DIRECTORS' REPORT

ON THE STATE OF THE COMPANY'S AFFAIRS

for the year ended 31.12.2000

1. Description of the Company and its Business Environment

1.1 Description of the Company

Israel Chemicals (hereinafter: "**ICL**") is a multinational group operating primarily in the production of fertilizers and chemicals of various types (hereinafter: "**ICL**" or "**the ICL Companies**", as applicable).

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

Israel is the center of ICL's operations. Manufacturing subsidiaries are located in the U.S.A., Germany, France, Spain, China and the Netherlands. In addition to the manufacturing companies, ICL holds an array of service companies for marketing, logistics and R&D.

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

Israel Corporation, in which the Ofer Brothers Group is the controlling interest, holds 52.81% of ICL's share capital.

In 1999 and 2000 ICL purchased the entire minority interest in Fertilizers and Chemicals Ltd. (hereinafter: "**Fertilizers**"), Dead Sea Periclase Ltd. (hereinafter: "**Periclase**"), Dead Sea Works Ltd. (hereinafter: "**DSW**") and Dead Sea Bromine Ltd. (hereinafter: "**DSB**").

As a result, the Group is preparing to utilize synergies and streamline its operations. For example, it was decided to exploit the synergies of DSW and Rotem Amfert Negev Ltd. (hereinafter: “**Rotem**”) by consolidating activities in joint management headquarters, while each of them remains an independent legal entity with separate financial statements. This led to consolidation of the marketing, overland handling, shipping, storage and ship-loading systems of the companies, which are continuing to consolidate the work of the management headquarters and the overseas marketing offices. Measures have also been taken to consolidate the management headquarters of Fertilizers and Tami (IMI) Research and Development Institute Ltd. (hereinafter: "**Tami**").

1.2 The Company's business environment and profitability

ICL is an export-oriented company. Its business results are influenced both by global economic trends and changes in trading conditions between the local market and its export markets.

ICL's sales are made in foreign currency, mainly dollars, while approximately one quarter of its expenses for inputs are in shekels. Consequently, a real devaluation or appreciation in the average dollar-shekel currency rate affects the Company's operating profit. The dollar-CPI ratios also affect the income tax expense item, ie., when the devaluation rate is higher or lower than the rate of increase in the CPI, a tax expense or tax benefit respectively is created, which stems from the method of calculating protection for ICL's capital. Changes in the exchange rate of the dollar vis-a-vis European currencies also affect operating results, finance expenses and tax expenses.

In general, the demand for the Group's products is influenced by the demand for basic agricultural products (fertilizers and fumigants) and by the economic situation in developed countries (chemicals).

During the Report Period, ICL benefited from favourable economic conditions in key markets in Europe, Asia, North and South America. However, the performance of the Company was hit by changes in the costs of major inputs and in exchange rates compared with last year. Most noteworthy are the rises in energy prices and in the price of sulfur, the increase in marine transportation charges in some of the lines used by ICL, the revaluation of the shekel-dollar exchange rate and erosion of the euro versus the dollar, as well as an increase in dollar interest rates.

Competition in some of the markets to which the Company sells has led to price reductions during the reporting period in some of the Company's areas of operation, particularly the markets for phosphate fertilizers, phosphoric acid and magnesium metal. ICL is taking steps to mitigate the impact of these factors, both by adjusting its sales policy and by taking actions to increase efficiency, which have resulted in considerable savings.

1.3 Change in the estimated useful life of certain production facilities

Commencing from July 1, 2000, the estimated useful life of certain production facilities was changed from 20 to 25 years (plants in the fertilizer segment, Rotem's white acid production plants and Periclase's production facilities). The change was based on the expert opinions of engineers of the subsidiary companies. That opinion took into account past experience concerning the specific plants in question, the physical condition of the plants, and the effect of expected technological changes on the operation of the plants in the future.

A review by the Company showed that 25 years approximates the average useful life of plants in leading public fertilizer companies similar to ICL. The above-mentioned change to estimated life-span of the production plants brings ICL in line with other fertilizer companies.

In the year ended December 31, 2000, this change led to a reduction in depreciation expenses (which are included in the section of cost of sales), of about $6.6 million, and an increase in the net profit and earnings per share of some 4.4 million dollars and 0.004 dollars per share respectively, compared with the data that would have been reported if the depreciation had been calculated in accordance with the previous estimates of useful life.

2. Results of Operations

2.1 Principal Financial Results

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

	1-12/2000		1-12/1999		10-12/2000		10-12/1999	
	NIS millions	% of sales	NIS millions	% of sales	NIS millions	% of sales	NIS millions	% of sales
Sales FOB	7,432.2	100.0	7,576.8	100.0	1,796.3	100.0	1884.8	100.0
Gross profit	1,821.3	24.5	2,086.6	27.5	402.5	22.4	476.3	25.3
Operating income	889.8	11.9	1,072.1	14.2	170.1	9.9	224.7	11.9
Pre-tax income	571.4	7.7	781.5	10.3	86.1	4.8	91.3	4.8
Net income before extraordinary items	365.3	4.9	508.6	6.7	67.1	3.7	133.1	7.1
Net income	405.8	5.5	505.9	6.7	57.8	3.2	46.1	2.4
Cash flow from current operations	1,197.9		1,447.0		334.2		405.4	
Investments								
Acquisition of shares in subsidiaries	890.0		79.5		285.3		71.2	
Purchase of fixed assets less grants	665.1		791.6		147.1		205.8	
Total	1,555.1		871.1		432.4		277.0	

