ISRAEL CHEMICALS LIMITED

(An Israeli Corporation)

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

AT MARCH 31, 2002

(Unaudited)

ISRAEL CHEMICALS LIMITED

(An Israeli Corporation)

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

AT MARCH 31, 2001

(Unaudited)

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27 May, 2002

The Board of Directors of
Israel Chemicals Limited
Tel-Aviv

Re: Review of unaudited condensed consolidated interim financial statements for the period ended March 31, 2002

At your request, we have reviewed the condensed consolidated interim balance sheet of Israel Chemicals Limited ("the Company") and its subsidiaries as of March 31, 2002 and the condensed consolidated interim statements of income, changes in shareholders' equity and cash flows for the three month period then ended, expressed in adjusted new Israeli shekels (NIS). 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 certified public accountants on their review of the condensed interim financial statements of consolidated subsidiaries, whose assets at March 31, 2002 constitute approximately 46% of total consolidated assets included in the condensed consolidated interim balance sheet and whose sales constitute approximately 55% of the total consolidated sales included in the condensed consolidated interim statements of income for the three month period ended March 31, 2002. The interim financial statements of associated companies were also reviewed by other certified public accountants.

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 certified public accountants 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 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 interim statements. In respect to 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 in respect thereof; no provisions have been made in respect of 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 NIS, in accordance with the principles described in note 2b to the annual financial statements as of December 31, 2001.

Kesselman & Kesselman
Certified Public Accountants (Israel)
A member of PriceWaterhouseCoopers International

ISRAEL CHEMICALS LIMITED

(An Israeli Corporation)

CONDENSED CONSOLIDATED BALANCE SHEET

AT MARCH 31, 2002

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

	March 31		December 31,
	2002	2001	2001
	(Unaudited)		(Audited)
	In thousands		
Assets			
CURRENT ASSETS:			
Cash and cash equivalents	34,975	21,011	15,566
Short-term investments, deposits and loans	25,568	28,839	25,498
Accounts receivable:			
Trade	365,223	*435,811	354,366
Other	166,364	180,672	171,615
Inventories	463,829	494,879	491,605
Total current assets	1,055,959	1,161,212	1,058,650
INVESTMENTS AND LONG-TERM RECEIVABLES:			
Associated companies	5,256	9,055	6,467
Other companies	52,151	51,037	52,151
Long-term deposits and receivables, net of current maturities	19,189	24,057	20,745
Minority interest in subsidiaries	9,139		8,068
	85,735	84,149	87,431
FIXED ASSETS:			
Cost	3,862,344	*3,962,614	3,842,369
Less - accumulated depreciation	2,230,969	2,077,709	2,201,658
	1,631,375	1,884,905	1,640,711
OTHER ASSETS AND DEFERRED CHARGES, net of accumulated amortization	150,012	*153,159	153,604
	2,923,081	3,283,425	2,940,396

*Reclassified

Date of approval of the financial statements: May 27, 2002

Yossi Rosen
Chairman of the Board of Directors

Akiva Mozes
President and Chief Executive Officer

Avi Doitchman
Chief Financial Officer

	March 31		December 31,
	2002	2001	2001
	(Unaudited)		(Audited)
	In thousands		
Liabilities and shareholders' equity			
CURRENT LIABILITIES:			
Short-term credit from banks and other credit granting institutions	577,070	*547,196	535,160
Accounts payable and accruals:			
Suppliers and contractors	170,169	189,541	176,902
Other	212,143	234,271	226,821
Dividend payable, see note 6c	25,729	26,317	
T o t a l current liabilities	985,111	997,325	938,883
LONG -TERM LIABILITIES:			
Loans and other liabilities (net of current maturities):			
Debentures	3,918	8,545	4,070
Debentures convertible into shares	75,503		75,018
Bank loans	708,198	933,356	765,620
	787,619	941,901	844,708
Deferred income taxes	197,265	247,852	195,757
Liability for employee rights upon retirement, net of amount funded with severance pay funds	135,400	131,878	137,762
T o t a l long-term liabilities	1,120,284	1,321,631	1,178,227
CONCESSION AND CONTINGENT LIABILITIES, see note 3			
T o t a l liabilities	2,105,395	2,318,956	2,117,110
MINORITY INTEREST IN SUBSIDIARIES		57,769	
SHAREHOLDERS' EQUITY	817,686	906,700	823,286
	2,923,081	3,283,425	2,940,396

* Reclassified.

