ISRAEL CHEMICALS LIMITED

(An Israeli Corporation)

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

AT MARCH 31, 2001

(Unaudited)

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(An Israeli Corporation)

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The Board of Directors of
Israel Chemicals Limited
Tel-Aviv

Re: Review of unaudited condensed consolidated interim financial statements for the period ended March 31, 2001

At your request, we have reviewed the condensed consolidated interim balance sheet of Israel Chemicals Limited ("the Company") and its subsidiaries as of March 31, 2001 and the condensed consolidated interim statements of income, changes in shareholders' equity and cash flows for the three month period then ended, expressed in adjusted new Israeli shekels (NIS). Our review was performed in accordance with the procedures prescribed by the Institute of Certified Public Accountants in Israel. Inter alia, these procedures include: reading of the aforementioned financial statements, reading of minutes of meetings of shareholders, the board of directors and its committees, and making inquiries of Company officers responsible for financial and accounting matters.

We were furnished with the reports of other certified public accountants on their review of the condensed interim financial statements of consolidated subsidiaries, whose assets at March 31, 2001 constitute approximately 67% of total consolidated assets included in the condensed consolidated interim balance sheet and whose sales constitute approximately 78% of the total consolidated sales included in the condensed consolidated interim statements of income for the three month period March 31, 2001, respectively. The interim financial statements of associated companies were also reviewed by other certified public accountants.

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

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

We draw attention to the uncertainty in respect of contingent liabilities of the company and certain subsidiaries, as discussed in note 11c to the 2000 annual financial statements and note 3 to these interim statements. In respect to certain of these contingent liabilities, provisions have been included in these condensed financial statements in amounts which, in the opinion of management of the said companies are considered sufficient to cover any liability that may arise in respect thereof; no provisions have been made in respect of other contingent liabilities the amounts or ultimate outcome of which cannot be determined at this stage.

The accompanying financial statements are a translation into U.S. dollars of the abovementioned unaudited consolidated interim statements in NIS, in accordance with the principles described in note 2b to the annual financial statements as of December 31, 2000.

Sincerely yours,

May 17, 2001

ISRAEL CHEMICALS LIMITED

(An Israeli Corporation)

CONDENSED CONSOLIDATED BALANCE SHEET

AT MARCH 31, 2001

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

	March 31		December 31,
	2001	**2000**	**2000**
	(Unaudited)		**(Audited)**
	In thousands		
A s s e t s			
CURRENT ASSETS:			
Cash and cash equivalents	21,011	17,130	18,247
Short-term investments, deposits and loans	28,839	54,077	34,547
Accounts receivable:			
Trade	432,036	468,889	453,493
Other	180,672	163,536	200,721
Inventories	494,879	492,062	492,071
T o t a l current assets	1,157,437	1,195,694	1,199,079
INVESTMENTS AND LONG-TERM RECEIVABLES:			
Associated companies	9,055	3,738	10,857
Other companies	51,037	49,170	51,037
Long-term deposits and receivables, net of current maturities	24,057	32,941	25,505
	84,149	85,849	87,399
FIXED ASSETS:			
Cost	3,961,138	*3,918,335	3,970,644
L e s s - accumulated depreciation	2,077,709	1,959,684	2,059,264
	1,883,429	1,958,651	1,911,380
OTHER ASSETS AND DEFERRED CHARGES, net of accumulated amortization	154,635	*121,651	158,187
	3,279,650	3,361,845	3,356,045

Date of approval of the financial statements: May 17, 2001

Yossi Rosen
Chairman of the Board of Directors

Akiva Mozes
President and Chief Executive Officer

Avi Doitchman
Chief Financial Officer

	March 31		December 31,
	2001	2000	2000
	(Unaudited)		(Audited)
	In thousands		
Liabilities and shareholders' equity			
CURRENT LIABILITIES:			
Short-term credit from banks and other credit granting institutions	543,421	443,442	552,105
Accounts payable and accruals:			
Suppliers and contractors	189,541	225,295	208,615
Other	234,271	247,275	243,936
Dividend payable	26,317	50,172	
T o t a l current liabilities	993,550	966,184	1,004,656
LONG-TERM LIABILITIES:			
Loans and other liabilities (net of current maturities):			
Debentures	8,545	14,795	8,934
Bank loans	933,356	1,053,681	980,317
	941,901	1,068,476	989,251
Deferred income taxes	247,852	*233,389	252,837
Liability for employee rights upon retirement, net of amount funded with severance pay funds	131,878	115,737	129,985
T o t a l long-term liabilities	1,321,631	1,417,602	1,372,073
CONTINGENT LIABILITIES, see note 3			
T o t a l liabilities	2,315,181	2,383,786	2,376,729
MINORITY INTEREST IN SUBSIDIARIES	57,769	99,648	60,420
SHAREHOLDERS' EQUITY	906,700	878,411	918,896
	3,279,650	3,361,845	3,356,045

* Reclassified.