	1-12/2000		1-12/1999		10-12/2000		10-12/1999	
	$ millions	% of sales	$ millions	% of sales	$ millions	% of sales	$ millions	% of sales
Sales FOB	1,839.2	100.0	1,875.0	100.0	444.5	100.0	466.4	100.0
Gross profit	450.7	24.5	516.4	27.5	99.6	22.4	117.9	25.3
Operating income	220.2	12.0	265.3	14.2	42.1	9.9	55.7	11.9
Pre-tax income	141.4	7.7	193.4	10.3	21.3	4.8	22.6	4.8
Net income before extraordinary items	90.4	4.9	125.9	6.7	16.6	3.7	33.0	7.1
Net income	100.4	5.5	125.2	6.7	14.3	3.2	11.4	2.4
Cash flow from current operations	296.4		358.1		82.7		100.3	
Investments								
Acquisition of shares in subsidiaries	220.2		19.7		70.6		17.6	
Purchase of fixed assets less grants	164.6		195.9		36.4		50.9	
Total	384.8		215.6		107.0		68.5	

2.2 Results of Operations for the Period January - December 2000

Sales

ICL's sales in the Report Period amounted to NIS 7,432.2 million ($1,839.2 million), compared with NIS 7,576.8 million ($1,875 million) in the previous year, a decrease of approximately 2%. The decrease in the Company's sales reflects an increase of output in most of the Company's products, which was offset by a drop in prices and devaluation of the exchange rates in principal non-dollar export-markets, together with an increase in marine transportation costs. As a result of said drop in prices and the erosion of currency rates, as well as rising marine transportation costs, the Company's revenues decreased by approximately $119 million in comparison with the corresponding period last year.

Below is a breakdown of sales by geographical markets:

	1-12/2000		1-12/1999	
FOB Sales	**$ millions**	**%**	**$ millions**	**%**
Israel	166.3	9.1	180.0	9.6
North America	258.7	14.1	247.9	13.2
South America	182.9	9.9	149.2	8.0
Europe	772.5	42.0	854.7	45.5
Asia	395.6	21.5	376.6	20.1
Rest of the world	63.2	3.4	66.6	3.6
Total	1,839.2	100.0	1,875.0	100.0

The distribution of sales in the report period shows an increase in the percentage of sales to America and Asia at the expense of Europe in the year 2000. The decrease in Europe derives from the effects of erosion of the euro/dollar exchange rate on sales and on reduced proceeds from the sale of fertilizers. The increase in Latin America is due largely to increased sales of fertilizers to Brazil, while the increase in Asia is the result of increased sales of bromine compounds to that region, and larger shipments of potash.

Gross Profit

Gross profit amounted to NIS 1,821.3 million ($450.7 million), a decrease of 12.7% compared with the previous year. Gross margin fell from 27.5% to about 24.5% of turnover. The lower margin stems from a decline in prices and the rise in the prices of marine transportation, as aforesaid. Furthermore, the rise in the cost of energy due to rising oil prices, and the increase in sulfur prices compared with the corresponding period last year, contributed to the lower gross margin. The Company estimates the decrease in pre-tax profit as a result of these two factors at about $24 million and $5 million respectively. The real revaluation of the shekel against the dollar also added to the erosion of profitability, due to increased labor costs and other shekel costs in dollar terms. In contrast, we note the decrease in the expenses of the European companies in dollar terms, which partially offset the erosion in sales of those companies in dollar terms.

Sales and Marketing Expenses

Expenses amounted to NIS 433.2 million (107.2 million dollars), down by about 5% compared with the corresponding period last year. Expenses as a percentage of

sales decreased from 6.0% last year to 5.8% this year. This was the result of efficiency and savings measures taken by the companies, as well as the divestiture of Perio Products and Rami Ceramics Industries, whose expenses were still included last year.

General and Administrative Expenses

Expenses totaled NIS 361.3 million (89.4 million dollars), which is about 10% lower than in the corresponding period last year. As a result expenses as a percentage of turnover decreased in the Report Period from 5.3% to 4.9%. The decrease stems from a reduction in expenses in the subsidiaries as part of their streamlining and reorganization efforts, from a decrease of approximately $3 million in ICL headquarters expenses compared with last year, from the sale of the Perio Products and Rami Ceramics Industries, whose expenses were included last year, and from a decrease in the expenses of the Group's European companies in dollar terms.

Research and Development Expenses

R&D expenses (net of grants from the Chief Scientist) amounted to approximately NIS 137.4 million ($34.0 million), a decrease of about 4.8 million dollars compared with last year. Most of the decrease was due to the divestiture of Perio Products and Rami Ceramics Industries, both R&D-intensive companies, and efficiency and savings measures at Tami, the Company's research and development institute.

Operating Income

Operating income decreased by about 17.0% compared with last year, reaching approximately NIS 889.8 million ($220.2 million). Operating margin fell from 14.2% to 12.0% of turnover. The deterioration in operating income derives from an increase in the cost of goods sold, which was offset by the decrease in operating expenses, as noted above.
As a result of its streamlining operations the Group saved an estimated $45 million in 2000.

Financial Expenses

Financial expenses amounted to approximately NIS 347.1 million ($85.9 million), compared with NIS 309.5 million ($76.6 million) in the corresponding period last year.

The increase in the Company's financial expenses stems primarily from an average increase of about 1% in the dollar interest, which increased the cost of the short-term and long-term debts with variable interest rate, constituting some 70% of the Company's financial liabilities, despite the decrease in the average balance of the debt this year in comparison with last year.

