DIRECTORS' REPORT

ON THE STATE OF THE COMPANY'S AFFAIRS

for the period ended 30.09.2001

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. More than 60% of production is carried out in Israel and the remainder abroad. About 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 Israel Corporation holds 53.55% of the share capital of ICL (taking into account the ICL shares held by a wholly-owned subsidiary of ICL). The Ofer Brothers Group is the controlling shareholder 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 US dollars. In contrast, approximately one quarter of its expenses for inputs are in New Israel Shekels (NIS). 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).

During the report period, ICL suffered from a deterioration in global trading conditions, the recession in the electronics and communications markets, the ongoing weakness in the fertilizers markets, price rises of some of its inputs, and the strengthening of the dollar against the euro and the yen.
In contrast, the Company benefited from a slight fall in the prices of energy, sulfur and marine transportation tariffs and from a reduction in dollar interest rates. ICL is taking steps to mitigate the effects deriving from these factors, both by adapting its marketing policy and by increasing its efficiency, which, together with reorganization in the Group, have led to considerable savings - in excess of $35 million in the nine months ended September 30, 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 – both 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 nine-month period ended September 30, 2001 there was a reduction of about $9.9 million in depreciation expenses (which are included in Cost of Sales), and an increase in the net profit and earnings per share of around $6.6 million and $0.006 per share, respectively, compared with the data that would have been reported had the depreciation 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:

	1-9/2001		1-9/2000		7-9/2001		7-9/2000		2000	
	NIS millions	% of sales	NIS millions	% of sales	NIS millions	% of sales	NIS millions	% of sales	NIS millions	% of sales
Sales FOB	5,664.6	100.0	6,073.8	100.0	1,958.8	100.0	2,096.6	100.0	8,009.7	100.0
Gross profit	1,281.6	22.6	1,529.2	25.2	429.6	21.9	527.1	25.1	1,963.0	24.5
Operating income	576.6	10.2	767.1	12.6	199.7	10.2	283.3	13.5	959.0	12.0
Pre-tax income	304.9	5.4	523.0	8.6	105.2	5.4	169.6	8.1	615.8	7.7
Net income	245.6	4.3	374.9	6.2	70.6	3.6	131.0	6.3	437.4	5.5
Cash flow from current operations	904.9		930.9		497.0		237.9		1,291.0	
Investments										
Acquisition of shares in subsidiaries	29.6		651.6		-		-		958.9	
In fixed assets, less grants	371.5		558.0		147.4		180.2		716.8	
Total	401.1		1,209.6		147.4		180.2		1,675.7	

	1-9/2001		1-9/2000		7-9/2001		7-9/2000		2000	
	Dollar millions	% of sales	Dollar millions	% of sales	Dollar millions	% of sales	Dollar millions	% of sales	Dollar millions	% of sales
Sales FOB	1,300.7	100.0	1,394.7	100.0	449.8	100.0	481.4	100.0	1,839.2	100.0
Gross profit	294.3	22.6	351.1	25.2	98.6	21.9	121.0	25.1	450.7	24.5
Operating income	132.4	10.2	176.2	12.6	45.9	10.2	65.0	13.5	220.2	12.0
Pre-tax income	70.0	5.4	120.1	8.6	24.2	5.4	38.9	8.1	141.4	7.7
Net income	56.4	4.3	86.1	6.2	16.2	3.6	30.1	6.3	100.4	5.5
Cash flow from current operations	207.8		213.8		114.1		54.7		296.4	
Investments										
Acquisition of shares in subsidiaries	6.8		149.6		-		-		220.2	
In fixed assets, less grants	85.3		128.1		33.8		41.4		164.6	
Total	92.1		227.8		33.8		41.4		384.8	

2.2 Results of operations for the period January-September 2001

Sales:

The sales of ICL in the report period amounted to approximately NIS 5,664,6 million ($1,300.7 million), compared with NIS 6,073.8 million ($1,394.7 million) in the corresponding period last year, a decrease of about 6.7%.
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, generated a positive contribution to FOB revenues.

