

**ISRAEL CHEMICALS LIMITED**

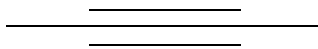
(An Israeli Corporation)

2001 ANNUAL REPORT

**ISRAEL CHEMICALS LIMITED**  
(An Israeli Corporation)  
2001 ANNUAL REPORT

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## **REPORT OF INDEPENDENT AUDITORS**

To the shareholders of

### **ISRAEL CHEMICALS LIMITED**

We have audited the primary consolidated financial statements of Israel Chemicals Limited (“the Company”) and its subsidiaries, expressed in New Israeli Shekels (“NIS”) adjusted to reflect the changes in the exchange rate of the U.S. dollar: balance sheet as of December 31, 2001 and 2000 and the statements of income, changes in shareholders’ equity and cash flows for each of the three years in the period ended December 31, 2001. These financial statements are the responsibility of the Company’s board of directors and management. Our responsibility is to express an opinion on these financial statements based on our audits.

We did not audit the financial statements of certain subsidiaries, whose assets as of December 31, 2001 and 2000 constitute approximately 49% and 68%, of total consolidated assets respectively, and whose income from sales for the years ended December 31, 2001, 2000 and 1999 constitutes approximately 57%, 81%, and 83%, respectively, of total consolidated sales. The financial statements of those companies were audited by other auditors, whose reports have been furnished to us. Likewise, we did not audit the financial statements of the associated companies (see note 4). Our opinion, insofar as it relates to amounts included for the foregoing companies, is based solely on the reports of the other auditors.

We conducted our audits in accordance with auditing standards generally accepted in Israel, including those prescribed by the Israeli Auditors (Mode of Performance) Regulations, 1973. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Company’s board of directors and management, as well as evaluating the overall financial statement presentation. We believe that our audits and reports of the other auditors provide a reasonable basis for our opinion.

In our opinion, based upon our audits and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company and its subsidiaries as of December 31, 2001, 2000 and the consolidated results of operations, changes in shareholders’ equity and cash flows for each of the three years in the period ended December 31, 2001, in conformity with accounting principles generally accepted in Israel. Also, in our opinion, the abovementioned financial statements have been prepared in accordance with the Securities (Preparation of Annual Financial Statements) Regulations, 1993.

Based on our audits and the reports of the other auditors, dated March 21, 2001 we rendered an unqualified opinion on the financial statements referred to above.

Without qualifying our opinion, we draw attention to the uncertainty relating to contingent liabilities of the Company and certain subsidiaries, as stated in note 11c to the consolidated financial statements. In respect to certain of these contingent liabilities, provisions have been included in the consolidated 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 the contingent liabilities the amount and ultimate outcome of which cannot be determined at this stage.

The accompanying financial statements are a translation into U.S. dollars, of the abovementioned primary financial statements, in accordance with the principles described in note 2b.

Tel-Aviv, Israel  
March 21, 2001

**ISRAEL CHEMICALS LIMITED**  
**CONSOLIDATED BALANCE SHEETS**

	<b>Note</b>	<b>December 31</b>	
		<b>2001</b>	<b>2000</b>
		<b>U.S. dollars in thousands</b>	
<b>A s s e t s</b>	14		
<b>CURRENT ASSETS:</b>	16		
Cash and cash equivalents	2r	15,566	18,247
Short-term investments, deposits and loans	15a	25,498	34,547
Accounts receivable:	15b		
Trade		354,366	*458,993
Other		171,615	200,721
Inventories	15c	491,605	492,071
T o t a l current assets		1,058,650	1,204,579
<b>INVESTMENTS AND LONG-TERM RECEIVABLES:</b>	16		
Associated companies	4a	6,467	10,857
Other companies	4b	52,151	51,037
Long-term deposits and receivables, net of current maturities	5	20,745	25,505
Minority interests in subsidiary		8,068	
		87,431	87,399
<b>FIXED ASSETS:</b>	6		
Cost		3,842,369	*3,972,120
L e s s - accumulated depreciation		2,201,658	2,059,264
		1,640,711	*1,912,856
<b>OTHER ASSETS AND DEFERRED CHARGES, net of accumulated amortization</b>	7, 2i	153,604	*156,711
		2,940,396	3,361,545

\* Reclassified.

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**Yossi Rosen**  
**Chairman of the Board**  
**of Directors**

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**Chaim Erez**  
**Director**

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**Akiva Mozes**  
**President and Chief**  
**Executive Officer**

Date of approval of the financial statements:  
March 21 2002

	<u>Note</u>	<u>December 31</u>	
		<u>2001</u>	<u>2000</u>
		<u>U.S. dollars in thousands</u>	
<b>Liabilities and shareholders' equity</b>			
<b>CURRENT LIABILITIES:</b>	14;16		
Short-term credit from banks and from others	8	535,160	*557,605
Accounts payable and accruals:			
Suppliers and contractors		176,902	208,615
Other	15d	226,821	243,936
T o t a l current liabilities		<u>938,883</u>	<u>1,010,156</u>
<b>LONG-TERM LIABILITIES:</b>			
Loans and other liabilities, net of current maturities:	9;14;16		
Debentures		4,070	8,934
Debentures convertible into shares		75,018	
Bank loans		765,620	980,317
		<u>844,708</u>	<u>989,251</u>
Deferred income taxes	13c	195,757	252,837
Liability for employee rights upon retirement, net of amounts funded	10	137,762	129,985
T o t a l long-term liabilities		<u>1,178,227</u>	<u>1,372,073</u>
<b>COMMITMENTS, CONCESSIONS AND CONTINGENT LIABILITIES</b>	11		
T o t a l liabilities		<u>2,117,110</u>	<u>2,382,229</u>
<b>MINORITY INTERESTS IN SUBSIDIARIES</b>			60,420
<b>SHAREHOLDERS' EQUITY</b>	12	823,286	918,896
		<u>2,940,396</u>	<u>3,361,545</u>

**The accompanying notes are an integral part of the financial statements.**

**ISRAEL CHEMICALS LIMITED**  
**CONSOLIDATED STATEMENTS OF INCOME**

	<u>Note</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>
<u>U.S. dollars in thousands</u> <u>(except per share data)</u>				
<b>SALES</b>	18e	1,858,781	*2,008,609	*2,033,879
<b>COST OF SALES</b>	15e	<u>1,271,669</u>	<u>*1,329,094</u>	<u>*1,301,361</u>
<b>GROSS PROFIT</b>		587,112	679,515	732,518
<b>RESEARCH AND DEVELOPMENT EXPENSES - net</b>	15f	32,453	33,959	38,821
<b>SELLING AND MARKETING EXPENSES</b>	15g	309,569	*335,926	*328,975
<b>GENERAL AND ADMINISTRATIVE EXPENSES</b>	15h	<u>84,734</u>	<u>89,427</u>	<u>99,377</u>
<b>OPERATING INCOME</b>		160,356	220,203	265,345
<b>FINANCIAL EXPENSES - net</b>	15i	<u>78,456</u>	<u>85,871</u>	<u>76,595</u>
		81,900	134,332	188,750
<b>OTHER INCOME (EXPENSE) - net</b>				
<b>WRITE DOWN OF MAGNESIUM</b>				
<b>PLANTS TO THEIR FAIR VALUE</b>	3a	(200,000)		
<b>OTHER</b>	15j	<u>(20,131)</u>	<u>7,062</u>	<u>4,607</u>
<b>INCOME (LOSS) BEFORE TAXES ON INCOME</b>		(138,231)	141,394	193,357
<b>TAXES ON INCOME</b>	13	<u>(33,033)</u>	<u>43,999</u>	<u>58,669</u>
<b>INCOME (LOSS) FROM OPERATIONS</b>		(105,198)	97,395	134,688
<b>SHARE IN PROFITS (LOSSES) OF ASSOCIATED</b>				
<b>COMPANIES - net</b>	4	(373)	366	699
<b>MINORITY SHARE IN LOSSES (PROFITS) OF</b>				
<b>SUBSIDIARIES - net</b>		<u>63,196</u>	<u>2,665</u>	<u>(10,157)</u>
<b>NET INCOME (LOSS)</b>		<u>(42,375)</u>	<u>100,426</u>	<u>125,230</u>
<b>EARNINGS PER SHARE</b>	2s	<u>(0.035)</u>	<u>0.084</u>	<u>0.104</u>
<b>NUMBER OF SHARES USED FOR THE PURPOSE</b>				
<b>OF COMPUTING PER SHARE DATA - in</b>				
thousands of shares		<u>1,200,000</u>	<u>1,201,438</u>	<u>1,201,072</u>

\* Reclassified.

**The accompanying notes are an integral part of the financial statements.**

**ISRAEL CHEMICALS LIMITED**

**CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**

	Share capital (note 12)	Capital surplus	Differences arising from translation of financial statements of subsidiaries	Retained earnings	Cost of Company shares held by A Subsidiary	Total
	U.S. dollars in thousands					
<b>BALANCE AT JANUARY 1,1999</b>	521,402		(3,927)	348,707		866,182
<b>CHANGES DURING 1999:</b>						
Net income				125,230		125,230
Dividend				(55,924)		(55,924)
Capital surplus arising from a transaction with a controlling shareholder, net of related income tax		1,110				1,110
Other			(11,248)			(11,248)
<b>BALANCE AT DECEMBER 31, 1999</b>	521,402	1,110	(15,175)	418,013		925,350
<b>CHANGES DURING 2000:</b>						
Net income				100,426		100,426
Dividend *				(83,215)		(83,215)
Cost of Company shares held by a subsidiary					(17,402)	(17,402)
Other			(6,263)			(6,263)
<b>BALANCE AT DECEMBER 31, 2000</b>	521,402	1,110	(21,438)	435,224	(17,402)	918,896
<b>CHANGES DURING 2001:</b>						
Loss				(42,375)		(42,375)
Dividend *				(50,159)		(50,159)
Other			(3,076)			(3,076)
<b>BALANCE AT DECEMBER 31, 2001</b>	<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 U.S. dollars 986 thousands and 632 thousands paid to a subsidiary during 2000 and 2001, respectively.

**The accompanying notes are an integral part of the financial statements.**



**ISRAEL CHEMICALS LIMITED**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	<u>2001</u>	<u>2000</u>	<u>1999</u>
	<u>U.S. dollars in thousands</u>		
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Net income	(42,375)	100,426	125,230
Adjustments required to reflect the cash flows from operating activities (a)	<u>335,213</u>	<u>190,519</u>	<u>232,855</u>
Net cash provided by operating activities	<u>292,838</u>	<u>290,945</u>	<u>358,085</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Purchase of fixed assets	(128,892)	(178,467)	(235,755)
Investment grants relating to fixed assets	7,077	13,882	39,832
Acquisition of a subsidiary consolidated for the first time	157		<sup>(b)</sup> (3,484)
Proceeds from disposal of investments in subsidiaries consolidated in the past (c)		19,035	30,571
Payment for companies acquired in a previous period			(7,071)
Acquisition of minority shares in subsidiaries	(6,788)	(220,187)	(16,192)
Investments in shares of associated companies and loans thereto - net	(1,847)	(10,034)	889
Proceeds from disposal of investment in associated company	6,928		376
Investments in marketable securities and long-term deposits	(4,675)	(5,680)	(6,356)
Decrease (increase) in short-term deposits and loans - net	5,428	(4,369)	189
Amounts carried to other assets and deferred charges	(4,765)	(6,912)	(6,856)
Refund of part of the consideration of acquisition of a subsidiary			3,541
Proceeds from sale of fixed assets	29,086	10,309	11,201
Proceeds from disposal of marketable securities and long-term deposits	<u>10,796</u>	<u>31,114</u>	<u>9,776</u>
Net cash used in investing activities	<u>(87,495)</u>	<u>(351,309)</u>	<u>(179,339)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Purchase of shares of the Company held by a subsidiary		(17,402)	
Issue of share capital in a subsidiary to minority shareholders		210	35,827
Proceeds from issuance of convertible debenture, net of Issuance expenses	73,659		
Long-term loans received and other long-term liabilities undertaken	131,715	420,603	268,556
Repayment of long-term loans and discharge of other long-term liabilities	(312,108)	(261,957)	(186,569)
Dividend paid:			
To shareholders of ICL	(50,159)	(83,215)	(55,924)
To minority shareholders in subsidiaries	(400)	(3,243)	(18,283)
Short-term credit from banks and others - net	<u>(50,681)</u>	<u>(13,611)</u>	<u>(244,405)</u>
Net cash provided by (used in) financing activities	<u>(207,974)</u>	<u>41,385</u>	<u>(200,798)</u>
<b>ADJUSTMENTS FROM TRANSLATION OF CASH AND CASH EQUIVALENTS OF CERTAIN NON-ISRAELI SUBSIDIARIES</b>	<u>(50)</u>	<u>(3,521)</u>	<u>(3,112)</u>
<b>DECREASE IN CASH AND CASH EQUIVALENTS</b>	<u>(2,681)</u>	<u>(22,500)</u>	<u>(25,164)</u>
<b>BALANCE OF CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<u>18,247</u>	<u>40,747</u>	<u>65,911</u>
<b>BALANCE OF CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<u>15,566</u>	<u>18,247</u>	<u>40,747</u>

**ISRAEL CHEMICALS LIMITED**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	<u>2001</u>	<u>2000</u>	<u>1999</u>
	<u>U.S. dollars in thousands</u>		
<b>(a) Adjustments required to reflect the cash flows from operating activities:</b>			
Income and expenses not involving cash flows:			
Minority share in losses (profits) of subsidiaries - net	(63,196)	(2,665)	10,157
Share in losses (profits) of associated company	373	(366)	(699)
Depreciation and amortization	173,208	180,130	188,445
Deferred income taxes - net	(45,558)	24,199	35,648
Liability for employee rights upon retirement - net	10,953	20,678	4,763
Capital losses (gains):			
On sale of fixed assets	(2,410)	(23,422)	(1,030)
On sale of shares in an investee company		(14,172)	(22,722)
On sale of shares in associated companies	(4,493)		(126)
Amortization of production facilities	211,059		14,117
Erosion of principal of long-term loans and other long-term liabilities - net	(2,674)	(6,422)	(6,916)
Erosion of (exchange and linkage differences on) principal of long-term deposits and receivables - net	1,502	1,221	(672)
Loss (gain) from marketable securities	462	(376)	(2,015)
	<u>279,226</u>	<u>178,805</u>	<u>218,950</u>
Changes in operating asset and liability items:			
Decrease (increase) in accounts receivable:			
Trade	100,123	14,133	(52,789)
Other	(2,270)	(27,008)	24,679
Increase (decrease) in accounts payable and accruals:			
Suppliers and contractors	(27,054)	6,808	12,258
Other	(14,706)	19,546	21,836
Decrease (increase) in inventories	(106)	(1,765)	7,921
	<u>55,987</u>	<u>11,714</u>	<u>13,905</u>
	<u>335,213</u>	<u>190,519</u>	<u>232,855</u>

**ISRAEL CHEMICALS LIMITED**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	<b>1999</b>	
	<b>U.S. dollars</b>	
	<b>in</b>	
	<b>thousands</b>	
<b>(b) Acquisition of subsidiaries</b>		
<b>consolidated for the first time:</b>		
Assets and liabilities of the subsidiaries at date of acquisition:		
Working capital (excluding cash and cash equivalents)	(1,246)	
Fixed assets - net	(4,695)	
Intangible assets	(234)	
Long-term liabilities	311	
Minority interests	2,380	
	(3,484)	
	<b>2000</b>	
	<b>1999</b>	
	<b>U.S. dollars in thousands</b>	
<b>(c) Proceeds from disposal of investments in a subsidiaries consolidated in the past *:</b>		
Assets and liabilities of the subsidiaries previously consolidated to date of disposal:		
Working capital (excluding cash and cash equivalents)	(10,176)	(8,248)
Long-term investments	547	
Fixed assets - net	19,959	15,526
Goodwill	(182)	1,569
Long-term loans and other liabilities	(3,070)	(1,774)
Minority interests in the subsidiaries at date of disposal		776
Capital gain from sale of the investment	14,172	22,722
Amounts not yet received in respect of the disposal	(2,215)	
	19,035	30,571

\* for 2000, including a subsidiary that became jointly held and therefore proportionally consolidated.

**(d) Supplementary information on investment not involving cash flows**

The item "Accounts receivable - other," as of December 31, 2001 and December 31, 2000, includes approximately \$ 9.1 and \$ 8.9 million, from the sale of "I.D.E.", see note 3e and from the sale of the real estate of "I.D.E.", respectively. These amounts will be reflected in the statement of cash flows upon receipt.

In addition, the item, as of December 31, 2000, included balance in the amount of approximately \$ 22.4 million proceeds from the sale of the "Millennium Tower". This balance is included in the statement of cash flow for the year 2001 under "proceeds from sale of fixed assets".

**The accompanying notes are an integral part of the financial statements.**

## ISRAEL CHEMICALS LIMITED

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

#### NOTE 1 - GENERAL:

##### a. Operations

Israel Chemicals Limited ("ICL"; "the Company" ), an Israeli corporation - together with its subsidiaries and associated companies ("the Group") - is a multi-national enterprise which operates principally in the following segments: fertilizers, bromide and bromide compounds, special chemicals and metallurgy (magnesium) and is also involved in certain other business activities.

The main portion of the Group's production activities is carried out in Israel; most of the rest is carried out in Europe. The Group has also production activities - in the United States and China and marketing offices worldwide.

About 90% of the Group's products are sold to customers outside of Israel. As to financial data regarding business and geographical segments and sales by destination - see note 18.