Other Income and Expenses

Other income less other expenses amounted to approximately NIS 28.5 million ($7.0 million), reflecting mainly the collection of $3.5 million from an insurance claim settlement of the magnesium plant (in the first quarter), a capital gain of $11 million from the sale of real estate by ICL, a capital gain of $14.0 million from the sale of 50% of the shares of IDE Technologies, and a capital gain of $12.4 million from the sale of real estate assets of that company. The expenses include a 9.5 million

dollar expenditure for the plea bargain with the American Department of Justice in the investigation which was conducted against Dead Sea Bromine, concerning suspected violation of the American anti-trust laws, and as part of a settlement agreement in a related civil claim (see Section 8 below), and $27.4 million for the integration of the headquarters of Rotem Amfert Negev and DSW, and efficiency measures for the reduction of production costs.

These operations are expected to lead to more efficient operations and cost savings in the future. The expenses recorded by ICL in connection with the operations entailed by the merger include, *inter alia*, costs for the early retirement of employees at the beginning of October, as well as additional planned retirement costs and expenses for the integration of the systems of DSW and Rotem, including the their offices, data and logistics systems.

Last year, the Company benefited from other income, net, of $4.6 million dollars, which reflected mainly a capital gain from the sale of the shares in Perio and the cancellation of the surplus provision over actual payment, following a settlement agreement between Dead Sea Works and the Ports Authority, which was offset by a provision for the reorganization of subsidiaries and a write-down in the production facilities of Fertilizers and Chemicals.

Net Income

Net income amounted to approximately NIS 405.8 million ($100.4 million), compared with NIS 505.9 million ($125.2 million) in the corresponding period last year. Net profit before extraordinary items amounted to NIS 365.3 million ($90.4 million), compared with NIS 508.6 million ($125.9 million) in the corresponding period last year.

2.3 Results of Operations for the Period October - December 2000

Sales

The sales of ICL in the period amounted to NIS 1,796.3 million ($445.5 million), compared with NIS 1,884.4 million ($466.4 million) in the corresponding period last year, a decrease of about 4.7%. The decrease in revenues despite the increase in volume of some of the Company's products, derives mainly from a fall in the prices of phosphate fertilizers and other products and the devaluation of the exchange rates in principal non-dollar markets against the dollar, including a devaluation of about 14% in the average rate of the euro compared with the corresponding quarter last year, and from an increase in marine transportation prices.

As a result of the fall in prices and the erosion of exchange rates referred to above, as well as the rise in marine transportation prices, the Company's income decreased by approximately $24 million compared with the corresponding quarter last year.

The table below shows the geographical breakdown of sales:

	10-12/2000		10-12/1999	
FOB Sales	**$ millions**	**%**	**$ millions**	**%**
Israel	42.1	9.5	45.8	9.8
North America	64.9	14.6	69.2	14.8
South America	32.4	7.3	33.8	7.3
Europe	194.6	43.8	192.6	41.3

Asia	98.2	22.0	105.5	22.6
Rest of the world	12.3	2.8	19.5	4.2
Total	444.5	100.0	466.4	100.0

The relative improvement in Europe was influenced by the timing of the beginning of the fertilization season and the increase in the sales of chemicals compared with last year.

Gross Profit

Operating income amounted to NIS 402.5 million ($99.6 million), and as a percentage out of sales declined from 25.3% to 22.4%. The decline in the gross profit as a percentage of turnover in comparison with the corresponding quarter in the previous year stems from a fall in prices and the above-mentioned rise in the prices of marine transportation. In addition there was a decrease in the gross profit as a result of a rise in energy and sulfur prices as compared with the corresponding quarter in the previous year. The Company estimates the decrease in pre-tax profit as a result of these factors at some $3 million. The real revaluation in the rate of the shekel against the dollar also contributed to the erosion of profitability because of a rise in costs in dollar terms.

Operating Income

Operating income amounted to NIS 177.8 million ($44.0 million dollars), about $11.6 million dollars less than in the corresponding quarter last year. Operating margin as a percentage of turnover declined from 11.9% last year to 9.9%, owing to an increase in costs of goods sold and despite the sharp drop of some 11% in operating expenses as a result of the streamlining and cost-cutting efforts of the Company in all its sectors of operation.

Other Income and Expenses

Other expenses less other income amounted to approximately NIS 1.9 million ($0.5 million) for the period. In the corresponding period last year, the Company's expenses amounted to NIS 85.8 million ($21.2 million), which consisted mainly of a provision for a capital loss of about $3.6 million from the sale of Rami Ceramics, a loss of $12 million from write-down of a production facility at Fertilizers and Chemicals and also from a provision of $5.9 million for reorganization of the subsidiaries.

Net Income

Net income for the quarter amounted to NIS 57.9 million ($14.3 million), compared with NIS 46.1 million ($11.4 million) last year. Net profit before extraordinary items was NIS 67.1 million ($16.6 million), compared with NIS 133.1 million ($33.0 million) last year.

3. Segments of Operation

Sales FOB	1 - 12 / 2000	1 - 12 / 1999	10-12 / 2000	10-12 / 1999

by segment	$ millions	% of sales	$ millions	% of sales	$ millions	% of sales	$ millions	% of sales
Fertilizers	737.3	40.0	746.5	39.8	167.0	37.6	166.1	35.6
Specialty chemicals	565.7	30.8	590.6	31.5	135.7	30.5	149.0	31.9
Bromine and its compounds	434.2	23.6	405.9	21.7	115.0	25.9	110.2	23.6
Metallurgy	72.0	3.9	80.1	4.3	21.4	4.8	22.4	4.8
Other	30.1	1.6	51.9	2.7	5.4	1.2	18.7	4.1
Total	1,839.2	100.0	1,875.0	100.0	444.5	100.0	466.4	100.0