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

ISRAEL CHEMICALS LIMITED

(An Israeli Corporation)

CONDENSED CONSOLIDATED STATEMENT OF INCOME

FOR THE 3 MONTH PERIOD ENDED MARCH 31, 2001

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

	3 months ended March 31		Year ended December 31,
	2001	**2000**	**2000**
	(Unaudited)		**(Audited)**
	In thousands (except per share data)		
SALES - net	436,170	464,049	1,839,206
COST OF SALES	339,302	351,684	1,388,460
GROSS PROFIT	96,868	112,365	450,746
RESEARCH AND DEVELOPMENT EXPENSES - net	8,394	9,015	33,959
SELLING AND MARKETING EXPENSES	23,913	27,061	107,157
GENERAL AND ADMINISTRATIVE EXPENSES	22,134	24,025	89,427
OPERATING INCOME	42,427	52,264	220,203
FINANCIAL EXPENSES - net	28,117	16,858	85,871
	14,310	35,406	134,332
OTHER INCOME - net	1,854	3,198	7,062
INCOME BEFORE TAXES ON INCOME	16,164	38,604	141,394
TAXES ON INCOME, see note 4	190	12,494	43,999
INCOME FROM OPERATIONS OF THE COMPANY AND ITS SUBSIDIARIES	15,974	26,110	97,395
SHARE IN PROFITS (LOSSES) OF ASSOCIATED COMPANIES - net	(86)	81	366
MINORITY INTEREST IN LOSSES (PROFITS) OF OF SUBSIDIARIES - net	2,266	(1,151)	2,665
NET INCOME FOR THE PERIOD	18,154	25,040	100,426
BASIC NET INCOME PER NIS 1 OF PAR VALUE OF SHARES - in dollars	0.015	0.021	0.084
PAR VALUE OF SHARES USED FOR THE PURPOSE OF COMPUTATION OF BASIC PER SHARE DATA - NIS in thousands	1,200,000	1,195,934	1,201,438

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

ISRAEL CHEMICALS LIMITED

(An Israeli Corporation)

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

FOR THE 3 MONTH PERIOD ENDED MARCH 31, 2001

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

	Share capital	**Capital Surplus**	**Cumulative translation adjustments**	**Retained earnings**	**Cost of Company Shares held by a Subsidiary**	**Total**
	In thousands					
BALANCE AT JANUARY 1, 2001 (audited)						
CHANGES DURING THE 3 MONTHS ENDED MARCH 31, 2001 (unaudited):	521,402	1,110	(21,438)	435,224	(17,402)	918,896
Net income				18,154		18,154
Dividend				(26,317)		(26,317)
Other			(4,033)			(4,033)
BALANCE AT MARCH 31, 2001 (unaudited)	521,402	1,110	(25,471)	427,061	(17,402)	906,700
BALANCE AT JANUARY 1, 2000 (audited)	521,402	1,110	(15,175)	418,013		925,350
CHANGES DURING THE 3 MONTHS ENDED MARCH 31, 2000 (unaudited):						
Net income				25,040		25,040
Dividend				(50,172)		(50,172)
Cost of Company shares held by a subsidiary					(17,402)	(17,402)
Other			(4,405)			(4,405)
BALANCE AT MARCH 31, 2000 (unaudited)	521,402	1,110	(19,580)	392,881	(17,402)	878,411
BALANCE AT JANUARY 1, 2000 (audited)	521,402	1,110	(15,175)	418,013		925,350
CHANGES DURING THE YEAR ENDED DECEMBER 31, 2000 (audited):						
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)
BALANCE AT DECEMBER 31, 2000 (audited)	521,402	1,110	(21,438)	435,224	(17,402)	918,896

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

ISRAEL CHEMICALS LIMITED

(An Israeli Corporation)

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE 3 MONTH PERIOD ENDED MARCH 31, 2001

