DIRECTORS' REPORT

ON THE STATE OF THE COMPANY'S AFFAIRS

for the period ended 30.09.2000

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 **"ICL Companies"**, 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 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 and its subsidiaries in Israel and abroad hold 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 substantially dependent on any customer or supplier or sources of raw materials which are not included in the concessions granted to ICL Companies.

The Israel Corporation holds 52.23% of the share capital of ICL. The Ofer Brothers Group has a controlling interest in the Israel Corporation.

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 ICL'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).

During the reported period, ICL's sales benefited from favorable economic conditions in important markets in Europe, Asia, and 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 is the rise 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.

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 and metal magnesium. 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 Adjustments in the operating framework of the fertilizers segment

Following significant changes in the world fertilizer sector and increasing competition within this sector in recent years, the Company re-organized to take advantage of the existing synergies in its subsidiaries Dead Sea Works Ltd. (hereafter: DSW) and Rotem Amfert Negev Ltd. (hereafter: Rotem). As part of this reorganization, the Boards of Directors of ICL, DSW and Rotem decided to take advantage of the synergies of DSW and Rotem through consolidating their activities by a joint management team, while maintaining each of the subsidiaries as an independent legal entity with separate financial reports.
In this context, resolutions were passed to unify the arrays systems for marketing, overland transportation, warehousing and lading, and to unify the managerial headquarters activities of the companies.
These measures are expected to increase efficiency and bring about cost-savings in the future . ICL has recorded expenses of $27.4 million in connection with the re-organization, including, inter alia, the cost of early retirement of employees at the beginning of October, and the costs of additional planned staff-reduction and expenses from the integration of various systems of DSW and Rotem, including headquarters, information-technologies and logistics systems.

1.4 Changes in 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 change to said estimated life-span of the production plants brings ICL in line with other fertilizer companies.
As a result of the change, there was a reduction in depreciation expenses for the three- and nine-month periods ending on September 30, 2000 (which are included in the section of cost of sales) and an increase in the net profit and earnings per share of around $2.2 million, $3.3 million and $0.002 per share, respectively, compared with the data that would have been reported if the depreciation had been calculated in accordance with the previous estimates.

1.5 Qualitative report on exposure to and management of market risks

There have been no changes since the Directors' Report of December 31, 1999.

2. Results of Operations

2.1 Main financial data

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

	1-9/2000		1-9/1999		7-9/2000		7-9/1999		1999	
	NIS millions	% of sales	NIS millions	% of sales	NIS millions	% of sales	NIS millions	% of sales	NIS millions	% of sales
Sales FOB	5,612.2	100.0	5,668.1	100.0	1,937.3	100.0	2,041.7	100.0	7,544.9	100.0
Gross profit	1,413.0	25.2	1,603.5	28.3	487.1	25.1	565.3	27.7	2,077.8	27.5
Operating income	708.8	12.6	843.6	14.9	261.7	13.5	327.4	16.0	1,067.7	14.2
Pre-tax income	483.2	8.6	687.4	12.1	156.7	8.1	305.0	15.0	778.1	10.3
Net income before extraordinary items	297.1	5.3	373.9	6.6	96.9	5.0	151.7	7.4	506.4	6.7
Net income	346.4	6.2	458.0	8.1	121.1	6.3	213.5	10.5	503.9	6.7
Cash flow from current operations	860.1		1,037.2		219.8		448.6		1,440.9	
Investments										
Acquisition of shares in subsidiaries	602.0		2.0		--		2.0		61.6	
Purchase of fixed assets, gross	538.4		702.2		162.2		227.8		844.2	
Total (gross)	1,140.5		704.2		162.2		229.8		905.8	