Operating income	1 - 12 2000		1 -12 / 1999		10-12 / 2000		10-12 / 1999	
by segment	$ millions	% of sales	$ millions	% of sales	$ millions	% of sales	$ millions	% of sales
Fertilizers	110.5	15.0	148.5	19.9	19.3	11.6	22.0	13.3
Specialty chemicals	56.5	10.0	56.9	9.6	10.5	7.7	18.8	12.7
Bromine and its compounds	72.0	16.6	66.7	16.4	18.6	16.2	14.6	13.2
Metallurgy	(15.3)	--	(8.9)	--	(5.0)	--	(1.2)	--
Other	(3.5)	--	2.1	4.2	(0.7)	13.0	1.4	7.4
Operating income (consolidated)	220.2	12.0	265.3	14.2	44.1	9.9	55.7	11.9

3.1 Fertilizers

Sales

Sales in this sector amounted to NIS 2,979.3 million ($737.3 million), about 1% less than in the corresponding period last year, as result of larger quantities of potash and phosphoric acid sold, offset by a decrease in sales of other phosphate products and lower prices for almost all products in the sector.

Production

Thousands of tons	1-]12/2000	1-12/1999	10-12/2000	10-129/1999
Potash	3,783	3,751	1,001	939
Phosphate rock (washed)	3,665	3,625	940	820

A record year in potash, thanks to an increase in the output of ICL's Sdom plant.

Sales*

Thousands of tons	**1-12/2000**	**1-12/1999**	**10-12/2000**	**10-12/1999**
Potash	3,505	3,240	804	821
Phosphate rock	1,015	1,161	274	275
Fertilizers (incl. phosphoric acid)	1,545	1,645	245	330

*To outside customers - i.e. net of sales to Group companies.

Revenues for the period from sales of potash (from Sdom and from Spain, to outside customers), amount to approximately $383 million, about 5% more than last year. The balance derives from sales in Israel and abroad of phosphate rock (both as raw material and as direct fertilizer), fertilizers (phosphate fertilizers as well as compound and fully-soluble fertilizers with various proportions of nitrogen, phosphorus and potash), and agricultural grade phosphoric acid (green acid, which is used mainly as a raw material in the production of fertilizers).

The decrease in income despite the larger quantities of potash and phosphoric acid sold, is due to the drop in prices, particularly in the phosphate fertilizers and acid (5%-14% compared with last year), as competition intensified due to surplus supply in the markets, and as a result of the declining value of the euro against the dollar.

The prices of green acid negotiated in India, the largest consumer of this product, fell by about 50 dollars compared with last year, which affected acid prices in all markets from the second quarter onwards.

Operating income

Operating income in the segment amounted to approximately NIS 446 million ($110.5 million), about 26% less than in the corresponding period last year. Operating margin from sales were 15.0%, about 5% less than last year, due to a combination of price erosion (as mentioned above) and increased production costs, mainly as a result of the steep rise in the prices of energy and of sulfur, which is used in the production of acid and fertilizers, and the increase in the costs of wages in dollar terms. The increase in their proportion of exports and higher marine transportation tariffs on some of the transportation routes used by the Company also contributed to the smaller margin.

The smaller margins also resulted from a decrease in output following a production malfunction at the Spanish potash company during the year, particularly during the second half of the year.

3.2 Specialty Chemicals

Sales

Turnover in this segment, which encompasses a wide range of products, amounted to approximately NIS 2,286 million ($566.8 million), a decrease of about 4% compared with the corresponding period last year. The volume increase in the main products in this segment, including phosphate salts, food additives, chemicals for industry, white phosphoric acid and magnesia products, was offset by erosion of

the euro/dollar exchange rate and a drop in prices of some of the products due to more intense competition in these markets.

Operating margin

Operating income in this segment amounted to approximately NIS 228 million ($56.5 million), similar to last year. The margin increased by about 0.7%.

The higher margin derives mainly from the improved margin of phosphate salts, food additives and chemicals for industry, principally as a result of higher output. Another contributing factor is the divestiture of Rami Ceramics Industries and Perio Products, which had posted operating losses in the corresponding period last year. On the other hand, there was a decrease in the margin of biocides for water treatment, which are sold mainly to the American market, and for the sintered and molten magnesia products, in a fiercely competitive market. Nevertheless, the share of the more profitable magnesia products increased, mainly following acquisition of the French company Scora last year. The devaluation in the euro-dollar rate also adversely affected margins in this sector.

3.3 Bromine and Bromine Compounds

Sales

Turnover in this segment amounted to approximately NIS 1,755 million ($434.2 million), an increase of about 7% compared with last year. The increase derives mainly from higher volumes, along with a change in the mix of products. Sales of flame-retardants were about 7% higher than last year as a result of increased demand in the field of personal computers and electronic and communications products, even though the selling prices were lower due to increased competition in the market. The downturn in prices was halted during the reported period.

The price increases previously announced have not yet been reflected in the financial results.

The Company is also working to increase its sales by developing new specialty products, including products that are not bromine-based, and by introducing flame-retardant solutions for additional industries. In April 2000 an agreement was signed with DKS of Japan, for the establishment of a new joint company for the manufacture of flame retardants, with a planned turnover of 40 million dollars per typical year.

Sales of industrial products, in particular bromine and calcium bromide, increased by about 18% compared with the corresponding period last year. The increase derived from a rise in demand, mainly in the oil-drilling market, which has shown signs of recovery as oil prices have risen. The quantities sold this year are significantly greater than those sold in the corresponding period last year, but selling prices were lower than last year due to the effects of competition in the market.

