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

Directors Report on the State of the Company's Affairs for the period ended 31.03.2002

1. Description of the Company and its Business Environment

1.1 Description of the Company

Israel Chemicals Group ("ICL Group" or "the Group") is a multinational group operating through companies held by the parent company – Israel Chemicals Ltd. ("ICL" or "the Company"), mainly in fertilizers and chemicals of various types.

ICL Group's Israeli operations are based mainly on the exploitation of the natural resources in the Dead Sea - potash, bromine, salt, magnesium; and in the Negev Desert - phosphates and limestone. ICL Group mines these natural resources (under concessions from the State of Israel), markets them worldwide, and develops, produces and markets downstream products based on these raw materials.

Israel is the center of ICL Group's operations. Additional manufacturing subsidiaries operate in the United States, Germany, France, Spain, China, the Netherlands and England[1]. In addition to the manufacturing companies, ICL Group holds an array of service companies active in marketing, logistics and R&D.

The overseas companies of ICL Group are involved mainly in the manufacture of products which integrate with or are closely related to the operations of the companies in Israel. About 60% of production is carried out in Israel and the remainder abroad. About 90% of ICL's products are sold abroad, thereby generating foreign currency revenues. ICL is not dependent on any customer or supplier or sources of raw materials which are not included in the concessions granted to ICL and its companies.

The Israel Corporation Ltd. ("the Israel Corporation") holds 52.83% of ICL's share capital. The Ofer Brothers Group is the controlling shareholder in the Israel Corporation.

1.2 Business Environment and Profitability

ICL Group is a multinational company. Its business results are influenced both by global economic trends and by changes in trade terms.

The demand for the Group's products is influenced by the demand for basic agricultural products (fertilizers and pesticides) and by the economic situation in developed countries (chemicals).

The sales of ICL Group are made in foreign currency, mainly US dollars. Approximately one quarter of its expenses for inputs are in shekels. Consequently, a real devaluation or appreciation in the average dollar-shekel currency rate affects the Company's operating profit. Changes in the dollar exchange rate against European currencies also affect operating results, financing expenses and the income tax expense item.

During the report period, ICL Group was hurt by the global economic slowdown, the recession in activities in the electronics and telecommunications markets, the continuing weakening of the magnesium and fertilizer markets, and the strengthening of the dollar against the euro and the yen.

[1] The UK operation is as of May 1st, 2002.

Conversely, the Group benefited from the devaluation of the shekel against the dollar, the moderate decrease in the prices of energy and marine transportation rates, as well as the falling dollar interest rate.

Competition in some of ICL's markets caused a fall in prices during the report period, particularly in the markets for magnesium metal and fertilizers, some magnesium products and flame retardants. ICL Group is taking steps to reduce these influences, both by adapting its marketing policy and by implementing savings and efficiency measures.

1.3 Organizational focusing and efficiency measures

As part of its strategy, ICL is in the midst of an organizational initiative which will lead to focused management in the various areas of activity, full utilization of synergies in the Group, and increase the efficiency of the various business units and the savings in operating costs.

During the report period, ICL continued its organizational preparation for grouping activities according to the segments in which the company operates, and management according to those segments. Thus, ICL is acting to define business divisions, among them ICL Fertilizers.

As part of this initiative:

1.3.1 ICL Fertilizers is being established as a framework within which all activities in the fertilizer segment of the Group, in Israel and abroad, will be concentrated. This includes potash, phosphates and fertilizers.

To achieve this new framework, the following actions were taken:

* The managements and some activities of the headquarters activities of the subsidiaries Rotem Amfert Negev Ltd. (“Rotem”) and Dead Sea Works Ltd. (“DSW”), were unified.
* The marketing and logistics networks for fertilizers in Israel and worldwide were unified.
* All the shares of the wholly-owned subsidiary Fertilizers & Chemicals Ltd. (“Fertilizers”) were sold to the subsidiary Rotem Amfert Negev.
* Business units of Fertilizers which are not in the fertilizer segment are being put under the direction of the Bromine Group.
* Holdings in companies outside Israel are being re-organized.
* An organizational framework is being established in Europe (ICL Fertilizers Europe), for concentrating the activities of the fertilizers segment on that continent.

1.3.2 In the Puriphos business unit (which manufactures and markets Food grade and technical grade white phosphoric acid [see also Section 3.2 below]), BK Giulini now bears overall responsibility (including decisions on sales and marketing, investments, production policy, etc.), while maintenance of facilities and installations will be part of the activities of Rotem Amfert Negev.