The table below shows the geographical breakdown of sales:

Sales FOB	1 - 9 / 2001		1 – 9 / 2000	
	$ millions	**%**	**$ millions**	**%**
Israel	117.1	9.1	124.1	8.9
North America	193.3	14.9	193.8	13.9
Latin America	141.1	10.8	150.5	10.8
Europe	546.8	42.0	577.9	41.4
Asia	256.3	19.7	297.4	21.3
Rest of the world	46.1	3.5	51.0	3.7
Total	1,300.7	100.0	1,394.7	100.0

The distribution of sales in the report period indicates an increase in the part of North America (mainly specialty chemicals and bromide products). In contrast, sales of flame retardants decreased in Asia, as did sales of fertilizers in Europe and India. A certain decrease was also recorded in export to South America.

Gross profit:

Gross profit amounted to approximately NIS 1,281.6 million ($294.3 million), a decrease of 16.2% compared with the corresponding period last year and a decrease from 25.2% to about 22.6% of total turnover.
The decrease in gross profit derives from quantities sold and lower selling prices, as well as erosion of the European currencies against the dollar.

Sales and marketing expenses:

Expenses amounted to approximately NIS 315.0 million ($72.3 million), a decrease of 9.6% compared with the corresponding period last year. The rate of expenses out of turnover decreased from 5.7% last year to about 5.6% this year. The decrease in expenses derives from the decrease in sales, as well as from the savings and efficiency actions taken by theCompany and its subsidiaries.

General and administrative expenses:

These expenses amounted to approximately NIS 283.3 million ($65.1 million), a decrease of about 4.4% 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. Despite the decrease, 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 106.7 million ($24.5 million), a decrease of about 9% compared with the corresponding period last year.

Operating income:

Operating income decreased by about 24.8% compared with the corresponding period last year, amounting to NIS 576.6 million ($132.4 million). The operating income margin decreased from 12.6% last year to 10.2% of total turnover in the report period.

Financing expenses:

Financing expenses amounted to approximately NIS 261.8 million ($60.1 million), compared with NIS 272.9 million ($62.7 million) in the corresponding period last year.
The decrease in the financing expenses compared with the corresponding period last year is derived mainly from the decrease of 1.2% in the average dollar interest rate (fixed and variable interest); the average level of liabilities remained stable compared with last year. In contrast, a decrease was recorded in the dollar value of shekel assets which the Company holds against future shekel liabilities due to the 8% devaluation of the shekel-dollar exchange rate during the period. In the same period last year, a smaller expense was recorded for this item following a 3% devaluation in the exchange rate.

Other income and expenses:

Other expenses net of other income amount to approximately NIS 9.9 million ($2.3 million), and derived mainly from income of about NIS 19.8 million ($4.5 million) from divestiture of an affiliated company, offset by approximately $7.2 million (NIS 31.4 million) in the shut-down expenses of the Zin phosphate plant.

Tax expenses:

The decrease in the tax rate in respect of pre-tax profit is derived 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.

Net profit:

Net profit amounted to approximately NIS 245.6 million ($56.4 million), compared with NIS 374.9 million ($86.1 million) in the corresponding period last year.

2.3 Results of operations for the period July-September 2001

Sales:

ICL's sales in the third quarter amounted to approximately NIS 1,958.8 million ($449.8 million), compared with NIS 2,096.6 million ($481.4 million) in the corresponding period last year, a decrease of about 6.6%. The decrease is derived from the decrease in some products sold, particularly in flame retardants and in the fertilizer segment, and from the decrease in the prices of phosphate fertilizers, magnesium and other products. In contrast, marine transportation tariffs decreased, partly as a result of the merger of marine transportation operations in the fertilizer segment.
As a result, the Company's income decreased by about $32 million compared with the third quarter of 2000.

The table below shows the geographical breakdown of sales:

Sales FOB	7 – 9 / 2001		7 – 9 / 2000	
	$ millions	%	$ millions	%
Israel	37.6	8.4	40.9	8.5
North America	59.8	13.3	66.0	13.7
Latin America	76.3	17.0	73.9	15.3
Europe	175.0	38.9	171.6	35.7
Asia	90.5	20.0	106.3	22.1
Rest of the world	10.6	2.4	22.7	4.7
Total	449.8	100.0	481.4	100.0

The increase in sales to Latin America, mainly Fertilizers to Brazil, and Specialty Chemicals to Europe, and decrease in sales of Biocides in North America and of Flame Retardants in Asia caused the the change in the geographical break-down compared to the third quarter in 2000.

Gross profit:

Gross profit amounted to NIS 429.6 million ($98.6 million), and gross margin out of total sales decreased from 25.1% to 21.9%. We note that in the third quarter, lower energy and sulfur prices mitigated the deteriorating global market conditions, as did the ongoing efficiency measures adopted in the Group.