In agricultural products, turnover was about 4% lower than in the corresponding period last year, with a lower margin. The effect of the fall in quantities of methyl bromide - pursuant to the Montreal Protocol, was moderated by the rise in the price of this product which constitutes the majority of sales in the agricultural products segment.

Montreal Protocol: Under the convention known as the "Montreal Protocol" (1987), to which Israel is a signatory, developed countries will gradually reduce the manufacture and consumption of methyl bromide for soil fumigation to zero by the year 2005, except for critical uses (as these shall be defined in the future). Sales in

the report period, to which the ban will apply in 2005, amount to approximately $64 million (NIS 258 million), with a margin of approximately $12 million (NIS 48 million). The prohibition will apply to one third of this turnover and operating margin commencing from 2001. Sales of methyl bromide to “developing countries” for soil fumigation are expected to continue until 2015 (except for critical uses, as stated).

Methyl bromide has other uses apart from soil fumigation, such as pre-shipment treatment and quarantine, as a raw material or interim material for the manufacture of another product (feedstock), and it is also used in recycling and reuse. These uses are not within the purview of the Montreal Protocol. Sales turnover in the agricultural segment in the report period for uses and customers to which, as far as is known today, the ban will not apply in 2005, is approximately $37 million (NIS 150 million). Operating income in the agricultural segment from these sales was about $9 million (NIS 36 million).

The Company's strategy is to remain in the soil fumigation field after the ban on the use of methyl bromide. Therefore, for the past two years, DSB has invested efforts in this important market by the development of new products and of substitutes for methyl bromide. This strategy has led to the Company signing long-term distribution agreement with BASF and DOW Agrosciences (DAS), for the distribution of the two principal alternatives of methyl bromide - Bezamide, made by BASF, and Hatalon, made by DAS.

Operating Income

The operating income in the segment for the Report Period amounted to approximately NIS 291 million ($72 million), an increase of about 8% compared with last year. The improvement is the result of greater quantities, lower prices of primary raw materials, and efficiency measures, but was offset to some extent by the fall in prices of some of the segment's products, the higher prices of transportation and energy, and the increase in the cost of wages in dollar terms.

3.4 Metallurgy

3.4.1 Sales

Sales turnover in the metallurgy segment amounted to approximately NIS 291 million ($72.0 million), a decrease of approximately 10% compared with last year.

The reduction in magnesium sales derives from price erosion as a result of greater competition in the market, mainly due to low-price sales by Eastern manufacturers (mostly Chinese). Quantities remained the same as last year. In addition, sales in Europe were adversely affected by the erosion of the German mark-dollar exchange rate.

3.4.2 Operating margin

The operating loss in the segment amounted to approximately NIS 62 million ($15.3 million), compared with a loss of NIS 36 million ($8.9 million) in the corresponding period last year. The increase in the operating loss derives mainly from the erosion of selling prices, the effects of exchange rates as noted above, and the increase in the prices of energy and other inputs. The rise in the price of inputs was partially offset by the improvement in service agreements and by cost-cutting efficiency measures.

The above trends continued in the fourth quarter compared with the corresponding quarter last year. At the same time, there was a

quantitative increase of approximately 12% in the fourth quarter compared with the corresponding quarter last year.

3.4.3 Dead Sea Magnesium is involved in an investigation by the International Trade Commission ("ITC") and the US Department of Commerce (hereinafter: the "DOC"), which began on November 6, 2000, regarding anti-dumping and countervailing duty in the sale of pure magnesium.

In a preliminary decision in the matter of the countervailing duty was handed down on February 14, 2001, the DOC determined that Dead Sea Magnesium had received subsidies on which countervailing duty should be imposed, and further determined that from February 14, 2001, an advance payment for a countervailing duty of 13.39% would be imposed on the entry of pure magnesium into the United States (the countervailing duty is updated annually according to a calculation of the subsidy in relation to sales turnover). A preliminary decision in the matter of the dumping prices is expected to be handed down on March 26, 2001. Dead Sea Magnesium views the U.S. as an important market. Sales of pure magnesium in the United States in the year 2000 reached 14.8 million dollars,

Dead Sea Magnesium is cooperating with the American authorities. At this stage the company's management is unable to estimate the effect of this investigation on its operations and financial condition.

4. The Group's financial position

4.1 Assets and Liabilities

Net financial liabilities at the end of 2000 amounted to approximately NIS 5,657 million ($1,400 million), compared with NIS 5,104 million ($1,263 million) at the end of 1999, an increase of approximately NIS 553 million ($137million).

The increase in the debt balance since the beginning of the year derives mainly from payment of approximately $238 million for execution of the tender offer of ICL to the shareholders of DSW, DSB and Periclase, and for the purchase of ICL shares by Ferson Chemicals - a wholly-owned subsidiary of ICL. This increase was partially offset by the surplus cash of ICL companies, which was used to reduce their financial liabilities.

Discounting the effect of the purchase of the shares of DSW, DSB, Periclase and ICL, the financial obligations of ICL decreased by $101 million in comparison with the end of 1999.

As at the balance sheet date, the Company has debts receivable of approximately $36 million, which it is owed in consideration of the realization of certain assets (the Company's building in Tel Aviv and a plot of land of IDE Technologies in Ra'anana), which will reduce the company's financial obligation when received.

4.2 Sources of Finance

ICL's sources of finance are primarily short-term and long-term credit from Israeli and international banks. During the period under review, the long-term loan balance remained stable, while the short-term loan balance increased by some $99 million.

During the year, ICL raised a long-term loan from a syndicate of foreign banks, which was used to recycle upcoming maturities.