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

	3 months ended March 31		Year ended December 31,
	2001	**2000**	**2000**
	(Unaudited)		**(Audited)**
	In thousands		
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	18,154	25,040	100,426
Adjustments required to reflect the cash flows from operating activities (a)	26,465	71,244	196,019
Net cash provided by operating activities	44,619	96,284	296,445
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of fixed assets	(33,753)	(48,891)	(178,467)
Investment grant relating to purchase of fixed assets	2,346	2,748	13,882
Proceeds from disposal of investments in subsidiaries consolidated in previous years (b)		5,269	19,035
Proceeds from disposal of investment in associated company	6,928		
Acquisition of minority's share in subsidiaries		(149,630)	(220,187)
Investments in shares of associated companies and loans thereto	(489)	(1,144)	(10,034)
Investments of marketable securities and long-term deposits	(1,969)	(4,396)	(5,680)
Decrease (Increase) in short-term deposits and loans - net	5,327	(436)	(4,369)
Amounts carried to other assets and deferred charges	(416)	(1,122)	(6,912)
Proceeds from sale of fixed assets	26,567	1,092	10,309
Proceeds from disposal of marketable securities, investments and long-term deposits	1,968	3,327	31,114
Net cash provided by (used in) investing activities	6,509	(193,183)	(351,309)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Purchase of Company shares held by a subsidiary		(17,402)	(17,402)
Issue of share capital in a subsidiary to minority shareholders			210
Long-term loans received and other long-term liabilities undertaken	26,833	162,484	420,603
Repayment of long-term loans and discharge of other long-term liabilities	(42,567)	(84,442)	(261,957)
Dividend paid:			
To shareholders of the Company			(83,215)
To minority shareholders in subsidiaries			(3,243)
Short-term credit from banks and others - net	(32,430)	13,495	(19,111)
Net cash provided by (used in) financing activities	(48,164)	74,135	35,885
ADJUSTMENTS FROM TRANSLATION OF BALANCES OF CASH AND CASH EQUIVALENTS OF CERTAIN NON-ISRAELI SUBSIDIARIES	(200)	(853)	(3,521)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	2,764	(23,617)	(22,500)
BALANCE OF CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	18,247	40,747	40,747
BALANCE OF CASH AND CASH EQUIVALENTS AT END OF PERIOD	21,011	17,130	18,247

ISRAEL CHEMICALS LIMITED

(An Israeli Corporation)

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE 3 MONTH PERIOD ENDED MARCH 31, 2001

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

	3 months ended March 31		Year ended December 31,
	2001	2000	2000
	(Unaudited)		(Audited)
	In thousands		
(a) Adjustments required to reflect the cash flows from operating activities:			
Income and expenses not involving cash flows:			
Minority share in subsidiaries - net	(2,266)	1,151	(2,665)
Associated companies:			
Share in losses (profits) - net	86	(81)	(366)
Depreciation and amortization	42,518	44,908	180,130
Deferred income taxes - net	(1,029)	6,961	24,199
Liability for employee rights upon retirement - net	4,985	2,726	20,678
Capital losses (gains) on:			
Sale of fixed assets	20	(238)	(23,422)
Sale of shares in an investee companies			(14,172)
Sale of share in associated company	(4,538)		
Linkage differences (erosion of principal) of long-term loans and other long-term liabilities - net	58	(3,654)	(6,422)
Erosion of (exchange and linkage differences on) principal of long-term deposits and receivables - net	896	(750)	1,221
Losses (Gain) from marketable securities	563	(1,659)	(376)
	41,293	49,364	178,805
Changes in operating asset and liability items:			
Decrease (increase) in accounts receivable:			
Trade	16,349	69,907	19,633
Other	(10,265)	(12,176)	(27,008)
Increase (decrease) in accounts payable and accruals:			
Suppliers and contractors	(9,884)	(42,261)	6,808
Other	(6,777)	3,864	19,546
Decrease (increase) in inventories	(4,251)	2,546	(1,765)
	(14,828)	21,880	17,214
	26,465	71,244	196,019

ISRAEL CHEMICALS LIMITED

(An Israeli Corporation)

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE 3 MONTH PERIOD ENDED MARCH 31, 2001

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

	3 months ended March 31, 2000	**Year ended December 31, 2000**
	(Unaudited)	**(Audited)**
	In thousands	
(b) Proceeds from disposal of investments in subsidiaries consolidated in previous years *:		
Assets and liabilities at date of disposal:		
Working capital (excluding cash)	(1,877)	(10,176)
Long-term investments		547
Fixed assets - net	8,207	19,959
Goodwill		(182)
Long-term loans and other liabilities	(1,061)	(3,070)
Capital gain from sale of investment in the subsidiary		14,172
Amount not yet received in respect of the disposal		(2,215)
	5,269	19,035

* In 2000, including a subsidiary which became a proportionately consolidated company.