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

ISRAEL CHEMICALS LIMITED

(An Israeli Corporation)

CONDENSED CONSOLIDATED STATEMENT OF INCOME

FOR THE 3 MONTH PERIOD ENDED MARCH 31, 2002

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

	3 months ended March 31		Year ended December 31,
	2002	**2001**	**2001**
	(Unaudited)		**(Audited)**
	In thousands (except per share data)		
SALES	444,606	*474,674	1,858,781
COST OF SALES	313,446	*324,662	1,271,669
GROSS PROFIT	131,160	150,012	587,112
RESEARCH AND DEVELOPMENT EXPENSES - net	6,342	8,394	32,453
SELLING AND MARKETING EXPENSES	70,913	*77,057	309,569
GENERAL AND ADMINISTRATIVE EXPENSES	17,003	22,134	84,734
OPERATING INCOME	36,902	42,427	160,356
FINANCIAL EXPENSES - net	12,687	28,117	78,456
	24,215	14,310	81,900
OTHER INCOME (LOSS) - net			
WRITE DOWN OF MAGNESIUM PLANTS TO THEIR FAIR VALUE			(200,000)
OTHER - net	(1,333)	1,854	(20,131)
INCOME (LOSS) BEFORE TAXES	22,882	16,164	(138,231)
TAXES	(3,738)	(190)	33,033
INCOME (LOSS) FROM OPERATIONS OF THE COMPANY AND ITS SUBSIDIARIES	19,144	15,974	(105,198)
SHARE IN LOSSES OF ASSOCIATED COMPANIES - net	(92)	(86)	(373)
MINORITY INTEREST IN LOSSES OF SUBSIDIARIES - net	1,035	2,266	63,196
NET INCOME (LOSS) FOR THE PERIOD	20,087	18,154	(42,375)
BASIC NET INCOME (LOSS) PER NIS 1 OF PAR VALUE OF SHARES	0.017	0.015	(0.035)
PAR VALUE OF SHARES USED FOR THE PURPOSE OF COMPUTATION OF BASIC PER SHARE DATA - NIS in thousands	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)

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

FOR THE 3 MONTH PERIOD ENDED MARCH 31, 2002

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

	Share capital	Capital Surplus	Cumulative translation adjustments	Retained earnings	Cost of Company Shares held by a Subsidiary	Total
	In thousands					
BALANCE AT JANUARY 1, 2002 (audited)						
CHANGES DURING THE 3 MONTHS						
ENDED MARCH 31, 2002 (unaudited):	521,402	1,110	(24,514)	342,690	(17,402)	823,286
Net income				20,087		20,087
Dividend *				(25,729)		(25,729)
Exercise of options granted to employees, see note 4				(935)	2,886	1,951
Other			(1,909)			(1,909)
BALANCE AT MARCH 31, 2002 (unaudited)	521,402	1,110	(26,423)	336,113	(14,516)	817,686
BALANCE AT JANUARY 1, 2001 (audited)	521,402	1,110	(21,438)	435,224	(17,402)	918,896
CHANGES DURING THE 3 MONTHS						
ENDED MARCH 31, 2001 (unaudited):						
Net income				18,154		18,154
Dividend *				(26,317)		(26,317)
Other			(4,033)			(4,033)
BALANCE AT MARCH 31, 2001 (unaudited)	521,402	1,110	(25,471)	427,061	(17,402)	906,700
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)	521,402	1,110	(24,514)	342,690	(17,402)	823,286

* After deduction of dividends to a subsidiary in the amount of U.S.$ 271,000, U.S.$ 632,000 and U.S.$ 333,000 in the periods ended March 31, 2002 , December 31, 2001 and March 31, 2001 , respectively.

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

ISRAEL CHEMICALS LIMITED

(An Israeli Corporation)

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE 3 MONTH PERIOD ENDED MARCH 31, 2002

TRANSLATED INTO U.S. DOLLARS (b).