4.3 Cash Flow

The cash flow of ICL from current operations in the Report Period amounted to approximately NIS 1,197.8 million ($206.4 million), compared with NIS 1,447.0 million ($358.1 million) last year. The decrease derives from a reduction in net profit and in the contribution to the cash flow caused by the adjustment of income and expenses to the cash flow. In contrast, we note the contribution to cash flow deriving from a decrease in the receivables item, primarily as a result of shortening the credit period and discounting receivables. The cash flow from current operations, together with the increase in net financial liabilities in the amount of NIS 553 million ($137million), served as the principal sources for financing investments in fixed assets (net) of approximately NIS 623.4 million ($154.3 million), and the purchase of shares of the Company and its subsidiaries (net of divestments) in the amount of NIS 923.7 million ($228.6 million), and for payment of a dividend of approximately NIS 349.4 million ($86.5 million) to the Company's shareholders.

As stated above, the cash flow statement for the current period does not yet reflect the realization of assets for about $36 million.

5. Investments

Investments in fixed assets in the Report Period less investment grants and the purchase of shares in subsidiaries and 20% of Iberpotash shares, amounted to NIS 1,555.1 million ($384.8 million), compared with investments of NIS 871.1 million ($215.6 million) last year. Most of this amount, $220.2 million, was used to purchase shares from the public in DSW, DSB and Periclase during the year, as well as 20% of the shares in Iberpotash (the Spanish potash company) from one of the partners.

6. Human Resources

The total number of employees at ICL as at December 31, 2000 is 8,379, compared with 8,945 employees on December 31, 1999. Discounting the effects of the purchase and sale of companies, a decrease of 523 workers was recorded in human resources in comparison with December of last year.

7. Qualitative Report on Exposure to Market Risks and their Management

7.1 The Company's Vice President of Finance, Accounting and Taxation is responsible for managing the market risks to which the Company is exposed.

7.2 With reference to the Group's operations and its business environment as described in Section 1.2 above, the Group is exposed to the following principal market risks:

- Prices: sales prices of certain products and prices of inputs.
- Exchange rates and the CPI.
- Interest rates.

7.3 Prices - selling prices of certain products and inputs

While some of the Group's products (potash, phosphate, phosphoric acids and fertilizers) and some of its inputs (crude oil, marine transportation and sulfur) have a known price, the Group's ability to affect this price is limited. Thus, the Group is exposed to changes in the prices of these products and inputs.

These prices of the Group's products have no protection mechanisms. The Group's companies guarantee some of their future consumption of crude oil by transactions in the futures market, and marine transportation and sulfur purchases by long-term contracts.

7.4 Exchange rates and the CPI

The dollar is the principal currency of the business environment in which most of the Group's companies operate. Most operations - sales, purchase of materials, sales expenses, marketing and finance and the purchase of fixed assets - are effected in foreign currency, usually dollars, so that the dollar is used as the Group's currency of measurement and reporting.

7.4.1 Some of the Group's sales in non-dollar currencies expose the Group to fluctuations of these exchange rates against the dollar. Exposure is measured after deduction of expenses in the currency of sale. The Group's policy is to protect a significant part of this exposure by means of financial instruments and derivatives. The income and expenses of the consolidated overseas companies which operate independently and autonomously in local non-dollar currencies, do not constitute exposure.
Even though they are not made in dollars, the prices of certain transactions are affected by changes in the exchange rate of the dollar against the rate of the transaction currency, and are adjusted to changes in the exchange rate within a short period. The Group does not protect itself against this temporary exposure.

7.4.3 The results of the Company and some of the Group's subsidiaries for tax purposes are measured in a currency other than the dollar: in Israel, shekels are adjusted to the CPI, and abroad to the local currency. As a result, the Company and the Group's companies are exposed to the difference between the percentage of change in dollar exchange rate and the basis of the measurement for tax purposes. The companies do not protect themselves against this exposure.

7.4.4 The Group's companies have severance-pay liabilities. These are denominated in the local currency, and in Israel they are also affected by the rise in the CPI. The Group's companies in Israel have funds to cover some of these liabilities, which are denominated in shekels and affected by the profits of the funds in which the sums are invested. The Company does not protect itself against this exposure.

7.4.5 The Group has financial assets and liabilities denominated in non-dollar currencies or in currencies which are not linked to the dollar, beyond the above net severance pay liability. The differences between the assets and liabilities in the various currencies create exposure. The Company's policy is to protect itself (most of the exposure) against this exposure by means of financial instruments and derivatives.
Investment in independent autonomous subsidiaries - the Group has overseas consolidated companies which operate independently and autonomously. At the end of the reporting period, the balance sheet balances are translated into dollars according to the exchange rate of the dollar with the currency in which these companies report. The balance sheet balances for the beginning of the period, as well as changes in capital during the period, are translated into dollars at the exchange rate at the beginning of the period or on the date of the change in capital respectively. The differences arising from the effect of the change in the exchange rate of the dollar with the currency in which the companies report, create exposure. The affects of this exposure are allocated directly to the shareholders' equity. The Company does not protect itself against this exposure.

7.5 Interest rates

The Group has variable-interest loans, which expose its financial results (financial expenses) to changes in those rates. The Group protects itself against part of this exposure by means of financial instruments and derivatives.

7.5.1 Transactions in derivatives are made with banking corporations. The Group does not expect a consequent credit risk. The Group does not require and does not use collateral for these derivatives.

7.5.2 The Group's companies constantly monitor the various exposures and protections. The protection policy for all types of exposure is discussed by the Boards of Directors of the Company and of the Group's companies in the framework of the annual budget. The financial committees of the Group's companies receive quarterly reports relating to discussion of the quarterly results, so as to control application of the policy and revise it if necessary. The managements of the companies apply the set policy as it relates to actual developments and expectations in the various markets.