Supplementary information on activity not involving cash flows

(c) On March 28, 2001, the Company's Board of Directors decided to distribute net cash dividends in the amount of U.S. $ 26,317,000.

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

ISRAEL CHEMICALS LIMITED

(An Israeli Corporation)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

AT MARCH 31, 2001

NOTE 1 - GENERAL:

a. The condensed consolidated interim financial statements of Israel Chemicals Limited (hereafter - the Company) and its subsidiaries (together - the Group) as of March 31, 2001 and for the three month period then ended ("the interim statements") have been prepared in a condensed form, in accordance with accounting principles generally accepted for interim financial statements and with the Israeli Securities Regulations (Periodic and Immediate Reports), 1970. The generally accepted accounting principles applied in preparation of the interim statements are consistent with those applied in preparation of the annual consolidated financial statements; nevertheless, the interim statements do not include all the information and notes which are required for the annual consolidated financial statements.

b. Financial statements translated into U.S. dollars

The Group's primary accounts have been prepared on the basis of historical cost adjusted to reflect the changes in the rate of exchange of the U.S. dollar (hereafter - dollar; or $), in accordance with pronouncements of the Institute of Certified Public Accountants in Israel. All figures in the said primary accounts are presented in NIS adjusted to the rate of exchange of the dollar on March 31, 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 March 31, 2001 - $ 1 = NIS 4.192.

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

	Exchange rate of the U.S. dollar	**Israeli consumer price index**
	%	**%**
3 months ended March 31:		
2001	3.7	(0.5)
2000	(3.0)	(1.2)
Year ended December 31, 2000	(2.7)	-,-

NOTE 2 - SUBSIDIARIES AND ASSOCIATED COMPANIES:

a. The sale of 50% of the holding in I.D.E. Technologies Ltd. (hereafter - 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.

Following this sale, the financial statements of I.D.E. are included in the financial statement of the Company, commencing October 1, 2000, by the proportionate consolidation method.

NOTE 2 - SUBSIDIARIES (continued):

b. Acquisition offer for the shares of Dead Sea Bromine Ltd. (hereafter - DSB)

On November 7, 2000, the Company published an offer for the acquisition of DSB’s shares. Following the acquisition offer, on December 5, 2000, the Company purchased, directly, the balance of publicly held shares - approximately 10.77% of DSB's share capital - for NIS 28.8 per share (as of the date of the offer - $ 7.1 per share), at a total cost of approximately $ 66.4 million.

The excess of cost over the book value of the underlying assets, net of underlying liabilities at time of acquisition, aggregates approximately $ 38 million. To date of issue of these financial statements, the Company has yet to complete the attribution of the estimated fair value of the assets and liabilities purchased at date of acquisition. The above excess is temporarily presented under “other assets and deferred charges”, and is amortized over 20 years.

On December 5, 2000, the trade in shares of DSB was terminated and on December 10, 2000, the shares’ registration as publicly traded shares was cancelled.

c. The purchase of the shares of Iber Potash S.A. (hereafter - IP) by a subsidiary

In 2000, Dead Sea Works Ltd. (hereafter – DSW) exercise an option which it had received under an agreement entered into in 1998, between the shareholders of IP, and acquired the holding of La Seda in IP(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.

On March 31, 2001, DSW holds 80% of the share capital of IP.

After March 31, 2001, DSW signed an agreement to exercise an option which it had received under an agreement entered into in 1998, between the shareholders of IP, and acquired the holding of TOLSA in IP (20%) through a subsidiary - Ashli - at a price of $ 6.8 million. The goodwill arising on this acquisition was $ 2.6 million.

After this acquisition, DSW holds 100% of the share capital of IP.

d. Sale of shares of associated company

On February 13, 2001, DSW sold its entire holdings (49.48%) in Dead Sea Laboratories Ltd., a company engaged in the marketing and sale of cosmetics and skin-care products under the brand name “Ahava”, in consideration for $6.9 million. The capital gain and net income recorded in respect of that sale is approximately $4.5 million.

