DIRECTORS' REPORT

ON THE STATE OF THE COMPANY'S AFFAIRS

for the period ended 30.06.2001

1. Description of the Company and its Business Environment

1.1 Description of the Company

Israel Chemicals Ltd. is a multinational company which operates through subsidiaries, primarily in the fields of fertilizers and chemicals of various types (hereinafter: **"ICL"** and/or the **"Company"**, as the case may be).

ICL's Israeli operations are based mainly on the use of the natural resources of the Dead Sea **-** potash, bromine, salt, magnesium; and of the Negev Desert **-** phosphates and limestone. ICL's companies mine these natural resources under concessions from the State of Israel, market them worldwide, and develop, produce and market downstream products based on these raw materials.

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

The overseas manufacturing 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 manufacture is carried out in Israel and the remainder abroad. Roughly 90% of ICL's products are sold abroad, thereby generating foreign currency revenues. ICL is not dependent on any customer or supplier or sources of raw materials which are not included in the concessions granted to ICL and its companies.

The Ofer Brothers Group has a controlling interest in The Israel Corporation, which holds 53.48% of the share capital of ICL (taking into account the ICL shares held by a wholly-owned subsidiary of ICL).

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 by changes in trade conditions between the local market and its export markets.

ICL's sales are made in foreign currency, mainly dollars. In contrast, approximately one quarter of its expenses for inputs are in shekels. Consequently, real devaluation or revaluation in the average dollar-shekel exchange rate, influences the Company's operating income. The dollar-CPI ratio also affects the income tax expense item: 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 the Company's capital.
Changes in the exchange rates of the dollar against European currencies also affect operating results, financing expenses and tax expenses.

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

Although ICL has benefited from a fall in the prices of energy, sulfur, and the tariffs for marine transportation during the report period, it was adversely affected by a deterioration in world trade conditions, a slowing of activities in the electronics and telecommunications markets, the ongoing weakening in the fertilizer markets, a rise in the prices of some of its inputs, and a strengthening of the dollar against the euro and the yen.
ICL has taken steps to mitigate these effects, both by adapting its marketing policy and by increasing its efficiency, which have led to considerable savings - as much as $20 million in the first half of 2001 compared with last year.

1.3 Change in estimated useful life of certain production facilities

Commencing from July 1, 2000, the estimated useful life of certain production facilities (plants in the fertilizer segment, Rotem's white acid production plants and the Periclase production facilities) was changed from 20 to 25 years. 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 know-how of the companies' engineers concerning expected technological changes and their effects 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 public fertilizer companies similar to ICL. The change to said estimated life-span of the production plants brings ICL in line with other fertilizer companies.
As a result of the change, in the six-month period ended June 30, 2001 there was a reduction of about $6.6 million in depreciation expenses (which are included in the section of cost of sales) and an increase in the net profit and earnings per share of around $4.4 million and $0.004 per share, respectively, compared with the data that would have been reported if the depreciation had been calculated in accordance with the previous estimates.

2. Results of Operations

2.1 Main financial data

The tables below summarize the results of operations in the period under review as compared with the corresponding period last year, in millions of shekels and in millions of dollars:

	1-6/2001		1-6/2000		4-6/2001		4-6/2000		2000	
	NIS millions	% of sales	NIS millions	% of sales	NIS millions	% of sales	NIS millions	% of sales	NIS millions	% of sales
Sales FOB	3,544.2	100.0	3,803.7	100.0	1,727.5	100.0	1,870.9	100.0	7,660.3	100.0
Gross profit	814.9	23.0	958.4	25.2	411.4	23.8	490.4	26.2	1,877.4	24.5
Operating income	360.4	10.2	462.8	12.2	183.7	10.6	245.1	13.1	917.1	12.0
Pre-tax income	191.0	5.4	337.9	8.9	123.7	7.2	177.2	9.5	588.9	7.7
Net income	167.4	4.7	233.3	6.1	91.8	5.3	129.0	6.9	418.3	5.5
Cash flow from current operations	390.1		662.8		204.3		261.7		1,234.7	
Investments										

Acquisition of shares in subsidiaries	28.3		623.2		28.3		--		917.1	
In fixed assets, less grants	214.3		361.2		83.5		169.0		685.5	
Total	242.6		984.4		111.8		169.0		1,602.6	