7.5.3 The Group uses financial instruments and derivatives (protection instruments) for protection purposes only. The protection instruments neutralize the above-mentioned exposure created for the Group. Consequently, the Group includes the financial results of these instruments together with the results of the assets and liabilities which have been protected.

8. Events during the Period

8.1 On January 27, 2000 a transaction was closed between ICL and DSW, whereby ICL purchased all of DSW's holdings in the shares of DSM, after receipt of all the requisite approvals, and the shares of DSW in DSM were transferred to the Company.

8.2 In February 2000, ICL completed a tender offer of the shares of Periclase, pursuant to the decision of the Company's Board of Directors on November 29, 1999. Following the tender offer, ICL now holds, directly and indirectly, all the shares of Periclase.

8.3 On January 25, 2000, the general meeting of the shareholders of ICL approved an increase in the share capital of the Company in the amount of NIS 150,000,000 (one hundred and fifty million shekels) above its registered share capital, by the creation of 150,000,000 (one hundred and fifty million) ordinary shares of a par value of NIS 1 each, which will carry equal rights to the existing shares, in accordance with the Company's by-laws.

8.4 On January 27, 2000, the Company announced the intention of Ferson Chemicals Ltd., a wholly-owned and controlled subsidiary of ICL, to purchase shares of ICL in a quantity not exceeding 15 million shares. On February 16, 2000 Ferson completed the purchase of 15 million ICL shares at a total cost of approximately $17.4 million.

8.5 At its meeting on March 6, 2000, the Company's Board of Directors approved a full tender offer for the purchase, at NIS 18 per share, of all the remaining balance of DSW shares held by the public and which constitute approximately 10.77% of the issued share capital of DSW. On March 28, 2000, ICL announced that the response to the tender offer (according to a specification dated March 7, 2000) brings its holding (direct and indirect) to more than 95% of the shares of DSW, and that pursuant to the specification, ICL is purchasing the shares in respect of which acceptance notices were received, as well as the other shares offered for purchase, in accordance with the provisions of Section 337 (a) of the Companies Law. Following the above tender offer, ICL holds (directly and indirectly) 100% of

the issued share capital of DSW, and the shares were delisted on April 2, 2000. See also Note 3B to the financial statements.

8.6 In a resolution of the Audit Committee from March 1, 2000 and of the Board of Directors of ICL from March 6, 2000, approval was given to continue the captive insurance arrangement by the Company together with other companies in the ICL Group and The Israel Corporation Group (hereinafter: the "Extended Arrangement"). As has been done until now, the insurance program will be fronted by a local insurance company in Israel and abroad, as the case may be. Reinsurance will be purchased from the international insurance market through a foreign company (Intracap) owned by the Company. The insurance arrangements will be according to the action-plan in existence until now, with the following addition: As part of the arrangement, Intracap will be allowed to retain risks, provided that such risks are fully covered at all times by premiums or reserves held by Intracap. The Audit Committee and the Board of Directors confirmed, in respect of the Extended Arrangement, that no significant change has occurred in the conditions of the Extended Arrangement and the other circumstances relevant to the matter compared with the expiring arrangement, and that the Extended Arrangement is to the benefit of the Company.

8.7 On June 29, 2000 the Company signed an agreement for the sale of its part in the ownership of a building at 23 Aranha Street in Tel Aviv, in consideration of approximately 23 million dollars. The capital gain recorded by ICL from this transaction is about 11 million dollars. The effect on net profit is about $9 million.

8.8 In June 2000, the Company moved its offices from Asia House in Tel Aviv to its new location in the Millennium Tower, 23 Aranha Street, Tel Aviv.

8.9 In June 2000, a subsidiary of DSB was added as a defendant in a suit filed by the Vaughn Water Company in respect of land and groundwater pollution in California, USA. The action was originally filed against a number of chemical manufacturers in September 1999. At a meeting between the parties in January, 2001, the parties drew up principles for a compromise settlement which has not yet been signed. In the opinion of the management of DSB, the provision currently in the accounts in respect of the claim is sufficient to cover its liability with respect to the claim.

8.10 On July 18, 2000 ICL signed an international syndication agreement in which the Company was granted $75 million in long-term loans by foreign and Israeli banks.

8.11 In July 2000 Bromine reached an agreement with the United States Department of Justice in the matter of the investigation in connection with a suspected violation of US antitrust laws. Under the agreement, reached by a plea bargain which was approved by a US courts, DSB paid a fine of $7 million (approximately NIS 28 million).

This agreement does not refer to the civil claim which is pending against DSB in the USA, in respect of which an application was filed in February 2000 to recognize the claim as a class action. No damages have as yet been nominated in the civil action, even though it is a claim for compensation under U.S. law for damage allegedly caused to the purchasers of bromine products and bromine compounds. DSB recently reached a settlement agreement with the attorneys of the plaintiffs in connection with this claim, whereby $2.5 million (NIS 10 million) would be paid for dismissal of the charges against it. This settlement is subject to a number of conditions, including the approval of the court, recognition of the claim as a class action, and a minimum number of parties joining the class. The financial statements contain a provision in the above amount.

One of DSB's two main competitors announced over a year ago that it was cooperating with European antitrust authorities in connection with a similar investigation. As at the date of approval of the financial statements, DSB and its legal advisors are unable to estimate the effect that these additional events, which are not included in the above agreement with the American Department of Justice,

will have on its business results, due to the uncertainty as to the possible outcome, and therefore no provision was made in the financial reports of DSB.