Operating income:

Operating income amounted to NIS 199.7 million ($45.9 million), about $19.1 million less than in the third quarter of 2000. The margin fell from 13.5% last year to 10.2%.

Financing expenses:

Financing expenses amounted to NIS 74.9 million ($17.2 million), compared with NIS 106.4 million ($24.4 million) in the corresponding period last year. The decrease in these expenses is derived both from the decrease in the average debt balance and from the decrease in the average level of interest for the period.

Other income and expenses:

Other income less other expenses amounted to approximately NIS 19.6 million ($4.5 million), mainly from the shut-down expenses for the phosphate plant, amounting to about NIS 16.6 million ($3.8 million). In the same period last year, other income was NIS 7.4 million ($1.7 million), which included mainly a capital gain of $15.5 million from the sale of 50 % of IDE-shares, a capital gain of $12 million from the disposal of real-estates belonging to IDE and expenses of $27.4 million for merging the headquarters of DSW and Rotem Amfert Negev.

Tax expenses:

The increase in the tax rate for pre-tax profit in the three months ended 30.9.01 compared with the corresponding period last year, derives mainly from the dollar-CPI gap.

Net profit:

Net profit for the quarter amounted to NIS 70.6 million ($16.2 million), compared with NIS 131.0 million ($31.0 million) last year.

3. Segments of operation

Sales FOB by segment	1-9/2001 $ millions	1-9/2001 % of total sales	1-9/2000 $ millions	1-9/2000 % of total sales	7-9/2001 $ millions	7-9/2001 % of total sales	7-9/2000 $ millions	7-9/2000 % of total sales
Fertilizers	531.7	40.9	569.1	40.8	196.1	43.6	207.5	43.1
Specialty chemicals	414.7	31.9	431.2	30.9	123.7	27.5	134.5	27.9
Bromine and bromine compounds	279.4	21.5	319.2	22.9	103.8	23.1	112.8	23.4
Metallurgy	51.2	3.9	50.6	3.6	16.5	3.7	19.2	4.0
Other	23.7	1.8	24.6	1.8	9.7	2.1	7.4	1.6
Total	1,300.7	100.0	1,394.7	100.0	449.8	100.0	481.4	100.0

Operating income By segment	1-9/2001 $ millions	1-9/2001 % of total sales	1-9/2000 $ millions	1-9/2000 % of total sales	7-9/2001 $ millions	7-9/2001 % of total sales	7-9/2000 $ millions	7-9/2000 % of total sales
Fertilizers	85.0	16.0	91.3	16.0	29.0	14.8	30.8	14.8
Specialty chemicals	34.1	8.2	46.0	10.7	10.8	8.7	16.6	12.3
Bromine and bromine compounds	36.2	13.0	53.4	16.7	13.8	13.3	23.6	20.9
Metallurgy	(19.9)	(39.0)	(10.4)	(20.5)	(6.1)	(37.5)	(3.6)	(18.4)
Other	(3.0)	(12.8)	(4.1)	(17.0)	(1.6)	(16.6)	(2.3)	(31.3)
Total	132.4	10.2	176.2	12.6	45.9	10.2	65.0	13.5

3.1 Fertilizers

Sales:

Activities in this segment in the report period amounted to approximately NIS 2,315.6 million ($531.7 million), constituting a decrease of about 6.6% compared with last year. The decrease is derived mainly from smaller sales of potash and phosphate fertilizers, lower prices of phosphate products (by 2 – 6% on a FOB basis for the main products), and is also partially due to erosion of the euro exchange rate compared with its average rate in the corresponding period last year. A noteworthy development was stability 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. Also noteworthy is the increase in sales of green phosphoric acid sold to outside customers because of the change in the basket of products.

Production

Thousands of tons	1-9/2001	1-9/2000	7-9/2001	7-9/2000
Potash	2,839	2,782	875	926
Phosphate rock (washed)	1,909	2,721	424	911

The volume of production of potash increased during the period due to increased output at the Company's plant in Sdom. During the previous two quarters, however, potash production in Spain was cut back, mainly due to a shut-down of operations as the management negotiated with the workers as part of the reorganization plan and comprehensive efficiency measures, and due to a production malfunction.
The decrease in the production of phosphate rock was part of a deliberate policy to reduce stocks.