NOTE 3 - CONTINGENT LIABILITIES:

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

   Some of the above legal proceedings have been transferred by the U.S. courts to the courts in the plaintiffs' countries of residence. In most of those cases, the Bromine Companies have been directly named as defendants. At this stage, it is not possible to determine the likelihood of all or part of the said litigation reverting to the United States despite having been so transferred.

   Over the years, compromise negotiations between the defendants and the representatives of a large group of plaintiffs have been held. Some of the defendants have reached a partial compromise arrangement with some of the claimants in that group. According to that arrangement, the defendants were granted a waiver and other assurances from the claimants involved. The Bromine Group are among the parties that will benefit from the waiver, although they are not direct parties to the compromise arrangement and have no obligations thereunder. Nevertheless, at this stage, it is not possible to evaluate the chances that the courts considering the above processes will recognize the validity of the compromise arrangements, in full or in part. Assuming the legal proceedings with the remaining parties will continue, furthermore, it is impossible at this stage, to estimate whether the courts discussing these proceedings will recognize the compromise agreements, in whole or in part. It is not possible to estimate the outcome thereof at this stage, nor is it possible to estimate the effect of the abovementioned compromise arrangement and waiver on the claims lodged against the Bromine Group. Approximately 5,000 plaintiffs, represented by different legal counsel, are not parties to the aforementioned compromise arrangement.

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

   The Bromine Group estimate that the quantities of chemicals supplied thereby is small as compared to the quantity supplied by the other producers being sued in the abovementioned litigation.

NOTE 3 - CONTINGENT LIABILITIES (continued):

Management of the Bromine Group is of the opinion that, at the relevant times, the Bromine Group had some 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 have lodged a claim against the insurers with respect to that dispute. In April 2001, the insurers of the Bromine group, 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. That claim is pending in court and it is not possible to estimate the outcome thereof at this stage.

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

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

2) In July 2000, the Bromine Group and the U.S. Department of Justice reached an agreement regarding the 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 the civil action pending against the Bromine Group in the United States. In February 2000, a request was filed for recognition of that action as a class action. 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.

The Bromine Group has recently 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 is subject to the fulfillment of a number of preconditions. These preconditions include a court preruling, the certification of the lawsuit as a class action and the reaching of a minimum rate of claimants in the representative group. In April 2001, the amount of the compromise agreement relating to the this claim, was deposited in trust with the representative of the plaintiffs. The transfer of the amount to the plaintiffs and the completion of the compromise agreement are subject, in addition to the preconditions mentioned above, to the agreement of the plaintiffs to the compromise agreement. A provision in this amount has been included in the financial statements for 2000.

Over a year ago, one of the two main competitors of the Bromine Group announced that it was cooperating with the anti-trust authorities in the European Union with regard to a similar investigation.
As of the date of approval of these financial statements, the Bromine Group and their legal counsel are unable to estimate the effect of this event on the results of operations, due to the uncertainty as to its outcome. Therefore, no provision has been made in respect thereof in these financial statements.

NOTE 3 - CONTINGENT LIABILITIES (continued):

3) In 1998, a claim in the amount of $17 million was filed against ICL and two of its subsidiaries (hereafter in this paragraph – the defendants) as well as a petition to have the claim certified as a class action, in respect of alleged violations of the Restrictive Trade Practices Law. The claim contends that the defendants took unfair advantage of their monopolistic status, and set the price of solid phosphoric fertilizer significantly in excess of the input costs of the underlying raw materials. The defendants argue, on the other hand, that the proper price of the product which is the subject of the claim, should take into account the actual production and marketing costs, as well as the cost of the related services which they provide (consultancy, laboratory services etc.). The defendants maintain that, in fact, the defendants' rate of profit on the sale of the fertilizers, which are the subject of the claim, is low, and most certainly does not support the allegation of the taking of unfair advantage of a monopolistic status. The defendants also maintain that the computation of the alleged damages, claimed by the plaintiff, is overstated and without foundation, both due to the fact that it is based on exaggerated assumptions as to the sales volume of the product as well to the fact that it contains erroneous calculations and other errors. In the opinion of management, based on the opinion of the legal counsel handling the case, it is not yet possible to estimate the outcome of the claim and, therefore, no provision was made in respect thereof in the financial statements.

4) 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 for crushing salt mushrooms, 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 the request for cancellation of the patent, which was filed by DSW, and on the development and use of the dredge over many years.

