other	177,182	182,465	171,615
Inventories	461,624	486,745	491,605
T o t a l current assets	1,084,150	1,092,102	1,058,650
INVESTMENTS AND LONG-TERM RECEIVABLES:			
Associated companies	8,796	5,978	6,467
Other companies	53,292	52,151	52,151
Long-term deposits and receivables, net of current maturities	18,253	23,329	20,745
Minority interest in subsidiaries	10,441		8,068
	90,782	81,458	87,431
FIXED ASSETS:			
Cost	3,996,487	*4,123,048	3,842,369
L e s s - accumulated depreciation	2,332,732	2,252,357	2,201,658
	1,663,755	1,870,691	1,640,711
OTHER ASSETS AND DEFERRED CHARGES,			
net of accumulated amortization	147,882	*152,961	153,604
	2,986,569	3,197,212	2,940,396

* Reclassified.

Date of approval of the financial statements:
November 24, 2002

(---)

Yossi Rosen
Chairman of the Board of Directors

(---)

Akiva Mozes
President and Chief Executive Officer

(---)

Avi Doitchman
Chief Financial Officer

	<u>September 30</u>		<u>December 31,</u>
	<u>2002</u>	<u>2001</u>	<u>2001</u>
	<u>(Unaudited)</u>		<u>(Audited)</u>
<u>In thousands</u>			
Liabilities and shareholders' equity			
CURRENT LIABILITIES:			
Short-term credit from banks and other credit granting institutions	450,533	*527,515	535,160
Accounts payable and accruals:			
Suppliers and contractors	195,193	164,987	176,902
Other	249,839	217,599	226,821
Dividend payable		23,816	
T o t a l current liabilities	<u>895,565</u>	<u>933,917</u>	<u>938,883</u>
LONG-TERM LIABILITIES:			
Loans and other liabilities (net of current maturities):			
Debentures	3,929	8,340	4,070
Debentures convertible into shares	76,500		75,018
Bank loans	767,914	887,931	765,620
	848,343	896,271	844,708
Deferred income taxes	213,748	258,120	195,757
Liability for employee rights upon retirement, net of amount funded with severance pay funds	147,098	134,787	137,762
T o t a l long-term liabilities	<u>1,209,189</u>	<u>1,289,178</u>	<u>1,178,227</u>
CONTINGENT LIABILITIES, see note 3			
T o t a l liabilities	<u>2,104,754</u>	<u>2,223,095</u>	<u>2,117,110</u>
MINORITY INTEREST IN SUBSIDIARIES			
		50,267	
SHAREHOLDERS' EQUITY			
	881,815	923,850	823,286
	<u>2,986,569</u>	<u>3,197,212</u>	<u>2,940,396</u>

* Reclassified.

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

ISRAEL CHEMICALS LIMITED
(An Israeli Corporation)
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
FOR THE 9 AND 3 MONTH PERIODS ENDED SEPTEMBER 30, 2002
TRANSLATED INTO U.S. DOLLARS (note 1b)

	9 months ended		3 months ended		Year ended
	September 30		September 30		December 31,
	2002	2001	2002	2001	2001
	(Unaudited)				(Audited)
	In thousands (except net income (loss) per share data)				
SALES	1,499,379	1,417,838*	531,103	491,060*	1,858,781
COST OF SALES	1,018,542	963,756*	362,335	336,883*	1,271,669
GROSS PROFIT	480,837	454,082	168,768	154,177	587,112
RESEARCH AND DEVELOPMENT EXPENSES - net	21,336	24,500	6,845	7,248	32,453
SELLING, TRANSPORT AND MARKETING EXPENSES	230,381	232,126*	76,184	79,627*	309,569
GENERAL AND ADMINISTRATIVE EXPENSES	62,117	65,063	23,468	21,443	84,734
OPERATING INCOME	167,003	132,393	62,271	45,859	160,356
FINANCIAL EXPENSES - net	40,045	60,122	12,242	17,208	78,456
	126,958	72,271	50,029	28,651	81,900
OTHER INCOME LOSS					
Write down of magnesium plants to their fair value					200,000
Other - net	14,538	2,268	4,660	4,501	20,131
INCOME (LOSS) BEFORE TAXES ON INCOME	112,420	70,003	45,369	24,150	(138,231)
TAXES	37,061	18,083	17,361	8,377	(33,033)
INCOME (LOSS) FROM OPERATIONS OF THE COMPANY AND ITS SUBSIDIARIES	75,359	51,920	28,008	15,773	(105,198)
SHARE IN LOSSES OF ASSOCIATED COMPANIES - net	(368)	(471)	(140)	(229)	(373)
MINORITY INTEREST IN LOSSES OF SUBSIDIARIES - net	2,159	4,955	887	665	63,196
NET INCOME (LOSS) FOR THE PERIOD	77,150	56,404	28,755	16,209	(42,375)
BASIC NET INCOME (LOSS) PER NIS 1 OF PAR VALUE OF SHARES - in dollars	0.064	0.047	0.024	0.014	(0.035)
PAR VALUE OF SHARES USED FOR THE PURPOSE OF COMPUTATION OF PER SHARE DATA - NIS in thousands	1,200,000	1,200,000	1,200,000	1,200,000	1,200,000

* Reclassified.