The operations in Israel are based mainly on exploitation of natural resources in the Dead Sea - a rich source of minerals from which potash, bromine - magnesium and magnesium chloride are extracted, and in the Negev - deposits of phosphate rock. These resources are exploited by the Group's companies in Israel under concessions granted by the State of Israel (as to royalties and the concession periods see note 11b). The exploitation of natural resources consists of extraction of the abovementioned raw materials and marketing them worldwide, as well as development, production and marketing of products based mainly on those raw materials. Part of the companies in the Group were declared as a Monopoly in Israel in respect of some of the products produced and/or sold thereby.

The products produced abroad consist mainly of products that fit in with the companies' activities in Israel or are in closely related fields. A Spanish subsidiary, which quarries potash, under a concession granted to it for the development of new potash quarries. As to the period of validity of the concession, see note 6b(2).

The shares of ICL and debentures issued by some of the subsidiaries are traded on the Tel Aviv Stock Exchange ("TASE").

##### b. State share

The State of Israel holds a Special State Share in ICL and in some of its subsidiaries, entitling the State the right to safeguard certain vital State interests (see note 12b).

To the best of the knowledge of the Company's management, as of the date of issue of these financial statements, ICL and its subsidiaries are not considered "Government Companies."

## ISRAEL CHEMICALS LIMITED

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

#### NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies, applied on a consistent basis, are as follows:

**a. Definitions:**

Subsidiary - a company controlled to the extent of over 50%, the financial statements of which have been consolidated with the financial statements of ICL.

Proportionately consolidated company - a jointly controlled company, none of the shareholders of which holds exclusive control, the financial statements of which are consolidated with those of the Company by the proportionate consolidation method.

Associated company - a company (which is not a subsidiary) or a proportionately consolidated company, the investment in which is presented by the equity method.

Investee company - a subsidiary, a proportionately consolidated company or an associated company.

Goodwill - the difference between the cost of the investment in the investee company and the Group's share in the fair value of the underlying assets, net of the fair value of its underlying liabilities, at time of acquisition.

**b. Financial statements translated into U.S. dollars:**

- 1) The primary financial statements of the Group have been prepared on the basis of historical cost adjusted to reflect the changes in the exchange rate of the U.S. dollar (hereafter - the dollar; \$), in accordance with pronouncements of the Institute of Certified Public Accountants in Israel (hereafter - the Israeli Institute), see (2) below. All figures in the primary financial statements are presented in adjusted new Israeli shekels (NIS) which have a uniform value - based upon the exchange rate of the dollar as of December 31, 2001.

The attached financial statements are a translation of the aforementioned primary financial statements into dollars on the basis of the exchange rate as of December 31, 2001 - \$1 = NIS 4.416.

- 2) The adjustment of the primary financial statements is based on the accounts of the Company and its Israeli subsidiaries, maintained in nominal NIS.

The components of the income statements were, for the most part, adjusted as follows: the components relating to transactions carried out during the year - sales, purchases, labour costs, etc. - were adjusted on the basis of the exchange rate on transaction date; while items relating to non-monetary balance sheet items (mainly changes in inventories, depreciation and amortization) were adjusted on the same basis as the related balance sheet item. The financing component represents financial income and expenses in real terms, the erosion of balances of monetary items during the year, the changes in value of marketable securities during the year and gains and losses on transactions in derivative financial instruments (see also note 2p. below).

## ISRAEL CHEMICALS LIMITED

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

#### NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued):

As mentioned in (1) above, the primary financial statements have been drawn up in accordance with the principles of adjustment prescribed by Opinions of the Israeli Institute, on the basis of the changes in the exchange rate of the dollar. As to subsidiaries and associated companies whose financial statements are drawn up in non-dollar currencies - see (3) below.

The amounts presented in these financial statements in dollars should not be construed to represent amounts receivable or payable in dollars or convertible into dollars, except when otherwise indicated in the financial statements.

- 3) Foreign subsidiaries the financial statements of which are drawn up in currencies other than the dollar.

For purposes of consolidation or inclusion on the equity basis, the amounts (in foreign currency terms) included in the statements of the above companies were treated as follows:

#### **Investee companies operating independently**

Balance sheet items at the end of each period and the results of operations for each period were translated at the exchange rate of the relevant foreign currency at the end of each period. Balance sheet items at the beginning of the period and changes in shareholders' equity items during the period were translated at the relevant exchange rate at the beginning of the period or the date of each change, respectively, and then adjusted as described above through the end of the period.

Differences resulting from the above treatment are carried as a separate item under adjusted shareholders' equity ("differences from translation of financial statements of subsidiaries").

#### **Investee companies abroad, the activities of which are an integral part of the activities of the investor company (long arm)**

The financial statements of such companies were remeasured in terms of dollars. The remeasurement was effected by way of translation of the amounts (in terms of foreign currency) on the basis of historical exchange rates in relation to the dollar.

The resulting figures were then adjusted on the basis of the changes in the exchange rate of the dollar by the same method as the financial statements of the Israeli companies in the Group were adjusted.

Differences resulting from the above treatment are included in the adjusted statements of income under financial income or expenses.

## ISRAEL CHEMICALS LIMITED

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

#### NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued):

- 4) The amounts of non-monetary assets do not necessarily represent realization value or current economic value, but only the original historical values, adjusted to reflect the changes in the exchange rate of the dollar. In these financial statements, the term "cost" signifies adjusted cost translated as described above, into dollars.

#### c. Principles of consolidation:

- 1) The financial statements include the accounts of ICL and its subsidiaries.

In addition to the fully consolidated companies as above, the consolidated financial statements include the proportionate share in partnerships and an investee company under common control.

Intercompany balances and transactions have been eliminated.

Profits from intercompany sales, not realized outside the Group, have also been eliminated.

- 2) Goodwill is included among "other assets and deferred charges" and amortized in equal annual installments, commencing in the year of acquisition, as follows:

- a) Goodwill arising on acquisition of minority interests in Dead Sea Works Ltd. (hereafter - DSW) is amortized over a 20 year period.

In management's opinion, the amortization of goodwill over a 20 year period is most appropriate to reflect the estimated period of economic benefit from DSW, because of the special circumstances and characteristics of DSW, as follows:

DSW's main activity is the production of potash. Potash is produced using basic chemical processes and no significant technological changes in the processes are expected in the future.

Potash is an irreplaceable commodity for agriculture.

The demand for potash has been increasing steadily at the rate of 2%-3% per annum - about the same rate as the increase in the population of the planet.

There are only a few large producers of potash in the world.

ICL has held DSW for dozens of years and has extensive experience and know-how in the activities and production processes of DSW.

DSW is profitable and has positive cash flows from operating activities, which increase steadily over the years.

- b) Goodwill arising on acquisition of other subsidiaries is amortized over periods of up to 10 years.

## ISRAEL CHEMICALS LIMITED

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

#### NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued):

**d. Investments in associated companies**

Investments in these companies are accounted for by the equity method.

**e. Inventories**

Inventories are valued at the lower of cost or market. Cost is determined as follows:

Products in process and finished products - on basis of moving average of periodic production costs, including the cost of overburden removal.

Raw materials and supplies - mainly on moving average basis.

Maintenance materials stores - on an average basis, see also g(1) below.

Some of the raw materials, finished products and products in process are in bulk. The quantities thereof are based on estimates (mostly done by external experts, who measure the volume and density of the inventories).

**f. Investments in marketable securities and in other companies:**

1) Marketable securities

Marketable securities (except investment in another company - see note 4b(1)) are stated at market value or - for participation certificates in mutual funds - redemption value. Changes in value of these securities are carried to financial income or expense.

2) Other companies

As to presentation of investments in other companies - see note 4b.

**g. Fixed assets:**

1) Fixed assets are stated at cost, net of related investment grants or, in respect of subsidiaries purchased subsequent to January 1, 1996, at their fair value at date of acquisition. Expenditures for capital improvements - maintenance and repair expenditures which improve the quality of products or increase the output or the useful life of the plant - and renewals are capitalized. Spare parts are stated at cost determined on the moving average basis, net of a provision for obsolescence. Spare parts for current use are presented among inventories.

2) The fixed assets include the capitalization of erection expenses and financial expenses during the period prior to regular operation of the plants. The capitalization of financial expenses is calculated as follows:

a) If the asset being erected is financed by specific credit, then the actual borrowing costs relating to that credit are charged to the cost of the asset.



## ISRAEL CHEMICALS LIMITED

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

#### NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued):

- 2) When the finance is non-specific, then the borrowing costs that are charged to the cost of the asset are calculated using a capitalization rate of 5% (2000 - 7%) being the weighted average rate of all the borrowing costs, net of those relating to specific credit.
- 3) As to capitalization of costs of erecting facilities for prevention of environmental pollution, see n. below.
- 4) Depreciation is provided by the straight-line method, on basis of the estimated useful life of the assets.

The annual rates of depreciation are as follows:

	<u>%</u>
Land development, roads and buildings	4-8
Installations, machinery and equipment.	*4-10
Dikes and evaporating ponds	4-17
Heavy mechanical equipment, railroad cars and containers	10-20
Furniture, office equipment, vehicles, computer equipment and other fixed assets	6-33

- \* At July 1, 2000, the estimated useful life of certain production facilities was changed from twenty to twenty five years. Accordingly, the depreciated balance of the facilities at the above date is depreciated over the remaining estimated useful life of the facilities - up to a maximum of 25 years. The change was made on the basis of the opinion of Group engineers. That opinion was based on past experience with regard to the specific facilities in question, on the physical condition of the facilities and on the engineers' knowledge of anticipated technological changes and their possible future effect on the operation of the facilities.

## ISRAEL CHEMICALS LIMITED

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

#### NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued):

##### **h. Impairment of fixed and intangible assets**

The Group reviews the need to provide for an impairment of fixed assets, identifiable intangibles and goodwill, whenever events or changes in circumstances indicate that the carrying amount of the assets exceeds the recoverable amount of those assets. The Group includes in its accounts a provision for impairment of those assets when the undiscounted value of the expected future cash flows is lower than the carrying value of such asset. The provision is computed based on the present value of expected future cash flows of the underlying assets. As to the provisions for impairment in value, see note 3a and 15j.

##### **i. Other assets and deferred charges:**

###### 1) Other assets

Other assets are presented at cost and are amortized in equal annual instalments as follows:

- a) goodwill - see note 2c above.
- b) concessions are amortized over the balance of the life of the concession, that was granted to the companies.

###### 2) Deferred charges

Trade marks and deferred charges in respect of geological surveys are amortized in equal annual instalments, mainly over 5 years, commencing in the year in which the expense was incurred.

Debenture issuance expenses are deferred and depreciated over the expected life of the debenture.

##### **j. Convertible debentures**

The balance sheet item relating to the debentures - the conversion of which is not anticipated as of balance sheet date - includes the amount of the debentures as of balance sheet date with the addition of interest payable as of that date, in accordance with the terms of their issuance, and is presented under long-term liabilities.

##### **k. Deferred taxes:**

- 1) Deferred taxes are computed in respect of differences between the amounts presented in these statements and those taken into account for tax purposes. As to the main factors in respect of which deferred taxes have been included - see note 13c.

Deferred tax balances are computed at the tax rate expected to be in effect at time of release to income from the deferred tax accounts. The amount of deferred taxes presented in the income statements reflects changes in the above balances during the period.

## ISRAEL CHEMICALS LIMITED

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

#### NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued):

- 2) ICL has not provided deferred taxes for the future realization of investments in subsidiaries or associated companies, as it is ICL's policy to hold these investments, not to realize them.
- 3) As stated in note 13a(1), some of the enterprises of subsidiaries have been granted "approved enterprise" status. Hence, dividends derived from those "approved enterprises" and received by ICL are likely to be subject to tax. No account was taken of the additional tax, since it is the group's policy not to cause distribution of dividend which would involve additional tax liability to the group in the foreseeable future.

#### **l. Revenue recognition**

Revenue from sales of products is recognized upon shipment to the customer.

#### **m. Research and development expenses**

Research and development expenses, net of participations which are not conditional upon the success of the research, are charged to income as incurred.

#### **n. Environmental costs**

Ongoing costs of operating and maintenance of installations for prevention of environmental pollution, and anticipated provisions for costs relating to existing conditions resulting from ongoing or past operations are charged to the statements of income. Costs of construction of installations for prevention of environmental pollution, which extend the life of, or efficiency of, the installation, or reduce or prevent environmental pollution, are charged to the cost of the assets and depreciated according to the Group's depreciation policy.

#### **o. Allowance for doubtful accounts**

The allowance for doubtful accounts has been determined for specific debts doubtful of collection.

#### **p. Derivatives**

Gains and losses on hedges of existing assets or liabilities are recognized in income commensurate with the results from those assets and liabilities. Gains and losses related to qualifying hedges of firm payment or sales commitments are deferred and included as part of the measurement of the results from the underlying hedged transactions, at the time of recognition of said results or carried to financial income or expenses when the transaction is no longer expected to take place. The net premiums paid for currency options are charged to financial expenses over the term of the options (see also note 16).

## ISRAEL CHEMICALS LIMITED

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

#### NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued):

**q. Use of estimates in the preparation of financial statements**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting years. Actual results could differ from those estimates.

**r. Cash equivalents**

Highly liquid instruments, including short-term deposits with banks (with a maturity of three months or less from date of investment) that are not restricted as to withdrawal or use are considered by the Group as cash equivalents.

**s. Earnings (Loss) per share:**

- 1) Earnings (Loss) per share have been determined on the basis of the number of outstanding shares, with the addition of shares issuable upon exercise of warrants, which is expected, see note 12c.
- 2) The imputed income, net of the related income tax, assuming receipt - with retroactive effect - of the exercise increment in respect of warrants, is immaterial.
- 3) The computation of the loss per NIS 1 of par value of shares for 2001 does not include shares that may arise from the conversion of convertible debentures into shares, since the debentures are not likely to be converted and since, under the assumption of a full dilution, the effect of such shares would be anti dilutive.

**t. Acquisition of Company's shares held by a subsidiary**

The cost of Company's shares acquired by a subsidiary is presented as a deduction from the Company's shareholders' equity.

**u. Reclassification:**

Some of comparative data for previous years has been reclassified to match the presentation in the current year. The reclassification of data has been carried out mainly in respect of the initial inclusion of the excess cost of investment in Dead Sea Bromine Ltd. (hereafter - DSB), see note 3f, reclassification of notes and other receivables discounted and the presentation of transport costs as part of "selling and marketing expenses".

**v. Recently published accounting standards:**

- 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.

## ISRAEL CHEMICALS LIMITED

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

#### NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued):

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.

#### NOTE 3 - SUBSIDIARIES:

##### a. Dead Sea Magnesium Ltd. (hereafter - DSM):

- 1) Under an agreement dated January 27, 2000 (hereafter - the agreement), the Company acquired, from DSW, all its shares in Dead Sea Magnesium Ltd. (hereafter – DSM) (conferring 65% of ownership and 67% of control). The remaining ownership and voting rights are held by Volkswagen. The closing date of the agreement was set on January 1, 2000.

In addition, ICL has also provided guarantees in the amount of \$ 106.5 million to secure DSM's liabilities.

As a result of the transaction, the Company's direct share in the ownership of DSM increased by 7.1% and its share in control increased by 7.3%.

Under an agreement between ICL and Volkswagen, ICL has a right of first refusal if Volkswagen wishes to sell its shares in DSM. Moreover, if Volkswagen wishes to sell all, or part of, its shares in DSM off the stock exchange, and does not find a bona fide purchaser, it must notify ICL; in such a case, ICL is obliged to purchase those shares at a price to be determined on the basis of 75% of the equity in net assets (shareholders' equity) of DSM.

## ISRAEL CHEMICALS LIMITED

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

#### NOTE 3 - SUBSIDIARIES (continued):

- 2) 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 (see also note 2h).

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:

	<b>December 31, 2001</b>
	<b>In \$ millions</b>
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>

## ISRAEL CHEMICALS LIMITED

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

#### NOTE 3 - SUBSIDIARIES (continued):

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

#### b. Acquisition offer for the shares of DSW

On March 7, 2000, ICL purchased all of DSW's shares held by the public following a offer for acquisition, at a total cost of \$ 144.5 million. On March 28, 2000, the trade in DSW's shares was suspended and, and on April 2, 2000, DSW's shares were delisted.

Following the increase in the percentage of the Company's holding in DSW, the fair value of DSW's assets and liabilities was adjusted to reflect their fair value evaluated as follows:

	<u>\$ in millions</u>
Fixed assets	21.8
Deferred income taxes	(6.6)
Other assets:	
Concession*	67.7
Goodwill, see note 2(c)2	<u>20.5</u>
	<u>103.4</u>

\* DSW has a concession to extract materials from the Dead Sea for the next thirty years and is amortized accordingly (as to the terms of the concession, see note 11b).

#### c. Acquisition offer for the shares of Dead Sea Periclase Ltd. (hereafter - Periclase)

On November 30, 1999, ICL published an offer for the acquisition of Periclase's shares. Following the acquisition offer, a complementary acquisition offer and a compulsory acquisition, through February 16, 2000 ICL completed the purchase of all of the Periclase shares held by the public (40.7% of the share capital) at an aggregate cost of \$ 20.4 million.

## ISRAEL CHEMICALS LIMITED

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

#### **NOTE 3 - SUBSIDIARIES** (continued):

On February 17, 2000, the trade in Periclase's shares was suspended and on February 22, 2000, those shares were delisted.