	1-9/2000		1-9/1999		7-9/2000		7-9/1999		1999	
	$ millions	% of sales	$ millions	% of sales	$ millions	% of sales	$ millions	% of sales	$ millions	% of sales
Sales FOB	1,394.7	100.0	1,408.6	100.0	481.4	100.0	507.4	100.0	1,875.0	100.0
Gross profit	351.1	25.2	398.5	28.3	121.0	25.1	140.5	27.7	516.4	27.5
Operating income	176.2	12.6	209.7	14.9	65.0	13.5	81.4	16.0	265.3	14.2
Pre-tax income	120.1	8.6	170.8	12.1	38.9	8.1	75.8	15.0	193.4	10.3
Net income before extraordinary items	73.8	5.3	92.9	6.6	24.1	5.0	37.7	7.4	125.9	6.7
Net income	86.1	6.2	113.8	8.1	30.1	6.3	53.1	10.5	**125.2**	**6.7**
Cash flow from current operations	213.8		257.8		54.6		111.5		358.1	
Investments										
Acquisition of shares in subsidiaries	149.6		0.5		--		0.5		15.3	
Purchase of fixed assets, gross	133.8		174.5		40.3		56.6		209.8	
Total (gross)	283.4		175.0		40.3		57.1		225.1	

2.2 Results of operations for the period January - September 2000

Sales

The sales of ICL in the report period amounted to NIS 5,612.2 million ($1,394.7 million), compared with NIS 5,668.1 million ($1,408.6 million) in the corresponding period last year, a decrease of about 1.0%.
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 depreciation of the exchange rates in principal non-dollar export-markets , together with an increase in marine transportation costs. As a result of the said drop in prices and the erosion of currency rates, as well as rising marine transportation costs, the Company's revenues decreased by approximately $95 million in comparison with the corresponding period last year.

The table below shows the geographical breakdown of sales:

	1 – 9 / 2000		1 - 9 / 1999		1999	
Sales FOB	**$ millions**	**%**	**$ millions**	**%**	**$ millions**	**%**
Israel	124.1	8.9	134.2	9.5	180.0	9.6
North America	193.8	13.9	178.7	12.7	247.9	13.2
Latin America	150.5	10.8	115.4	8.2	149.2	8.0
Europe	577.9	41.4	662.1	47.0	864.7	46.1
Asia	297.4	21.3	271.1	19.2	376.6	20.1
Rest of the world	51.0	3.7	47.1	3.3	56.6	3.0
Total	1,394.7	100.0	1,408.6	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 reduced proceeds from sales of fertilizers, due in part to erosion of the euro/dollar exchange rate. 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 consignments of potash to the Far East.

Gross profit

Gross profit decreased by approximately 11.9% compared with last year, and reached NIS 1,413.0 million ($351.1 million). Gross margin fell from 28.3% to 25.2% of turnover. The lower margin derives from lower prices and the effects of erosion of exchange rates and the marine transport costs as noted above. Furthermore the rise in the cost of energy 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 $22 million and $4 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.

Sales and marketing expenses

Expenses amounted to approximately NIS 322.1 million ($80 million), down by about 5% compared with the corresponding period last 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. The rate

of expenses out of sales turnover fell from 6.0% last year to 5.7% in the report period.

General and administration expenses

Expenses amounted to approximately NIS 273.7 million ($68.0 million), which is 7.8% lower than in the corresponding period last year. Thus, the rate of these expenses fell from 5.2% to 4.9% of turnover in the report period. Most of this decrease is in ICL headquarters expenses, which were reduced by about $3 million compared with the corresponding period last year, and from the sale of Perio Products and Rami Ceramics Industries, whose results were still included last year.

Research and development expenses

R&D expenses (net of grants from the Chief Scientist) amounted to approximately NIS 108.3 million ($26.9 million), a decrease of about 3.9 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 16.0% compared with last year, reaching approximately NIS 708.8 million ($176.2 million). Operating margin fell from 14.9% to 12.6% of turnover. The deterioration in operating income derives from an increase in the cost of sales, which was offset by the decrease in operating expenses, as noted above.
Approximately $30 million were saved in the period January – September 2000 as a result of efficiency measures in the group.