1.3.3 At the time of writing this report, a savings and efficiency drive for Dead Sea Periclase Ltd. ("Periclase") is being examined, in which its activities will be carried out in a separate business unit of the Bromine Group, in an attempt to optimise and increase the efficiency of production lines and focus on profitable operations. The operation and maintenance of the facilities will become part of the activities of Rotem – in view of the physical proximity of the two companies. This step is still being investigated and analysed, in consultation with the workers' committee.

1.3.4 A review is being made of the best way to coordinate the marketing and other activities which it is useful to concentrate of the Spanish company Iberpotash and Cleveland Potash in England, under the new framework of ICL Fertilizers Europe.

2. Results of Operations

2.1 Principal Financial Results

Below is a summary of the results of operations in the period under review as compared with the corresponding period last year, in millions of NIS and millions of dollars:

NIS	***1-3/2002**		***1-3/2001**		**2001**	
	NIS millions	**% of sales**	**NIS millions**	**% of sales**	**NIS millions**	**% of sales**
Sales CIF*	2,075.4	100.0	2,215.8	100.0	8,876.8	100.0
Gross profit*	612.3	29.5	700.3	31.6	2,740.6	31.6
Operating profit	172.3	8.3	198.0	8.9	748.5	8.6
Pre-tax profit	106.8	5.2	75.5	3.4	(645.3)	(7.4)
Net profit	93.8	4.5	84.7	3.8	(197.8)	(2.3)
Cash flow from current operations	278.4		216.3		1,367.0	
Investments Acquisition of consolidated companies	0.0		0.0		31.7	
Fixed assets less grants	172.1		146.6		568.6	
Total	**172.1**		**146.6**		**600.3**	

* Starting from 31.12.01 shipping expenses are presented under the Selling expenses item. In preceding years they were presented partially in Sales and partially in Cost of sales. The data for preceding years have been reclassified.

$	*1-3/2002		*1-3/2001		2001	
	$ millions	**% of sales**	**$ millions**	**% of sales**	**$ millions**	**% of sales**
Sales CIF*	444.6	100.0	474.7	100.0	1,858.8	100.0
Gross profit*	131.2	29.5	150.0	31.6	587.1	31.6
Operating profit	36.9	8.3	42.4	8.9	160.4	8.6
Pre-tax profit	22.9	5.2	16.2	3.4	(138.2)	(7.4)
Net profit	20.1	4.5	18.2	3.8	(42.4)	(2.3)
Cash flow from current operations	59.6		46.3		292.8	
Investments Acquisition of consolidated companies	0.0		0.0		6.8	
Fixed assets less grants	36.9		31.4		121.8	
Total	**36.9**		**31.4**		**128.6**	

* Starting from 31.12.01, shipping expenses are presented under the Selling expenses item. In preceding years they were presented partially in Sales and partially in Cost of sales. The data for preceding years have been reclassified.

2.2 Results of Operations for the Period January – March 2002

Sales

Sales of ICL Group in the report period amounted to NIS 2,075.4 million ($444.6 million), compared with NIS 2,215.8 million ($474.7 million) last year, a decrease of approximately NIS 140.4 million ($30.1 million) or 6.3%.

The decrease in the Group's sales reflects mainly a decrease in prices, due in part to exchange rates of non-dollar currencies against the dollar in principal destination markets, as well as smaller quantities sold of some of the Group's products.

As a result of the factors mentioned, the Group’s sales decreased by about NIS 140.4 million ($30.1 million) compared with last year.

Below is a breakdown of sales by geographical markets:

Sales CIF	1-3/2002		1-3/2001		2001	
	$ millions	**%**	**$ millions**	**%**	**$ millions**	**%**
Israel	38.6	8.7	38.2	8.0	159.0	8.5
North America	61.9	13.9	75.3	15.9	268.9	14.5
Latin America	24.0	5.4	22.8	4.8	202.0	10.9
Europe	218.0	49.0	224.0.	47.2	777.4	41.8
Asia	78.1	17.6	95.4	20.1	383.6	20.6
Rest of the world	24.0	5.4	19.0	4.0	67.9	3.7
Total	444.6	100.0	474.7	100.0	1,858.8	100.0

The breakdown of sales in the report period shows an increase in the proportional part of sales in Europe and Latin America at the expense of North America and Asia. The increase is attributed to relative stability in income from sales of fertilizers and specialty chemicals in Europe and a slight increase in sales of fertilizers in Latin America. Conversely, sales of bromine products in North America decreased slightly, against a background of the economic slowdown, and sales of fertilizers in China and India were lower.