The excess of the fair value of the share in assets (net of liabilities) over cost of acquisition was deducted from cost of fixed assets.

In 2001, Periclase made a provision for the impairment in value of fixed assets (see note 15j).

#### **d. Sale of Investment in Rami Ceramic Industries (1991) Ltd. (hereafter - Rami)**

On December 2, 1999, ICL signed an agreement for the sale of all of its holdings in Rami, which conferred upon it 100% of ownership and control in Rami, to a French corporation. The sale agreement is effective as of January 5, 2000.

In 1999, the Group included a provision of \$ 3.6 million in respect of the impairment in value of Rami's assets (see note 15j). The provision was determined on the basis of the purchase price.

#### **e. The sale of 50% of the holding in I.D.E.**

On September 19, 2000, the Company entered into an agreement for the sale of 50% of the shares of I.D.E. to Delek Investments and Properties Ltd. (hereafter - Delek).

I.D.E. is jointly held by the Company and Delek, none of which have exclusive control therein. Therefore, commencing October 1, 2000, the financial statements of I.D.E. have been consolidated with those of the Company by the proportionate consolidation method.

#### **f. Acquisition offer for the shares of DSB**

On November 7, 2000, the Company purchased the balance of publicly held shares - approximately 10.77% of DSB's share capital.

On December 5, 2000, the trade in shares of DSB was terminated and on December 10, 2000, those shares were delisted.

Until the completion of the evaluation (which was completed during 2001) of the fair value of the assets of DSB, net of its liabilities, the excess of the cost of acquisition over the net assets of DSB upon acquisition was temporarily attributed to goodwill.



## ISRAEL CHEMICALS LIMITED

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

#### NOTE 3 - SUBSIDIARIES (continued):

The updated distribution of assets and liabilities, based on their fair value following the increase in the percentage of holding, is as follows:

	<u>\$ in millions</u>
Fixed assets - land	1.5
Other assets:	
Concession*	28.9
Goodwill (see note 2c(2))	8.0
	<u>38.4</u>

\* DSB operates in the concession areas of DSW. DSW has a concession to exploit the natural resources of the Dead Sea for the next 30 years (as to the terms of the concession, see note 11b).

Following the update of the assets and liabilities the comparative figures for 2000 have been reclassified accordingly.

#### **g. The purchase of shares of Iber Potash S.A. (hereafter - IP) by a subsidiary**

In 2000, DSW exercised an option which it had received under an agreement entered into in 1998, between the shareholders of IP, and acquired the holding of one of the shareholders (20%) through a subsidiary - Ashli Chemicals B.V. (Holland) (hereafter - Ashli) - at a price of \$ 5.8 million. The goodwill arising on this acquisition was \$ 1.7 million.

In May 2001, DSW exercised an option granted to it under the agreement and purchased, through Ashley, the share of the other shareholder in IP (20%) for a consideration of approximately \$ 6.9 million. The goodwill arising on acquisition is \$ 2.5 million.

Following the acquisition, DSW hold 100% interest in IP.

#### **h. Agreement for the purchase of Cleveland Potash Ltd. (hereafter - Cleveland)**

On November 29, 2001, a German subsidiary entered into an agreement with the Anglo American PLC group (UK) for the purchase of all the shares of Cleveland, a British company that is engaged in the mining and production of potash. The price of the transaction, subject to adjustments that may be required upon the closing of the agreement, due to certain conditions stipulated by the agreement, is \$ 45 million. The purchase is conditional upon prerequisites specified in the agreement.

The transaction is not reflected in these financial statements, with the exception of certain amounts paid in respect of the due diligence performed, aggregating approximately \$ 1.3 million presented among other assets and deferred charges..

#### **i. Special State share**

Certain subsidiaries, DSW, Rotem Amfert Negev Ltd. (hereafter - Rotem), DSB, Bromine Compounds Ltd. (hereafter - Bromine Compounds), DSM and Tami (IMI) Institute for Research and Development Ltd., issued a special State share. As to the rights conferred upon the State as a result of holding the special State share, see note 12b.

**ISRAEL CHEMICALS LIMITED**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

**NOTE 4 - INVESTMENTS IN ASSOCIATED COMPANIES AND OTHER COMPANIES:**

**a. The changes in investments in associated companies in 2000 are as follows:**

	<b>U.S. dollars in thousands</b>
Balance at January 1, 2000	10,857
Changes during 2000:	
Long-term loans - net	(65)
Share profits - net	(373)
Investments in shares	611
Sale of investment*	(2,250)
Write-off of an investment in an associated company that become consolidated	(2,504)
Other changes - net	191
Balance at December 31, 2000	6,467

\* On February 13, 2001, DSW sold all of its holdings (49.48%) in Dead Sea Laboratories Ltd., a company which is engaged in the manufacturing, marketing and selling of cosmetics and beauty care products under the brand name "Ahava", in consideration of \$ 6.9 million. The capital gain and the net income on this sale are approximately \$4.5 million.

**b. The investments in other companies include:**

- 1) SQM shares are held by a foreign subsidiary and traded on the stock exchange in Chile and on the New York Stock Exchange in the United States.

During 2001, the subsidiary invested an additional \$ 1.1 million in SQM. Its holding of shares in SQM entitles the subsidiary to 8.1% of the rights to profits (2000 - 8%) and 13.4% of the voting rights (2000 - 13.1%).

The value of SQM shares held by the Group, on the basis of market prices on the U.S. and Chilean stock exchanges as of December 31, 2001, approximates \$ 61.5 million.

- 2) The investment in shares of "Mekoroth" Israel National Water Company Ltd. (hereafter - Mekoroth), which are held by Rotem, is presented at token value. The shares in Mekoroth were allotted to Rotem for investments made by Rotem in the past in water infrastructure. Rotem has joined a claim against Mekoroth, which was partly recognized as a class action. The class action includes, among other things, Rotem's claim for allotment of additional shares of Mekoroth in respect of its investments in water infrastructure and its claim that the state make an offer for its shareholding in Mekoroth - both present and claimed.

**ISRAEL CHEMICALS LIMITED**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

**NOTE 5 - LONG-TERM DEPOSITS AND RECEIVABLES:**

**a. Composed as follows:**

	<b>December 31</b>	
	<b>2001</b>	<b>2000</b>
	<b>U.S. dollars in thousands</b>	
Deposits:		
Banks	15,065	19,618
The Treasury - Accountant General	152	510
Other	10,455	10,100
	25,672	30,228
Less - current maturities	4,927	4,723
	20,745	25,505

**b. Classified by currency and interest rates:**

	<b>Weighted interest rates as of December 31</b>	<b>December 31</b>	
	<b>2001</b>	<b>2001</b>	<b>2000</b>
	<b>%</b>	<b>U.S. dollars in thousands</b>	
In Israeli currency - mainly linked to the Israeli consumer price index ("the Israeli CPI")	4.2	20,146	26,402
In other non-Israeli currencies (mainly dollars)	5.7	5,526	3,826
		25,672	30,228

**c. The deposits and receivables (net of current maturities) mature in the following years after balance sheet date:**

	<b>December 31</b>	
	<b>2001</b>	<b>2000</b>
	<b>U.S. dollars in thousands</b>	
Second year	3,739	5,690
Third year	3,404	3,472
Fourth year	3,182	2,464
Fifth year	1,954	2,495
Sixth year and thereafter (through 2017)	7,665	10,560
Not yet fixed	801	824
	20,745	25,505

**ISRAEL CHEMICALS LIMITED**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

**NOTE 6 - FIXED ASSETS:**

**a. Composition of assets and accumulated depreciation, grouped by major classifications, and the changes during the year ended December 31, 2000, are as follows:**

	Balance at January 1, 2001	Changes during the year			Balance at December 31, 2001
		Additions	Retirements	Other -net (5)	
	U . S . d o l l a r s i n t h o u s a n d s				
1) Cost (4):					
Land, land development, roads and buildings - mainly on leased land, see b. below	*387,385	8,107	(580)	(7,352)	387,560
Installations, machinery and equipment	2,853,275	81,514	(207,772)	(6,806)	2,720,211
Dikes and evaporating ponds	338,536	6,486	(283)	(3,720)	341,019
Heavy mechanical equipment, railroad cars and containers	136,177	1,615	(9,992)	(35)	127,765
Furniture, office equipment, vehicles, computer equipment and other fixed assets	<u>157,053</u>	<u>10,447</u>	<u>(7,351)</u>	<u>(1,890)</u>	<u>158,259</u>
	*3,872,426	108,169	(225,978)	(19,803)	3,734,814
Plants under construction – changes representing purchases during the year, net of transfers to fixed assets	70,030	10,004		(66)	79,968
Spare parts - non-current part	<u>29,664</u>		<u>(2,077)</u>		<u>27,587</u>
	<u>3,972,120</u>	<u>118,173</u>	<u>(228,055)</u>	<u>(19,869)</u>	<u>3,842,369</u>
2) Accumulated depreciation (4):					
Land development, roads and buildings	171,325	11,408	(590)	(2,552)	179,591
Installations, machinery and equipment	1,470,143	120,186	(4,737)	(4,418)	1,581,174
Dikes and evaporating ponds	212,434	18,696	(18)	(3,021)	228,091
Heavy mechanical equipment, railroad cars and containers	97,563	8,335	(8,492)	(36)	97,370
Furniture, vehicles, office equipment, computer equipment and other fixed assets	<u>107,799</u>	<u>14,321</u>	<u>(5,569)</u>	<u>(1,119)</u>	<u>115,432</u>
	<u>2,059,264</u>	<u>172,946</u>	<u>(19,406)</u>	<u>(11,146)</u>	<u>2,201,658</u>

\* Reclassified.

**ISRAEL CHEMICALS LIMITED**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

**NOTE 6 - FIXED ASSETS** (continued):

3) Depreciated balance at balance sheets dates (4):

	<b>December 31</b>	
	<b>2001</b>	<b>2000</b>
	<b>U.S. dollars in thousands</b>	
Land, land development, roads and buildings	207,969	*216,060
Installations, machinery and equipment	1,139,037	1,383,132
Dikes and evaporating ponds	112,928	126,102
Heavy mechanical equipment, railroad cars and containers	30,395	38,614
Furniture, office equipment, vehicles, computer equipment and other fixed assets	<u>42,827</u>	<u>49,254</u>
	1,533,156	1,813,162
Plants under construction	79,968	70,030
Spare parts	<u>27,587</u>	<u>29,664</u>
	<u><u>1,640,711</u></u>	<u><u>1,912,856</u></u>

\* reclassified.

4) The fixed assets include assets that have been fully depreciated and which are still in use. The original cost of those assets is over \$ 911 million, as of December 31, 2001.

5) The other changes (net) during the year arise from:

	<b>U.S. dollars in millions</b>
Translation differences	(11.4)
Fixed assets of subsidiaries that were consolidated for the first time	2.4
Others	<u>0.3</u>
	<u><u>(8.7)</u></u>

\* Including a company consolidated in the past, which became a proportionately consolidated company.

6) Investment grants

Fixed assets are net of investment grants, as follows (see note 14d):

	<b>December 31</b>	
	<b>2001</b>	<b>2000</b>
	<b>U.S. dollars in thousands</b>	
Amount of the grant	926,335	917,426
Less - accumulated depreciation	<u>440,288</u>	<u>409,209</u>
	<u><u>486,067</u></u>	<u><u>508,217</u></u>

7) As to expenses capitalized, see note 15e, 15f and 15i.

**ISRAEL CHEMICALS LIMITED**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

**NOTE 6 - FIXED ASSETS** (continued):

**b. Leasehold land:**

- 1) The Group leases the land on which most of the Israeli operations are conducted from the Israeli Lands Administration under long-term leases (for periods ending mainly between 2017-2047), with options to renew in some cases. Part of the property and long-term leasehold rights have not yet been registered in the name of the Group in the Israeli Land Registry.
- 2) A Spanish subsidiary has rights in real estate designated for the future development of new potash quarries in the amount of approximately \$ 41.2 million. These rights can be utilized until 2063. The development of the new quarries has not yet commenced and accordingly no amortization of the real estate rights has yet been recorded.

- c.** As to pledges on the assets - see note 14.

**NOTE 7 - OTHER ASSETS AND DEFERRED CHARGES:**

	Original amount		Amortized balance	
	December 31		December 31	
	2001	2000	2001	2000
	U.S. dollars in thousands			
Goodwill	76,748	*74,260	47,979	*51,554
Concession, see note 3b and 3f	96,567	*96,567	91,656	*94,774
Deferred charges	19,840	14,932	13,969	10,383
	193,155	185,759	153,604	156,711

\* Reclassified.

**ISRAEL CHEMICALS LIMITED**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

**NOTE 8 - SHORT-TERM CREDIT FROM BANKS AND OTHER CREDIT GRANTING INSTITUTIONS:**

**a. Composed as follows:**

	<b>December 31</b>	
	<b>2001</b>	<b>2000</b>
	<b>U.S. dollars in thousands</b>	
Short-term credit:		
From banks and financial institutions, (Including in respect of notes that have been discounted - see note 15b)	245,565	*311,312
From other credit granting institutions		722
From the parent company	<u>25,000</u>	<u>9,500</u>
	270,565	321,534
Current maturities of long-term loans and other long-term liabilities, see note 9:		
Debentures	4,221	5,823
Bank loans	<u>260,374</u>	<u>230,248</u>
	<u>535,160</u>	<u>557,605</u>

**b. Classified by currency and interest rates, the amounts of the loans and credit are as follows:**

	<b>Weighted interest rates as of December 31, 2001</b>	<b>December 31</b>	
		<b>2001</b>	<b>2000</b>
	<b>%</b>	<b>U.S. dollars in thousands</b>	
Short-term bank credit from banks and financial institutions:			
In dollars	*3.0	198,969	186,563
In other non-Israeli currencies (mainly the Euro)	*3.8	40,579	34,477
In Israeli currency - unlinked	4.5	6,017	90,272
Short-term credit from other credit granting institutions - In dollars			722
Short-term credit from the parent company - in dollars	**2.2	<u>25,000</u>	<u>9,500</u>
		<u>270,565</u>	<u>321,534</u>

\* Interest in respect of most of this debt is determined on the basis of LIBOR + 0.3% to 0.45%

\*\* Interest in respect of this credit is determined on the basis of LIBOR + 0.0%.-0.1%

**c. As to pledges to secure the credit and restrictions imposed in respect thereof - see note 14.**

**ISRAEL CHEMICALS LIMITED**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

**NOTE 9 - LONG-TERM LOANS AND OTHER LONG-TERM LIABILITIES:**

**a. As follows:**

	<b>December 31</b>	
	<b>2001</b>	<b>2000</b>
	<b>U.S. dollars in thousands</b>	
Debentures (some of which are traded on TASE)	8,291	14,757
Debentures convertible into shares, see d below	75,018	
Bank loans*	1,014,206	1,210,565
Other loans	11,788	
	<u>1,109,303</u>	<u>1,225,322</u>
<b>L e s s - current maturities in respect of:</b>		
Debentures	4,221	5,823
Bank loans	260,374	230,248
	<u>264,595</u>	<u>236,071</u>
	<u>844,708</u>	<u>989,251</u>

\* The Group has the right to repay the bank loans before due date.

**b. Classified by currency and linkage terms and interest rates (taking into account interest rate swaps), the amounts of the liabilities (including current maturities) are as follows (see also notes 2p and 16):**

	<b>Weighted interest rates as of December 31, 2001</b>	<b>December 31</b>	
		<b>2001</b>	<b>2000</b>
		<b>U.S. dollars in thousands</b>	
Debtentures:	<b>%</b>		
In dollars			1,092
In Israeli currency - linked to the Israeli CPI	6.0	<u>8,291</u>	<u>13,665</u>
		<u>8,291</u>	<u>14,757</u>
Debentures convertible into shares	4.1	<u>75,018</u>	
Bank loans:			
In other non-Israeli currencies - mainly the Euro	*4.1	861,615	1,038,211
In Israeli currency - linked to the Israeli CPI	**4.5	152,388	172,257
		<u>203</u>	<u>97</u>
		<u>1,014,206</u>	<u>1,210,565</u>
Other loans- mainly in Israeli currency- capital note		<u>11,788</u>	
		<u>1,109,303</u>	<u>1,225,322</u>
Unutilized credit lines		<u>97,500</u>	<u>90,500</u>

\* Interest in respect of most of this debt is determined on the basis of LIBOR + 0.35% to 0.8%.

\*\* Interest in respect of most of this debt is determined based on Euro LIBOR+ 0.4% to 0.8%.



**ISRAEL CHEMICALS LIMITED**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

**NOTE 9 - LONG-TERM LOANS AND OTHER LONG-TERM LIABILITIES** (continued):

- c. The liabilities (net of current maturities) mature in the following years after balance sheet dates:

	<b>December 31</b>	
	<b>2001</b>	<b>2000</b>
	<b>U.S. dollars in thousands</b>	
Second year	319,989	277,610
Third year	130,271	286,878
Fourth year	150,335	123,929
Fifth year	39,359	130,688
Sixth year and thereafter, through 2009	204,754	170,146
	844,708	989,251

- d. On October 10, 2001, the Company raised some \$ 75 million (net of issue expenses ) through the private placements of two series of convertible debentures. The debentures have not been registered for trading and the par value of the two series is \$ 60 million (hereafter - “the Dollar Debentures”) and NIS 63.5 million (hereafter - “the Shekel Debentures”) (together hereafter - “the Debentures”).

The outstanding principal of the debentures bears interest at an annual rate of 1.5%, which will be paid on October 10 of each year.