Financial expenses

Financial expenses amounted to approximately NIS 252.2 million ($62.7 million), compared with NIS 260.4 million ($64.7 million) in the corresponding period last year.
Despite the decrease of approximately 115 million dollars in the average balance of financial liabilities compared with the corresponding period last year, financial expenses did not decrease significantly due to the rise in the average dollar interest rate by about 0.8%, which increased the cost of short-term and long-term debt at variable interest rates, which constitutes approximately 70% of the Company’s financial liabilities.

Other income and expenses

Other income less Other expenses amounted to approximately NIS 26.6 million ($6.6 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 $15.5 million from the sale of 50% of the shares of IDE Technologies, and a capital gain of $12.5 million from the sale of real estate assets of that company. The expenses include a 7 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, as described more fully in Section 8 below, and expenses of $27.4 million relating to the integration of the headquarters of Rotem Amfert Negev and DSW as described in Section 1.3 above.
Last year, the Company benefited from other income, net, of 25.8 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.

Net profit

Net profit amounted to approximately NIS 346.4 million ($86.1 million), compared with NIS 458.0 million ($113.8 million) in the corresponding period last year.

2.3 Results of operations for the period July-September 2000

Sales

The sales of ICL in the period amounted to NIS 1,937.3 million ($481.4 million), compared with NIS 2,041.7 million ($507.4 million) in the corresponding period last year, a decrease of about 5.1%. The reduction in revenues despite the increase in volume of some of the Company's products, derives mainly from a drop in the prices of phosphate fertilizers and other products and devaluation of the exchange rates in principal non-dollar markets against the dollar, including a devaluation of 14.2% in the average rate of the euro for the quarter, compared with the corresponding quarter last year, and from an increase in marine transport rates.
As a result of the decrease 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 $42 million compared with the corresponding quarter last year.

The table below shows the geographical breakdown of sales:

	7 - 9 / 2000		7 – 9 / 1999	
Sales FOB	**$ millions**	**%**	**$ millions**	**%**
Israel	40.9	8.5	48.9	9.6
North America	66.0	13.7	60.5	11.9
Latin America	73.9	15.3	57.2	11.3
Europe	171.6	35.7	229.4	45.2
Asia	106.3	22.1	92.3	18.2
Rest of the world	22.7	4.7	19.0	3.7
Total	481.4	100.0	507.4	100.0

The improvement in North America derives from increased sales of various chemicals, while in Latin America the source is higher sales of fertilizers (mainly to Brazil). The decrease in Europe derives mainly from the erosion of the euro - dollar exchange rate and lower proceeds from sales of fertilizers, while in Asia, sales of bromine compounds increased.

Gross profit

Gross profit decreased by about 13.8% compared with last year, and amounted to approximately NIS 487.1 million ($121.0 million). The gross margin also decreased, from 27.7% to 25.1% of turnover, attributable to lower prices, exchange rates and marine transportation as aforesaid. In addition, gross profit decreased as a result of a rise in energy and sulfur prices compared with the corresponding period last year. The Company estimates that the reduction in pre-tax profits as a result of these two factors is approximately $45 million and $1 million correspondingly. The real appreciation in the

shekel - dollar exchange rate also contributed to the decrease of profits due to increased costs in dollar terms.

Operating income

Operating income decreased by about 20.1% compared with last year, reaching approximately NIS 261.7 million ($65.0 million). Operating margin fell from 16.0% last year to 13.5% of turnover, due to the higher cost of sales and despite the decrease in operating expenses.

Other income and expenses

Other expenses less Other income amounted to approximately NIS 6.7 million ($1.7 million) for the period, reflecting mainly a capital gain of $15.5 million from the sale of 50% of IDE shares, a capital gain of $12.5 million in respect of the sale of real estate of that company, and expenses of $27.4 million for the integration of the headquarters of Rotem Amfert Negev and DSW, followed by efficiency measures for reducing production costs.
In the corresponding period last year, the Company's income was approximately NIS 77 million ($19.1 million), reflecting mainly a capital gain from the sale of shares of Perio..