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

ISRAEL CHEMICALS LIMITED

(An Israeli Corporation)

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

FOR THE 9 AND 3 MONTH PERIODS ENDED SEPTEMBER 30, 2002

TRANSLATED INTO U.S. DOLLARS (note 1b)

	<u>Share capital</u>	<u>Capital surplus</u>	<u>Differences from translation of financial statements of subsidiaries</u>	<u>Retained earnings</u>	<u>Cost of Company shares held by a subsidiary</u>	<u>Total</u>
	In thousands					
BALANCE AT JANUARY 1, 2002 (audited)	521,402	1,110	(24,514)	342,690	(17,402)	823,286
CHANGES DURING THE 9 MONTHS ENDED SEPTEMBER 30, 2002 (unaudited):						
Net income				77,150		77,150
Dividend*				(25,696)		(25,696)
Exercise of options granted to employees, see note 4				(1,407)	4,192	2,785
Other			4,290			4,290
BALANCE AT SEPTEMBER 30, 2002 (unaudited)	<u>521,402</u>	<u>1,110</u>	<u>(20,224)</u>	<u>392,737</u>	<u>(13,210)</u>	<u>881,815</u>
BALANCE AT JULY 1, 2002 (unaudited)	521,402	1,110	(16,700)	364,358	(14,274)	855,896
CHANGES DURING THE 3 MONTHS ENDED SEPTEMBER 30, 2002 (unaudited):						
Net income				28,755		28,755
Exercise of options granted to employees, see note 4				(376)	1,064	688
Other			(3,524)			(3,524)
BALANCE AT SEPTEMBER 30, 2002 (unaudited)	<u>521,402</u>	<u>1,110</u>	<u>(20,224)</u>	<u>392,737</u>	<u>(13,210)</u>	<u>881,815</u>
BALANCE AT JANUARY 1, 2001 (audited)	521,402	1,110	(21,438)	435,224	(17,402)	918,896
CHANGES DURING THE 9 MONTHS ENDED SEPTEMBER 30, 2001 (unaudited):						
Net income				56,404		56,404
Dividend*				(50,133)		(50,133)
Other			(1,317)			(1,317)
BALANCE AT SEPTEMBER 30, 2001 (unaudited)	<u>521,402</u>	<u>1,110</u>	<u>(22,755)</u>	<u>441,495</u>	<u>(17,402)</u>	<u>923,850</u>
BALANCE AT JULY 1, 2001 (unaudited)	521,402	1,110	(28,250)	449,102	(17,402)	925,962
CHANGES DURING THE 3 MONTHS ENDED SEPTEMBER 30, 2001 (unaudited):						
Net income				16,209		16,209
Dividend*				(23,816)		(23,816)
Other			5,495			5,495
BALANCE AT SEPTEMBER 30, 2001 (unaudited)	<u>521,402</u>	<u>1,110</u>	<u>(22,755)</u>	<u>441,495</u>	<u>(17,402)</u>	<u>923,850</u>
BALANCE AT JANUARY 1, 2001 (audited)	521,402	1,110	(21,438)	435,224	(17,402)	918,896
CHANGES DURING THE YEAR ENDED DECEMBER 31, 2001 (audited):						
Net loss				(42,375)		(42,375)
Dividend*				(50,159)		(50,159)
Other			(3,076)			(3,076)
BALANCE AT DECEMBER 31, 2001 (audited)	<u>521,402</u>	<u>1,110</u>	<u>(24,514)</u>	<u>342,690</u>	<u>(17,402)</u>	<u>823,286</u>

* After deduction of dividends to a subsidiary in the amount of U.S.\$ 271,000 and U.S.\$ 632,000 in the nine months ended September 30, 2002 and 2001, respectively, in the amount of U.S.\$ 301,000 in the three months ended September 30, 2001, and in the amount of U.S.\$ 632,000 in the year ended December 31, 2001.

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

ISRAEL CHEMICALS LIMITED
 (An Israeli Corporation)
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
 FOR THE 9 AND 3 MONTH PERIODS ENDED SEPTEMBER 30, 2002
 TRANSLATED INTO U.S. DOLLARS (c)