The principal of the debentures become due on October 10, 2007. Any balance of the principal of the debentures not converted or redeemed by the Company shall be repaid with the addition of a redemption premium of 17.3% of the principal.

The principal of the Debentures, the redemption premium and the interest are linked to the exchange rate of the dollar or are denominated in dollars, as appropriate.

The debentures may be converted on any business day, from October 10, 2002 until October 3, 2007, into ordinary shares of the Company ranking pari passu with existing ordinary shares of NIS 1 par value. Each NIS 5 par value of the Shekel Debentures may be converted into one ordinary share of NIS 1 par value, and each \$ 1.1473 par value of the Dollar Debentures may be converted into one ordinary share of NIS 1 par value.

In the event that all the debentures are converted into shares, the Company’s share capital would increase by NIS 64,997,000.

The Company has an option, exercisable from October 22, 2005, subject to an early notice of 30 to 60 days to redeem, under certain condition, the Debentures - either wholly or in part - at a redemption price that reflects an annual dollar yield of 4.1% up to the redemption date (taking into consideration the interest paid and the interest accumulated, in respect of the redeemed debentures, during the period preceding the redemption).

**ISRAEL CHEMICALS LIMITED**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

**NOTE 9 - LONG-TERM LOANS AND OTHER LONG-TERM LIABILITIES** (continued):

The Debenture holders have an option to order the company to redeem the debentures they hold, at a redemption price that reflects the annual dollar yield for early redemption, and to pay the annual accumulated interest up to the redemption date. This option may be exercised on October 10, 2003 and October 10, 2005, if they give written notice of their intention to do so not less than 30 days, and not more than 60 days, prior to the redemption date.

- e. As to the pledges made to secure liabilities and limitations imposed with respect to these pledges, see note 14.

**NOTE 10 - LIABILITY FOR EMPLOYEE RIGHTS UPON RETIREMENT:**

- a. The amounts of the liability for employee rights upon retirement and the portion funded are as follows:

	<b>December 31</b>	
	<b>2001</b>	<b>2000</b>
	<b>U.S. dollars</b>	
	<b>in thousands</b>	
Liability for severance pay	137,295	137,625
Liability for pension and early retirement*	152,104	156,580
	289,399	294,205
Less - amount funded, see d. below	151,637	164,220
B a l a n c e - unfunded	137,762	129,985
* Including in respect of non-Israeli subsidiaries	55,391	61,714

**b. Severance pay:**

1) Israeli subsidiaries

Under Israeli Law and labour agreements, ICL and its Israeli subsidiaries are required to pay severance pay to dismissed employees and employees leaving employment in certain other circumstances. Severance pay is computed based on length of service and generally according to latest monthly salary (one month's salary for each year worked).

The liabilities relating to employee rights upon retirement are covered as follows:

- a) Under collective labour agreements, external pension plans for some of The Group's employees ordinarily provide full severance pay coverage and, in some cases, 72% of the severance pay liability. The severance pay liabilities covered by these plans are not reflected in the financial statements, as severance pay risks as described above have been irrevocably transferred to the pension funds.

## ISRAEL CHEMICALS LIMITED

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

#### NOTE 10 - LIABILITY FOR EMPLOYEE RIGHTS UPON RETIREMENT (continued):

- b) The Israeli companies in the Group make current deposits in managerial insurance policies in respect of managerial personnel. These policies provide coverage for severance pay liability to said personnel. Under labour agreements, these insurance policies are, subject to certain limitations, the property of the employees. The amounts funded in respect of these policies are not reflected in the financial statements since they are not under the control and management of the companies.
- c) As to the balance of the liabilities which are not funded as above, full provision is made in the financial statements.

#### 2) Non-Israeli subsidiaries

Since the countries where these subsidiaries operate have no law requiring payment of severance pay, it is not customary to include a provision in their accounts for eventual future severance payments to employees, except in cases in which employees are dismissed following the cessation of part of these subsidiaries' activities.

#### c. Pension and early retirement:

- 1) Certain Israeli and non-Israeli subsidiaries have (internal) defined benefit pension plans for their employees, certain of whom are no longer in the employ of these subsidiaries. Generally, the terms of the plans provide that the employees are entitled to receive pension payments computed (in certain cases) as a percentage of their salary near retirement, based, inter alia, upon number of years of service (in some cases up to 70% of their last base salary) or, in certain cases, based on a fixed salary.
- 2) In addition, some Group companies have entered into an agreement with a provident fund - and with a pension fund for some of the employees - under which such companies make current deposits with that fund which releases them from the obligation to pay pension under labour agreements to all of their employees upon their retirement at the age of 65. The amounts funded as above are not reflected in the balance sheets since they are not under the control and management of the Company. Under the labor agreement between DSW and its employees, under certain circumstances, employees who are employed in Sdom retire at the age of 58 and receive an early pension at that age. DSW has made a full provision in respect of the additional liability resulting from the early retirement agreement.

An employee of DSW appealed to the Beer Sheba Regional Labor Court for the cancellation of the early retirement obligation. In September 2001, a ruling was issued, stipulating that the retirement clause pertaining to the employees in Sdom is to be interpreted as granting a right to early retirement rather than imposing it.

In light of this ruling, the management of DSW is reviewing the policy that shall be adopted in this matter in the future.

## ISRAEL CHEMICALS LIMITED

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

#### NOTE 10 - LIABILITY FOR EMPLOYEE RIGHTS UPON RETIREMENT (continued):

- 3) The liabilities described above are fully provided for in the financial statements, based on the present value of the amounts due, as computed by actuaries on the basis of current actuarial tables used in Israel (by the National Insurance Institute) and Germany. The discount rates used in computation of the present value were: for Israeli companies - mainly 3.5% (linked to the Israeli CPI) and the balance - 4.8%; for non-Israeli companies - mainly 6% and the balance - 4%. The liabilities have been computed by the companies on the basis of the assumption that employee salary will increase as follows: for Israeli companies - mainly 2% per annum (linked to the Israeli CPI); for non-Israeli companies - 2%-2.5% per annum.

#### d. Amounts funded by the Group

The Group, at its discretion, make deposits in funds managed by major Israeli banks or by ICL, which are earmarked as cover for the liabilities mentioned in b and c above, which are not covered by regular deposits. Those funds are managed as stipulated by law and their assets are composed mainly of Israeli Governments bonds.

#### NOTE 11 - COMMITMENTS, CONCESSIONS AND CONTINGENT LIABILITIES:

##### a. Commitments:

- 1) Certain subsidiaries have entered into agreement with suppliers in Israel and abroad for purchase of raw materials in the regular course of business, for various periods ending within six years of December 31, 2001. The scope of the commitment for the entire period of all the agreements is approximately \$ 132 million.
- 2) Certain subsidiaries have entered into agreements with suppliers for acquisition of fixed assets. As of December 31, 2001, the subsidiaries had commitments for investment of approximately \$ 93 million in fixed assets.
- 3) Certain subsidiaries are committed to pay royalties to the Government - computed at the rates of 2% or 4% of proceeds on sale of products in the research and development of which the Government participated by way of grants. The commitments are to the extent of 100% - 150% of the dollar amounts of the grants received (for products produced in Israel).

At the time the participations were received, successful development of the related projects was not assured. In the case of failure of a project that was partly financed by royalty-bearing Government participations, the Group is not obligated to pay any such royalties to the Government.

The total grants received through December 31, 2001, net of royalties paid or accrued, aggregate approximately \$ 25 million; December 31, 2000 - \$ 28 million.

- 4) In accordance with a resolution of the Company's board of directors, the annual management fees payable to the Israel Corporation Ltd. (the parent company) will be \$ 2.5 million.

## ISRAEL CHEMICALS LIMITED

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

#### NOTE 11 - COMMITMENTS, CONCESSIONS AND CONTINGENT LIABILITIES (continued):

##### b. Concessions:

###### 1) DSW

Pursuant to the Israeli Dead Sea Concession Law, 1961 (hereafter - the Concession Law), DSW was granted an exclusive concession for a period ending March 31, 2030 to exploit the natural resources of the Dead Sea and to lease the land needed for its plants. Upon expiration of the scheduled term of the concession, DSW has a right of first refusal to any new Dead Sea concession offered by the Government. DSW pays the Government royalties at the rate of 5% of the "value" of the products at factory gate, net of certain expenses, (including in respect of products of the Bromine Company) and lease fees.

According to the concession, if in any year the production and sales of the concession product (potassium chloride exceed one million metric tons, the Government will be entitled to demand renegotiation of the royalties in respect of the excess. DSW produces over one million metric tons per year.

In a letter to DSW dated January 11, 1995, the Government agreed, if section 17 of the concession deed (which addresses the Government obligation to pave roads, lay railroad tracks and install port facilities to make it possible to transfer the concession product and ship it by sea) is not activated and its fulfillment is not demanded, it would not demand any renegotiation of the level of royalties to be paid as above, in respect of the period prior to the date of the above letter, and the period from the date of that letter to the end of the concession period, as amended or as it will be amended. However, the Government has reserved the right to demand renegotiations regarding the level of royalties with respect to the quantity of potassium chloride that exceeds 3 million metric tons in any year commencing 2010, without granting DSW any rights in respect of section 17 of the concession deed. On January 27, 1992, the Ministerial Committee for Privatization resolved that the said section 17 should be cancelled.

Total royalties paid to the State of Israel amounted to \$ 18.5 million, \$ 18.3 million and \$ 20 million in 1999, 2000 and 2001, respectively.

In consideration for the land DSM subleases from DSW, DSM is to pay royalties to the Government of Israel. Those royalties are computed on the basis of the raw material (carnallite), which is used in producing metallic magnesium. In 2006, the Government will be entitled to renegotiate the amount of royalties and the method of computation thereof for the period commencing in 2007.

In 2000 and 2001, DSM paid royalties of \$ 257,000 each year to the State of Israel (the sums paid in 1999 were included in DSW's figures).

## ISRAEL CHEMICALS LIMITED

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

#### NOTE 11 - COMMITMENTS, CONCESSIONS AND CONTINGENT LIABILITIES (continued):

##### 2) Rotem

Rotem operates (on land that is not leased thereby) under mining concessions granted by the Minister of National Infrastructure and the Israel Lands Administration. Rotem's concessions are for a ten year period ending on April 14, 1995. The concessions grant Rotem the right to mine ores of phosphate rock, phosphate lime and minerals combined with phosphate layers in the Negev desert, in the Arad mines (Mishor Rotem) and at the Oron/Zin site (Zafir), and to exploit them for production and marketing.

In consideration for the concession Rotem pays royalties, calculated as a fixed charge for each ton mined.

In 1999, 2000 and 2001 Rotem paid royalties of \$252,000, \$240,000 and \$259,000 to the State of Israel.

On June 15, 1998, Rotem filed an application with the Supervisor of Mines and the Israel Lands Administration for extension of the abovementioned mining concessions for a twenty year period ending 2018.

Instead of extending the mining concession, the Supervisor of Mines resolved it is appropriate that a new mining concession for a period of twenty years should be granted to Rotem. An agreed upon version of the new concession has already been drafted and the Supervisor of Mines confirmed that the concession will be granted once an agreement between Rotem and the Israel Lands Administration is signed, that will allow Rotem to use the land for the purposes mentioned in the concession. The new concession (that will cancel the existing concession) will grant Rotem (for a period of twenty years from the date of grant), an exclusive right to mine natural Phosphorite in the concession area.

On June 26, 1997, Rotem applied to the Supervisor of Mines and to the Israel Lands Administration for mining concessions in three phosphate fields adjacent to the existing mine at Mishor Rotem. The Supervisor of Mines granted Rotem "search licences" for the said phosphate fields and a letter expressing the intention to grant Rotem the right to mine phosphates in those fields under terms to be stipulated by the Supervisor, subject to completion of the actions required by the "search licences" and attainment of all necessary statutory approvals.

According to an opinion adopted by the legal counsel of the Ministry of National Infrastructure on August 10, 1998, granting and renewal of mining concessions and granting of permits by the Israel Lands Administration do not require publication of a tender. The Manager of the Israel Lands Administration has announced that a mining concession is not sufficient in order to perform mining activities and that a permit from the Israel Lands Administration is also necessary. Issuance of such a permit does entail publication of a tender or receipt of an exemption therefrom in accordance with the relevant regulations.

Rotem assumes, based on the opinion of its legal counsel and on the opinion adopted by the legal counsel of the Ministry of National Infrastructure, that a tender will not be necessary and that, even if granting of the necessary licence is subject to the regulations regarding publication of tenders, it will be possible to obtain the exemption and receive the permit. Therefore, in Rotem's opinion, this matter will not have a significant effect on its operating results.

## ISRAEL CHEMICALS LIMITED

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

#### NOTE 11 - COMMITMENTS, CONCESSIONS AND CONTINGENT LIABILITIES (continued):

##### c. Contingent liabilities:

- 1) In respect of guarantees at December 31, 2001, \$373 million.
- 2) 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 Central 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, included a chemical produced by the company, and was supplied to companies engaged in banana cultivation (collectively - the defendants) over a period of approximately thirty years (1960 to 1990).

Many of the above cases have been transferred by the American court to the countries of residence of the plaintiffs. However appeals on various aspects of such judicial decisions are still pending before a number of appeal courts in the U.S. In most of these cases, the companies of the Bromine Group are designated as the direct defendants. It is not possible to evaluate the chances that, despite that mentioned above, all or some of the above cases may be returned to U.S. courts.

During the period in which the above legal proceedings were in process, most of the plaintiffs reached compromise arrangements with most of the defendants involved. The companies of the Bromine Group are mentioned as parties benefiting from the waivers agreed to by many of the plaintiffs, although they are not a direct party to the said agreements. At this stage, it is not possible to evaluate the effect of the above compromise arrangements on the arguments of the claims for indemnification and participation in damages filed against the companies of the Bromine Group. It should be noted that there are claims of some 5,000 plaintiffs who are not party to the above compromise arrangements.

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

In addition, the Bromine Group companies estimate that the quantities of chemicals supplied thereby, if any, are small as compared to the quantity supplied by the other producers being sued in the above mentioned litigation.

## ISRAEL CHEMICALS LIMITED

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

#### NOTE 11 - COMMITMENTS, CONCESSIONS AND CONTINGENT LIABILITIES (continued):

Management of the Bromine Group is of the opinion that, at the relevant times, the Bromine Group had certain insurance coverage for cases such as the events that are the subject of the claims. However, this matter is in dispute with at least some of the insurers involved. The Bromine Group has lodged a claim against the insurers with respect to that dispute. In April 2001, the insurers of the Bromine group companies, who refuse to recognize their responsibility in this matter, filed a request for the rejection, in limine, of the claim of the Bromine companies, contending that there are disclosure defects in the documents submitted to them. In June 2001, the court deliberated this request and ruled for a supplemental partial disclosure of the documents. Supplemental disclosure as above took place in October 2001. In a reminder session that took place during November 2001, the preliminary procedures were finalized and the court ordered the submission of the main evidences in a way of affidavit, a procedure that should end by July 2002. In September 2002, dates will be set for the evidentiary hearings in this case.

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 at this stage, to evaluate the impact of this matter on its business results considering the uncertainties involved therein. Therefore no provision has been included in the financial statements in respect of these claims.

- 3) a. In July 2000, the Bromine Group and the U.S. Department of Justice reached an agreement regarding an investigation of the alleged violations of U.S. antitrust laws. Under the agreement, reached as a plea bargain which was approved by the U.S. court the Bromine Group paid a fine of \$ 7 million.

The plea bargain does not apply to a civil action pending against the Bromine Group in the United States, that was filed in February 2000, and recognised as a class action. At present, no amounts have been specified in respect of this action, under which damages are being claimed under U.S. law by purchasers of bromine and bromine products.

During 2000, the Bromine Group reached a compromise agreement with the representatives of the plaintiffs in the above claim, providing for the payment of \$ 2.5 million in complete settlement of the claim pending against it. The compromise agreement was subject to the fulfillment of a number of preconditions. These preconditions, which include the final approval of the court, had been complied with in full as of the date of approval of these financial statements. The Court's decision to approve the compromise agreement, which was made on March 14, 2002, is subject to appeal that has to be filed within 30 days of the Court's approval. In April 2001, the amount of the compromise agreement relating to the claim, was deposited in trust with the representative of the plaintiffs. A provision in this amount has been included in the financial statements for 2000.

- b. Over a year ago, one of the two main competitors of Bromine Group announced that it was cooperating with the anti-trust authorities in the European Union with regard to a similar investigation.



## ISRAEL CHEMICALS LIMITED

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

#### NOTE 11 - COMMITMENTS, CONCESSIONS AND CONTINGENT LIABILITIES (continued):

As of the date of approval of these financial statements, the Bromine Group and its legal counsel are unable to estimate the effect of this event on the results of operations, due to the uncertainty of such legal proceedings. Therefore, no provision has been made in respect thereof in these financial statements.

- 4) A claim for \$ 16 million has been filed against the Company and two of its subsidiaries (hereafter - the defendants) and an application to approve this claim as a class action. The claim alleges violation of anti-trust legislation and argues that the defendants abused their status as a monopoly to determine a price for phosphoric fertilizer which is much higher than the prices of the raw materials used in its production.

On July 12, 2001, the parties reached a settlement. Under the settlement, the claimants waived all of their past claims against the defendant pertaining to the setting of the above prices. In addition, a method for the computation of prices for the said fertilizer was agreed upon, that shall be applied during seven years after the issue of the verdict.