Net profit

Net profit for the quarter amounted to approximately NIS 121.1 million ($30.1 million), compared with NIS 213.5 million ($53.1 million) last year.

3. Segments of operation

Sales FOB by sector	1 - 9 / 2000		1 - 9 / 1999		7 - 9 / 2000		7 - 9 / 1999	
	$ millions	% of sales	$ millions	% of sales	$ millions	% of sales	$ millions	% of sales
Fertilizers	569.1	40.8	580.4	41.2	207.6	43.1	215.4	42.5
Specialty chemicals	431.2	30.9	441.7	31.4	134.5	27.9	149.5	29.5
Bromine and its compounds	319.2	22.9	295.8	21.0	112.8	23.4	108.4	21.4
Metallurgy	50.6	3.6	57.6	4.1	19.2	4.0	19.5	3.8
Other	24.6	1.8	33.1	2.4	7.4	1.5	14.6	2.9
Total	1,394.7	100.0	1,408.6	100.0	481.4	100.0	507.4	100.0

Operating income by sector	1 - 9 / 2000		1 - 9 / 1999		7 - 9 / 2000		7 – 9 / 1999	
	$ millions	% of sales	$ millions	% of sales	$ millions	% of sales	$ millions	% of sales
Fertilizers	91.3	16.0	126.4	21.8	30.8	14.8	42.0	19.5
Specialty chemicals	46.0	10.7	38.0	8.6	16.6	12.3	14.0	9.4
Bromine and its compounds	53.4	16.7	52.1	17.6	23.6	20.9	26.0	24.0
Metallurgy	(10.4)	--	(7.7)	--	(3.5)	--	(1.6)	--
Other	(4.2)	--	0.8	2.4	(2.3)	--	1.0	7.1

Operating income (consolidated)	176.2	12.6	209.7	14.9	65.0	13.5	81.4	16.0

3.1 Fertilizers

Sales

Sales in this sector amounted to NIS 2,290 million ($569.1 million), about 2% 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	**1-9/2000**	**1-9/1999**	**7-9/2000**	**7-9/1999**
Potash	2,782	2,811	927	904
Phosphate rock ("washed")	2,725	2,805	915	900

Various disruptionsin production during the report period caused the decrease in quantities during the report period.

Sales*

Thousands of tons	**1-9/2000**	**1-9/1999**	**7-9/2000**	**7-9/1999**
Potash	2,754	2,462	1,083	883
Phosphate rock	741	886	298	234
Fertilizers (incl. phosphoric acid)	1,300	1,315	497	570

*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 309 million dollars, about 9% 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-quality 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 acid sold, is due to the drop in prices, particularly in the phosphate fertilizer and acid market (7%-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 more than 50 dollars in the second quarter compared with the corresponding period last year, which affected acid prices in all markets.

Operating margin

Operating income in the segment amounted to approximately NIS 367 million ($91.3 million), about 28% less than in the corresponding period last year. Operating margin from sales decreased sharply by about 5.8%, due to a combination of price erosion, the effects of exchange rates and increased manufacturing costs, mainly as a result of the

steep rise in the prices of energy and of sulfur, which is used in the production of acids, and an increase in the costs of wages in dollar terms. Higher marine transportation tariffs on some of the transportation routes used by the Company contributed to the smaller margin.
The smaller margins also resulted from a decrease in output following a production malfunction at the Spanish potash company over the entire period.

3.2 Specialty chemicals

Sales

Turnover in this segment, which consists of a wide range of products, amounted to approximately NIS 1,735 million ($431.2 million), a decrease of about 2.4% 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

The operating income in this segment amounted to approximately NIS 185 million ($46.0 million), an increase of about 21% compared with the corresponding period last year. The margin increased by about 2.1%.
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. In contrast, 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 magnesium 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.

3.3 Bromine and bromine compounds

Turnover in this segment amounted to approximately NIS 1,284 million ($319.2 million), an increase of about 8% compared with the corresponding period last year. The increase derives mainly from higher volumes , along with a change in the mix of products.
Sales of flame-retardants were about 9% 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 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 other industries. In April 2000 an agreement was signed with DKS 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 16% 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 in the report period were 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 3% lower than in the corresponding period

last year. The effect of the fall in quantities of methyl bromide - pursuant to the Montreal Protocol - which makes up most of these sales, was moderated by the rise in its price.