Gross Profit

Gross profit amounted to NIS 612.3 million ($131.2 million), a decrease of 12.6% compared with last year. Gross profit margin out of sales turnover (CIF) decreased from 31.6% to about 29.5%. The decrease in the margin derives from the aforementioned decrease in income, smaller quantities produced of some products, and the sale of relatively high-cost stocks. The decrease was partially offset by the devaluation of the shekel against the dollar, which contributed to the erosion of labor costs and other shekel costs in dollar terms, and the decrease in the expenses of the European companies in dollar terms due to the devaluation of the euro. In addition, the decrease in the prices of energy and sulfur reduced the cost of goods sold. The devaluation is not fully reflected in the report period, both because of hedging activities and because some of the benefits of the devaluation are incorporated in the decrease of the cost of stocks.

Sales and Marketing Expenses

Expenses amounted to approximately NIS 331.0 million ($70.9 million), a decrease of about 8.0% compared with last year. The decrease in expenses stems primarily from the decrease in quantities sold of some products, the erosion of shekel costs, and from efficiency measures.

General and Administrative Expenses

Expenses totaled NIS 79.4 million ($17.0 million), a decrease of about 23.2% compared with last year. As a result, the percentage of expenses in the report period decreased from 4.7% of turnover to 3.8%. The decrease is derived mainly from a decrease in the expenses of the subsidiaries as part of the efficiency and reorganizing processes, and from the effects of the strengthening of the dollar against the shekel and the euro.

Research and Development Expenses

R&D expenses (net of grants from the Chief Scientist) amounted to NIS 29.6 million ($6.3 million), a decrease of about 2.1 million dollars compared with last year. Most of the decrease resulted from efficiency and savings measures at IMI, the Company's R&D institute.

Operating Income

Operating income decreased by some 13.0% compared with last year, reaching approximately NIS 172.3 million ($36.9 million). Operating income as a percentage of turnover decreased from about 8.9% last year to 8.3% this year. The erosion in operating income derives mainly from the decrease in gross profit, which was offset by a decrease of about $13 million in operating expenses.

Savings achieved as a result of the Group's efficiency measures are estimated at about 10 million dollars compared with the same period last year.

Financing Expenses

Financing expenses amounted to NIS 59.2 million ($12.7 million), compared with NIS 131.3 million ($28.1 million) last year.

The decrease in financing expenses compared with the corresponding period last year is derived mainly from the average dollar-interest rate during the period, which was 2.5% lower than last year (weighted average interest of loans at fixed and variable interest rates), and from the decrease in the average balance of liabilities by about $180 million.

Taxes

The effective tax rate in the report period and in the corresponding period last year is lower than the tax rate applicable to the Group, mainly because of taking into account some deferred taxes in respect of losses for tax purposes in previous years, based upon the Group's assessment that it will utilize these losses in the future.

Net Profit

Net profit amounted to NIS 93.8 million ($20.1 million), compared with a net profit of NIS 84.7 million ($18.2 million) in the same period last year.

3. Segments of Operation

Below are sales and operating income data by segment of operation:

Sales CIF	1-3/2002		1-3/2001		2001	
by segment	$ millions	% of total sales	$ millions	% of total sales	$ millions	% of total sales
Fertilizers	187.8	42.3	193.4	40.8	774.6	41.7
Specialty chemicals	145.8	32.8	155.4	32.7	584.8	31.5
Bromine and bromine compounds	88.1	19.8	97.3	20.5	397.3	21.4
Metallurgy	15.7	3.5	21.7	4.6	67.2	3.6
Other	7.2	1.6	6.8	1.4	34.9	1.8
Total	444.6	100.0	474.7	100.0	1,858.8	100.0

Operating income	1-3/2002		1-3/2001		2001	
by segment	$ millions	% of total sales	$ millions	% of total sales	$ millions	% of total sales
Fertilizers	29.1	15.5	27.4	14.2	113.4	14.6

Specialty chemicals	11.3	7.8	10.0	6.4	37.3	6.4
Bromine and bromine compounds	(1.2)	-	11.3	11.6	41.4	10.4
Metallurgy	(3.7)	-	(5.6)	-	(28.2)	-
Other	1.4	19.8	(0.7)	-	(3.5)	-
Operating income (consolidated)	36.9	8.3	42.4	8.9	160.4	8.6

3.1 Fertilizers

Sales

The volume of operations in the segment in the first quarter of 2002 amounted to NIS 876.6 million ($187.8 million), a decrease of approximately 2.9% compared with last year. The decrease in sales turnover arises mainly from the lower prices in the Company's main markets, which is partially explained by erosion of the euro against the dollar, a different mix of products and a different geographical distribution.