- 5) Contrack Line Ltd. (hereafter - Contrack) has filed a claim against DSW, Edom Mining and Development Ltd. (hereafter - Edom) and other companies, for infringement of a patent registered by Contrack and Edom, in respect of a dredge, which was designed to crush the salt mushrooms in the evaporation ponds of DSW, and in respect of breach of copyrights with respect to a proposal submitted by Contrack and Edom to DSW and blueprints of the dredge. The reliefs requested by contract are injunctions, mandatory injunctions and accounts. Splitting of remedies for future claims of financial remedies has been allowed. In addition, with the court's approval, the claim has been amended and causes referring to the negotiations held subsequent to the lodging of the claims have been added.

The arguments of DSW's defense are based, inter alia, on claims against the validity of the patent as detailed in the request for cancellation of the patent, which was filed by DSW, and on its development and use of dredges for several decades.

On December 9, 1998, the Court ruled that DSW had infringed the patent and prohibited DSW to continue to operate the dredge. Moreover, the parties were given an extension of six months to reach an agreement regarding operation and acquisition of the dredge. A request for a stay of execution of the said ruling has been filed, as has an appeal to the Supreme Court. The request has been granted and a settlement was reached allowing the operation of the vessel, subject to the duty to file quarterly reports.

A provision for legal expenses, which may be incurred by DSW, was included in the financial statements, based on its management estimate.

DSW was in the course of negotiating with Contrack for compromise to settle this dispute. During the negotiations, the parties discussed a possibility of performance of guarding services by Contrack, through the vessel in dispute, under an agreement for a contracting work in effect for a period of 15 years. Alternatively, Contrack has suggested to put an end to the dispute in consideration for a one-time payment of \$ 9 million to \$13 million. The parties have not reached any agreement

## ISRAEL CHEMICALS LIMITED

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

#### NOTE 11 - COMMITMENTS, CONCESSIONS AND CONTINGENT LIABILITIES (continued):

On March 12, 2001, Contrack filed a claim for damages in the amount of approximately \$ 51.4 million with the Tel Aviv District Court. Concurrent with this claim, Contrack applied to be exempted from court fees. On April 10, 2001, DSW contested Contrack's application for exemption. Contrack responded to DSW's objections. A ruling is yet to be issued on this matter. The hearing with respect thereto was held on January 23, 2002. The parties are required to submit summaries of their arguments. Pursuant to that, as the need may arise, DSW will apply to postpone the hearing on this matter until after a ruling is issued on the appeal submitted by DSW to the Court.

In the opinion of the management of DSW, based on an opinion of its legal counsel, there is a probable chance that the appeal of DSW regarding the District Court's ruling, which is the basis for this claim, will be accepted. Therefore, no provision has been included in the financial statements in respect of this claim. However, since the ruling on the appeal depends on the Court and in light of the early stage of the appeal, the outcome of this claim and its implications on DSW cannot be estimated with certainty.

- 6) DSM was involved in an antidumping (AD) investigation and in a countervailing duty (CVD) investigation on pure magnesium that was brought before the U.S. Department of Commerce and the International Trade Commission (ITC). On November 2, 2001, the ITC issued a final determination in which it concluded that the industry in the United States is not materially injured or threatened with material injury by reason of imports of pure magnesium from Israel. As a result, no duties will be imposed on imports of this product from Israel.
- 7) 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. ICL included a provision of \$ 1.6 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 of \$ 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.

## ISRAEL CHEMICALS LIMITED

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

#### NOTE 11 - COMMITMENTS, CONCESSIONS AND CONTINGENT LIABILITIES (continued):

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.

- d) Soil contamination was found in the past on a certain part of the land leased in the Netherlands by a Dutch subsidiary in the Rotem group (hereafter the "Dutch company"). Management of the Dutch company is of the opinion, based on the policy currently in practice with respect to enforcement of environmental quality laws, and taking into account the fact that a warehouse was built on the contaminated land, with the approval of the authorities the likelihood that the ecological authorities, of the Netherlands will require that the contaminated land be cleaned up seems small. Upon granting the permit for construction, the authorities referred to the contamination as severe, but decided that, at that stage, there was no need to clean it up. Consequently, the Dutch company's management does not intend to initiate the cleaning up of the contamination. Cleaning up the contamination would be very costly. However, the question may become relevant only in the event of closing down the Dutch company's plant and returning the land to the harbour authority.

In management's opinion, the previous owner is responsible for the contamination, since it was not brought to the attention of the Dutch company prior to its occupation of the site.

The question of responsibility for any damage 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.

## ISRAEL CHEMICALS LIMITED

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

#### NOTE 11 - COMMITMENTS, CONCESSIONS AND CONTINGENT LIABILITIES (continued):

- f) In the past two years, various claims have been filed against 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 \$ 15 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 \$ 1.7 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.
- 8) Various lawsuits and claims for payment other than those mentioned in (2) to (7) above, are pending against ICL and some of the subsidiaries. In respect of claims for up to \$ 12 million as of December 31, 2001, of which ICL and the subsidiaries have provided as of that date \$ 9 million, which management of the companies considers sufficient to cover any liabilities that may arise, based on the opinions of their respective legal counsels. The companies also have insurance coverage for \$ 1 million of the above claims. As to claims for up to \$ 2 million as of December 31, 2001, in the opinion of management of the companies, based on the opinion of their legal counsel, the outcome cannot be determined at present and, therefore, no provisions therefore were made in the accounts.

## ISRAEL CHEMICALS LIMITED

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

#### NOTE 12 - SHARE CAPITAL:

**a. The share capital is composed as follows in 2000-2001:**

	<u>Issued and paid</u>	<u>Authorized</u>
Ordinary Shares of NIS 1 par value	1,199,999,999	1,484,999,999
Special State Share of NIS 1 par value	<u>1</u>	<u>1</u>

In 2000, the wholly-owned subsidiary purchased 15,000,000 ICL ordinary shares of NIS 1 par value for the purpose of selling them to employees in an event of exercising the warrants mentioned in 12c below.

**b. Rights conferred by the shares**

The Ordinary Shares confer upon their holders voting rights (including appointment of directors by simple majority at shareholders' meetings), the right to participate in shareholders' meetings, the right to receive profits and the right to a share in excess assets upon liquidation of ICL.

The Special State Share, held by the State in order to safeguard matters of vital interest to the State, confers upon it special rights to make decisions among other things on the following matters:

Sale or transfer of assets of the Company which are "vital" to the State outside of the ordinary course of business.

Voluntary liquidation or change, reorganization of the organizational structure of ICL or merger (excluding mergers of entities controlled by ICL that would not impair the rights or power of the Government as holder of the Special State Share).

Any acquisition or holding of 14% or more of the issued share capital of ICL.

The acquisition or holding of 25% or more of the issued share capital of ICL (including an augmentation of an existing holding), even if there was previously an understanding regarding a holding of less than 25%.

Any percentage of holding of shares in the Company, which confer upon their holder the right, ability or actual possibility to appoint, directly or indirectly, such number of directors in the Company equal to half, or more than half, of the directors actually appointed in the Company.

## ISRAEL CHEMICALS LIMITED

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

#### NOTE 12 - SHARE CAPITAL (continued):

##### c. Employee warrant plans

On August 16, 1999, an extraordinary general meeting of the shareholders approved the resolution taken by ICL's Board of Directors on July 21, 1999 regarding a plan for a private offering of 4.2 million warrants to the Chief Executive Officer (allotted on October 5, 1999) and of 3 million warrants to the Chairman of the Board of Directors (allotted on January 26, 2000), at no cost. Each warrant is convertible into one ordinary share of NIS 1 par value of ICL. The ordinary shares allotted upon exercising the warrants will have all the rights of ICL ordinary shares. ICL allocated an additional 7.8 million warrants to a trustee, under the same terms and conditions. In the meetings of the Board of Directors as of March 22, 2000 and May 28, 2000, it was resolved to allot all future options held by the trustee to employees of the Company and its subsidiaries. The allotment of the warrants will be carried out in accordance with section 102 of the Income Tax Ordinance. The entitlement to the warrants is as follows: one third at the date of the Board of Directors' resolution, one third after one year and one third after two years, subject to the terms of the plan. The warrants are exercisable as from the end of two years from the date of the entitlement; any warrants not exercised within two years from the date upon which they become exercisable, will expire. In addition, rules have been established to govern the event of termination of service or employment of warrant recipients. The exercise price for shares allotted until December 31, 2000 is NIS 3.7 per share, linked to the last Israeli CPI published prior to June 21, 1999, subject to adjustments as determined by the plan. The fair value of each warrant, computed using the Black-Scholes option-pricing model as prescribed by stock exchange regulations, was NIS 2.24 as of that date, based on the quoted price of one ordinary share of NIS 1 par value close to the date of the Board of Directors' resolution to offer warrants (the determining date for implementation of the abovementioned offering) - NIS 4.76. The exercise price of the next batches will be set at the average quoted price of one ordinary share of NIS 1 par value over the four months preceding the date of entitlement for each batch, at a discount of 15% linked to the Israeli CPI, but not more than NIS 3.7 linked to the Israeli CPI, subject to adjustments as determined by the plan.

The Tel-Aviv Stock Exchange has approved the listing of the shares issuable under this plan.

In January 3, 2002, the Chief Executive Officer and the Chairman of the Board of Directors of the Company exercised 1.4 million and 1 million options, respectively.

- d. The closing price per share, as of December 31, 2001, was NIS 4.751.

## ISRAEL CHEMICALS LIMITED

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

#### NOTE 13 - TAXES ON INCOME:

##### a. Taxation of the Israeli companies (hereafter - the companies):

- 1) Tax benefits under the Israeli Law for the Encouragement of Capital Investments, 1959 ("the investment law").

Production facilities of some of the Israeli subsidiaries have been granted "approved enterprise" status under the Investment Law. Income derived from these subsidiaries' approved enterprises is subject to a reduced company tax rate of 25% (instead of the regular tax rate - see (4) below) for a period of seven years (in respect of the magnesium plant - since the magnesium company is a foreign investment company - for a period of ten years), commencing in the year in which the specific approved enterprise first generates taxable income (limited to twelve years from commencement of production or fourteen years from date of approval, whichever is earlier). "Approved Enterprises" in nationally preferred Zone A, approved after January 1, 1997 are exempt from tax on undistributed profits for the first two years of operations and are taxed at a rate of 25% for the subsequent five years. In addition, these companies are entitled to claim accelerated depreciation on the fixed assets of the approved enterprise.

The taxable income to be attributed to any approved enterprise in any tax year is generally computed as a ratio of the "real" (net of inflation) increase - linked to the Industrial Output Index or to the dollar - in the subsidiary's turnover in that year to its turnover in the year before the approved enterprise commenced its manufacturing activities.

The tax benefits are conditional upon the fulfillment of certain conditions. In the event of failure of the subsidiaries which own approved enterprises to comply with these conditions, the tax benefits and other benefits could be cancelled, in whole or in part, and the subsidiaries might be required to refund the amount of the cancelled benefits (including the investment grants received, see notes 6a(6) and 14d), with the addition of Israeli CPI linkage differences and interest. Management is of the opinion that the subsidiaries are in compliance with the abovementioned conditions.

## ISRAEL CHEMICALS LIMITED

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

#### NOTE 13 - TAXES ON INCOME (continued):

- 2) Measurement of results for tax purposes under the Israeli Income Tax (Inflationary Adjustments) Law 1985 (hereafter - the inflationary adjustments law):
  - a) Under the inflationary adjustments law, results for tax purposes are measured in real terms, having regard to the changes in the Israeli CPI. As explained in note 2b, the financial statements are drawn up in dollars. The difference between the change in the Israeli CPI and in the exchange rate of Israeli currency relative to the dollar - both on annual and cumulative bases - effects the difference between the amount of the actual tax and the amount of reported income.
  - b) Under the inflationary adjustments law, the Israeli industrial subsidiaries, see (3) below, are entitled to claim accelerated depreciation on fixed assets.
- 3) The Israeli Law for Encouragement of Industry (Taxation), 1969 (“the Industry Law”):
  - a) Pursuant to the “Industry Law”, a company qualifies as an “Industrial Company” if it is resident in Israel and at least 90% of its income in any tax year is derived from an “Industrial Enterprise” it owns. An “Industrial Enterprise” is defined as an enterprise whose major activity in a given tax year is industrial production activity. The principal Israeli subsidiaries are “industrial companies” as defined by this law.
  - b) A “Parent Company” is defined as (1) an Industrial Company which controls another Industrial Company and whose industrial enterprises operate similar product lines; and (2) a company which is not an Industrial Company but controls an Industrial Company and at least 80% of the assets of which is invested in shares or loans for periods exceeding three years) in industrial companies in which it holds at least 50% of the voting rights and equity. “Control” is defined as the holding of at least two-thirds of the voting rights and the right to appoint directors.

Pursuant to the Industry Law, a Parent Company is entitled to file a consolidated tax return together with its subsidiaries in Israel whose Industrial Enterprises operate “similar product lines”.

Some of ICL’s Israeli subsidiaries and ICL itself qualify as a Parent Company. ICL files consolidated tax returns with most of its subsidiaries in Israel, which allows ICL to utilize, for tax purposes, the losses (if any) of its subsidiaries and the losses (if any) of ICL against taxable income of other subsidiaries.
- 4) The tax rate applicable to income not derived from an “approved enterprise” is 36%.



## ISRAEL CHEMICALS LIMITED

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

#### NOTE 13 - TAXES ON INCOME (continued):

5) Losses carried forward to future years

Carryforward losses of ICL and the subsidiaries with which it files a consolidated tax return (see (3)(b) above) aggregate approximately \$ 207 million December 31, 2001; December 31, 2000 - approximately \$ 301 million. Carryforward losses of subsidiaries that do not file a consolidated tax return with ICL - in respect of which deferred taxes were created - amount to approximately \$ 12 million at December 31, 2001; approximately \$ 42 million at December 31, 2000.

The balances of carryforward losses of subsidiaries that do not file a consolidated tax return with ICL, in respect of which deferred taxes were not created, amount to approximately \$ 80 million as of December 31, 2001; December 31, 2000 - approximately \$ 50 million.

Capital losses for tax purposes carries forward to future years aggregate approximately \$ 60 million as of December 31, 2001. These losses can only be utilized against capital gains. Most of the capital losses as of December 31, 2001 can be utilized until 2007. No deferred taxes were created in respect of these capital losses.

Under the inflationary adjustments law, carryforward losses are linked to the Israeli CPI.

6) Tax assessments

ICL has received final tax assessments for its consolidated tax returns through tax year 1981, and the subsidiaries included in the consolidation for tax purposes - through tax year 1989.

ICL has held negotiations with the tax authorities regarding tax years 1982 to 1989, but has not yet reached agreements on some issues. ICL has created a provision in its accounts in an amount management considers sufficient to cover its tax liabilities for these years.

Certain other subsidiaries (which are not consolidated for tax purposes) have received final assessments through tax years between 1986 and 1998.

**b. Non-Israeli subsidiaries:**

1) Tax laws

Non-Israeli subsidiaries are taxed under tax laws in their countries of residence.

2) Tax assessments

These subsidiaries have received final assessments through tax years between 1993 and 2000.

**ISRAEL CHEMICALS LIMITED**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

**NOTE 13 - TAXES ON INCOME** (continued):

**c. Deferred income taxes:**

1) The composition of the deferred taxes, and the changes therein, are as follows:

	In respect of balance sheet items				In respect of carryforward tax losses (see a(5) above)	Total
	Depreciable fixed assets	Inventories	Provisions for employee rights			
			Other			
	U . S . d o l l a r s				I n t h o u s a n d s	
Balance at January 1, 1999	265,037	(776)	(22,914)	2,510	(77,709)	166,148
Changes in 1999:						
Translation differences	(109)			(24)		(133)
Deferred taxes arising from excess of fair value over the purchase price that was deducted from fixed assets*	(2,007)					(2,007)
Amounts carried to income	<u>78,317</u>	<u>(2,000)</u>	<u>(553)</u>	<u>(12,615)</u>	<u>(27,501)</u>	<u>35,648</u>
Balance at December 31, 1999	341,238	(2,776)	(23,467)	(10,129)	(105,210)	199,656
Changes in 2000:						
Translation differences	(282)			(15)		(297)
A proportionately consolidated company which was previously fully consolidated				621		621
Deferred taxes in respect of valuation of fixed assets at their fair value*	6,031					6,031
Amounts carried to income	<u>31,367</u>	<u>(2,944)</u>	<u>(5,821)</u>	<u>4,597</u>	<u>(3,000)</u>	<u>24,199</u>
Balance at December 31, 2000	378,354	(5,720)	(29,288)	(4,926)	(108,210)	230,210
Changes in 2001:						
Translation differences	(175)			(30)		(205)
Amounts carried to income	<u>(98,036)</u>	<u>9,219</u>	<u>(5,120)</u>	<u>4,298</u>	<u>44,081</u>	<u>(45,558)</u>
Balance at December 31, 2001	<u>280,143</u>	<u>3,499</u>	<u>(34,408)</u>	<u>(658)</u>	<u>(64,129)</u>	<u>184,447</u>

\* See note 3b and 3c.

2) Presented in the balance sheets as follows:

	December 31	
	2001	2000
	U.S. dollars in thousands	
Among current assets	(11,310)	(22,627)
As a non-current liability	<u>195,757</u>	<u>252,837</u>
	<u>184,447</u>	<u>230,210</u>

3) For companies in Israel - the deferred taxes are computed mainly at the applicable weighted average rates of 30%-33%. As to companies outside of Israel - see b above.