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 $47 million (NIS 189 million), with an operating income of approximately $15 million (NIS 60 million). The prohibition shall 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 NIS 117 million ($29 million).
Operating income in the agricultural segment from these sales was about NIS 44 million ($11 million) in the present quarter.

The strategy of Dead Sea Bromine Ltd. (hereinafter: DSB) 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 (DAS Agrosciences), for the distribution of the two principal alternatives of methyl bromide - Bezamide, made by BASF, and Hatalon, made by DAS.

Operating profit

The operating profit in the segment for the report period amounted to approximately NIS 215 million ($53.4 million), an increase of about 2% 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 prices of transportation and energy, as well as the increase in the cost of wages in dollar terms. These latter factors lead to a decline of around 9% in the operating margin in this segment in the third quarter, compared with the corresponding quarter last year.

3.4 Metallurgy

3.4.1 Sales

Sales turnover in the metallurgy segment amounted to approximately NIS 204 million ($50.6 million), a decrease of approximately 12% compared with the corresponding period 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), a trend which continued in the third quarter.
In addition, sales in Europe were adversely affected by the erosion of the exchange rate of the German mark against the dollar.

3.4.2 Operating margin

The operating loss in the segment amounted to approximately NIS 42 million ($10.4 million), compared with a loss of NIS 32 million ($7.7 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 third quarter compared with the corresponding quarter last year. At the same time, there was a quantitative increase of approximately 17% in the third quarter in comparison with the same period last year.

3.4.3 On October 17, 2000, a U.S. magnesium company (hereafter: the U.S. Company) submitted a petition relating to anti-dumping and a countervailing duty petition with the U.S. Department of Commerce (hereafter, "DOC") and the International Trade Commission (hereafter, "ITC"), alleging that Dead Sea Magnesium (hereinafter "DSM") sold magnesium at dumping prices in the United States, and also received countervailing subsidies from the Government of Israel. The U.S. company also submitted a petition against magnesium manufacturers from Russia and China. In the opinion of DSM the petitions contain erroneous factual and legal information, and should be dismissed. DSM has retained an external attorney to represent its interests, and has appointed an internal team to work with the attorney in order to respond to all legal requests for information that it may receive in the course of the investigations that will be carried out by the two U.S. authorities referred to above. DSM sees the American market as an important market. At this stage the management of DSM is unable to estimate the effect that a negative result in this matter would have on its operations and its financial position. DSM believes that it has valid defenses which it intends to present to the DOC and the ITC.

4. The group's financial position

4.1 Assets and Liabilities

Net financial liabilities at the end of September 2000 amounted to approximately NIS 5,420 million ($1,347 million), as compared to NIS 5,082 million ($1,263 million) at the end of 1999, an increase of approximately NIS 338 million ($84 million). In comparison with the end of September 1999, the debt balance decreased by approximately NIS 41 million ($10 million).
The increase in the debt balance since the beginning of the year derives mainly from payment of approximately $167 million for execution of the tender offer of ICL to the shareholders of DSW and Dead Sea 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 flows of ICL companies, which was used to reduce their financial liabilities.
Discounting the effect of the purchase of the shares of Dead Sea Works, Periclase Dead Sea and ICL, the financial obligations of ICL decreased by $83 million in comparison with the end of 1999.
As of the balance date, the Company has not yet received amounts totaling $50 million which it is owed in consideration for the realization of certain assets (including the Company's building in Tel Aviv, 50% of the shares of IDE and real estate of that company in Ra'anana). These amounts 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 short-term loan balance remained stable, while the long-term loan balance increased by some 108 million dollars.
During the period, 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, which amounted to approximately NIS 860.1 million ($213.8 million), together with the increase in net financial liabilities in the amount of NIS 338 million ($84 million), served as the main source for financing investments in fixed assets (net) of approximately NIS 502.7 million ($125 million), and the purchase of shares of ICL companies (net of divestments of such companies) in the amount of NIS 672.5 million ($167.1 million), and payment of a dividend to the Company's shareholders of approximately NIS 210.1 million ($52.2 million).
As stated above, the cash flow statement for the current period does not yet reflect the realization of assets of around $50 million.