	9 months ended		3 months ended		Year ended
	September 30		September 30		December 31,
	2002	2001	2002	2001	2001
	(Unaudited)				(Audited)
	In thousands				
CASH FLOWS FROM OPERATING ACTIVITIES:					
Net income (loss) for the period	77,150	56,404	28,755	16,209	(42,375)
Adjustments required to reflect the cash flows from operating activities (a)	<u>206,897</u>	<u>147,245</u>	<u>86,841</u>	<u>95,228</u>	<u>335,213</u>
Net cash provided by operating activities	<u>284,047</u>	<u>203,649</u>	<u>115,596</u>	<u>111,437</u>	<u>292,838</u>
CASH FLOWS FROM INVESTING ACTIVITIES:					
Purchase of fixed assets	(119,901)	(91,511)	(43,907)	(34,235)	(128,892)
Investment grants relating to purchase of fixed assets	4,762	6,214	3,205	400	7,077
Acquisition of subsidiaries consolidated for the first time (b)	(23,091)	157			157
Refund of excess cost paid on purchase of subsidiary	6,715		6,715		
Proceeds from disposal of investment in an associated company		6,928			6,928
Acquisition of minority's shares in subsidiaries		(6,788)			(6,788)
Associated companies and other company - investments in shares and changes in loans thereto - net	(2,881)	(1,412)	(1,187)	(202)	(1,847)
Investments in marketable securities and long-term deposits	(904)	(4,916)	(236)	(1,719)	(4,675)
Decrease (increase) in short-term deposits and loans - net	(9,987)	5,866	2,152	358	5,428
Amounts carried to other assets and deferred charges	(3,520)	(1,253)	(561)	(696)	(b)(4,765)
Proceeds from sale of fixed assets	10,646	28,288	903	104	29,086
Proceeds from disposal of marketable securities and long-term deposits	<u>5,540</u>	<u>5,641</u>	<u>2,450</u>	<u>2,414</u>	<u>10,796</u>
Net cash used in investing activities	<u>(139,336)</u>	<u>(52,786)</u>	<u>(30,466)</u>	<u>(33,576)</u>	<u>(87,495)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:					
Proceeds from exercise of options granted to employees	2,785		688		
Proceeds from issuance of convertible debenture, net of issuance expenses					73,659
Long-term loans received and other long-term liabilities undertaken	166,646	103,388	75,655	41,366	131,715
Repayment of long-term loans and discharge of other long-term liabilities	(177,803)	(233,029)	(93,186)	(164,821)	(312,108)
Dividend paid:					
To shareholders of the Company	(25,696)	(26,317)			(50,159)
To minority shareholders in subsidiaries	(544)	(400)	(544)	(400)	(400)
Short-term credit from banks and others - net	<u>(101,945)</u>	<u>*9,901</u>	<u>(59,505)</u>	<u>*52,644</u>	<u>(50,681)</u>
Net cash used in financing activities	<u>(136,557)</u>	<u>(146,457)</u>	<u>(76,892)</u>	<u>(71,211)</u>	<u>(207,974)</u>
ADJUSTMENTS FROM TRANSLATION OF BALANCES OF CASH AND CASH EQUIVALENTS OF CERTAIN NON-ISRAELI SUBSIDIARIES					
	<u>351</u>	<u>(622)</u>	<u>949</u>	<u>(327)</u>	<u>(50)</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	8,505	3,784	9,187	6,323	(2,681)
BALANCE OF CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	<u>15,566</u>	<u>18,247</u>	<u>14,884</u>	<u>15,708</u>	<u>18,247</u>
BALANCE OF CASH AND CASH EQUIVALENTS AT END OF PERIOD	<u><u>24,071</u></u>	<u><u>22,031</u></u>	<u><u>24,071</u></u>	<u><u>22,031</u></u>	<u><u>15,566</u></u>

ISRAEL CHEMICALS LIMITED
(An Israeli Corporation)
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE 9 AND 3 MONTH PERIODS ENDED SEPTEMBER 30, 2002
TRANSLATED INTO U.S. DOLLARS (c)

	9 months ended September 30		3 months ended September 30		Year ended December 31,
	2002	2001	2002	2001	2001
	(Unaudited)				(Audited)
	In thousands				
(a) Adjustments required to reflect the cash flows from operating activities:					
Income and expenses not involving cash flows:					
Minority share in subsidiaries - net	(2,159)	(4,955)	(887)	(665)	(63,196)
Associated companies - share in losses - net	368	471	140	229	373
Depreciation and amortization	119,101	128,008	39,304	43,245	173,208
Deferred income taxes - net	29,530	14,983	11,446	12,598	(45,558)
Liability for employee rights upon retirement - net	3,096	5,675	(2,708)	2,012	10,953
Capital losses (gains) on:					
Sale of fixed assets	(1,112)	1,130	(1,960)	452	(2,410)
Sale of shares in an associated company	(2,154)	(4,538)	(154)		(4,493)
Impairment of long term investment	811		63		
Write down of production facilities	4,855		2,355		211,059
Interest and erosion of principal of long-term loans and other long term liabilities – net	(2,559)	(879)	(566)	(266)	(2,674)
Erosion of principal of long-term deposits and receivables - net	611	1,076	25	548	1,502
Loss (gain) from marketable securities - net	1,627	452	183	632	462
	<u>152,015</u>	<u>141,423</u>	<u>48,241</u>	<u>58,785</u>	<u>279,226</u>
Changes in operating asset and liability items:					
Decrease (increase) in accounts receivable:					
Trade	7,261	*84,701	5,223	*25,099	100,123
Other	(8,602)	(16,484)	1,369	(1,018)	(2,270)
Increase (decrease) in accounts payable and accruals:					
Suppliers and contractors	4,841	(41,057)	8,235	(21,433)	(27,054)
Other	5,591	(25,407)	14,855	9,407	(14,706)
Decrease (increase) in inventories	45,791	4,069	8,918	24,388	(106)
	<u>54,882</u>	<u>5,822</u>	<u>38,600</u>	<u>36,443</u>	<u>55,987</u>
	<u>206,967</u>	<u>147,245</u>	<u>86,841</u>	<u>95,228</u>	<u>335,213</u>
(b) Acquisition of subsidiaries consolidated for the first time:					
Assets and liabilities of the subsidiaries at date of acquisition:					
Working capital (excluding cash and cash equivalents)	(2,807)				
Deferred income taxes	(11,872)				
Fixed assets - net	(9,716)				
	<u>(24,395)</u>				
Less amounts paid in 2001 in respect of the due diligence performed, presented among other assets as of December 31, 2001					
	1,304				
	<u>(23,091)</u>				
(c) See note 1b.					

* Reclassified.