Sales*

Thousands of tons	1-3/2002	1-3/2001	2001
Potash	800	806	3,396
Phosphate rock	212	231	853
Fertilizers	426	375	1,424

* To external customers (net of sales to Group companies).

Income (CIF) for the period from sales of potash (from Sdom and Spain, to external customers) amount to $89 million, about 7% less than last year. The balance of the income is from sales in Israel and abroad of phosphate rock (as a raw material and for direct fertilization), fertilizers (including phosphate fertilizers, as well as compound fertilizers and fully soluble fertilizers), which contain different proportions of nitrogen, phosphorus and potassium), and phosphoric acid, which is used as a raw material in the production of fertilizers ("green acid").

The decrease in sales of potash stems partially from the postponement of shipments to Asian markets (the Chinese new year and Moslem holidays), as well as a slight decrease in the average price, due in part to a different mix of sales and erosion of the euro against the dollar. An increase in quantities of phosphate fertilizers sold in Europe and Australia was recorded, but the ongoing weakening in the European market was reflected in relatively low prices for some products in this market.

We note that the prices of some of the phosphate products are stabilizing, and some have /even shown signs of recovery since the end of 2001.

Production

Thousands of tons	1-3/2002	1-3/2001	2001
Potash	989	1,001	3,742
Phosphate rock (washed)	909	685	2,798

The slight decrease in potash production for the period is the result of the decrease in Spain, offset in part by record quantities at the Group's plants in Sdom following improvement in the production system. The decrease in Spain is mainly due to current problems of infrastructure, equipment availability and manpower limitations. The sharp increase in production of phosphate rock follows the return to regular production after implementation of a policy of reducing stocks last year, which necessitated a reduction in production levels.

ICL's subsidiary Rotem Amfert Negev ("Rotem") operates by virtue of mining concessions and licenses granted by the Minster of National Infrastructures and Israel Lands Administration ("ILA"). These concessions and licenses are due to expire in 2005. Rotem has obtained an extension of the mining concession for the Zafir area (Oron – Zin) until 2021. The extension is contingent upon extension of the license from ILA for a concurrent period, a matter which is now being attended to. Rotem also received a new mining concession for the Ef'ah area, for 12 years, also contingent upon license from ILA, and this matter too is being dealt with. The present mining concession allows the company to mine phosphate rock ores, phosphate lime and minerals combined with phosphate layers, and to exploit them for manufacture and marketing. The new concessions grant Rotem rights with regard to natural phosphorite. By law, the company must pay royalties to the State at a fixed rate per ton of finished product.

Brine percolation exists at one of the dikes of the evaporation ponds at the Dead Sea, owned by DSW. After consultation with international experts, DSW has taken and is taking various maintenance actions to preserve the stability of the dikes. As at the date of this report, experts are of the opinion that there is no material threat to the stability of the dikes.

Operating income

Operating profit in the segment amounted to NIS 136.0 million ($29.1 million), an increase of about 6.2% compared with last year. The margin on sales came to about 15.5%, compared with 14.2% last year. This improvement, despite the decrease in income described above, derives mainly from lower cost of wages (in dollar terms), sulfur and energy and the increase in potash production in Sdom. In contrast, the adverse effect of smaller production quantities at Iberpotash should be noted

3.2 Specialty Chemicals

Sales

Sales in this segment, which includes a wide range of products, amounted to approximately NIS 680.8 million ($145.8 million), a decrease of about 6.2% compared with last year. The slowdown in the global economy adversely affected sales in the segment, including sales of most of these products in and outside Europe. Also noteworthy is the decrease in sales of magnesia products (particularly to the refractory market) and biocides for water treatment, due to decreased demand which affected prices. Conversely, sales of food grade phosphoric acid ("white acid") increased, along with a modest increase in price.

Operating Income

Operating income in the segment amounted to NIS 52.9 million ($11.3 million), about 13.5% higher than last year. The margin was about 7.8%, compared with 6.4% last year.