5. Investments

In the Report Period, the (gross) investments in fixed assets together with the acquisition of shares of DSW and Periclase amounted to approximately NIS 992.9 million ($243.1 million), compared with investments of NIS 481.5 million ($117.9 million) in the corresponding period last year. Most of the above sum, $149.6 million, was used to purchase shares of DSW and Periclase from the public during the first quarter.

6. Human Resources

The total number of employees at ICL as at September 30, 2000 is 8,510, compared with 8,858 on December 31, 1999 and 8,947 on September 30, 1999. Discounting the effects of the purchase and sale of companies, a decrease of 474 workers was recorded in human resources in comparison with September last year.

7. Events during the Period

7.1 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.

7.2 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.

7.3 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.

7.4 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.

7.5 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 2B to the financial statements.

7.6 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.

7.7 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 dollars.

7.8 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.

7.9 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 ground water pollution in California, USA. The action was originally filed against a number of chemical manufacturers in September 1999. The defendant, its attorneys and DSB are unable at this stage to estimate whether and to what extent the defendant and DSB are exposed to liability in the above suit.

7.10 On June 18, 2000, ICL signed an international syndication agreement pursuant to which the Company received long-term loans amounting to $75 million from foreign and Israeli banks.

7.11 In July 2000, DSB reached an agreement with the U.S. Department of Justice

concerning the investigation into a suspected violation of U.S. anti-trust laws. In accordance with this agreement, which was reached by means of a plea-bargain and approved by a U.S. court, DSB paid a fine of $7 million (about NIS 28 million). It must be pointed out that the agreement with the Justice Department is not related to a civil action which is pending against DSB in the U.S., in respect of which an application was filed in February 2000 for recognition 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 its compounds. The civil action is currently in interim proceedings. 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.

7.12 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.

7.13 Pursuant to a memorandum of understanding signed on August 31, 2000 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. (hereafter: 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. The transaction is subject to various approvals, some of which have been obtained at the date of reporting and some of which have not yet been obtained by the parties. The capital gain and the net income recorded by ICL for the transaction is $15.5 million.

7.14 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 a more detailed description see Section 1.3 above).

7.15 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, that is September 24, 2000.

7.16 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.

7.17 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 for $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. Events after the balance sheet date

8.1 At a meeting on November 6, 2000 the Board of Directors of ICL approved a tender offer for the purchase of all the shares of Dead Sea Bromine ("DSB") other than the shares held by ICL itself and its subsidiary, Ferson Chemical Products Ltd., at a price of NIS 28.8 per share. ICL thereby offered to purchase a total 9,439,173 ordinary shares of DSB, par value NIS 1, comprising 10.77% of the issued capital of the bromine company. The last date on which an acceptance notice may be given is December 4, 2000.

8.2 At a meeting on November 26, 2000 the Board of Directors of DSW accepted the resignation of the CEO of DSW, Mr. Shaul Ben-Ze'ev, and, after consultation with the Board of Directors of ICL, appointed the Deputy CEO, Mr. Shuki Gold, as acting CEO of DSW.

9. The Year 2000 Bug

Pursuant to the Securities Regulations (Rules for reporting on preparations to solve the year 2000 bug) (Temporary Provision), 5799-1999, we hereby report as follows:

Up to the date of approval of the financial statements, no material malfunctions came to light as a result of Y2K bug problems, which affect the ordinary operations of ICL and the ordinary operations of customers, suppliers or other outside parties connected with ICL.

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.

November 26, 2000
Date

Akiva Mozes CEO	Yossi Rosen Chairman of the Board