	1-6/2001		1-6/2000		4-6/2001		4-6/2000		2000	
	Dollar millions	% of sales	Dollar millions	% of sales	Dollar millions	% of sales	Dollar millions	% of sales	Dollar millions	% of sales
Sales FOB	850.9	100.0	913.3	100.0	414.8	100.0	449.2	100.0	1,839.2	100.0
Gross profit	195.6	23.0	230.1	25.2	98.8	23.8	117.7	26.2	450.7	24.5
Operating income	86.5	10.2	111.1	12.2	44.1	10.6	58.8	13.1	220.2	12.0
Pre-tax income	45.9	5.4	81.1	8.9	29.7	7.2	42.5	9.5	141.4	7.7
Net income	40.2	4.7	56.0	6.1	22.0	5.3	31.0	6.9	100.4	5.5
Cash flow from current operations	93.7		159.1		49.0		62.8		296.4	
Investments										
Acquisition of shares in subsidiaries	6.8		149.6		6.8		--		220.2	
In fixed assets, less grants	51.5		86.7		20.1		40.6		164.6	
Total	58.3		236.3		26.9		40.6		384.8	

2.2 Results of operations for the period January-June 2001

Sales:

The sales of ICL in the report period amounted to approximately NIS 3,544.2 million ($850.9 million), compared with NIS 3,803.7 million ($913.3 million) in the corresponding period last year, a decrease of about 6.8%.
The decrease in sales reflects mainly a decrease in the quantities and lower prices for some of the products, and a devaluation in the exchange rates of non-dollar destination markets. In contrast, the lower tariffs of the main marine transportation lines used by the Company following the consolidation of marine conveying operations in the fertilizer segment (Rotem and DSW), generated a positive contribution to FOB revenues.

The table below shows the geographical breakdown of sales:

	1 - 6 / 2001		1 – 6 / 2000	
Sales FOB	**$ millions**	**%**	**$ millions**	**%**
Israel	79.5	9.3	83.2	9.1
North America	133.6	15.7	127.8	14.0
Latin America	64.8	7.6	76.6	8.4
Europe	371.8	43.7	406.3	44.5
Asia	165.8	19.5	191.1	20.9
Rest of the world	35.4	4.2	28.3	3.1
Total	850.9	100.0	913.3	100.0

The distribution of sales in the report period indicates an increase in the part of North America due to increased sales of specialty chemicals. In contrast, sales decreased to the agricultural market and of chemicals to industry in Israel and flame retardants in Asia, as did sales of fertilizers in Europe and Asia. A certain decrease was also recorded in export to South America, while sales of fertilizers to Australia increased.

Gross profit:

Gross profit amounted to approximately NIS 814.9 million ($195.6 million), a decrease of 15% compared with the corresponding period last year and a decrease from 25.2% to 23% of total turnover.

Sales and marketing expenses:

Expenses amounted to approximately NIS 200.9 million ($48.2 million), a decrease of 11.4% compared with the corresponding period last year. The rate of expenses out of turnover decreased from 6% last year to about 5.7% this year. The decrease in expenses derives from the decrease in sales, as well as from the savings and efficiency actions taken by the companies.

General and administrative expenses:

These expenses amounted to approximately NIS 181.7 million ($43.6 million), a decrease of about 6.0% compared with the corresponding period last year. The decrease derives from a decrease in the expenses of the subsidiaries as part of the efficiency and reorganization processes, as well as from a decrease in the expenses of the Group's companies in Israel in dollar terms. Consequently, the rate of the expenses out of turnover remained constant at 5.1%, due to the decrease in sales.

Research and development expenses:

R&D expenses (net of grants from the Chief Scientist) amounted to approximately NIS 71.9 million ($17.3 million), a decrease of about 5% compared with the corresponding period last year.

Operating income:

Operating income decreased by about 22.1% compared with the corresponding period last year, amounting to NIS 360.4 million ($86.5 million). The operating income margin decreased from 12.2% last year to 10.2% of total turnover in the report period.

Financing expenses:

Financing expenses amounted to approximately NIS 178.7 million ($42.9 million), compared with NIS 159.3 million ($38.2 million) in the corresponding period last year.
The increase in the financing expenses compared with the corresponding period last year derives mainly from the decrease in the dollar value of shekel assets which the Company holds against future shekel liabilities due to the 3% devaluation of the shekel-dollar exchange rate during the period. In the same period last year, income was recorded for this item following a 2% appreciation of the exchange rate.