The increase in the margin stems primarily improvements in efficiency and operations in activities of the chemicals manufactured in Europe and of white acid, which was offset by a decrease in the margin in magnesia and biocide operations.

Expansion of white acid production capacity:

The business unit Puriphos produces white phosphoric acid, of a quality allowing it to be used for food and technical applications. A substantial part of the acid is used for various downstream products in ICL companies and the remainder is sold to the food industry, the cleaning products industry, for metal treatment, etc. The business unit's production facilities are located in the Rotem Amfert Negev plant at Mishor Rotem. In April 2002, the division completed the expansion of production capacity and began the running-in of the expanded plant. With the completion of the project, the white acid production capacity will increase from about 120 thousand tons P_2O_5 per year to about 180 thousand tons P_2O_5 per year.

3.3 Bromine and its Compounds

Sales

The scope of operations in this segment in the report period amounted to approximately NIS 411.3 million ($88.1 million), a decrease of 9.5% compared with last year. The decrease in income is derived mainly from erosion of selling prices and from smaller quantities sold and a change in the composition of the product basket.

Income from sales of flame retardants was similar to last year as a result of recovery in demand, which led to sales of larger quantities sold of leading products, but were offset by a decrease in the selling price along with more intense competition in the destination markets, and erosion of euro and yen exchange rates against the dollar. The increase in sales is the direct result of greater demand by plastics manufacturers for the electronics, computers and telecommunications industries, which are dependent on the trend towards recovery in the global economy.

Income from sales of industrial products decreased compared with last year by about 16%. The decrease is derived mainly from decreased sales to the oil drilling market (fewer drilling starts), and the generally lower prices of elementary bromine. Demand in this segment depends on the oil market and prices, and is derived from the number of new oil and gas operations, especially in Mexico Bay and the North Sea.

In agricultural products, turnover decreased by about 24% compared with last year. The decrease derived mainly from a quantity decrease in sales of methyl bromide and from a change in the mix of sales with the gradual penetration of substitute products. It should be borne in mind that last year, sales in the first quarter were influenced by increased demand for methyl bromide by farmers seeking to built up stocks before the second stage of reduced sales to developed countries took effect pursuant to the Montreal Protocol, which distorted the typical seasonality of sales of this product.

The Montreal Protocol:

Under the accord known as the "Montreal Protocol", to which Israel is a signatory, developed countries will gradually reduce the manufacture and consumption of methyl bromide for soil fumigation to zero by the year 2005. The volume of sales in the report period to which the ban will apply in 2005, amounts to approximately $5.2 million, with an operating income of approximately $0.5 million. Sales of methyl bromide for soil fumigation to "developing countries" are expected to continue until 2015.

Methyl bromide has other uses apart from soil fumigation, such as pre-shipment treatment or quarantine, as a raw material or intermediate material for the manufacture of another material or product (feedstock), and is also used in recycling and reuse. These uses are not within the purview of the Montreal Protocol. Sales turnover in the agricultural segment of Dead Sea Bromine Company in the report period for uses and customers to which, as far as is known today, the ban will not apply in 2005, is approximately $7.9 million. The operating income in respect of these sales was about $0.9 million.

The Company's strategy is to remain in the soil fumigation field after the ban on use of methyl bromide for that use. Accordingly, for the past two years, efforts have been invested in the development, licensing and marketing of new applications for other products and alternatives to methyl bromide in this important market. As a result of this strategy, long-term agreements have been signed with BASF and Dow Agrosciences (DAS) for the distribution of two main substitutes for methyl bromide – Basamide, produced by BASF, and Telon produced by DAS.

Operating Income

The operating loss in the segment for the report period amounted to approximately NIS 5.6 million ($1.2 million), compared with a profit of about NIS 52.7 million ($11.3 million) last year.

The decrease in the margin derived mainly from a drop in the prices of flame retardants, from smaller quantities of industrial and agricultural products sold, and from reduced production while selling off relatively high-cost stocks. Conversely, positive influences were efficiency measures, which contributed to the reduction of overhead, and the strengthening of the dollar against the shekel.

3.4 Metallurgy

Sales

Sales turnover in the segment amounted to approximately NIS 73.1 million ($15.7 million), a decrease of approximately 27.9% compared with last year.

