Translation from the Hebrew. The binding version is the original Hebrew version

Directors Report on the State of the Company's Affairs for the year ended 31.12.2002

1. Description of the Company and its Business Environment

1.1 Description of the Company

Israel Chemicals Group* ("ICL Group" or "ICL") is a multinational group operating mainly in fertilizers and chemicals in four segments – fertilizers, industrial products, performance products and metallurgy.

ICL Group's Israeli operations are based mainly on the natural resources in the Dead Sea – potash, bromine, magnesium and salt, and in the Negev Desert – phosphates, sand and limestone, all under concessions from the State of Israel, and on potash mines in England and Spain under leases and licenses from the competent authorities in those countries. ICL Group mines these natural resources, sells them worldwide, and also develops, manufactures and markets downstream products based on those raw materials.

ICL Group has manufacturing facilities all over the world – in Israel, England, Holland, Belgium, Germany, France, Spain, Austria, the U.S.A., Brazil, Argentina, China, Australia, Turkey and Cyprus. In addition to the manufacturing companies, ICL Group maintains an array of marketing offices, terminals, storage facilities and distribution centers in Israel and other countries.

The overseas operations of ICL Group are mainly the manufacture of products which integrate with or are based on the operations of ICL in Israel or are closely related to them. About 60% of production operations are carried out in Israel. More than 90% of ICL's products are sold outside Israel. ICL is not dependent on any customer or supplier or source of raw materials which are not included in the concessions granted to the ICL Group.

The Israel Corporation Ltd. ("the Israel Corporation") holds approximately 53% of the share capital of Israel Chemicals Ltd. ("the Company") The Ofer Brothers Group is the controlling shareholder in the Israel Corporation.

1.2 The Business Environment and Profitability of ICL Group

ICL Group is multinational. Its business results are influenced both by global economic trends and by changes in trading conditions and financing.

The demand for the Group's products is influenced by the demand for basic agricultural products and by the economic situation in developed countries.

The sales of the ICL Group are made in foreign currency, mainly U.S. dollars, while about one quarter of its expenses for inputs are in shekels. Consequently, a real devaluation or appreciation in the average dollar-shekel currency rate affects the Company's profitability. Changes in the exchange rates of the dollar against the European currencies and the Japanese yen also affect operating results, financing expenses and the income tax expense item.

During the Report Period, the ICL Group continued to cope with the slowdown in the global economy and with the rising prices of energy, principal raw materials (particularly sulfur), and marine transportation. Conversely, the Group benefited from

* In this document, the ICL Group refers to Israel Chemicals Ltd. and its subsidiaries.

the devaluation of the shekel against the dollar, from the appreciation of the euro, the British pound and the yen against the dollar during the period, and from the falling dollar interest rate.

The ICL Group is taking steps to adjust its marketing and production policy to the circumstances in world markets, namely focusing on improving its cash flow and diversifying its sources of financing (see Section 4.2 – Securitization), while persisting with its savings and efficiency measures.

1.3 Organizational Focusing and Efficiency Measures – Segments of Operation

As part of its strategy, the ICL Group is reorganizing to bring about focused management in its various areas of operation, to optimize synergy in the Group, to increase the efficiency of the various business units and to reduce operating costs. To achieve this, ICL is focusing on its core business, and from time to time considers the acquisition of complementary activities within its core business or the sale of business units which are not part of its core business.

At the date of this report, ICL had completed its initiative to manage the Group in four main segments of operation led by managerial-functional considerations, as described below:

- **ICL Fertilizers** – Mining, processing and marketing of potash, phosphate and its products, limestone and sand and fertilizers (including compound and special fertilizers). Mr. Yehoshua Gold serves as General Manager of this segment.
- **ICL Industrial Products** – Production of bromine, magnesia and chlorine from Dead Sea brines, manufacture and marketing of a range of bromine compounds, including flame retardants, bromides for industry, agriculture and water treatment, as well as a range of magnesia products and chlorine-based products for numerous uses. Mr. Asher Greenbaum serves as general Manager of this segment.
- **ICL Performance Products** – Manufacture and marketing of phosphate-based downstream products, including phosphoric acid (of a quality allowing it to be used for food and technical applications), phosphate salts, food additives, hygiene products for the food industry, and other products – mainly based on aluminium compounds, such as chemicals for the paper and water industries, pharmaceuticals and cosmetics, thermoplastic materials, etc. Mr. Yosef Shahar serves of General Manager of this segment.
- **ICL Metallurgy** – Manufacture and marketing of pure magnesium and magnesium alloys, mainly for the aluminium and automotive industries. Mr Doron Goder serves as General Manager of this segment.