The impact of the lower average dollar interest rate during the period compared with last year (about 0.8%) was partially offset by a rise of some NIS 237 million ($57 million) in the average balance of liabilities for the period.

<u>Other income and expenses</u>:

Other income net of other expenses amount to approximately $9.3 million ($2.2 million), compared with NIS 34.4million ($8.3 million) in the corresponding period las year.

<u>Tax expenses</u>:

The decrease in the tax rate in respect of pre-tax profit derives mainly from establishing deferred taxes in respect of tax-losses from previous years, following an assessment that the Company will utilize those losses and from profits which were offset against losses carried forward for which deferred taxes were not established in the past. This was partially offset, however, by the effects of the real devaluation in the shekel-dollar exchange rate.

<u>Net profit</u>:

Net profit amounted to approximately NIS 167.4 million ($40.2 million), compared with NIS 233.3 million ($56 million) in the corresponding period last year.

2.3 Results of operations for the period April-June 2001

<u>Sales</u>:

ICL's sales in the second quarter amounted to approximately NIS 1,727.5 million ($414.8 million), compared with NIS 1,870.9 million ($449.2 million) in the corresponding period last year, a decrease of about 7.7%. The decrease derives from the decrease in some products sold, particularly flame retardants, and in the prices of phosphate fertilizers, magnesium and other products. Revenues were also adversely affected by the devaluation of the exchange rates in principal non-dollar destination markets, including an 8% devaluation in the average euro exchange rate compared with the corresponding period last year.
In contrast, potash sales increased and marine transportation tariffs decreased.
As a result, the Company's income decreased by about $34 million compared with the second quarter of 2000.

The table below shows the geographical breakdown of sales:

	4 - 6 / 2001		4 – 6 / 2000	
Sales FOB	**$ millions**	**%**	**$ millions**	**%**
Israel	43.0	10.4	43.5	9.6
North America	64.5	15.5	6.4	14.4
Latin America	44.2	10.6	50.6	11.3
Europe	166.9	40.3	183.7	40.9
Asia	77.9	18.8	93.2	20.7
Rest of the world	18.3	4.4	13.8	3.1
Total	414.8	100.0	449.2	100.0

<u>Gross profit</u>:

Gross profit in the second quarter amounted to NIS 411.4 million ($98.8 million), and gross margin out of total sales decreased from 26.2% to 23.8%.

Operating income:

Operating income amounted to NIS 183.7 million ($44.1 million), about $14.7 million less than in the second quarter of 2000. The margin fell from 13.1% last year to 10.6%.

Other income – net:

Other income less other expenses amounted to approximately NIS 1.6 million ($0.4 million) for the period. In the same period last year, other income was NIS 21.1 million ($5.1 million), which included mainly a capital gain of 11 million dollars from the sale of real estate, which was offset by an expense of $7 million deriving from a plea bargain with the American Justice Department in connection with an investigation against Dead Sea Bromine.

Tax expenses:

The increase in the tax rate for pre-tax profit in the three months ended 30.6.01 compared with the corresponding period last year, derives mainly from the increase in non-deductible expenses (mainly amortization of goodwill).

Net profit:

Net profit for the second quarter amounted to NIS 91.8 million ($22.0 million), compared with NIS 129.0 million ($31.0 million) last year.

3. Segments of operation

Sales FOB	1-6/2001		1-6/2000		4.6/2001		4-6/2000	
by segment	$ millions	% of total sales	$ millions	% of total sales	$ millions	% of total sales	$ millions	% of total sales
Fertilizers	335.4	39.5	361.6	39.6	159.9	38.4	169.0	37.6
Specialty chemicals	291.1	34.2	296.7	32.5	148.8	35.9	152.1	33.8
Bromine and its compounds	175.7	20.6	206.4	22.6	84.9	20.5	103.7	23.1
Metallurgy	34.7	4.1	31.4	3.4	13.9	3.4	16.0	3.6
Other	14.0	1.6	17.2	1.9	7.3	1.8	8.5	1.9
Total	850.9	100.0	913.3	100.0	414.8	100.0	449.2	100.0