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

ISRAEL CHEMICALS LIMITED

(An Israeli Corporation)

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENT

(UNAUDITED)

AS OF SEPTEMBER 30, 2002

NOTE 1 - GENERAL:

- a. The condensed consolidated interim financial statements of Israel Chemicals Limited (hereafter - the Company) and its subsidiaries (together - the Group) as of September 30, 2002 and for the nine and three month period then ended (hereafter - the interim statements") have been prepared in a condensed form, in accordance with accounting principles generally accepted for interim financial statements and with the Israeli Securities Regulations (Periodic and Immediate Reports), 1970. The generally accepted accounting principles applied in preparation of the interim statements are consistent with those applied in the preparation of the annual consolidated financial statements; nevertheless, the interim statements do not include all the information and notes which are required for the annual consolidated financial statements.

b. Financial statements translated into U.S. dollars

The Group's primary accounts have been prepared on the basis of historical cost adjusted to reflect the changes in the rate of exchange of the U.S. dollar (hereafter - dollar; or \$), in accordance with pronouncements of the Institute of Certified Public Accountants in Israel. All figures in the said primary accounts are presented in NIS adjusted to the rate of exchange of the dollar as of September 30, 2002.

The attached financial statements are a translation of the aforementioned primary financial statements into dollars on the basis of the exchange rate as of September 30, 2002 - \$1 = NIS 4.871.

- c. The changes in the exchange rate of the dollar and in the Israeli consumer price index in the reported periods were as follows:

	Exchange rate of the U.S. dollar	Israeli consumer price index
	<u>%</u>	<u>%</u>
9 months ended September 30:		
2002	10.3	7.0
2001	7.8	2.0
3 months ended September 30:		
2002	2.1	0.6
2001	4.6	0.9
Year ended December 31, 2001	9.3	1.4

ISRAEL CHEMICALS LIMITED

(An Israeli Corporation)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENT (continued)

(UNAUDITED)

AT SEPTEMBER 30, 2002

NOTE 2 - SUBSIDIARIES AND ASSOCIATED COMPANIES:

a. Dead Sea Magnesium (hereafter - DSM)

DSM produces magnesium mainly for the car industry, and for aluminum products and the steel industry. The majority of the company's production is exported to Europe and North America.

In recent years, there has been increased competition in the world's magnesium market from magnesium producers in China (China became the West's largest supplier of magnesium). Increasing volumes of production and exports from China, together with the global economic downturn, during 2001, in industry in general and in the aluminum and car sectors in particular, as well as, to a lesser degree, the use of alternatives - such as recycled magnesium, etc. - have resulted in reduced demand and to a fall in prices, that has mainly been felt on the European and Japanese markets. On the other hand DSM's cost basis has remained unchanged.

In light of its continuing losses, DSM examines on a periodic basis the necessity of creating a provision in respect of impairment of its assets as required by accounting standard FAS 121.

The examination conducted regarding the preparation of the DSM's 2001 financial statements concluded that a provision was required in respect of impairment of the assets of DSM.

The examination was conducted with the assistance of an external expert and included a comparison of the expected undiscounted future cash flows (assuming an operating period of 21 years) against the carrying value of the assets in DSM's books. Since the comparison revealed that the carrying value of the assets exceeded their undiscounted future cash flows, an impairment loss was recorded, based on the discounted future cash flows, calculated over an indefinite period using a discount rate of 10% per annum. Among the factors taken into account in making this calculation were the following: the price of magnesium on the world market - both currently and according to experts' future forecasts, the likelihood of DSM developing unique products, the present structure of production costs, the impact of the recovery plan and of a certain reduction in energy costs due to going over to using natural gas.

As a result of the aforesaid examination, DSM concluded that an impairment loss should be recorded. The impairment loss is reflected in the financial statements as follows:

	December 31, 2001
	\$ In millions
Depreciated balance of company's assets before impairment loss	298
Asset impairment loss (included under other expenses)	(200)
Balance of assets after impairment	<u>98</u>

The effect on the results of the Company in 2001, net of minority interests' share and the tax effect, amounts to \$ 97.5 million.

ISRAEL CHEMICALS LIMITED

(An Israeli Corporation)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENT (continued)

(UNAUDITED)

AT SEPTEMBER 30, 2002

NOTE 2 - SUBSIDIARIES (continued):**b. Acquisition of Cleveland Potash Ltd.:**

- 1) On May 1, 2002, a subsidiary in Germany completed the purchase of the entire share capital of Cleveland Potash Ltd. (hereafter - CPL), a British company that is engaged in the mining and production of potash, from Anglo American PLC group (UK). The acquisition was treated under the purchase method. The aggregate acquisition cost, after adjustments arising from certain stipulations in the agreement, amounts to approximately \$ 24 million (including acquisition expenses of \$ 1.6 million) paid in cash. An excess amount of \$ 6.7 million, which was paid in the second quarter, was refunded by the seller during the current quarter. The fair value of the net assets exceeded the acquisition cost by approximately \$ 15 million, which has been deducted from non-monetary assets of CPL (mainly fixed assets and inventories) proportionately to the fair value of such assets.

Following are the condensed financial statement data of CPL as included in these report:

	September 30, 2002	
	\$ In thousands	
Current assets	39,752	
Fixed assets - net	11,872	
Deferred taxes	14,621	
Current liabilities	(21,879)	
Long-term liabilities:	(3,402)	
Shareholders' equity	(40,964)	
	<u> - </u>	
	<u> </u>	
	For the nine months ended	For the three months ended
	September 30, 2002	
	\$ In thousands	
Sales	<u>39,399</u>	<u>22,676</u>
Cost of sales	<u>(39,228)</u>	<u>(24,754)</u>
Net loss	<u>(7,601)</u>	<u>(4,719)</u>

ISRAEL CHEMICALS LIMITED

(An Israeli Corporation)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENT (continued)

(UNAUDITED)

AT SEPTEMBER 30, 2002

NOTE 2 - SUBSIDIARIES (continued):

2) CPL's pension plans:

(a) Description of the pension plans

CPL has a pension liability to its employees in respect of which it established a defined benefit plan into which amounts are paid by the employees and the employer. The main characteristics of the pension fund are as follows:

- (i) The pension plan is subject to the UK trust law, and the assets of the pension fund are handled by the trustees, who are not answerable to CPL. CPL is entitled to appoint some of the pension fund trustees and may also replace those trustees that it has appointed. However, the trustees are obligated to act according to the interests of the fund beneficiaries, even in the event of a conflict of interests, should one arise, between CPL and the pension fund.
- (ii) CPL is responsible for making payments to the pension fund and, in the event of the pension fund having an assets shortfall, CPL is required to make up the shortage in accordance with local rules, see also (v). below. CPL has no right to withdraw monies from the funds, even if the balance of the fund exceeds the pension liability, although it may, in such circumstances, reduce its current payments to the fund. In addition, CPL may not dissolve the pension fund.
- (iii) Payments to the pension fund are allowable against tax.
- (iv) The pension fund assets are invested in marketable securities, as is the custom among similar pension funds in the UK.
- (v) Under UK law, CPL is required to maintain a minimum amount of assets in the pension fund towards its pension liability to its employees.

(b) Accounting treatment of the pension plans:

In view of the unique circumstances described above, including the framework of the UK laws, the group adopts, in respect of the accounting treatment of CPL's pension liability and of the pension fund assets, the following measurement principles:

- (i) The net pension expenses for each accounting period consist of the following components:
 - a. Current service costs - the actuarial increase in the pension liability relating to employee pension benefits in respect of the reporting period;
 - b. Current interest costs - the increase in the pension liability due to the passage of time;
 - c. The expected return on the fund's assets, see also (e) below; and
 - d. Actuarial losses (profits) recognized during the period, as described in (ii) below.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENT (continued)

(UNAUDITED)

AT SEPTEMBER 30, 2002

NOTE 2 - SUBSIDIARIES (continued):

- (ii) The net pension liability (or the net pension fund assets), which is included in the balance sheet, reflects the difference between the following two components, computed as stated below:
 - a. The liability for pension payments - computed on the basis of the liability at the beginning of the period, plus the current service costs and the current interest costs (as referred to in (i) above), net of pension payments made during the period;
 - b. The pension fund assets - computed on the basis of the assets at the beginning of the period, plus the expected return on the fund's assets (as referred to in (i) above) and payments made into the fund during the period, net of pension payments made during the period.
- (iii) The difference, at balance sheet date, between the net pension liability, computed as stated in (ii) above and the actuarial liability net of the fair value of the pension fund assets at the same date reflects the balance of actuarial gains or losses which are deferred and are not immediately recognized in the financial statements.

These deferred actuarial gains or losses (that derive from the difference between the amounts of the liabilities and the difference between the amounts of the assets, as stated above) are calculated on an annual basis at the end of each year and are carried to the statements of operations partially in the following year, if –and only if – at the end of the current reporting year, they amount to more than 10% of the greater of the following: (1) the actuarial liability for pension payments; or (2) the fair value of the pension fund assets.

The amount in excess of 10%, as stated above, will be carried to the statements of operations, commencing from the following year, in equal annual installments over the anticipated period of employment (16 years) of the CPL employees, who are members of the plan.

- (iv) In accordance with accounting principles relating to acquisitions, on the date of acquiring CPL (May 1, 2002), the balance of the liability for pension payments and the balance of the pension fund assets in CPL's books reflected the actuarial liability for pension payments and the fair value of the pension fund assets, respectively, at that date.
- (c) Pension expenses, net:

The net pension expenses carried to the statements of operations for the 9 month period ended September 30, 2002 in respect of CPL's pension fund, are composed as follows:

	<u>\$ In thousands</u>
Current service costs	2,251
Current interest costs	3,973
Expected return on the pension fund assets	(4,875)
Actuarial losses (gains), net, recognized in the period	<u>-2-</u>
Pension expenses, net, for the period	<u>1,349</u>

ISRAEL CHEMICALS LIMITED

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENT (continued)

(UNAUDITED)

AT SEPTEMBER 30, 2002

NOTE 2 - SUBSIDIARIES (continued):

- (d) The movements in the pension liability payments and the pension fund assets included in the financial statements, from the date of CPL's acquisition to the date of the financial statements, are as follows:

	<u>\$ In thousands</u>
Actuarial liability as of acquisition date - May 1, 2002	(155,129)
Current service costs for the period	(2,251)
Current interest costs for the period	(3,973)
Pension actually paid during the period	882
Actuarial gains for the period in respect of the pension liability	5,035
Translation differences for the period	<u>(11,358)</u>
Actuarial liability for pension payments as of September 30, 2002 (1)	<u>(166,794)</u>
Fair value of pension fund assets as of acquisition date - May 1, 2002	154,925
Expected return on pension fund assets for the period	4,875
Pension actually paid during the period	(882)
Amounts deposited in the pension fund during the period	2,329
Actuarial losses for the period in respect of pension fund assets	(42,455)
Translation differences for the period	<u>11,343</u>
Fair value of pension fund assets as of September 30, 2002 (2)	<u>130,135</u>
Actuarial pension liability, net of fair value of pension fund assets as of September 30, 2002 {(1)-(2)}	<u>(36,658)</u>
Deferred actuarial losses as of September 30, 2002	<u>37,420</u>
Pension fund assets, net, included in the financial statements as of September 30, 2002	<u>761</u>

The actuarial valuation of the pension liability is carried out once a year, close to balance sheet date.