The decrease in sales of magnesium is derived from price erosion due to increased competition in the market, mainly due to sales at low prices by Chinese manufacturers. In addition, income was adversely affected by the worldwide slowdown in the aluminium and automotive industries, by the change in the mix of sales and by erosion of the euro against the dollar.

Operating Income

The operating loss in the segment amounted to approximately NIS 17.5 million ($3.7 million) compared with a loss of NIS 25.9 million ($5.6 million) last year.

The decrease in the operating loss derives from improvements in the current operation of the production system, and from a decrease of about $2 million in depreciation due to impairment of the Company's assets in the fourth quarter of 2001.

4. The Group's financial position

4.1 Assets and Liabilities

Net financial liabilities at the end of the quarter amounted to approximately NIS 5,621.7 million ($1,204.3 million), compared with NIS 5,809.3 million ($1,244.5 million) at the end of 2001, a decrease of approximately NIS 187.7 million ($40.2 million).

The decrease in the debt balance since the beginning of the year is derived from the free cash flow of the Group's companies, and from receipt of approximately NIS 37.0 million ($8.0 million) in consideration of the sale of land in Raanana.

4.2 Sources of finance

ICL Group's sources of external financing are primarily short-term and long-term credit from Israeli and international banks. During the report period, the long-term loan balance decreased by $57.1million, while short-term credit decreased by about $42.0 million.

4.3 Cash flow

The cash flow of ICL from current operations during the first quarter amounted to approximately NIS 278.4 million ($59.6 million), compared with NIS 216.3 million ($46.3 million) last year, an increase of NIS 62.1 million ($13.3 million)..

The cash flow from current operations and the income of NIS 37.0 million ($8.0 million) from sale of land in Raanana, were the principal sources of finance for investments in fixed assets, and for the decrease in the net financial liabilities of the Group.

5. Investments

In the report period, investments in fixed assets net of investment grants amounted to approximately NIS 172.1 million ($36.9 million), compared with investments (net of grants) of NIS 146.6 ($31.4 million) last year.

6. Human Resources

The total number of employees at ICL Group as of March 31, 2002 is 7,858, compared with 8,110 on March 31, 2001.

7. Report on Exposure to Market Risks and their Management

No significant change occurred during the report period compared with the Directors' Report of December 31, 2001.

8. Events during the period

8.1 In February 2000, a civil class action was filed in the U.S. against a subsidiary of Dead Sea Bromine, in which a claim for compensation was made based on an alleged violation of the anti-trust laws of the U.S. A settlement agreement was reached between the attorneys for the plaintiff and the defendants to dismiss the claim. The settlement was approved by the U.S. court on March 14, 2002, and became final and non-appealable. The amounts paid to settle the claim were included as expenses in the year 2000.

In 1999, one of the main competitors of Dead Sea Bromine ("DSB") notified DSB that it as cooperating with the European Union's anti-trust authorities in relation to an investigation concerning similar claims. As at the date of this report, DSB is unable to estimate the effects of this event on its business results, if any, due to the uncertainly as to its possible outcome, and therefore, no provision was made in the financial statements for this event.

8.2 Following an application of the Antitrust Authority in Israel to ICL in September 1999, in which the Authority gave notice of its intention to update the Commissioner's announcements naming ICL as a monopoly in products in which its subsidiaries were declared a monopoly, the Company is in contact with the Authority in connection with the announcement, its content and conditions.

8.3 Contrack-Line Ltd. ("Contrackline") filed a claim in the Tel Aviv District Court against the subsidiary Dead Sea Works Ltd. ("DSW"), and against others, the main cause of which was violation of its patent, which concerns a dredge that crushes the salt mushrooms in the evaporation ponds of DSW , and prejudice of other rights of the plaintiffs relating to the dredge.

The court ruled that DSW had violated the patent. The appeal in the Supreme Court against that decision is still pending.

Concurrently with the appeal and based on the above decision, Contrackline filed a financial claim against DSW in the District Court, for US $51 million in respect of the loss/damage it sustained. Contrackline requested exemption from the court fee which it was required to pay, and the Court allowed Contrackline to pay a symbolic court fee of NIS 10,000 for the amount of the claim of up to $20 million.

In the opinion of the management of DSW, based on the opinion of its legal advisers, there is a good chance that the appeal to the Supreme Court will be allowed. Accordingly, the company has no made a provision in its financial statements for these proceedings. Since the appeal is still pending, the outcome and implications of the proceedings cannot be estimated.