Operating income	1-6/2001		1-6/2000		4.6/2001		4-6/2000	
by segment	$ millions	% of total sales	$ millions	% of total sales	$ millions	% of total sales	$ millions	% of total sales
Fertilizers	56.0	16.7	60.5	16.7	28.6	17.9	32.7	19.3
Specialty chemicals	23.3	8.0	29.5	9.9	13.3	8.9	13.9	9.1
Bromine and its compounds	22.4	12.8	29.8	14.4	11.1	13.1	17.4	16.8
Metallurgy	(13.8)	(39.7)	(6.8)	(21.7)	(8.2)	(59.1)	(2.2)	(13.8)
Other	(1.4)	(10.1)	(1.9)	(10.7)	(0.7)	(10.1)	(3.0)	(34.8)
Total	(10.1)	10.2	111.1	12.2	44.1	10.6	58.8	13.1

3.1 Fertilizers

Sales:

Activities in this segment in the report period amounted to approximately NIS 1,396.9 million ($335.4 million), constituting a decrease of about 7.2% compared with last year. The decrease derives mainly from smaller sales of potash (in the first quarter) and phosphate fertilizers, lower prices of phosphate products (by 4 – 9% on a FOB basis for the main products), and partially also due to erosion of the euro exchange rate compared with its average rate in the corresponding period last year. A noteworthy development was a rise in the prices of potash exported from Israel (on a FOB basis) following the considerable reduction in the prices of marine transportation deriving from more efficient logistical operations and a change in the mix of destinations and an increase in the quantities of green phosphoric acid sold because of the change in the basket of products.

Production

Thousands of tons	1-6/2001	1-6/2000	4-6/2001	4-6/2000
Potash	1,964	1,855	964	961
Phosphate rock (washed)	1,485	1,810	800	950

The volume of production of potash increased due to increased output at the Company's plants in Sdom and Spain. During the second quarter, potash production in Spain was cut back mainly due to a shut-down of operations as the management prepared to implement efficiency measures.
The decrease in the production of phosphate rock was largely the result of a deliberate policy to reduce stocks.

Sales*

Thousands of tons	1-6/2001	1-6/2000	4-6/2001	4-6/2000
Potash	1,617	1,671	788	755
Phosphate rock (washed)	347	443	116	272
Fertilizers	710	805	335	375

* To outside customers (less sales to Group companies.)

Income for the period from sales of potash (from Sdom and from Spain to outside customers) amounted to approximately $169 million, about 12% less than last year. The balance of income in the fertilizers segment derives from sales in Israel and abroad of phosphate rock (as a raw material and as a direct fertilizer), fertilizers (both phosphate fertilizers and compound and fully soluble fertilizers, which include differing proportions of nitrogen, phosphorus and potassium), and phosphoric acid, which is used mainly as a raw material in the production of fertilizers ("green acid").

The decrease in the sales of potash and phosphate fertilizers in the period derives mainly from weakened European markets as a result of adverse weather conditions (a particularly rainy winter), and from foot-and-mouth disease and BSE in the first quarter, in regions which are important European markets for the Company. In addition, the lack of stability in demand for phosphate products is notable (partly against a background of stocks carried forward from last year).
In contrast, an increase in sales of potash to the local market, China and Brazil was achieved. .

In March 2000, the world's leading manufacturers reached agreement with consumers in India for a decrease of $50 per ton in the price of phosphoric acid. The price reduction in India generated pressure to lower prices in phosphate markets. After the report period, in April 2001, new prices were agreed for phosphoric acid in India, i.e. a further reduction of $11 per ton. This affected the prices of the acid in all markets, commencing from the second quarter. In contrast, a sharp drop occurred at the end of the first quarter in the prices of sulphur, one of the principal inputs for the production of green acid.

Operating income:
Operating income in the sector amounted to approximately NIS 233.2 million ($56.0 million), a decrease of about 7.5% compared with the corresponding period last year. The profit margin amounted to about 16.7% of sales. Despite the lower income and reduced phosphate production, the profit margin was maintained as a result of greater operating efficiency, including at the potash plants in Spain, the fall in the prices of energy and sulphur, lower marine transportation costs, the erosion of shekel expenses in dollar terms and due to the change in the asset amortization policy, and insurance payments in respect of operating shortfall in the past.