- (e) The following assumptions were applied in the measurement of the pension plan components:
- (i) Annual capitalization rate of 5.45% and 5.7% as of balance sheet date and acquisition date, respectively - based on the nominal yield rate of corporate debentures, which are traded in the UK and which are rated AA;
 - (ii) Annual expected return on pension fund assets of 7% as of balance sheet date and acquisition date - reflects the anticipated, long-term expected return on pension fund assets; and
 - (iii) Annual nominal increase in the salaries of CPL employees of 3.75% and 4.2% as of balance sheet date and acquisition date, respectively - based on CPL's experience (that takes into account annual inflation at an assumed rate of 2.25% and 2.75 as of balance sheet date and acquisition date, respectively).

ISRAEL CHEMICALS LIMITED

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENT (continued)

(UNAUDITED)

AT SEPTEMBER 30, 2002

NOTE 3 - CONCESSION AND CONTINGENT LIABILITIES:

a. Concession

The subsidiary of the company, Rotem Amfert Negev Ltd. (hereafter - Rotem), operates under mining concessions and permits granted by the Minister of National Infrastructure and the Israel Lands Administration, which expire in 2005.

Rotem received new mining concessions for the existing fields, with slight changes, at the Zafir site (Oron - Zin), for the period until 2021. The validity of the new concessions is subject to receiving a permit from the Israel Lands Administration for the same period. This matter is being attended to. In addition, Rotem received another mining concession, for a period of 12 years, with respect to the Effa field. This concession, too, is conditional upon obtaining a permit for the same period from the Israel Lands Administration - which is being attended to as well. The current concession grants the company the right to mine ores of phosphate rock, phosphate lime and minerals combined with phosphate layers and to exploit them for production and marketing. The new concessions grant the subsidiary rights with respect to natural phosphate rock. Pursuant to both the law and the concessions, the subsidiary is required to pay royalties to the State for each ton of natural phosphorite extracted. The amount to be paid is derived from the value of the quarry and the computation method is detailed in the Mining Regulations.

b. Contingent liabilities:

- 1) Since 1994, DSB, Bromine Compounds Ltd. ("Compounds") and Ameribrom, Inc. (together - "the Bromine Group") have been impleaded into several cases brought against American companies in courts in the United States (including two class actions) by approximately 30,000 plaintiffs (hereafter - the plaintiffs) claiming that they had worked on banana plantations, mainly in South America, the Caribbean, Africa and the Philippines. The plaintiffs allege that they sustained physical injury as a result of their exposure to a certain chemical many years ago when they were plantation workers, in their countries of residence. The chemical in question was produced by a number of companies, including large chemical companies, and supplied to companies engaged in banana cultivation (collectively - the defendants) over a period of approximately thirty years (1960 to 1990).

A major part of the above legal proceedings have been transferred by the U.S. courts to the courts in the plaintiffs' countries of residence. However, objections regarding various aspects of these rulings are still pending before a number of appellate levels in the United States. In most of those cases, the Bromine Companies have been directly named as defendants. At this stage, it is not possible to determine the likelihood of all or part of the said litigation reverting to the United States despite having been so transferred.

Over the years in which these proceedings took place, most of the plaintiffs have reached compromise agreements with the most of the defendants. The Bromine Companies are included in the waiver agreements signed by the plaintiffs. The effect of the abovementioned agreements on the claims for indemnification and participation that were filed against the Bromine Companies cannot be estimated at this stage. It should be noted that claims have been filed by 5,000 plaintiffs (possibly even more) who are not parties to said compromise agreements.

ISRAEL CHEMICALS LIMITED

(An Israeli Corporation)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENT (continued)

(UNAUDITED)

AT SEPTEMBER 30, 2002

NOTE 3 - CONCESSION AND CONTINGENT LIABILITIES (continued):

The Bromine Group Companies claim absence of liability and lack of jurisdiction of the courts hearing the claims in their case.

The Bromine Group Companies estimate that the quantities of chemicals supplied by them to the relevant countries and in the relevant period was, if at all, small as compared to the quantity supplied by the other producers being sued in the abovementioned litigation.

Management of the Bromine Group is of the opinion that, at the relevant dates, the Bromine Group had some insurance coverage in respect of the events that are the subject of the claim. However, there is a dispute, with at least some of the insurers, as to the amount and scope of the coverage. The Bromine Group has initiated legal proceedings against said insurers with respect to the abovementioned dispute. In a tracer session held in November 2001, the preliminary proceedings were concluded and the Court decided that the primary depositions are to be presented in the form of affidavits. In April 2002, the plaintiffs submitted their primary depositions. The court is yet to schedule the dates for the hearing of the testimonies in this claim.

Since the claims in question are for personal injury, they do not stipulate any amounts. Nevertheless, since there are thousands of plaintiffs, if they are successful in their claims, the amounts the Bromine Group will have to pay, net of the amounts recognized and paid by the insurers, could be substantial.

In view of the above, management of the Bromine Group and its legal advisors are unable to estimate the effect of these claims at this stage. Therefore, no provision has been made in the financial statements in respect of the possible outcome of these claims.