	3 months ended March 31		Year ended December 31,
	2002	2001	2001
	(Unaudited)		(Audited)
	In thousands		
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income (loss) for the period	20,087	18,154	(42,375)
Adjustments required to reflect the cash flows from operating activities (a)	39,556	28,190	335,213
Net cash provided by operating activities	59,643	46,344	292,838
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of fixed assets	(37,989)	(33,753)	(128,892)
Investment grant relating to purchase of fixed assets	1,096	2,346	7,077
Acquisition of subsidiaries consolidated for the first time			157
Proceeds from disposal of investment in associated company		6,928	6,928
Acquisition of minority's share in a subsidiary			(6,788)
Investments in shares of associated companies and loans thereto - net	(10)	(489)	(1,847)
Investments of marketable securities and long-term deposits	(239)	(1,969)	(4,675)
Decrease (Increase) in short-term deposits and loans - net	(1,863)	5,327	5,428
Amounts carried to other assets and deferred charges	(421)	(416)	(4,765)
Proceeds from sale of fixed assets	8,953	26,567	29,086
Proceeds from disposal of marketable securities, investments and long-term deposits	1,519	1,968	10,796
Net cash provided by (used in) investing activities	(28,934)	6,509	(87,495)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from exercise of options granted to employees	1,951		
Proceeds from issuance of convertible debenture, net of Issuance expenses			73,659
Long-term loans received and other long-term liabilities undertaken	37,827	26,833	131,715
Repayment of long-term loans and discharge of other long-term liabilities	(50,060)	(42,567)	(312,108)
Dividend paid:			
To shareholders of the Company			(50,159)
To minority shareholders in subsidiaries			(400)
Short-term credit from banks and others – net	(1,010)	*(34,155)	(50,681)
Net cash used in financing activities	(11,292)	(49,889)	(207,974)
ADJUSTMENTS FROM TRANSLATION OF BALANCES OF CASH AND CASH EQUIVALENTS OF CERTAIN NON-ISRAELI SUBSIDIARIES	(8)	(200)	(50)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	19,409	2,764	(2,681)
BALANCE OF CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	15,566	18,247	18,247
BALANCE OF CASH AND CASH EQUIVALENTS AT END OF PERIOD	34,975	21,011	15,566

ISRAEL CHEMICALS LIMITED

(An Israeli Corporation)

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE 3 MONTH PERIOD ENDED MARCH 31, 2002

TRANSLATED INTO U.S. DOLLARS (b)

	3 months ended March 31		Year ended December 31,
	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	(1,035)	(2,266)	(63,196)
Associated companies - Share in losses - net	92	86	373
Depreciation and amortization	40,311	42,518	173,208
Deferred income taxes - net	3,326	(1,029)	(45,558)
Liability for employee rights upon retirement - net	(1,675)	4,985	10,953
Capital losses (gains) on:			
Sale of fixed assets	245	20	(2,410)
Sale of share in associated company		(4,538)	(4,493)
Impairment of long term investments	748		
Write down of production facilities			211,059
Interest and linkage differences (erosion of principal) of long-term loans and other long-term liabilities - net	74	58	(2,674)
Erosion of principal of long-term deposits and receivables - net	704	896	1,502
Losses from marketable securities	901	563	462
	43,691	41,293	279,226
Changes in operating asset and liability items:			
Decrease (increase) in accounts receivable:			
Trade	(11,926)	*18,074	100,123
Other	(4,674)	(10,265)	(2,270)
Decrease in accounts payable and accruals:			
Suppliers and contractors	(3,108)	(9,884)	(27,054)
Other	(13,921)	(6,777)	(14,706)
Decrease (increase) in inventories	29,494	(4,251)	(106)
	(4,135)	(13,103)	55,987
	39,556	28,190	335,213

(ii) See note 1b

(c) Supplementary information on activity not involving cash flows

On April 28, 2002, the Company's Board of Directors decided to distribute cash dividends in the amount of U.S. $ 26,000,000 (net dividend, after deduction of dividend to subsidiary, is U.S $ 25,729,000), see note 6c.

*Reclassified

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

ISRAEL CHEMICALS LIMITED

(An Israeli Corporation)

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE 3 MONTH PERIOD ENDED MARCH 31, 2002

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

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 March 31, 2002 and for the three month period then ended ("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 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 on March 31, 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 March 31, 2002 - $ 1 = NIS 4.668.

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**
	%	**%**
3 months ended March 31:		
2002	5.7	2.4
2001	3.7	(0.5)
Year ended December 31, 2001	9.3	1.4

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	98

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

NOTE 2 - SUBSIDIARIES (continued):

b. Acquisition of Cleveland Potash Ltd. ("Cleveland")

On April 30, 2002, a subsidiary completed the purchase of the entire shares capital of Cleveland , a British company that is engaged in the mining and production of potash, from Anglo American PLC group (UK). The price, which was determined in the agreement dated November 29, 2001, is $ 45 million, subject to adjustments that have not yet been completed to date of the financial statements. In these financial statements, only the amounts paid during the due diligence, aggregating approximately $1.3 million have been reflected.