3.2 Specialty chemicals

Sales:

Sales in this segment, which includes a wide range of products, amounted to approximately NIS 1,212.4 million ($291.1.million), a decrease of about 1.9% compared with the corresponding period last year. Income from the segment was favorably affected by an increase in sales of white phosphoric acid, phosphate salt, food additives and other chemicals. In contrast, we note the negative influence of erosion of euro-dollar exchange rates compared with the corresponding period last year, and the decrease in sales of magnesia (partially due to the decrease in supply during renovation of the production facilities), slower sales of chemicals (biocides) for water treatment in the second quarter (influenced by weather conditionsand reduced demand in the USA), and a decrease in sales of magnesium chloride solids.

Operating income: Operating profit in the segment amounted to approximately NIS 97.0 million ($23.3 million), which is 21% lower than last year.
The decrease in the margin derives mainly from smaller quantities sold of some products, an increase in the prices of the main raw materials, particularly caustic soda, a decrease in the prices of white acid, and a smaller margin from biocides.

3.3 Bromine and bromine compounds

Sales:

The scope of operations in this segment in the report period amounted to approximately NIS 731.8 million ($175.7 million), a decrease of 14.9% compared with the corresponding period last year. The decrease in income derives mainly from smaller quantities sold and a change in the composition of the product basket.
Income from sales of flame retardants were about 26% lower than last year as a result of slower demand, particularly in the field of personal computers and electronic and communications products. Selling prices were similar to the prices in the corresponding period last year.

Income from sales of industrial products increased compared with the corresponding quarter last year by about 5%. The increase in sales to the oil exploration market was offset by the decrease in sales of other products.

In agricultural products, turnover for the quarter decreased by about 13% compared with the corresponding period last year. Due to the Montreal Protocol, sales of methyl bromide, which comprises the majority of sales of agricultural products, decreased by about 22%, which was offset by higher selling prices and reduced operating expenses.

Montreal Protocol: Under the alliance 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. The volume of sales in the report period to which the ban will apply in 2005, amounts to approximately $14 million (NIS 58 million), with an operating income of approximately $3 million (NIS 13 million). Sales of methyl bromide for soil fumigation to "developed countries" are expected to continue until 2015.

Methyl bromide has other uses apart from soil fumigation, such as pre-shipment treatment or quarantine, as a raw material or intermediate material for the manufacture of another material or product (feedstock), and is also used in recycling and reuse. These uses are not within the purview of the Montreal Protocol. Sales turnover in the agricultural segment of Dead Sea Bromine 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 $28 million (NIS 83 million). The operating margin of the agricultural segment of Dead Sea Bromine in the report period in respect of these sales was about $7million (NIS 29 million).

The Company's strategy is to remain in the soil fumigation field after the ban on use of methyl bromide for that use. Accordingly, for the past two years, efforts have been invested in the development of new applications for other products and alternatives to methyl bromide in this important market.

Operating income:

Operating income in the segment for the report period amounted to approximately NIS 93.3 million ($22.4 million), a decrease of about 24.8% compared with the corresponding period last year.
The decrease in the margin derived mainly from slower sales due to the slowdown of the global economy, which affected mainly the sales of flame retardants and which was offset to some extent by an increase in the price of methyl bromide and by comprehensive savings and efficiency measures.

3.4 Metallurgy

Sales:

Sales turnover from magnesium metal sales amounted to approximately NIS 144.5 million ($34.7 million), an increase of approximately 10.5% compared with the corresponding period last year.
The increase derives from the increase of about three thousand tons sold compared with the corresponding period last year, along with a drop in prices as a result of increasing competition in the market, mainly due to sales at low prices by Far Eastern manufacturers (mainly the Chinese), and the erosion of the dollar-euro exchange rates, which affected income from sales in Europe, and the diversion of sales from the USA to Europe because of levies imposed on the Company.

Operating income:

The operating loss in the segment amounted to approximately NIS 57.5 million ($13.8 million) compared with a loss of NIS 28.3 million ($6.8 million) in the corresponding period last year.
The increase in the operating loss derives mainly from the erosion of selling prices and the effects of exchange rates as above, as well as from reduced production due to the malfunction of a production-line during the second quarter and a rise in the materials component resulting from the increase in alloys-production.