- 2) a) In February 2000, a civil claim was filed as a class action in the United States against subsidiaries in the Bromine Group. The plaintiffs are seeking compensation for alleged contraventions of United States' trade restraints legislation. During the reporting period, the US court gave final approval to the settlement signed during 2001 between the defendants and the plaintiffs' representatives regarding the civil action. The amounts paid in to settle the claim were charged against expense in 2000.
- b) During 1999, one of the two main competitors of the Bromine Group announced that it was cooperating with the anti-trust authorities in the European Union with regard to a similar investigation. As of the date of approval of these financial statements, the Bromine Group and their legal counsel are unable to estimate the effect of this event on the results of operations, due to the uncertainty as to its outcome. Therefore, no provision has been made in respect thereof in these financial statements.
- 3) Contrack Line Ltd. (hereafter - Contrack) has filed a claim against Dead Sea Works Ltd. (hereafter - DSW) and others, with the Tel Aviv District Court for infringement of a patent registered by Contrack in respect of a dredge for crushing salt mushrooms in the Dead Sea and in respect of breach of other alleged rights that Contrack claims with respect to the dredge. The Court ruled that DSW had infringed the patent. An appeal was submitted to the Supreme Court with respect to this ruling. On October 21, 2002, the Supreme Court heard the appeal. With the agreement of the parties, the court sent the matter to mediation.

ISRAEL CHEMICALS LIMITED

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENT (continued)

(UNAUDITED)

AT SEPTEMBER 30, 2002

NOTE 3 - CONCESSION AND CONTINGENT LIABILITIES (continued):

Concurrent with the appeal and based on said ruling which is in mediation, by the decision of the Supreme Court, Contrack filed a financial claim in the amount of approximately U.S. \$ 51 million against DSW with the Tel Aviv District Court, in respect of damages/losses caused to it.

Contrack appealed to the court in order to be discharged from fees in respect of its claim. The Court has approved the payment of a minimal fee of NIS 10,000 by Contrack in respect of a claim amount of U.S. \$ 20 million. This ruling was appealed by both sides.

DSW has included a provision which it believes, based on the opinion of its legal counsel and taking into account developments in the aforementioned proceedings, will be sufficient to cover any exposure arising from such proceedings..

4) Ecological damage:

- a) The local authorities in Germany are demanding that a German subsidiary of Rotem (hereafter the "German company"), along with the company that leases its land ("the Lessor"), remove waste consisting of metal oxides, that was placed on the land by the German company, and later - by the Lessor - claiming that the waste could cause groundwater contamination. On November 10, 2000, the German company and the Lessor reached an agreement with the local authorities as to the waste mentioned above. The German company included a provision of approximately \$ 2 million in its accounts in respect of this agreement, based on its estimated share in the anticipated expenses.
- b) The Bromine Group manufacture, store and sell dangerous chemical products. Accordingly, they are exposed to risks resulting from environmental damage. The Bromine Companies invest substantial amounts in order to meet environmental orders and standards. The financial statements include a provision amounting to approximately \$ 8.1 million, which, in the opinion of the Bromine Companies' management, on the basis of information available to it, is adequate to cover possible liabilities in respect of environmental damage in which the Bromine Companies are involved.
- c) In January 1998, a report was submitted to the Ministry of the Environment and to the Ramat Hovav Local Industrial Council. It contains data relating to underground pollution in the Ramat Hovav region, where a plant of the Bromine Companies is located, along with other chemical plants. The report includes recommendations regarding steps to be taken to prevent infiltration of pollutants into the ground in the Ramat Hovav area and to prevent the spreading thereof.

At this stage, the Bromine Companies and their legal counsel cannot estimate the extent to which they will be held responsible for the above and the expenses they may incur in respect thereof, among other reasons, because the report and the results thereof are very incomplete. Therefore, no provision has been made in these financial statements in respect of this matter.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENT (continued)
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NOTE 3 - CONCESSION AND CONTINGENT LIABILITIES (continued):

During 1998, the investigators who issued the above report, began a four year jointly funded research project (of which the above subsidiary's share is \$ 600,000) for the purpose of advancing the implementation of the recommendations of the above report. Through to the date of approval of these financial statements, the results of the research project have not yet been sent to the Bromine Companies.

- d) In previous years, soil contamination was found on a certain part of the land leased in the Netherlands by Amsterdam Amfert Fertilizers B.V. ("Amfert"). Management of Amfert is of the opinion, based on the policy currently in practice with respect to enforcement of environmental protection laws, and taking into account the fact that the authorities approved construction of a warehouse on the contaminated land, that the likelihood that the ecological authorities of the Dutch Government will require that the contaminated land be cleaned up is low. Upon granting the permit for construction of the warehouse, the authorities related to the contamination as being severe, but decided that, at that stage, there was no need to clean it up. Consequently, Amfert's management does not intend to initiate the cleaning up of the contamination, as it may be very costly. However, the question may become relevant only if and when Amfert's plant will be closed and the land will revert to the Port Authority.

At present, the company incurs insignificant costs with respect to the monitoring of the contamination. In management's opinion, the previous owner of the ground is responsible for the contamination, since it occurred prior to Amfert's purchase of the site and it was not brought to the attention of Amfert prior to its occupation of the site. The question of responsibility for any damages to third parties is being litigated and has not yet been resolved.