In addition to these segments, other activities in the Group include desalination and land transportation.

As part of its effort to focus and streamline activities:

1.3.1 In the ICL Fertilizers segment

ICL Fertilizers was established as a framework to coordinate all activities of the fertilizers segment. The following actions were taken to achieve this target:

◊ The managements and headquarters activities of the subsidiaries Rotem Amfert Negev Ltd. ("Rotem") and Dead Sea Works ("DSW"), were unified.

◊ The marketing and logistics networks for fertilizers in Israel and worldwide were unified.

◊ All the shares of the subsidiary (which was wholly-owned by the Company) Fertilizers & Chemicals Ltd. ("F&C") were sold to Rotem; manufacturing activities of various chemicals at F&C which are not part of the Fertilizers segment, are now handled by ICL Industrial products.

◊ An organizational framework was established in Europe (ICL Fertilizers Europe), for centralizing the activities of the Fertilizers segment on that continent. Preparations are now being made for coordination of the activities of management, marketing and logistics, as well as other activities which benefit from centralization, such as the mines in Spain and England and the fertilizer plants in Holland and Germany.

1.3.2 In the ICL Industrial Products segment

IN order to optimize and increase the efficiency of the production lines and focus on profitable operations, the operations of the subsidiary Dead Sea Periclase Ltd. ("Periclase") were transferred to ICL Industrial Products. The operation and maintenance of the Periclase facilities will be under the responsibility of ICL Fertilizers – in view of its physical proximity to the Periclase facilities.

The activities of the Group's research institute – Tami IMI Research and Development Institute Ltd. ("Tami") will become part of this segment. In addition, the production and marketing activities of non-fertilizer chemicals, which includes chlorine-based and nitrogen-based chemicals, have also become the responsibility of ICL Industrial Products.

1.3.3 In the ICL Performance Products segment

Managerial responsibility for the Puriphos business unit (which manufactures and markets white phosphoric acid (see Section 3.3 below) was transferred to ICL Performance Products (including for decisions on sales and marketing, investments, production policy, and the like). Manufacturing and the maintenance of the facilities will be part of the activities of ICL Fertilizers, in order to maximize. operational synergies.

1.3.4 ICL companies outside Israel

The holding structure of the companies and representations outside of Israel have been reorganized.

1.4 Effect of Accounting Standard No. 15 - "Impairment of Assets"

In February 2003, Accounting Standard No. 15 of the Israeli Accounting Standards Board ("the IASB"), "Impairment of Assets", became effective. The company does not foresee making an asset impairment as a result of the first-time implementation of Standard No. 15. For further details, see Note 1 and 2 of the financial reports.

2. Results of Operations

2.1 Principal Financial Results

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

NIS	1-12/2002		1-12/2001		10-12/2002		10-12/2001	
	NIS millions	**% of sales**	**NIS millions**	**% of sales**	**NIS millions**	**% of sales**	**NIS millions**	**% of sales**
Sales	9,383.6	100.0	8,805.0	100.0	2,281.0	100.0	2.088.7	100.0
Gross profit	2,976.9	31.7	2,781.2	31.6	652.3	28.6	630.2	30.2
Operating profit	940.9	10.0	759.6	8.6	149.9	6.6	132.5	6.3
Pre-tax profit (loss)	622.0	6.6	(654.8)	(7.4)	89.4	3.9	(986.4)	(47.2)
Net profit before extraordinary items	437.3	4.7	334.2	3.8	71.8	3.2	44.1	2.1
Net profit (loss)	437.3	4.7	(200.7)	(2.3)	71.8	3.2	(467.9)	(22.4)
Cash flow from current operations	1,679.9		1.387.2		334.4		422.5	
Investments Purchase of shares in subsidiaries	109.4		32.2		-		-	
Investment in fixed assets less grants	789.9		577.0		244.5		173.0	
Total	**899.3**		**609.2**		**244.5**		**173.0**	

$	1-12/2002		1-12/2001		10-12/2002		10-12/2001	
	$ millions	**% of sales**	**$ millions**	**% of sales**	**$ millions**	**% of sales**	**$ millions**	**% of sales**
Sales	1,980.9	100.0	1,858.8	100.0	481.5	100.0	440.9	100.0
Gross profit	628.4	31.7	587.1	31.6	137.7	28.6	133.0	30.2
Operating profit	198.6	10.0	160.4	8.6	31.6	6.6	28.0	6.3
Pre-tax profit (loss)	131.3	6.6	(138.2)	(7.4)	18.9	3.9	(208.2)	(47.2)
Net profit before extraordinary items	92.3	4.7	70.5	3.8	15.2	3.2	9.3	2.1
Net profit (loss)	92.3	4.7	(42.4)	(2.3)	15.2	3.2	(98.9)	(22.4)
Cash flow from current operations	354.6		292.8		70.6		89.1	
Investments Purchase of shares in subsidiaries	23.1		6.8		-		-	
Investment in fixed assets less grants	166.7		121.8		51.6		36.5	
Total	**189.8**		**128.6**		**51.6**		**36.5**	