Levies on sales of pure magnesium in the USA:

Dead Sea Magnesium is involved in an investigation, which commenced in 2000, concerning dumping prices and countervailing duty in the sale of pure magnesium. The investigation is being conducted by the International Trade Commission ("ITC") and the US Department of Commerce ("DOC"),

In preliminary decisions in each of the investigations, the DOC determined that a deposit and levy of 13% each would be imposed on the entry of pure magnesium into the USA.

The DOC will publish its final decisions on the two investigations in September 2001, and could amend the rate of the levy and deposit, based on the arguments presented by Dead Sea Magnesium and those presented by the complainant.
The company rejects the preliminary decisions.

Dead Sea Magnesium attributes significant importance to the American market. During 2000, sales of pure magnesium to the USA amounted to approximately $14.7 million. The company is cooperating with the American authorities and responding to all their requests. At this stage the management of Dead Sea Magnesium is unable to estimate the effect of the investigation on its operations and its financial position.
The company is developing new products with higher added value and increasing its alloy capacity as an alternative to the sale of pure magnesium.

4. The Group's financial position

4.1 Assets and Liabilities

At the end of June 2001, net financial liabilities amounted to approximately NIS 5,587 million ($1,342 million), as opposed to NIS 5,831 million ($1,400 million) at the end of 2000, a decrease of approximately NIS 243 million ($58 million).
The decrease in the debt balance since the beginning of the year derives from receipt of approximately $24 million in consideration of the sale of a building in Tel Aviv, and the balance from free cash flow of the Group's companies.

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 report period, the long-term loan balance decreased by $61 million, while short-term credit decreased by about $4 million.

4.3 Cash flow

The cash flow of ICL from current operations in the report period amounted to approximately NIS 390.1 million ($93.7 million), compared with NIS 662.8 million ($159.1 million) in the corresponding period last year. The decrease is due mainly to cash payments of provisions made last year.
The cash flow together with the receipt from sale of the building in Tel Aviv, NIS 101.2 million ($24.3 million), were the principal sources of finance for investments of about NIS 198.2 million ($47.6 million), in fixed assets, net, and for the decrease in the Group's net financial liabilities.

5. Investments

In the report period, investments in fixed assets net of investment grants amounted to approximately NIS 214.3 million ($51.5 million), compared with NIS 361.2 million ($86.7 million) in the corresponding period last year.

6. Human resources

The total number of employees at ICL as at 30 June, 2001 is 8,289, compared with 8,815 on 30 June, 2000.

7. Qualitative report on exposure to market risks and their management

There have been no changes since the Directors' Report dated 31 December, 2000.

8. Events during the period

8.1 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 (about NIS 28 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 (about NIS 10.4 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 pre-ruling, 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 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.

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.

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

8.3 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.

8.4 On March 12, 2001, ContrackLine Ltd. (hereafter – Contrackline) filed a claim in the Tel Aviv District Court against Dead Sea Works Ltd. (DSW), a wholly-owned subsidiary of ICL, for payment of NIS 223,8 million in compensation in respect, inter alia, of infringement of patent. The claim is a continuing action in ongoing legal proceedings between Contrackline and DSW which commenced in 1991, when Contrackline filed a claim in the Tel Aviv District Court (CA 2222/91), which ruled (in December 1998) that the use that DSW makes of a particular kind of dredge in its operations, constitutes breach of a patent registered in the name of Contrackline, and that DSW is required to refrain from using the dredge ("the Decision").

DSW appealed the Decision in the Supreme Court ("the Appeal"). At DSW's request (as part of the Appeal), the Supreme Court delayed implementation of the Decision in that it did not prevent DSW from using the dredge. The Appeal itself is still pending and no decision has yet been handed down.

Concurrently with the Continuing Action, Contrackline filed an application in the court, in which it alleged that Contrackline and its shareholders did not have the financial ability to pay the claim fees (in respect of the Continuing Action), and therefore the Court was requested to excuse Contrackline from payment of the fee.

DSW responded to this request, and Contrackline replied to DSW's response. No decision has yet been made regarding the application. Should it become necessary at some later stage, the company will file an application to suspend the hearing in the claim until after a decision is made in the Appeal filed by DSW in the Supreme Court.

8.5 On April 1, 2001, Mr. Avishar Paz was appointed a director in the Company, replacing Mr. Ehud Hillman, who resigned his membership of the Board of Directors.