**ISRAEL CHEMICALS LIMITED**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

**NOTE 13 - TAXES ON INCOME** (continued):

- 4) The balance of undepreciated cost of certain depreciable fixed assets includes amounts which will not be allowed for tax purposes by way of depreciation or as cost upon realization of the assets. These amounts are regarded as permanent differences (in respect of which no deferred taxes are to be provided) in accordance with Opinion No. 40 of the Institute of Certified Public Accountants in Israel. The amount of this balance is not material.

**d. Taxes on income included in the income statements:**

- 1) Composed as follows:

	<u>2001</u>	<u>2000</u>	<u>1999</u>
	<u>U.S. dollars in thousands</u>		
For the reported period:			
Current	12,525	19,800	23,021
Deferred, see c. above	<u>(45,558)</u>	<u>24,199</u>	<u>35,648</u>
	<u>(33,033)</u>	<u>43,999</u>	<u>58,669</u>

- 2) Following is a reconciliation of the theoretical tax expense, assuming all income is taxed at the regular tax rates (see a(4) above) and the tax expense presented in the consolidated statements of income:

	<u>2001</u>	<u>2000</u>	<u>1999</u>
	<u>U.S. dollars in thousands</u>		
Income (Loss) before taxes on income, as reported in the statements of income	<u>(138,231)</u>	<u>141,394</u>	<u>193,357</u>
Theoretical tax expense (income)	(49,763)	50,902	69,609
Less - tax benefit (expenses) arising from reduced tax rate applicable to an "approved enterprise"	<u>(20,621)</u>	<u>3,099</u>	<u>9,817</u>
	(29,142)	47,803	59,792
Add (deduct) - the tax effect of:			
Differences between the basis of measurement for tax purposes (the Israeli CPI) and for financial reporting purposes (the dollar), see also a(2) above	(2,123)	(5,679)	(5,288)
Difference in respect of foreign subsidiaries	(653)	(1,189)	(257)
Increase in taxes resulting from tax losses of subsidiaries not consolidated for tax purposes, in respect of which no deferred taxes were created	12,047	7,783	6,772
Increase in taxes resulting from permanent differences - tax effect - disallowed expenses, net of exempt income	5,453	2,385	5,637
"Nahal" deduction	(13,300)	*(9,595)	*(4,063)
Capital gains on realization of subsidiaries, net	(1,479)	(5,040)	(6,729)
Other differences	<u>(3,836)</u>	<u>*7,531</u>	<u>*2,805</u>
Taxes on income included in the income statements	<u>(33,033)</u>	<u>43,999</u>	<u>58,669</u>

\* Reclassified

## ISRAEL CHEMICALS LIMITED

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

#### NOTE 14 - PLEDGES AND RESTRICTIONS PLACED IN RESPECT OF LIABILITIES:

- a. Part of the Group has committed itself under “negative pledge” provisions to certain Israeli banks and non-Israeli banks (see also c below) in respect of loans and credit received from them. Under the negative pledge, those companies are not to pledge their assets.

The lenders are entitled to request early repayment if the State ceases to hold the Special State Shares issued to it by ICL, DSW, Rotem, Bromine Company, Compounds and IMI (see also note 3i). A similar negative pledge commitment was made to holders of debentures issued by a subsidiary of ICL, whereby ICL undertook not to register any pledges on its assets to secure any liabilities whatsoever, other than those already registered on its assets, without registering a corresponding pledge in favour of the debenture-holders, as long as the debentures are outstanding. Nevertheless, ICL is entitled to register fixed or floating charges of any rank on any assets purchased in the future in respect of loans or credit received for such purchase.

- b. Fixed and floating charges have been registered (not including a. above) on assets of the Group, as security for liabilities (including a pledge on IP’s shares), as follows:

	<b>December 31</b>	
	<b>2001</b>	<b>2000</b>
	<b>U.S. dollars in thousands</b>	
Current liabilities (excluding current maturities)	2,500	5,955
Long-term loans and other long-term liabilities (including current maturities)	<u>136,245</u>	<u>183,711</u>
	<u><u>138,745</u></u>	<u><u>189,666</u></u>

- c. ICL has undertaken various obligations in respect of loans and credit from non-Israeli banks (mentioned in a. above). Among others, it undertook to restrict guarantees and indemnities to third parties (other than the guarantees specified in the agreements with the banks) up to an agreed amount. ICL has also undertaken to grant loans only to subsidiaries and to associated companies in which it holds at least 25% of the voting rights - up to the amount stipulated by the agreement with the banks. ICL has also undertaken not to grant any credit, other than in the ordinary course of business, and not to register any charges, including rights of lien, except those defined in the agreement as “charges permitted to be registered” on its present or future assets or income.

ICL has also undertaken to hold at least 67%-70% of the control in its main subsidiaries (DSB, DSW, Rotem).

In respect of the convertible debentures, ICL has undertaken not to register pledges on any of its assets in favor of a third party, for the purpose of securing debentures, promissory notes or other securities that may be registered for trade on a stock exchange, unless it also grants, on the same date, *pari passu*, identical securities to the holders of those debentures.

**ISRAEL CHEMICALS LIMITED**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

**NOTE 14 - PLEDGES AND RESTRICTIONS PLACED IN RESPECT OF LIABILITIES** (continued):

- d. Under the Law for the Encouragement of Capital Investments, 1959, certain subsidiaries have received investment grants from the State of Israel. In the event of failure to comply with the terms attached to the receipt of the grants, the companies may be required to refund the amount of the grants, in whole or in part, with interest from the date of receipt (see note 13a(1)).

The above companies have registered floating charges on all their assets in favour of the State of Israel as security for compliance with the terms attaching to the grants.

**NOTE 15 - SUPPLEMENTARY FINANCIAL STATEMENT INFORMATION:**

**Balance sheets:**

a. **Short-term investments, deposits and loans:**

	<b>December 31</b>	
	<b>2001</b>	<b>2000</b>
	<b>U.S. dollars</b>	
	<b>in thousands</b>	
Marketable securities*	18,855	22,604
Deposits with banks and financial institutions and short-term loans	1,716	7,220
Current maturities of long-term deposits and receivables	<u>4,927</u>	<u>4,723</u>
	<u>25,498</u>	<u>34,547</u>
* Composed as follows:		
Debentures - mainly Government of Israel bonds	9,685	13,331
Participation certificates in mutual funds most of the assets of which are invested in Government of Israel bonds	9,170	8,882
Shares	<u>          </u>	<u>391</u>
	<u>18,855</u>	<u>22,604</u>

**ISRAEL CHEMICALS LIMITED**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

**NOTE 15 - SUPPLEMENTARY FINANCIAL STATEMENT INFORMATION (continued):**

	<u>December 31</u>	
	<u>2001</u>	<u>2000</u>
	<u>U.S. dollars in thousands</u>	
<b>b. Accounts receivable:</b>		
1) Trade - open accounts:		
Outside Israel*	318,293	**424,516
In Israel	<u>48,450</u>	<u>47,810</u>
	366,743	472,326
L e s s - allowances for doubtful accounts	<u>12,377</u>	<u>13,333</u>
	<u>354,366</u>	<u>458,993</u>
* Including notes that have been discounted amounting to ***	<u>10,400</u>	<u>5,500</u>
** Reclassified.		
***The Group regularly discounts notes received from customers with banks. The balance of the discounted notes in respect of which the bank has recourse rights is presented among trade receivables while, at the same time, the corresponding credit received from the bank is presented among short-term bank credit.		
2) Other:		
Claims from the Government:		
Excess of payments over Provisions for income taxes, net (including accrued interest and differences)	73,510	63,245
Investment grants receivable	8,966	9,283
Other	8,238	9,360
Prepaid expenses	19,120	18,870
Receivable in respect of sale of the "Millenium Tower" and a real estate asset in IDE	17,947	33,728
Deferred taxes	11,310	22,627
Sundry	<u>32,524</u>	<u>43,608</u>
	<u>171,615</u>	<u>200,721</u>
<b>c. Inventories:</b>		
Raw materials	73,233	73,264
Products in process	66,607	84,098
Finished products	290,558	270,165
Spare parts and maintenance supplies	57,844	60,780
Payments on account and materials in transit	<u>3,363</u>	<u>3,764</u>
	<u>491,605</u>	<u>492,071</u>

**ISRAEL CHEMICALS LIMITED**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

**NOTE 15 - SUPPLEMENTARY FINANCIAL STATEMENT INFORMATION** (continued):

**d. Accounts payable and accruals - other:**

	<u>December 31</u>	
	<u>2001</u>	<u>2000</u>
	<u>U.S. dollars in thousands</u>	
The Government - mainly in respect of royalties	11,940	13,616
Employees and provisions for employee benefits	102,164	110,599
Accrued expenses	27,970	58,461
Income taxes payable	9,664	6,829
Sundry	<u>75,083</u>	<u>54,431</u>
	<u>226,821</u>	<u>243,936</u>

**Statements of income:**

**e. Cost of sales\***

	<u>2001</u>	<u>2000</u>	<u>1999</u>
	<u>U.S. dollars in thousands</u>		
Materials	439,950	439,588	439,757
Power and energy	143,997	163,428	128,064
Labour and related expenses	295,403	298,650	289,349
Subcontracted work	151,868	169,545	168,424
Depreciation and amortization	148,193	154,442	160,760
Other production expenses	83,051	92,514	86,539
Transport and port expenses	<u>12,339</u>	<u>**13,234</u>	<u>**14,088</u>
	1,274,801	1,331,401	1,286,981
Increase (decrease) in inventories of finished products and products in process	<u>(3,132)</u>	<u>(2,307)</u>	<u>14,380</u>
	<u>1,271,669</u>	<u>1,329,094</u>	<u>1,301,361</u>
* Net of amounts capitalized to fixed assets under construction	<u>6,823</u>	<u>8,127</u>	<u>12,391</u>

\*\* Reclassified.

**f. Research and development expenses - net:**

Amount of expenses*	32,671	35,097	41,562
Less - grants and participations, see note 11a(3)	<u>218</u>	<u>1,138</u>	<u>2,741</u>
	<u>32,453</u>	<u>33,959</u>	<u>38,821</u>
* Net of amounts capitalized to fixed assets under construction	<u>941</u>	<u>1,262</u>	<u>1,626</u>

**ISRAEL CHEMICALS LIMITED**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

**NOTE 15 - SUPPLEMENTARY FINANCIAL STATEMENT INFORMATION** (continued):

	<b>2001</b>	<b>2000</b>	<b>1999</b>
	<b>U.S. dollars in thousands</b>		
<b>g. Selling and marketing expenses:</b>			
Transport and insurance	210,736	*228,769	*216,165
Payroll and related expenses	42,591	45,528	47,195
Agents' commissions	19,182	21,058	23,295
Other	37,060	40,571	42,320
	309,569	335,926	328,975
* Reclassified - previously part of these expenses were set-off against sales and part were included in the cost of sales.			
<b>h. General and administrative expenses:</b>			
Payroll and related expenses	49,839	52,997	57,316
Other*	34,895	36,430	42,061
	84,734	89,427	99,377
* Including in respect of doubtful debts and erosion of balances			
	(999)	(785)	3,735
<b>i. Financial expenses - net*:</b>			
Long-term loans and other liabilities	63,239	63,518	43,658
Short-term credit from banks and others	27,265	35,440	47,075
Long-term deposits and receivables	(439)	201	(1,492)
Short-term deposits and loans	(11,708)	(11,826)	(9,949)
Short term investments - net	99	(1,462)	(2,697)
	78,456	85,871	76,595
* Net of amounts capitalized to fixed assets under construction			
	1,246	1,607	2,182



**ISRAEL CHEMICALS LIMITED**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

**NOTE 15 - SUPPLEMENTARY FINANCIAL STATEMENT INFORMATION** (continued):

**j. Other income (expenses) - net:**

	2001	2000	1999
	U.S. dollars in thousands		
Capital gains (losses):			
On sale of fixed assets - net	2,363	23,422 (1)	1,030
From disposal of investments in subsidiaries (2)		13,977	22,722
From disposal of investment in associated company (see note 4)	4,493		
Provision for impairment of value of assets upon sale of subsidiary (see note 3d)			(3,613)
Reorganization plan (3)	(6,472)	(27,435)	(15,090)
Settlement of claims:			
in the U.S. (see note 11c(3))		(9,500)	
The Ports Authority (4)		2,323	9,293
Insurance claim		3,500	
Write-down of production plants and others (5)	(12,944)		(14,117)
Temporary and initiated discontinued production in some of the Company's Facilities (6)	(7,579)		
Rent	793	707	707
Dividend received from SQM	1,065	1,808	2,592
Sundry (including goodwill amortization) -net	(1,850)	(1,740)	1,083
	(20,131)	7,062	4,607

- (1) a. On June 29, 2000, ICL entered into an agreement to sell its ownership rights in the "Millenium Tower" for approximately \$ 22.3 million. The capital gain recorded in respect of this transaction was approximately \$ 11 million.
- b. On September 28, 2000, I.D.E entered into an agreement to sell its real estate in Ra'anana for \$ 16.5 million. The capital gain recorded by ICL in respect of this transaction was approximately \$ 12.5 million.
- (2) a. In 1999, the Company sold all its holdings in Perio Products Ltd. The Company recorded a capital gain of approximately \$ 22.7 million in respect of this transaction.
- b. As to the sale of 50% of I.D.E, see note 3e.
- (3) a. The above amount represents an expense included in the 1999 consolidated income statements for reorganization plan, the purpose of which, among other things, is the unification of the administration and services of the subsidiaries.

## ISRAEL CHEMICALS LIMITED

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

#### NOTE 15 - SUPPLEMENTARY FINANCIAL STATEMENT INFORMATION (continued):

- b. For the purpose of improving the competitive position and profitability of the Company's fertilizer segment, on September 14, 2000, the appropriate forums of the Company and of the subsidiaries, DSW and Rotem, approved plans which included actions designed to take advantage of the synergy of the two said subsidiaries, by combining their management, marketing and overland and marine shipping functions.

Furthermore, the Companies above undertook efficiency measures for the purpose of decreasing its manufacturing costs.

These activities include the early retirement of certain employees which was effected in October 2000, the retirement of additional employees subsequent thereto, the merging of the information and logistics systems and the offices of the above companies, as well as the undertaking of certain additional actions. The total expenses recorded by the Group in respect of the abovementioned actions, aggregated \$ 27.4 million.

- c. In 2001, the company included in the consolidated statement of income, expenses in respect of reorganization plans of various subsidiaries.
- (4) In 1999, DSW and the Ports Authority reached a compromise agreement regarding the lease fees for the warehouses and equipment in the Ashdod and Eilat Ports. The compromise agreement resolved the dispute between the parties with regard to such fees for the years 1988-98 in Eilat and 1990-98 in Ashdod, which had been referred for arbitration. The above amount represents the favorable difference between the amount paid under the compromise agreement and the provision recorded in the past in the financial statements; such difference amounted to approximately \$ 9.3 million.

In 2000, DSW signed an agreement with the Ports Authority regarding the operating costs of the bulk potash installation at Ashdod Port during the period between April 1992 and December 1999. The favorable difference between the amount paid per the agreement and the amount of the existing provision, in the amount of \$ 2.3 million, was credited to "Other income net."

- (5) In view of its continuing losses, its negative cash flow in 1999 and other factors, the management of Fertilizers and Chemicals Ltd. (hereafter - Fertilizers), a subsidiary, considered creating a provision for impairment in value of its assets. As a result, based on its ten-year cash flow forecast, Fertilizers has created a provision of \$ 12 million as mentioned above.

During 2001, IP resolved to discontinue, in 2003, the mining of potash in one of its mines. The financial statements include a provision of \$ 10.2 million (\$ 8.4 million in respect of impairment of value of fixed assets and \$ 1.8 million for a voluntary retirement plan in respect of the closing of the mine).

## ISRAEL CHEMICALS LIMITED

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

#### NOTE 15 - SUPPLEMENTARY FINANCIAL STATEMENT INFORMATION (continued):

In 2001, there was a significant decrease in the sales of fused magnesia by a partnership of Periclase (hereafter - the partnership), due to a decrease in the quantities sold and a reduction in the price thereof, which results, inter alia, from the introduction of new competition to the sector. Accordingly, and in light of the forecast for sales of fused magnesia by the partnership, the partnership examined the necessity of a provision for the impairment in value of the fused magnesia facility. Following this examination and based on the cash flows anticipated in the next five years, the partnership made a provision, as above, of approximately \$ 9 million. The Company's share in the write-down is approximately \$ 4.5 million.

The total write down, net of the amortization of goodwill which was deducted from the cost of these assets, as described in note 3c, is approximately \$ 2.5 million..

- (6) The item includes current expenses of some of Rotem's facilities in which production was discontinued for set periods during the year, as part of an inventory depreciation plan.

#### NOTE 16 - FINANCIAL INSTRUMENTS AND RISK MANAGEMENT:

##### a. General

The Group operates in a large number of currencies, giving rise to exposure to risks from changes in interest rates and foreign exchange rates. Financial instruments (including derivative financial instruments) are utilized by the Group to reduce those risks, as explained in this note. The Group does not hold or issue financial instruments for trading purposes.

As the counterparties to these derivatives are major banks in Israel and abroad, the Group considers that there are no inherent credit risks. The Group does not require or place collateral for these derivatives.

##### b. Interest rate risk management

The Group enters into interest rate swaps, mainly to alter interest rate exposure according to its expectations regarding the level of future interest rates.

Under interest rate swaps, the Group agrees with banks in Israel and overseas to exchange, at specified intervals, floating rate interest amounts calculated by reference to agreed notional amounts bearing fixed interest rates.