8.12 On August 30, 2000 the Company in general meeting appointed the following directors to the Company's Board of Directors: Yossi Rosen, Idan Ofer, Doron Ofer, Ehud Hillman, Noga Yatziv, Adv., Mohammed Dahla, Adv., Moshe Vidman, Amnon Dik, Haim Erez and Amnon Sadeh. In addition, the general meeting of the Company appointed Messrs. Ben-Zion Rabinovich and Yossi Ginossar as external directors of the Company.

8.13 On August 31, 2000 a memorandum of understanding was signed in which the Company undertook to sell to Delek Investments & Properties Ltd. and/or a company which it controls, 50% of the shares of IDE Technologies Ltd. ("IDE"), according to a company valuation of about U.S. $36 million, not including income from the sale of the real-estate assets owned by IDE Technologies. The parties signed the sale agreement on September 19, 2000. Upon receipt of all the required approvals, the transaction was closed and the capital gain and net profit posted by ICL is $14 million.

8.14 With the aim of improving the competitiveness and profitability of the fertilizer segment within ICL, approval was given on September 14, 2000 by the appropriate organs of ICL and of subsidiaries DSW and Rotem, for measures to exploit the synergy of the two companies by integrating their headquarters for management, marketing, and land and marine transportation, while maintaining each of the subsidiaries as an independent legal entity which will produce its own reports. (For details, see Section 1.3 above).

8.15 On September 14, 2000 the Company's Board of Directors resolved to distribute an interim dividend in an amount equal to $33,606,000 at the exchange rate on the determining date, which was September 24, 2000.

8.16 On September 25, 2000 ICL and IDE signed a memorandum of understanding with Vivendi France and companies from the Dankner group, for a joint tender bid to construct a desalinization plant in Ashkelon. The tender documents were submitted by the above companies on November 21, 2000. The group in which IDE is a partner received approval from the State to participate in the tender and proceeded to the next stage. Under the cooperation agreement signed by the companies in the Group, a new company will be established to participate in the tender. IDE's share in the new company is 50%.

8.17 On September 28, 2000 IDE entered into an agreement with Ra'anana Hi-tech Park Ltd. a company controlled by Gandan Real Estate Ltd., for the sale of IDE's property assets in Ra'anana in consideration of $16.5 million. The capital gain to ICL from the transaction is about $12.5 million and the net income recorded by ICL is $9.2 million.

8.18 At a meeting on November 6, 2000, ICL's Board of Directors approved a full tender offer to purchase, at NIS 28.8 per share, all the shares in DSB except for the shares held by ICL itself and its subsidiary Ferson Chemicals Ltd. In other words, ICL offered to purchase 9,439,173 ordinary shares of NIS 1 n.v. in DSB, constituting 10.77% of DSB's issued share capital. On December 5, 2000 ICL announced that 9.63% of the holders of the issued share capital of DSB had responded affirmatively to the tender offer, bringing the total response to the tender offer to 89.34% of all the shares for which the offer had been made. Accordingly, ICL attained a direct and indirect holding of more than 95% of the shares in DSB. As a result of the tender offer, DSB became a wholly-owned subsidiary of ICL, and the shares of DSB were delisted.

8.19 The Board of Directors of DSW, in a meeting on November 26, 2000, accepted the resignation of the CEO of DSW, Mr. Shaul Ben-Ze'ev, and, after consultation with ICL's Board of Directors, appointed his deputy, Mr. Shuki Gold, as acting CEO.

8.20 As a result of an application to ICL in September 1999 from the Antitrust Authority, in which the Authority announced its intention to update the announcements of the Commissioner as published in the Official Gazette so that ICL would be declared a monopoly for products for which its subsidiaries had been declared monopolies, discussions are being held with the Antitrust Authority in connection with the announcement, its content and its terms.

9. Events after the Balance Sheet Date

9.1 On February 13, 2001 DSW sold all its holdings (49.48% of the allotted share capital) in Dead Sea Laboratories Ltd., which produces, markets and sells cosmetic and beauty products under the "Ahava" brand name, to kibbutz Mitzpeh Shalem for $6.9 million. As a result of the sale, ICL will record a capital gain of approximately $4.5 million.

9.2 On March 12, 2001 a claim was filed against DSW, a wholly-owned subsidiary of ICL, by Contraclean Ltd. ("Contraclean") in the Tel Aviv District Court for payment of compensation amounting to NIS 223,753,130 for, *inter alia*, patent violation. This is a continuing claim ("the Continuing Claim") in legal proceedings between Contraclean and DSW since 1991, when Contraclean filed a claim (CC 2222/91) in the Tel Aviv District Court (December 1998) which determined that DSW's use of a certain type of pontoon in its operations constitutes a violation of a patent registered in the name of Contraclean and that DSW should refrain from using this pontoon (hereinafter: "the Decision").

DSW appealed the Decision in the High Court of Justice ("the Appeal"). Upon an application from DSW (within the framework of the Appeal), the High Court of Justice deferred implementation of the Decision since DSW had not been prevented from using the pontoon . The Appeal itself is pending and a decision has not yet been handed down.

Concurrently with the Continuing Claim, Contraclean filed an application to the court in which it alleged that Contraclean and its shareholders did not have the means to pay the claim fee (for the Continuing Claim) and the court was consequently requested to exempt Contraclean from payment of the fee.

DSW will respond to the above application and will also apply to the court for a continuance until after a decision has been handed down in the Appeal, since allowing the Appeal by the High Court of Justice will remove the basis for the Continuing Claim.

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

22.03.01
Date

Akiva Mozes CEO	Yossi Rosen Chairman of the Board