8.4 The subsidiary I.D.E. Technologies Ltd. ("IDE"), together with others, won a tender published by the Government of Israel for the installation and operation (by the BOT method) of a desalination plant in Ashkelon ("the Tender"). The Tender is for the desalination of 50 million cubic meters of water per year over a period of about 24 years. After winning the Tender, the State announced that it wishes to double the quantity of desalinated water to be supplied, to 100 million cubic meters per year, and on April 28, 2002 an agreement on this matter was signed between the State and the group. The group in which IDE is a member for the purpose of the Tender, also includes the French company Vivendi Water, and Dankner Elran Ltd. IDE's share in the group is 50%, while the other two companies hold 25% each.

8.5 On May 29, 2001 a class action was filed against Fertilizers and others, pursuant to the Abatement of Environmental Nuisances Law (Civil actions), 5752-1992, alleging that the defendants were polluting the Kishon stream. The plaintiffs requested that the court instruct the defendants to cease spilling effluents into the Kishon and restore the stream to its former condition.

On June 13, 2001 and on May 22, 2002, a claim for NIS 110 million (approximately $24 million dollars) was filed against Fertilizers and numerous other entities, for discharging effluents into the Kishon stream, which the plaintiffs allege has caused the cancer from which they suffer. These claims are added to others, including against Fertilizers, for bodily harm and financial losses allegedly sustained by the plaintiffs as a result of pollution of the Kishon, for which it is alleged that the defendants, including Fertilziers, are liable.

In the opinion of the management of Fertilizers, which is based on the advice of the legal advisers who are handling the claim, the outcome of the claim cannot yet be estimated, and therefore no provision was made in the financial statements.

8.6 On November 29, 2001 a subsidiary acquired for the fertilizers segment of ICL, the entire share capital of the British company Cleveland Potash Ltd. ("CPL"). The closing was on April 30, 2002, and ownership of CPL's shares was transferred. The acquisition price under the agreement was $45 million, subject to adjustments which have not yet been completed.

8.7 During 2001, the Dutch Ministry for the Environment and two "green" organizations filed an application in the Administrative Court in Holland to suspend and revoke a manufacturing permit which was granted to one of the companies in ICL Group for a flame retardant (FR 720). The court suspended the manufacturing permit by an injunction, until a final decision on the application is made. During the report period, the Dutch Minister for the Environment signed an order which prohibits the manufacture, use and import of the product in Holland. The company applied for cancellation of the order. The management of the company believes that these proceedings will not have a material effect on the company's business results.

8.8 Following deterioration in the global insurance market in general, and reduction of the insurance capacity in particular, the Company was able to obtain property insurance against earthquake at $400 million any one event – which is the maximum cover attainable as at the date of this report for property in Israel. Experts estimate that the maximum probable loss in case in the event of an earthquake will be $700 million.

CPL, recently acquired by ICL Group, decided not to purchase insurance for damage to underground property at this stage, as the company believes that the cost of the premium for the cover on offer is unjustified. From inquiries the CPL made, a similar stance has been adopted by other companies of the same type around the world.

8.9 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 ICL, 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 managements of these 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' managements 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 ICL 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.

8.10 In the framework of its companies, ICL Group maintains internal systems for ensuring compliance with the provisions of relevant laws. It is made clear to company managers and position-holders that their managerial responsibilities include ensuring that the provisions of the law are observed in the subsidiary in which they work. These matters are also discussed regularly by the various managements and boards of directors. In each company and at each production site, a safety officer is appointed, who checks this compliance from time to time; an internal compliance plan has been prepared and operated for anti-trust issues, as well as for matters relating to securities; the subject of prevention of sexual harassment is also covered by a plan, which is overseen by a specially-appointed person. Management periodically attends short seminars on all these subjects, and the implementation of the provisions of the various law is monitored regularly

8.11 On March 24,2002, Mr. Joseph Lastigzon left his position as Vice-President of the Company.

9. Events after the balance-sheet date

9.1 On April 28, 2002 the Board of Directors of the Company decided to distribute a dividend in an amount equal to $26 million (approximately $25.72 million after a dividend payable to a subsidiary) which is equal, at the representative exchange rate on the date of payment, to approximately NIS 126.568 million. The dividend per share (rounded to four digits after the decimal point) will be 10.5473 agorot per share. The dividend was paid on May 22, 2002.

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

27.05.02
Date

(---)	(---)
Akiva Mozes	Yossi Rosen
CEO	Chairman of the Board