At December 31, 2001, the Group has interest rate swap agreements (for periods of up to 3 years) under which it receives a floating rate of interest, based on LIBOR (as of December 31, 2001 - 2%) and pays an average fixed rate interest of 5.7% - an imputed amount of \$ 360 million. Most of these transactions are combined with options written by the Group, according to which, if the floating interest, based on LIBOR, reaches 7.5% to 7%, the transactions will be null and void.

In addition to these transactions, the Group purchased caps to secure a ceiling of LIBOR interest rates of 5.5% which cover, as of December 31, 2001, a notional amount of \$ 10 million. The Group also purchased and wrote interest options which serve to fix LIBOR within the range of 5.65% to 4.5% (collar); the notional amount of such collars is \$ 26 million as of December 31, 2001.

**ISRAEL CHEMICALS LIMITED**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

**NOTE 16 - FINANCIAL INSTRUMENTS AND RISK MANAGEMENT** (continued):

**c. Foreign exchange risk management**

The Group enters into foreign currency derivatives - forward exchange and option contracts - almost all in order to protect the Group from the risk that the eventual dollar net cash flows resulting from existing assets and liabilities, and firm or anticipated (budgeted) for up to one year sales of products and purchases of goods and services, will be affected by changes in exchange rates.

These transactions are principally for the exchange of Euro, German marks, Japanese yen and new Israeli shekels into dollars, and vice versa.

The amounts relating to foreign currency derivatives are as follows:

	<b>Notional Amounts at December 31, 2001</b>
	<b>U.S. dollars in millions</b>
Forward contracts - for exchange of:	
Euro into dollars	<u>31.1</u>
Dollars into Euro	<u>7.8</u>
Dollars into Israeli currency	<u>161</u>
Other currencies into dollars and other currencies	<u>7.7</u>
Options purchased and written (cylinder options):	
Dollars for Euro	<u>3.5</u>
Dollars for Israeli currency	<u>16</u>
Dollars for Japanese yen	<u>28.8</u>
Dollars for British pound	<u>7.8</u>
Options written for exchange of NIS into Dollars	<u>9</u>

**d. Linkage terms of monetary balances that are not in dollars or linked thereto:**

1) Composed, as of December 31, 2000, as follows:

	<b>In non-dollar currencies or linked thereto</b>	<b>In Israeli currency</b>	
		<b>Linked to the Israeli CPI</b>	<b>Unlinked</b>
	<b>U.S. dollars in thousands</b>		
Assets:			
Current assets	195,225	49,528	89,798
Non-current assets (including current maturities)	<u>1,435</u>	<u>15,537</u>	<u>4,609</u>
	<u>196,660</u>	<u>65,065</u>	<u>94,407</u>
Liabilities:			
Current liabilities	166,597	779	209,434
Long-term loans and other long-term liabilities (including current maturities)	<u>212,772</u>	<u>23,225</u>	<u>62,647</u>
	<u>379,369</u>	<u>24,004</u>	<u>272,081</u>

**ISRAEL CHEMICALS LIMITED**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

**NOTE 16 - FINANCIAL INSTRUMENTS AND RISK MANAGEMENT** (continued):

2) Data regarding the exchange rate and the Israeli CPI:

	<b>Exchange rate of one dollar</b>	<b>Israeli CPI*</b>
At end of year:		
2001	NIS 4.416	170.91 points
2000	NIS 4.041	168.53 points
1999	NIS 4.153	168.53 points
1998	NIS 4.160	166.30 points
Increase (decrease) during the year:		
2001	9,3%	1.4%
2000	(2.7)%	-, -
1999	(0.2)%	1.3%

\* Based on the index for the month ending on each balance sheet date, on the basis of 1993 average = 100.

**e. Concentrations of credit risk**

Most of the Group's cash and cash equivalents and short-term marketable securities at December 31, 2001 and 2000 were deposited with Israeli and European banks. The Company's marketable securities represent mainly Israeli Government bonds and mutual funds that invest mainly in such bonds. The Group is of the opinion that the credit risk in respect of these balances is remote.

Most of the Group's sales are made to a large number of customers. Consequently, the exposure to credit risks relating to trade receivables is limited. The Group performs ongoing credit evaluations of its customers. An appropriate allowance for doubtful accounts is included in the accounts. A part of the trade receivables is also insured by foreign trade risk insurance.

The Company discounts some of the trade receivables and carries out transactions to ensure the payment of trade receivables.

**ISRAEL CHEMICALS LIMITED**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

**NOTE 16 - FINANCIAL INSTRUMENTS AND RISK MANAGEMENT** (continued):

**f. Fair value of financial instruments**

The financial instruments of the Group consist mainly of non-derivative assets: cash and cash equivalents, short-term investments, deposits and loans, accounts receivable, and non-current investments and receivables, and of non-derivative liabilities: short-term credit, accounts payable and accruals, long-term loans and other long-term liabilities; the Group also has derivatives.

In view of their nature, the fair value of the financial instruments included in working capital of the Group is usually identical or close to their carrying value. The fair value of long-term deposits and receivables and long-term loans and other long-term liabilities also approximates the carrying value, since they bear interest at rates close to the prevailing market rates.

The fair value of derivatives at December 31, 2001, is generally identical or close to their carrying value. The fair value of these instruments generally reflects the estimated amounts that the Group would receive, net, in order to terminate the contracts at the reporting dates.

As to the fair value of SQM shares - see note 4b(1).

**NOTE 17 - "INTERESTED PARTIES" AS DEFINED IN THE ISRAELI SECURITIES (PREPARATION OF ANNUAL FINANCIAL STATEMENTS) REGULATIONS, 1993:**

**a. Remuneration and benefits to interested parties:**

	<b>2001</b>	<b>2000</b>	<b>1999</b>
	<b>U.S. dollars in thousands</b>		
To interested parties employed by ICL	824	1,186	1,799
To interested parties not employed by ICL - directors	353	383	367
Number of people to whom these benefits related:			
Interested parties employed by ICL	1	1	2
Interested parties not employed by ICL - directors	16	15	20

As to the warrants allotted to the Company's C.E.O. and to its Chairman of the board of directors - see note 12c.

As to management fees to the parent company, see note 11a(4).

**ISRAEL CHEMICALS LIMITED**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

**NOTE 17 - "INTERESTED PARTIES" AS DEFINED IN THE ISRAELI SECURITIES (PREPARATION OF ANNUAL FINANCIAL STATEMENTS) REGULATIONS, 1993 (continued):**

**b. Balances with interested parties:**

	<b>2001</b>	<b>2000</b>
	<b>U.S. dollars in thousands</b>	
Long-term deposits, net of current maturities	16,552	15,504
Current maturities of long-term deposits	3,613	2,028
Other current liabilities	1,360	4,609
Long-term liabilities:		
Long-term loans, net of current maturities	317,050	385,320
Current maturities of long-term liabilities to interested parties	66,652	46,752
Current liabilities (excluding current maturities of long-term liabilities, see also note 8)	114,429	110,693

- c.** Data regarding transactions carried out in the ordinary course of business with entities, which are, or are likely to be, included within the definition of "interested parties" including banks, are not presented separately, as identification thereof is impracticable. Management believes that such transactions were substantially carried out at arm's length.
- d.** The Israeli Securities Authority has granted ICL an exemption from the requirement to describe transactions with related parties in the Company and with companies held by such related parties, in the annual financial statements. Management is of the opinion that such transactions are generally carried out at arm's length.

**NOTE 18 - BUSINESS SEGMENTS AND GEOGRAPHICAL AREAS:**

**a. The Group operates in the following principal segments - fertilizers, bromine and bromine compounds, special chemicals and metallurgy:**

Fertilizers - potash and phosphates, two of the three primary soil nutrients, and a wide range of fertilizers and intermediates for fertilizer production.

Bromine and bromine compounds - this segment includes chemicals based on bromine. Bromine is a poisonous, corrosive, liquid base used in the production of a wide variety of bromine compounds for industry and agriculture and designated for a vast range of markets and customers.

Special chemicals-magnesium based chemicals and hundreds of specialty and industrial chemicals for a wide range of markets and customers. This segment includes mainly water treatment products, phosphate salts and food additives. Each group of products in this segment constitutes a sales volume of less than 10%.

## ISRAEL CHEMICALS LIMITED

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

#### NOTE 18 - BUSINESS SEGMENTS AND GEOGRAPHICAL AREAS (continued):

There are no groups of products in this category that can be combined to create a distinct segment with a sales volume of 10%. Therefore, all these groups of products have been treated as a single segment.

Metallurgy - production and marketing of metallic magnesium, mainly for the automobile industry. This activity is carried out by DSM. Significant operations commenced in the fourth quarter of 1998 (following completion of the setting-up and running-in stages).

The other activities include mainly the water desalination business, logistic services to third parties and the Group's pharmaceutical development activities.

- b. The operating results by segment include all costs and expenses relating directly to each segment, as well as an allocation of certain unallocated expenses which relate to more than one segment.
- c. There is a series of multilateral international agreements designed to reduce the depletion of the ozone layer by various chemical substances, including methyl bromide, so that production, consumed quantities and supervised use of methyl bromide produced by the Bromine Companies (whose annual sales in the 3 years ended December 31, 2000 amounted to approximately 4.5% of consolidated Group sales) will be reduced in countries party to the agreements, as follows:
  - 1) In developed countries - from 2000 - by 25% relative to the amount produced in 1991; from 2001 - by 50%; from 2003 - by 70%, and from 2005 - complete cessation.
  - 2) In developing countries - a freeze, from 2002, according to average production and consumption in the years 1995-1999, in 2005 - a reduction of 20% and from 2015 - complete cessation.

After cessation of production and usage of methyl bromide as above, exceptional additional production only will be permitted, and only after reasonable steps have been taken to reduce the usage and its exhaust into the atmosphere.

Anticipated sales of methyl bromide of the Bromine Group and profits thereon will decrease as a result of the reduction in production and sales.

The Bromine Group is seeking alternatives to methyl bromide.



**ISRAEL CHEMICALS LIMITED**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

**NOTE 18 -BUSINESS SEGMENTS AND GEOGRAPHICAL AREAS** (continued):

**d. Industry segment information:**

	<u>2001</u>	<u>2000</u>	<u>1999</u>
	<u>U.S. dollars in thousands</u>		
Sales:			
Fertilizers	774,567	822,116	838,753
Bromine and bromine compounds	397,251	466,252	434,283
Special chemicals	584,845	615,305	625,929
Metallurgy	67,186	74,757	82,809
Other activities	34,932	30,179	52,105
	<u>1,858,781</u>	<u>2,008,609</u>	<u>2,033,879</u>
Operating income (loss):			
Fertilizers	113,373	110,545	148,488
Bromine and bromine compounds	41,412	71,985	66,668
Special chemicals	37,311	56,487	56,872
Metallurgy	(28,173)	(15,315)	(8,942)
Other activities	(3,567)	(3,499)	2,259
	<u>160,356</u>	<u>220,203</u>	<u>265,345</u>
Identifiable assets (at end of year):			
Fertilizers	1,432,964	1,546,046	1,510,500
Bromine and bromine compounds	591,869	613,221	566,183
Special chemicals	658,594	733,531	723,222
Metallurgy	134,862	355,844	329,932
Other activities	100,736	86,884	91,656
Corporate	13,303	26,019	85,864
	<u>2,932,328</u>	<u>3,361,545</u>	<u>3,307,357</u>
Capital expenditures - gross:			
Fertilizers	72,025	182,100	118,359
Bromine and bromine compounds	33,048	72,268	57,312
Special chemicals	18,834	12,859	13,259
Metallurgy	3,038	13,041	13,088
Other activities	8,218	28,252	7,338
Corporate			14,375
	<u>135,163</u>	<u>308,520</u>	<u>223,731</u>
Less - investment grants (in Israel):			
Fertilizers	3,480	5,014	13,576
Bromine and bromine compounds	2,929	3,018	9,657
Special chemicals	490	909	1,333
Metallurgy	(56)	1,994	5,092
	<u>6,843</u>	<u>10,935</u>	<u>29,658</u>
	<u>128,320</u>	<u>297,585</u>	<u>194,073</u>
Depreciation and amortization:			
Fertilizers	114,258	97,820	104,654
Bromine and bromine compounds	30,961	29,039	30,281
Special chemicals	23,938	37,065	49,103
Metallurgy	14,232	14,169	14,598
Other activities	3,649	1,904	2,684
Corporate			659
	<u>187,038</u>	<u>179,997</u>	<u>201,979</u>

**ISRAEL CHEMICALS LIMITED**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

**NOTE 18 - BUSINESS SEGMENTS AND GEOGRAPHICAL AREAS** (continued):

	2001	2000	1999
	U.S. dollars in thousands		
<b>e. Sales (by destination):</b>			
Outside Israel*:			
Europe	777,419	849,640	941,653
Asia	383,604	431,441	404,321
North America	268,887	280,985	259,762
South America	201,963	205,366	167,838
Other	67,884	70,632	72,168
	1,699,757	1,838,064	1,845,742
In Israel	159,024	170,545	188,137
	1,858,781	2,008,609	2,033,879
 <b>f. Data by geographical area*:</b>			
Sales:			
Israel	1,300,662	1,406,297	1,418,409
Europe	582,951	591,851	610,342
United States	58,240	76,988	79,604
Other	4,095	6,089	
	1,945,948	2,081,225	2,108,355
Transfers - mainly from Israel	(87,167)	(72,616)	(74,476)
	1,858,781	2,008,609	2,033,879
 Operating income (loss):			
Israel	143,508	192,155	221,495
Europe	17,604	22,528	34,131
United States	(460)	5,121	9,719
Other	(296)	399	
	160,356	220,203	265,345

**ISRAEL CHEMICALS LIMITED**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

**NOTE 18 - BUSINESS SEGMENTS AND GEOGRAPHICAL AREAS** (continued):

	<u>2001</u>	<u>2000</u>	<u>1999</u>
	<u>U.S. dollars in thousands</u>		
Identifiable assets (at end of year):			
Israel	2,248,960	2,678,819	2,575,458
Europe	569,349	581,926	625,586
United States	101,119	84,256	106,313
Other	<u>12,900</u>	<u>16,544</u>	<u>          </u>
	<u>2,932,328</u>	<u>3,361,545</u>	<u>3,307,357</u>
Capital expenditures - gross			
Israel	93,260	243,522	151,148
Europe	28,496	45,321	39,481
United States	3,940	8,381	3,444
Other	<u>2,624</u>	<u>361</u>	<u>          </u>
	<u>128,320</u>	<u>297,585</u>	<u>194,073</u>
Depreciation and amortization:			
Israel	129,117	131,130	159,036
Europe	50,676	41,372	35,950
United States	6,695	6,675	6,993
Other	<u>550</u>	<u>820</u>	<u>          </u>
	<u>187,038</u>	<u>179,997</u>	<u>201,979</u>

\* The sales and operating results are presented here on the basis of the geographical area where they were carried out or derived. Identifiable assets are those used to attain such sales.