Sales*

Thousands of tons	1-9/2001	1-9/2000	7-9/2001	7-9/2000
Potash	2,507	2,754	890	1,083
Phosphate rock	685	741	338	298
Fertilizers	1,205	1,300	495	495

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

Income FOB for the period from sales of potash (from Sdom and from Spain to outside customers) amounted to approximately $265 million, about 11% less than last year. The balance of income in the fertilizers segment stemmed 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 and Asian markets as a result of adverse weather conditions, and from foot-and-mouth disease and BSE in the first quarter, in regions in Europe which are important 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), and a decrease in prices due to surplus supply of phosphate products, including green acid. Also noteworthy is a change in the mix of phosphate fertilizer sales and an increase in sales of potash to the local market and Brazil.

Operating income:

Operating income in the sector amounted to approximately NIS 370.2 million ($85.0 million), a decrease of about 6.9% compared with the corresponding period last year. The profit margin amounted to about 16.0% 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, erosion of shekel expenses in dollar terms, a 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 1,806.0 million ($414.7.million), a decrease of about 3.8% compared with the corresponding period last year. Income from the segment was favorably affected by an increase in sales of white phosphoric acid (to outside customers), phosphate salts, food additives and other chemicals. In contrast, we note the negative influence of erosion of the euro-dollar exchange rates compared with the corresponding period last year, the decrease in sales of magnesia products, slower sales of biocides for water treatment in the third quarter (influenced by weather conditions and the economic slowdown which 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 148.4 million ($34.1 million), which is 26.0% lower than last year.
The decrease in the margin stems 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 compared with last year (although an increase in the third quarter compared with the second is worthy of note), 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 1,216.9 million ($279.4 million), a decrease of 12.5% compared with the corresponding period last year. The decrease in income is derived mainly from smaller quantities sold and a change in the composition of the product basket, particularly in the past two quarters.
Income from sales of flame retardants were about 24% 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 slightly lower than 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, including a fall in the price of elementary bromine.

In agricultural products, turnover for the quarter decreased by about 8% compared with the corresponding period last year. The decrease derived mainly from a 17% decrease in sales of methyl bromide, which is the largest single item in agricultural products, due to the Montreal Protocol. The decrease in the quantity of sales was partially offset by higher selling prices and the sale of alternative products which are penetrating the market, along with a gradual reduction in the quantities of methyl bromide for soil fumigation.

Montreal Protocol: Under the accord 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 $36 million, with an operating income of approximately $10 million. Sales of methyl bromide for soil fumigation to "developing 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 Company 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 $33 million. The operating margin of the agricultural segment of Dead Sea Bromine Company in the report period in respect of these sales was about $11 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, licensing and marketing 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 157.8 million ($36.2 million), a decrease of about 32.0% compared with the corresponding period last year.
The decrease in the margin derived mainly from smaller quantities sold due to the global economic slowdown, 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 222.9 million ($51.2 million), an increase of approximately 1.1% compared with the corresponding period last year.
The increase is derived from the increase of about three thousand tons sold compared with the corresponding period last year, which was offset by 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), the erosion of the dollar-euro exchange rate, which affected income from sales in Europe, and a change in the mix of sales due to levies imposed on the Company.

Operating income:

The operating loss in the segment amounted to approximately NIS 86.8 million ($19.9 million) compared with a loss of NIS 45.1 million ($10.4 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, the malfunction of a production-line during the second quarter which also affected the third 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 was involved in an investigation 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"). On November 2, 2001, the ITC published a final decision, determining that the industry in the USA suffered no material harm due to magnesium imports from Israel, and therefore no levies will be imposed on magnesium imported from Israel.

4. The Group's financial position

4.1 Assets and Liabilities

At the end of the quarter, net financial liabilities amounted to approximately NIS 5,514.7 million ($1,266.3 million), as opposed to NIS 6,096.1 million ($1,399.8 million) at the end of 2000, a decrease of approximately NIS 582.3 million ($133.7 million).

The decrease in the debt balance since the beginning of the year is derived from receipt of approximately NIS 105.8 million ($24.3 million) in consideration of the sale of a building in Tel Aviv, from an increase of approximately NIS 174 million ($40 million) in the balance of receivables discounting, and about $70 million from free cash flow of the Group's companies.