   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 $10 million to $14 million. The parties have not reached any agreement.

NOTE 3 - CONTINGENT LIABILITIES (continued):

On March 12, 2001, Contrack filed a claim for damages of approximately $53.4 million, in the Tel-Aviv District Court. Contrack also filed a request for exemption from claim filing fee. The court granted DSW the right to respond to that request within 30 days.

On April 10, 2001, DSW responded to the request of Contrack to exempt it from the claim filing fee. Contrack requested an extension of time to respond to DSW's response. No decision in this matter has yet been handed down. Should DSW deem it necessary it may, in the future, file a request to suspend the consideration of claim, until after a ruling is handed down in the appeal it filed with the Supreme Court. As the judgement on the appeal, filed by DSW on the District Court judgement, has not been received yet, management believes that the results of this claim and its effect on DSW cannot be estimated at this stage. Therefore, no provision was made in respect thereof in the financial statements.

5) DSM is currently involved in an antidumping (AD) investigation and in a countervailing duty (CVD) investigation on pure magnesium before the United States International Trade Commission (ITC) and Department of Commerce (DOC) that were initiated in 2000. A preliminary decision on the CVD matter was announced on February 14, 2001. The DOC found that DSM received protective customs subsidies and decided that, beginning with February 14, 2001, a levy at a rate of 13.39% was to be imposed on entries of pure magnesium into the United States. In a preliminary decision in the AD matter announced on April 24, 2001, a levy at the rate of 12.6% was imposed on DSM. Both of the above decisions are preliminary and it is possible that they will be changed in September, following an additional hearing scheduled for May 2001. The ITC is to consider this matter in a few months, and it will decide whether DSM hurts American industry. Should the ITC conclude that DSM has a restraining influence on competition, the above described levies will become permanent levies to be imposed on all imports, into the U.S, of pure magnesium of DSM manufacture.

   DSM considers the U.S. to be an important market. Its sales of pure magnesium in the U.S. in 2000, amounted to $14.7 million. DSM is cooperating with the American authorities and responds to all of their requests. At this stage, the management of DSM is unable to predict the effect of the said investigation on its operations and financial position.

6) 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 $ 1.4 million in its accounts in respect of this agreement, based on its estimated share in the anticipated expenses.

NOTE 3 - CONTINGENT LIABILITIES (continued):

b) The Bromine Group manufacture, store and sell dangerous chemical products. Accordingly, they are exposed to risks resulting from environmental damage. The Bromine Companies invest substantial amounts in order to meet environmental orders and standards. The financial statements include a provision amounting to approximately $ 5.8 million, which, in the opinion of the Bromine Companies' management, on the basis of information available to it, is adequate to cover possible liabilities in respect of environmental damage in which the Bromine Companies are involved.

c) In January 1998, a report was submitted to the Ministry of the Environment and to the Ramat Hovav Local Industrial Council. It contains data relating to underground pollution in the Ramat Hovav region, where a plant of the Bromine Companies is located, along with other chemical plants. The report includes recommendations regarding steps to be taken to prevent infiltration of pollutants into the ground in the Ramat Hovav area and to prevent the spreading thereof.

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

During 1998, the investigators who issued the above report, began a four year jointly funded research project (of which the above subsidiary’s share is $ 600,000) for the purpose of advancing the implementation of the recommendations of the above report.

d) In 1986, soil contamination was found 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 could 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.

NOTE 3 - CONTINGENT LIABILITIES (continued):

v) 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.

vi) In June 2000, one company from the Bromine Group was added as a defendant in a case brought by Vaughn Water Company with regard to pollution of land and groundwater in California, U.S.A. The complaint was originally filed against a number of chemical producers in September 1999. In a meeting held between the parties, in January 2001, an as yet unsigned compromise agreement was worked out. In the opinion of the management of the Bromine Group, the provision made in respect of that claim is sufficient to cover possible losses.

NOTE 4 - TAXES ON INCOME

The decrease in the effective tax rate on pre-tax income results mainly from crediting of income from creation of deferred taxes in respect of tax loss carryforward of a subsidiary which, in management's updated opinion, can be utilized in the future. Furthermore from profit which was offset against losses carryforward, in respect of which no deferred taxes were created in previous years. Nonetheless, the real devaluation in the exchange rate of the Israeli currency as compared to the dollar has partly moderated the above effects.