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**ISRAEL CHEMICALS LIMITED**  
**DETAILS OF INVESTEES**  
**AT DECEMBER 31, 2001**

<b>The holder</b>	<b>The investee</b>	<b>Voting share</b>	<b>Share in profit</b>
		%	%
Israel Chemicals Ltd.	Dead Sea Works Ltd.	100.00	100.00
Israel Chemicals Ltd.	Dead Sea Bromine Company Ltd.	100.00	100.00
Israel Chemicals Ltd.	Rotem Amfert Negev Ltd.	100.00	100.00
Israel Chemicals Ltd.	Fertilizers and Chemicals Ltd.	100.00	100.00
Israel Chemicals Ltd.	Dead Sea Periclase ltd.	100.00	100.00
Israel Chemicals Ltd.	Mifalei Tovala Ltd.	100.00	100.00
Israel Chemicals Ltd.	Rotem Amfert Negev B.V., The Netherlands	100.00	100.00
Israel Chemicals Ltd.	I.D.E. Technologies Ltd.	50.00	50.00
Israel Chemicals Ltd.	Negev Industrial Materials Ltd.	100.00	100.00
Israel Chemicals Ltd.	ICL Financing and Issuing Ltd.	100.00	100.00
Israel Chemicals Ltd.	“Ferson” Chemicals Ltd.	100.00	100.00
Israel Chemicals Ltd.	ICL Fine Chemicals Ltd.	100.00	100.00
Israel Chemicals Ltd.	Tami (IMI) Institute for R&D Ltd.	100.00	100.00
Israel Chemicals Ltd.	P.A.M.A. ( Energy Resources Development ) Ltd.	25.00	25.00
Israel Chemicals Ltd.	Dead Sea Magnesium Ltd.	65.00	66.67
Dead Sea Works Ltd.	Ashli Chemicals B.V., The Netherlands	100.00	100.00
Dead Sea Works Ltd.	Ashli Chemicals Ltd. , England	100.00	100.00
Dead Sea Works Ltd.	Potash Technology Industries Ltd., Israel	100.00	100.00
Ashli Chemicals B.V., Holland	Potash Technology Industries B.V, The Netherlands	92.5	92.5
Ashli Chemicals B.V., Holland	Iberpotash S.A. , Spain	80.00	80.00
Iberpotash S.A. , Spain	Trafico de Mercancias S.A.,Spain	100.00	100.00

**ISRAEL CHEMICALS LIMITED**  
**DETAILS OF INVESTEES**  
**AT DECEMBER 31,2001**

<b>The holder</b>	<b>The investee</b>	<b>Voting share</b>	<b>Share in profit</b>
		<b>%</b>	<b>%</b>
Iberpotash S.A. , Spain	Societe Generale des Sels et Potasas S.A.R.L. ,France	100	100
Potash Technology Industries B.V, The Netherlands	Sino Israel Qinqhai Potash Company Ltd.China	33.33	33.33
Ashli Chemicals Ltd. , England	Y.H.M.S. Investment Establishment, Liechtenstein	100.00	100.00
Y.H.M.S. Investment Establishment, Liechtenstein	Potabrazil Ltd. , Brasil	20.50	20.50
Y.H.M.S. Investment Establishment, Liechtenstein	Cogepotasse, Ltd. Belgium	8.83	8.8
Dead Sea Bromine Company Ltd.	Bromine Compounds Ltd.	100.00	100.00
Dead Sea Bromine Company Ltd.	Eurobrom B.V . ,The Netherlands	100.00	100.00
Dead Sea Bromine Company Ltd.	Ameribrom Inc. U.S.A.	100.00	100.00
Dead Sea Bromine Company Ltd.	Bromokem (Far East) Ltd. , Japan	100.00	100.00
Dead Sea Bromine Company Ltd.	Landchem Ltd. ,South Africa	100.00	100.00
Dead Sea Bromine Company Ltd.	Bromine and Chemicals Ltd., England	100.00	100.00
Dead Sea Bromine Company Ltd.	Euro Clearon Netherlands , B.V., The Netherlands	100.00	100.00
Bromine Compounds Ltd.	Tetrabrom Technologies Ltd.	50.00	50.00
Bromine Compounds Ltd.	Dead Sea M.F.R. (1993) - Registered Partnership (1)(	50.00	50.00
Bromine Compounds Ltd.	Chemada Fine Chemicals Ltd.	26.00	26.00
Bromine Compounds Ltd.	L.B Compounds Ltd.	50.00	50.00
Bromine Compounds Ltd.	Soiltech Ltd.	51.00	51.00
Eurobrom B.V . ,The Netherlands	Bromchemie B.V., The Netherlands	100.00	100.00
Eurobrom B.V . ,The Netherlands	Traital S.A. , France	100.00	100.00
Eurobrom B.V . ,The Netherlands	Bromchemie Holdings B.V., The Netherlands	100.00	100.00
Eurobrom B.V . ,The Netherlands	Bromisia Ltd. , Brazil	100.00	100.00
Eurobrom B.V . ,The Netherlands	Euro Clearon B.V., The Netherlands	100.00	100.00
Eurobrom B.V . ,The Netherlands	Asia Brom , Hong Kong	100.00	100.00

**ISRAEL CHEMICALS LIMITED**  
**DETAILS OF INVESTEES**  
**AT DECEMBER 31,2001**

<b>The holder</b>	<b>The investee</b>	<b>Voting share</b>	<b>Share in profit</b>
		<b>%</b>	<b>%</b>
Eurobrom B.V. ,The Netherlands	L.Y.G.D.S.B. ,China	60.00	60.00
Eurobrom B.V. ,The Netherlands	Trancebrom (Europe) B.V., The Netherlands	100.00	100.00
Eurobrom B.V. ,The Netherlands	D.S.B. Co. Beijing ,China	100.00	100.00
Eurobrom B.V. ,The Netherlands	J.V Sinobrom. ,China	50.00	50.00
Eurobrom B.V. ,The Netherlands	Asia Brom Resource Management Ltd ,Hong Kong	100.00	100.00
Asia Brom Resource Management Ltd ,Hong Kong	Bromine Compounds Trading Company Ltd, Hong Kong	100.00	100.00
Asia Brom Resource Management Ltd ,Hong Kong	D.D.F.R Corporation Ltd , Hong Kong	50.00	50.00
Euro Clearon B.V., The Netherlands	Clearon Holdings Inc. , U.S.A.	100.00	100.00
Clearon Holdings Inc. , U.S.A.	Clearon Corp. , U.S.A.	100.00	100.00
Clearon Holdings Inc. , U.S.A.	Clearon Technologies, U.S.A.	100.00	100.00
Clearon Corp. , U.S.A.	Clearon Trading, Barbados	100.00	100.00
Ameribrom Inc. U.S.A.	Hy-Yield Inc. ,U.S.A.	100.00	100.00
Ameribrom Inc. U.S.A.	Hy-Yield Bromine Inc. ,U.S.A.	80.00	80.00
Rotem Amfert Negev Ltd.	Eurocil Holding B.V., The Netherlands	100.00	100.00
Rotem Amfert Negev Ltd.	Pekafert B.V., The Netherlands	100.00	100.00
Rotem Amfert Negev Ltd.	Negev Star Ltd.	51.00	51.00
Rotem Amfert Negev Ltd.	Edom Mining and Development Ltd.	100.00	100.00
Rotem Amfert Negev Ltd.	Agro-Vant	25.25	25.25
Edom Mining and Development Ltd.	Keter Tovala Ltd.	100.00	100.00
Eurocil Holding B.V., The Netherlands	Rotem Holding G.M.B.H. , Germany	100.00	100.00
Eurocil Holding B.V., The Netherlands	Nutrisi N.V. , Belgium	50.00	50.00
Eurocil Holding B.V., The Netherlands	Amsterdam Fertilizers B.V., Netherlands	100.00	100.00

**ISRAEL CHEMICALS LIMITED**  
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**AT DECEMBER 31,2001**

<b>The holder</b>	<b>The investee</b>	<b>Voting share %</b>	<b>Share in profit %</b>
Eurocil Holding B.V., The Netherlands	Rotem Kimyevi Maddeler Sanayi Ve Ticaret A.S, Turkey	92.00	92.00
Eurocil Holding B.V., The Netherlands	Incap B.V, The Netherlands	100.00	100.00
Rotem Holding G.M.B.H. , Germany	Eurocil G.M.B.H. , Germany	100.00	100.00
Rotem Holding G.M.B.H. , Germany	B.M. Chemie GmbH , Germany	100.00	100.00
Rotem Holding G.M.B.H. , Germany	Giulini Chemie GmbH , Germany (2)	0.50	0.50
Rotem Holding G.M.B.H. , Germany	Fibrisol Service Ltd. , ,England	100.00	100.00
Rotem Holding G.M.B.H. , Germany	B.K.Giulini Corporation Simi Vally. , U.S.A.	100.00	100.00
Rotem Holding G.M.B.H. , Germany	Fibrisol Australia Pty. Ltd; Australia.	100.00	100.00
Rotem Holding G.M.B.H. , Germany	Sofima S.a.r.l France	100.00	100.00
Rotem Holding G.M.B.H. , Germany	B.K Giulini Argentina S.A; Argentina	100.00	100.00
Rotem Holding G.M.B.H. , Germany	Gerhard Ruff G.M.B.H.; Germany	100.00	100.00
Rotem Holding G.M.B.H. , Germany	Osterrichische Anti Germ Gerhard Ruff &Co. G.M.B.H. Austria	100.00	100.00
Rotem Holding G.M.B.H. , Germany	Shaghal Tari International Ltd; China	51.00	51.00
Rotem Holding G.M.B.H. , Germany	Yunnan B.K Giulini Qunli phosphate Co. Ltd; China	51.00	51.00
Rotem Holding G.M.B.H. , Germany	France–Penngar S.A.	100.00	100.00
Rotem Holding G.M.B.H. , Germany	Fibrisol Muscalla GmbH, Germany (3)	34.65	34.65
Rotem Holding G.M.B.H. , Germany	Private Fleischeerschule GmbH, Germany	73.00	73.00
Rotem Holding G.M.B.H. , Germany	Tari Service Polska Sp.z.o.o; Poland	95.00	95.00
Fibrisol Muscalla GmbH, Germany	Private Fleischeerschule GmbH, Germany	27.00	27.00
Eurocil G.M.B.H. , Germany	B.K. Giulini Chemie GmbH & Co. OHG, Germany (4)	58.00	58.00
B.K. Giulini Chemie GmbH & Co. OHG, Germany	Beijin Giulini Water Treatment Co. Ltd, China	25.00	25.00
B.K. Giulini Chemie GmbH & Co. OHG, Germany	Fibrisol Muscalla GmbH, Germany (3)	65.00	65.00
B.K. Giulini Chemie GmbH & Co. OHG, Germany	Philopharm GmbH , Germany	100.00	100.00

**ISRAEL CHEMICALS LIMITED**  
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**AT DECEMBER 31,2001**

<b>The holder</b>	<b>The investee</b>	<b>Voting share</b>	<b>Share in profit</b>
		<b>%</b>	<b>%</b>
B.K. Giuliani Chemie GmbH & Co. OHG, Germany	C.F.F. Giuliani Chemie GmbH , Germany	51.00	51.00
B.K. Giuliani Chemie GmbH & Co. OHG, Germany	Hoyermann Chemie GmbH , Germany	100.00	100.00
B.K. Giuliani Chemie GmbH & Co. OHG, Germany	Turriss Werke GmbH , Germany	100.00	100.00
B.K. Giuliani Chemie GmbH & Co. OHG, Germany	B.K. Mercosur S.A. , Uruguay	100.00	100.00
B.K. Giuliani Chemie GmbH & Co. OHG, Germany	Fibrital S.a.r.l. ,Italy	100.00	100.00
B.K. Giuliani Chemie GmbH & Co. OHG, Germany	Rhenoflex GmbH , Germany	100.00	100.00
Rhenoflex GmbH , Germany	Gurit Worbla GmbH , Germany	100.00	100.00
Rhenoflex GmbH , Germany	Flexotex GmbH , Germany	100.00	100.00
Rhenoflex GmbH , Germany	Rhenoflex Dreyer ,S.A.R.L., France (5)	90.00	90.00
Rhenoflex GmbH , Germany	Rhenoflex Portugal Componentes Para Calçado Ida; Portugal	100.00	100.00
Rhenoflex Dreyer ,S.A.R.L., France	Rhenoflex U.K. Ltd. , England	100.00	100.00
B.M. Chemie GmbH , Germany	Giulini Chemie GmbH , Germany (2)	99.50	99.50
B.M. Chemie GmbH , Germany	Turriss Assekuranz GmbH; Germany	100.00	100.00
Turriss Werke GmbH , Germany	Turriss S.E.A. (Pte) Ltd. , Singapore	100.00	100.00
Giulini Chemie GmbH , Germany	Luko - Giuliani Chemie S.R.O.; Czech	100.00	100.00
Giulini Chemie GmbH , Germany	Turriss Food Services Ltd.; Russia	100.00	100.00
Giulini Chemie GmbH , Germany	Rotem do Brasil Ltd. , Brasil	100.00	100.00
Giulini Chemie GmbH , Germany	Tari International N.Z Ltd., New Zealand	100.00	100.00
Giulini Chemie GmbH , Germany	Tari International S.A Ltd. ,South Africa	100.00	100.00
Giulini Chemie GmbH , Germany	B.K. Giuliani Chemie GmbH & Co. OHG, Germany (4)	42.00	42.00
Giulini Chemie GmbH , Germany	Fibrisol Muscalla GmbH; Germany (3)	0.35	0.35
Giulini Chemie GmbH , Germany	Rhenoflex Dreyer ,S.A.R.L., France (5)	10.00	10.00
Giulini Chemie GmbH , Germany	Tari Service Polska Sp.z.o.o; Poland	5.00	5.00



**ISRAEL CHEMICALS LIMITED**  
**DETAILS OF INVESTEES**  
**AT DECEMBER 31,2001**

<b>The holder</b>	<b>The investee</b>	<b>Voting share</b>	<b>Share in profit</b>
		<b>%</b>	<b>%</b>
Rotem do Brazil Ltd. , Brazil	B.K.G-Rotem Quimica do Brazil Ltd; Brazil	95.00	95.00
Nutrisi N.V. , Belgium	Nutrichem NV, Belgium	100.00	100.00
Nutrisi N.V. , Belgium	Nutrichem NV, Benelux	100.00	100.00
Nutrisi N.V. , Belgium	G.N.V. SARL, France	50.00	50.00
Nutrisi N.V. , Belgium	Fenasa S.A Spain	50.00	50.00
Nutrisi N.V. , Belgium	FNC SARL, Italy	25.00	25.00
Amsterdam Fertilizers B.V; The Netherlands.,	Rotem Amfert Negev- Branch; United Kingdom	100.00	100.00
Amsterdam Fertilizers B.V; The Netherlands.,	Rotem Amfert Negev- Branch; France	100.00	100.00
Amsterdam Fertilizers B.V; The Netherlands.,	Amsterdam Fertilizers Deutschland O.H.G.; Germany (6)	95.00	95.00
Amsterdam Fertilizers Deutschland O.H.G.; Germany	Stodiek Dunger GmbH ,Germany	100.00	100.00
Amsterdam Fertilizers Deutschland O.H.G.; Germany	Palazia Dunger GmbH Germany	100.00	100.00
Palazia Dunger GmbH Germany	Amsterdam Fertilizers Deutschland O.H.G.; Germany (6)	5.00	5.00
Incap B.V; The Netherlands	Intracap Insurance Ltd. Isle of Man	100.00	100.00
Fertilizers and Chemicals Ltd.	Industrial Chemical Equipment Ltd.	100.00	100.00
Fertilizers and Chemicals Ltd.	Revivim In The Bay Water and Environment Ltd.	100.00	100.00
Fertilizers and Chemicals Ltd.	F&C - Licoris Ltd	10.00	10.00
Tami (IMI) Institute for R&D Ltd.	Potassium Nitrate Ltd.	50.00	50.00
Tami (IMI) Institute for R&D Ltd.	Novetide Ltd. Israel	50.00	50.00
Dead Sea Periclase ltd.	Tateho Dead Sea Fused Magnesia Co.	50.00	50.00
Dead Sea Periclase ltd.	Dead Sea M.F.R. (1993) (1)	50.00	50.00
Dead Sea Periclase ltd.	Speciality Technologies Europe B.V; The Netherlands	100.00	100.00
Speciality Technologies Europe B.V; The Netherlands	Scora S.A, France	100.00	100.00
Mifalei Tovala Ltd.	Sherut Rail&Road Transportation Services Registered Partnership	50.00	50.00
Mifalei Tovala Ltd.	Star Building Industries Registered Partnership	40.00	50.00

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<b>The holder</b>	<b>The investee</b>	<b>Voting share</b>	<b>Share in profit</b>
		<b>%</b>	<b>%</b>
Mifalei Tovala Ltd.	M.T.T. Environmental Services Registered Partnership	50.00	50.00
Mifalei Tovala Ltd.	M.M.M. Company United Landfill Industries (1998) Ltd.	33.33	33.33
Mifalei Tovala Ltd.	T.M.I.R	33.33	33.33
Rotem Amfert Negev B.V., The Netherlands	R.A.C. Investments Ltd. , Cayman Islands	100.00	100.00
Rotem Amfert Negev B.V., The Netherlands	Intracil Chemicals B.V., The Netherlands	100.00	100.00
Rotem Amfert Negev B.V., The Netherlands	Finacil B.V., The Netherlands	100.00	100.00
Rotem Amfert Negev B.V., The Netherlands	P.M. Chemicals S.P.A. , Italy	100.00	100.00
R.A.C. Investments Ltd. , Cayman Islands	Inversiones R.A.C. Chile Ltd. , Chile	100.00	100.00
R.A.C. Inversiones Chile Ltd. , Chile	S.Q.M. Chile	8.13	13.44
I.D.E. Technologies Ltd.	.Ambient Technologies Inc., U.S.A	100.00	100.00
I.D.E. Technologies Ltd.	IDE Canarias S.A., Spain	100.00	100.00
I.D.E. Technologies Ltd.	LWP; Cyprus (7)	95.00	95.00
I.D.E. Technologies Ltd.	Pelagos Desalination Services, Cyprus	100.00	100.00
I.D.E. Technologies Ltd.	Detelca UTE, Spain	20.00	20.00
I.D.E. Technologies Ltd.	Indian Desalination Engineering PVT Ltd., Spain	50.00	50.00
I.D.E. Technologies Ltd.	V.I.D desalination Company ltd.	50.00	50.00
Ambient Technologies Inc., U.S.A	LWP; Cyprus (7)	5.00	5.00
Dead Sea Magnesium Ltd.	M.R.I. Research & Development Ltd.	99.00	77.78
Dead Sea Magnesium Ltd.	Magnesium Research Institute, Registered Amuta	100.00	100.00
Dead Sea Magnesium Ltd.	Magnesium Die Casting Ltd.,	100.00	100.00
Dead Sea Magnesium Ltd.	Dead Sea Magnesium Inc. USA.	100.00	10.00

(1) Held 50% by Bromine Compunds ltd. And 50% by Dead Sea Periclase ltd.

(2) Held 0.50% by Rotem Holding G.M.B.H, Germany and 99.50% by B.M Chemie GmbH, Germany.

(3) Held 34.65% by Rotem Holding G.M.B.H, Germany , 65% by B.K Giulini Chemie GmbH& Co. OHG, Germany and 0.35% by Giulini Chemie GmbH, Germany.

(4) Held 58% by Eurocil G.M.B.H, Germany and 42% by Giulini Chemie GmbH, Germany.

(5) Held 90% by Rhenoflex Dreyer, S.A.R.L, France and 10% by Rhenoflex Dreyer, S.A.R.L, France

(6) Held 95% by Amsterdam Fertilizers B.V, The Netherlands and 5% by Palazia Dunger GmbH, Germany

(7) Held 95% by I.D.E Technologies Ltd. And 5% by Ambient Technologies Inc, U.S.A