4.2 Sources of finance

ICL's sources of outside financing are primarily short-term and long-term credit from Israeli and international banks. During the report period, the long-term loan balance decreased by $93 million, while short-term credit decreased by about $34 million.

After the report date, ICL raised $75 million in convertible debentures (see Section 9).

4.3 Cash flow

The cash flow of ICL from current operations in the report period amounted to approximately NIS 904.9 million ($207.8 million), compared with NIS 930.9 million ($213.8 million) in the corresponding period last year.

The cash flow from current operations and the income of NIS 105.8 million ($24.3 million) from sale of the building in Tel Aviv, were the principal sources of finance for investments in fixed assets, net of investment grants, amounting to some NIS 207.3 million ($81.3 million) and for the decrease in net monetary liabilities of the Group.

5. Investments

In the report period, investments in fixed assets net of investment grants amounted to approximately NIS 371.4 million ($85.3 million), compared with NIS 558.0 million ($128.1 million) in the corresponding period last year.

6. Human resources

The total number of employees at ICL as of September 30, 2001 is 8,081, compared with 8,494 on September 30, 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 approximately $ 7 million (about NIS 30.4 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 recently reached a conditional compromise agreement with the representatives of the plaintiffs in the above claim, providing for the payment of $ 2.5 million (about NIS 10.9 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.

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 the 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 the 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, Dead Sea Works 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 "Ahava" brand, in consideration for approximately NIS 30 million ($ 6.9 million). The capital gain and net income recorded in respect of that sale is approximately NIS 19.6 million ($ 4.5 million).

8.4 On March 12, 2001, Contrack-Line 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 violation of patent. The claim is a continuing action ("the 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), in which it was ruled (in December 1998) that the use that DSW makes of a particular kind of dredge in its operations, constitutes violation 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 I.D.E. Technologies Ltd. ("IDE"), together with others, won 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 meters 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 Infrastructures Ltd.
IDE's share in the group is 50%, while the other two companies hold 25% each.

8.7 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 meters of water per day.

8.8 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 NIS 11.3 million ($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.

8.9 On June 13, 2001 a claim for NIS 65.3 million (approximately $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 management of Fertilizers & Chemicals Ltd., 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.

8.10 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 Spanish electricity company (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).

8.11 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.

In the absence of any opposition to the settlement agreement on the part of the members of the group represented in the lawsuit on the dates prescribed by the court, the agreement became final.

8.12 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.

8.13 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.

9. Events after the balance sheet date

On October 10, 2001, the Company raised capital by way of a private placement of two series of unregistered debentures convertible to shares, in a total amount of US $60 million par value ("the Dollar Debentures") and NIS 63.5 million par value ("the Shekel Debentures") (together – "the Debentures"), in consideration of $74.6 million, net of standard issue expenses.

The principal is to be repaid in one installment on October 10, 2007. The balance of the Debenture principal not converted or not redeemed by the Company, will be repaid in addition to a redemption premium of 17.3% of the principal.

The principal of the Shekel Debentures, the premium to redemption and the interest, are linked to the dollar or denominated in dollars, as the case may be.

The balance of the Debenture principal which is neither redeemed nor converted, bears interest of 1.5% p.a. which is paid once a year on October 10 of each year.

The Debentures can be converted on any business day starting from October 10, 2002 and until October 3, 2007, into ordinary shares carrying equal rights to existing ordinary shares, of a par value of NIS 1 each, so that every NIS 5 par value of Shekel Debentures can be converted to one ordinary shares of NIS 1 par value, and every $1.1473 pat value of the Dollar Debentures can be converted to one ordinary share of NIS 1 par value.
The total share capital of the Company, if all the Debentures are converted to shares, will increase by NIS 64,997,000.

The Company has an option, starting from October 22, 2005, to redeem all or part of the Debentures, at a redemption price reflecting a dollar yield as at the redemption date of 4.1% per year, provided that the price of the Company's share during 20 days of trading in a period of not more than 30 days preceding the date of the Company's notice by five days, is equal to at least 150% of the conversion rate when adjusted to the rise in the dollar-shekel exchange rate.

The owners of the Debentures have an option to redeem the Debentures they hold at a redemption price reflecting a dollar yield as at the date of redemption, of 4.1% per year on October 10, 2003 and on October 10, 2005, giving written notice thereof not less than 30 days and not more than 60 days from the date of redemption.

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.

Date

Akiva Mozes
CEO

Yossi Rosen
Chairman of the Board