NOTE 3 - CONCESSION AND CONTINGENT LIABILITIES:

a. Concession

The subsidiary of the company, Rotem Amfert Negev Ltd., operates under mining concessions and permits granted by the Minister of National Infrastructure and the Israel Lands Administration, which expire in 2005. At the end of April 2002, the subsidiary's mining concession for the Zafir (Oron-Zin) site was extended until 2021. The extension is conditional upon obtaining an extension of the permit from the Israel Lands Administration for the same period - which is currently underway. In addition, the company has received another mining concession, for a period of 12 years, with respect to the Effe field. This concession, too, is conditional upon obtaining a permit for the same period from the Israel Lands Administration - which is currently underway. 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. The subsidiary is required by law to pay the State royalties, computed at a fixed rate for each ton of finished product. The subsidiary is currently negotiating with the State authorities the update of the amount of royalties payable.

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).

NOTE 3 - CONCESSION AND CONTINGENT LIABILITIES (continued):

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. 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. Although they were not direct parties to said agreements, the Bromine Companies are included in many of 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.

The Bromine Group Companies claim absence of liability and lack of jurisdiction of the courts hearing the claims in their case.
The Bromine Group estimate that the quantities of chemicals supplied thereby is 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. In September 2002, the hearing of the testimonies in this claim would be scheduled.

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. A compromise to settle the claim was reached between the defendants and the plaintiffs' representatives, and the court in the United States approved this on March 14, 2002, making the approval unappealable. The amounts paid in to settle the claim were charged against income in 2000.

NOTE 3 - CONCESSION AND CONTINGENT LIABILITIES (continued):

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) 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 rights that Contrack claims with respect to the dredge. The Court ruled that DSW had infringed the patent. An appeal, which is still pending to date, was submitted to the Supreme Court with respect to this ruling.

Concurrent with the appeal and based on said ruling, 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. 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.

In the opinion of DSW’s management, which is based on the opinion of its legal counsel, there is a reasonable chance that the appeal submitted by DSW regarding the ruling of Tel Aviv District Court would be accepted. Accordingly, no provision was included in the financial statements in respect of this claim. Nevertheless, as the decision on the appeal is at the hands of the Court and since the appeal is in its early stages, the outcome of this claim and its impact on DSW cannot be estimated with certainty.

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. In 2000, The German company included a provision of $ 1.6 million in its accounts in respect of this agreement, based on its estimated share in the anticipated expenses.

NOTE 3 - CONCESSION AND CONTINGENT LIABILITIES (continued):

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.

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

iv) 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.

NOTE 3 - CONCESSION AND CONTINGENT LIABILITIES (continued):

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 accordance with the provisions of Spanish laws relating to environmental quality, in respect of land affected by mining activity, two subsidiaries of DSW have submitted plans for removing waste and rehabilitating the mining waste site. The plan is expected to last for 24 years and 36 years, respectively, for each of those companies. Based on evaluations made by those companies, and considering the quantity of waste currently remaining to be removed, a provision of approximately $ 2.6 million has been made for this matter.

f) 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.

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

1) On June 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 $ 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.

NOTE 3 - CONCESSION AND CONTINGENT LIABILITIES (continued):

g) 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 "Effe 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 "Effe 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.

To date of the approval of the financial statements, responses to the appeal have not yet been submitted and a ruling with respect thereto is yet to be issued. 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 subsidiary of the Company has expressed its willingness to purchase the water from the "Effe 13" bore.

As the reliefs required under the appeal 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

In January 3, 2002, the Chief Executive Officer and the Chairman of the Board of Directors of the Company exercised options to1.4 million and 1 million Company's shares, respectively.

In March 26, 2002, an employee of the company exercised options to100,000 Company's shares.

NOTE 5 - TAXES

The rate of tax relative to the pre-tax net income in the three months ended March 31, 2002, is lower than the theoretical tax rate applicable to the Company. The low rate is due mainly to the inclusion during the first quarter of income in respect of deferred taxes created for tax losses and other timing differences accumulated in prior years by a subsidiary which, according to the Company's latest evaluation, are now likely to be utilized in future years; another reason for the low rate is the effect of the devaluation (in real terms) in the rate of exchange of Israeli currency against the dollar, which caused a decrease in the tax expenses.

NOTE 6 - RECENTLY ISSUED ACCOUNTING PRONOUNCMENTS

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.
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.

3) In May 2001, the Israel Accounting Standards Board (hereafter - the IASB) issued Israel Accounting Standard ("IAS") No. 7 - Subsequent Events, which is effective and is to be applied to financial statements prepared as of December 31, 2001. In accordance with this standard, the liability relating to dividends that are proposed or declared subsequent to balance sheet date will only be included in the accounts for the period in which the declaration was made.

This pronouncement is not consistent with the Israeli Securities (Preparation of Annual Financial Statements) Regulations, 1993 that have yet to be amended with regard to this matter; for this reason, the company does not apply the provisions of the standard and presents the dividend that was declared subsequent to March 31, 2002 under Current liabilities.