- e) In the past two years, various claims have been filed against a subsidiary - "Fertilizers Chemicals Ltd." (hereafter - Fertilizers) claiming personal injury and pecuniary damages, allegedly resulting from the pollution of the Kishon River, which, according to the plaintiffs, was caused by Fertilizers and others. In the opinion of the management of Fertilizers, which is based on the opinion of its legal counsel, as the claims raise complex circumstantial and legal questions, in respect of which no ruling has yet been issued in Israel nor have any precedents been established, the risks pertaining to these claims cannot be estimated at this stage. Therefore, no provision has been included in the Company's financial statements with respect thereto.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENT (continued)

(UNAUDITED)

AT SEPTEMBER 30, 2002

NOTE 3 - CONCESSION AND CONTINGENT LIABILITIES (continued):

The claims filed against Fertilizers regarding the alleged pollution of the Kishon River are as follows:

- 1) On September 13, 2001, a monetary claim in the amount of \$ 13 million was filed against Fertilizers and against 9 other entities, alleging that the defendants discharged sewage into the Kishon River which, according to the plaintiffs, was the cause of the cancer which they developed.
 - 2) An additional claim has been filed against Fertilizers and 11 other entities, in the amount of approximately \$ 1.9 million (as estimated for the purpose of claim filing fee), for the economic damage caused to the plaintiffs that, according to the claim, resulted from the pollution of the Kishon River.
 - 3) On May 29, 2001, a class action was filed against Fertilizers and 3 other entities (hereafter - the defendants), under Section 10 to the Law for the Abatement of Environmental Nuisances (Civil Claims), 1992. According to the claim, the defendants have been polluting the Kishon River, thus disrupting the claimants' activities therein and that, in addition, the pollution destroys a natural resource and constitutes an actual hazard to public health. The claimants request the Court to order to cease the pollution of the Kishon River and to restore it to its state prior to the discharge of the sewage.
 - 4) On May 22, 2002 an additional claim has been filed against Fertilizers and other entities, in the amount of approximately \$ 10 million, alleging that the defendants discharged sewage into the Kishon River which, according to the plaintiffs, was the cause of the cancer which they developed.
- f) In February 2002, the Israel Union for Environmental Defense (hereafter - IUED) submitted a Water Appeal to the Water Tribunal in Haifa, in which it requests that the Water Commissioner be required to issue orders against two subsidiaries of the Company, obligating them, inter alia, to redress and/or to reinstate the salinity of the "Havurat Yehuda" aquifer (in which, inter alia, the "Effa 13" bore is located) to its original levels and/or take all necessary actions in order to prevent a recurring alleged pollution. The appeal further requests that the orders obligate said subsidiaries to immediately stop the permeation of industrial effluents into the sub-terrain and to pump the polluted water from the "Effa 13" as well as other bores - this in order to minimize the spreading of the pollution and to control the rising salinity levels, while utilizing the polluted water instead of unpolluted water extracted from other sources.

The management of those subsidiaries believe that they have good defense against the appeal and that they can prove that such orders must not be issued and that the pollution was not caused by the subsidiaries. In addition, the subsidiaries' management claim that the Water Tribunal is not authorized to issue a ruling in this case and that IUED has no standing in this proceeding. Furthermore, another

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENT (continued)

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AT SEPTEMBER 30, 2002

NOTE 3 - CONCESSION AND CONTINGENT LIABILITIES (continued):

subsidiary of the Company has expressed its willingness to purchase the water from the "Effa 13" bore. The Water Commissioner has notified the Court that he does not believe that remedies are in order, since if there was any contamination, it was terminated, and since practical solutions for the use of the aquifer water are being examined, under which a solution for the alleged contamination would be reached in any event. The appeal is pending before the Court and deliberations have not yet been held in respect thereof.

As the reliefs required under the appeal, in relation to the measures that the subsidiaries will be obliged to take with regard to the pollution, are very general and cannot be quantified, it is impractical to estimate, at this stage, the potential cost of the actions, if any, that the subsidiaries may be required to take.

NOTE 4 - EMPLOYEE OPTIONS PLAN

During first quarter of 2002, the Chief Executive Officer and the Chairman of the Board of Directors of the Company exercised options into 1.4 million and 1 million Company shares, respectively.

In addition, a further 100,000, 200,000 and 882,333 options were exercised by others into the Company's shares during the first, second and third quarters, respectively, of 2002.

NOTE 5 - RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS:

- 1) In July 2001, the Israel Accounting Standards Board (hereafter - the IASB) issued Israel Accounting Standard ("IAS") No. 11 - Segment Reporting, which requires companies, whose securities are registered for trade on a stock exchange, to include information in their financial statements relating to business segments and to geographical segments. The standard also stipulates detailed instructions and quantitative criteria for identifying such segments.
This Standard is effective for financial statements relating to periods commencing January 1, 2002.
The Company is examining the effect, if any, of the Standard on the existing form of segment reporting included in its financial statements.
- 2) In October 2001, the IASB issued IAS No. 12 - Discontinuance of Adjusting Financial Statements for Inflation. Standard 12 provides for the discontinuance of inflation-adjusted financial statements and the return to the nominal-historical financial reporting.
Upon the issuance of Standard No.12, Clarifications Nos. 8 and 9 to Opinion No. 36, regarding the translation of the financial statements of foreign investee companies, were canceled and were replaced by IAS No. 13. Most of the provisions of Standard No.13, correspond to the provisions which appeared in the above-mentioned clarifications.
Statement 13 allows companies that draw up their financial statements in accordance with section 29(a) of Opinion 36 of the Israeli Institute to continue to report in U.S. dollars

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENT (continued)
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NOTE 5 - RECENTLY ISSUED ACCOUNTING PRONOUNCMENTS (continued):

On November 17, 2002, an exposure draft for a new standard (No. 17) was issued, that, when approved, will postpone implementation of Standard No. 12 to January 1, 2004.

Since the Company's financial statements are adjusted for the changes in the U.S.dollar (as allowed by section 29(a) of Opinion 36 of the Israeli Institute), the above standards will have no effect on the Group's financial statements.