8.6 On March 28, 2001 the Board of Directors resolved to distribute an interim dividend in shekels equivalent to $26,650,000 at the exchange rate on the record date, i.e. April 16, 2001. The date of payment was set for May 1, 2001, and on that date, $26,317,000 was distributed.

8.7 On May 1, 2001, I.D.E. Technologies Ltd. ("IDE"), together with others, submitted a bid in a tender published by the Government of Israel for the installation and operation (by the BOT method) of a desalination plant in Ashkelon ("the Tender"). The Tender is for the desalination of 50 million cubic liters of water per year over a period of about 24 years. The group in which IDE is a member for the purpose of the Tender, also includes the French company Vivendi Water, and Dankner Elran Ltd.

IDE's share in the group is 50%, while the other two companies hold 25% each.

8.8 On April 23, 2001, IDE inaugurated a desalination plant in Cyprus. The plant was built in accordance with an agreement between IDE and the Government of Cyprus for the sale of water for a period of 10 years by the BOT method. Under the agreement, the facility will deliver about 51,000 cubic liters of water per day.

8.9 A subsidiary of DSW which held 80% of the share capital of Iberpotash S.A. ("IP") through the subsidiary Ashli Chemicals (Holland) B.V. ("Ashli"), signed an agreement in May 2001 for exercise of an option given under an agreement among the shareholders of IP, for the purchase of the part of Tolsa S.A. (20%) through Ashli, in consideration of approximately 7.8 million euros (about $6.8 million).
The $2.6 million cost surplus over the balance sheet value of the expected additional investment will be charged to goodwill and will be amortized over a period of 10 years. After the acquisition, DSW holds 100% of the share capital of IP.

8.10 On June 13, 2001 a claim for $15 million dollars was filed against Fertilizers & Chemicals Ltd., a wholly-owned subsidiary of ICL, and 9 other entities, for spilling effluents into the Kishon stream, which the plaintiffs allege has caused the cancer from which they suffer. In the opinion of the company's management, which is based on the advice of the legal advisers who are handling the claim, the outcome of the claim cannot be estimated at this stage, and therefore no provision was made in the financial statements.

9. <u>Events after the balance sheet date</u>

9.1 A consortium in which IDE Technologies Ltd. (half of whose shares are held by ICL) constitutes a 20% partner, has won an international tender for the construction and operation of a desalination plant published by the water and sewerage company in the Sonora district (Coapaes) in North Mexico. The other partners in the consortium are Union Fenosa International, a electricity company in Spain (60%), and the Spanish construction company Cobra (20%). The project, which is based on IDE's desalination technology, will be carried out by the BOT method (construction, operation, and transfer to the customer's ownership after 20 years), and the installation will supply potable water to the town of Hermosillo. The project will receive financial support from the Inter American Development Bank (IDB).

9.2 The Company reached a settlement agreement which was validated by the Be'er Sheva District Court, with the representative plaintiffs in a class action filed against it (and against its subsidiaries Rotem Amfert Negev Ltd. and Fertilizers & Chemicals Ltd.) relating to the prices of Superphosphate.
Under the agreement, the plaintiffs waived all their past claims concerning prices, and for the future, an agreed method was found for calculating the prices of these products for the next seven years, starting from the date of the court's validation.

The Company and its subsidiaries alone have the right to withdraw from the agreement if more than 15% of the members of the group in the class action notify the court, within 45 days after July 22, 2001 (the date of publication of notice in the press about the approval of the agreement), that they wish to exclude themselves from application of the agreement.

9.3 On August 14, 2001, the Annual General Meeting of the Shareholders of the Company convened and adopted the following resolutions: to approve the distribution of an interim dividend for 2000; to approve the financial statements and directors' report of the Company as at December 31, 2000; to renew the appointment of the firm of Kesselman & Kesselman as the auditors of the Company; to re-elect the serving members of the Board of Directors.

9.4 On August 26, 2001, the Board of Directors of ICL approved the resolutions of the Boards of Directors of DSW and Rotem, to appoint Mr. Shuki Gold as CEO of each of the companies DSW and Rotem. Up to the date of the appointment, Mr. Gold was acting CEO of DSW.

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

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Date

Akiva Mozes	Yossi Rosen
CEO	Chairman of the Board