2.2 Results of Operations for the Period January – December 2002

Sales

Sales of ICL Group in the report period amounted to NIS 9,383.6 million ($1,980.9 million), compared with NIS 8,805.0 million ($1,858.8 million) last year, an increase of approximately 6.6%.

The increase in the Group's sales is mainly a reflection of an increase in quantities of potash sold, partly due to the inclusion of the results of the English company Cleveland Potash Ltd. ("CPL") starting from May 1, 2002, which contributed approximately $74.1 million to income. Also noteworthy is the increase in quantities of potash sales, fertilizers, flame retardants, food grade phosphoric acid and other chemicals. The quantity increase was offset by falling prices and the smaller quantities sold of some of the Company's products, particularly in the Industrial Products segment.

The appreciation of the euro-dollar exchange rate also contributed to the increase in income from sales to Europe.

Below is a breakdown of sales by geographical areas:

Sales CIF	1-12/2002		1-12/2001	
	$ millions	**%**	**$ millions**	**%**
Israel	155.2	7.8	159.0	8.5
North America	238.6	12.0	268.9	14.5
South America	219.0	11.1	202.0	10.9
Europe	898.8	45.4	777.4	41.8
Asia	383.9	19.4	383.6	20.6
Rest of the world	85.4	4.3	67.9	3.7
Total	1,980.9	100.0	1,858.9	100.0

The breakdown of sales in the report period shows an increase in the proportional part of sales in Europe, South America and Oceania, compared with a decrease in North America. The increase in sales to Europe was due to the increase in income from sales of fertilizers (including potash from CPL) and chemicals, partly against a backdrop of the strengthening euro against the dollar, and an increase in sales of fertilizers in South America and Australia. Conversely, sales in North America, mainly of bromine products, decreased due to the ongoing economic slowdown and the decrease in sales of clear brine for the oil-drilling industry.

Gross Profit

Gross profit amounted to NIS 2,976.9 million ($628.4 million), an increase of 7.0% compared with last year. The gross profit margin out of sales turnover (CIF) edged upwards from 31.6% to about 31.7%.

The increase in income contributed to gross profit. Also influential were the devaluation of the shekel against the dollar, which reduced labor and other shekel costs in dollar terms, the revaluation of the euro against the U.S. dollar, which contributed to the profitability of ICL's European operations, and the Company's efficiency measures. Profitability was adversely affected, however, by price erosion, by reduced production of some products – partly in the framework of the policy to reduce stocks, and by an increase in maintenance, insurance and other expenses.

Sales and Marketing Expenses

Expenses amounted to approximately NIS 1,505.4 million ($317.8 million), an increase of about 2.7% compared with last year. The influence of the increase in quantities sold of some products, the impact of the first-time inclusion of the results of CPL, and the influence of the sharp appreciation of the euro against the dollar on the results of the subsidiaries in Europe, were all partially offset by the erosion of shekel costs and by efficiency measures.

General and Administrative Expenses

These expenses totaled NIS 395.7 million ($83.5 million), a decrease of about 1.4% compared with last year. As a result, these expenses decreased from 4.6% to 4.2% of turnover in the report period. The decrease, despite the first-time consolidation of CPL, derives mainly from reduced expenses following efficiency measures and reorganization and the effects of the stronger dollar against the shekel. Conversely, the appreciation of the euro partially offset these effects, due to the increase in the expenses of the European companies in dollar terms.

Research and Development Expenses

R&D expenses (net of grants from the Chief Scientist) amounted to NIS 134.8 million ($28.5 million), a decrease of about $4.0 million compared with last year. Most of the decrease resulted from efficiency and savings measures.

Operating Income

Operating income increased by some 23.9% compared with last year, reaching NIS 940.9 million ($198.6 million). The increase in operating income derives from the increase in gross profit and from the decrease in the expenses items noted above..

Financing Expenses

Financing expenses amounted to NIS 230.7 million ($48.7 million), compared with NIS 371.6 million ($78.5 million) last year.

The decrease in financing expenses compared with last year is derived mainly from the decline in the average dollar-interest rates during the period, which was 1.5% lower than last year (weighted average interest of loans at fixed and variable interest rates), and from a decrease of about $100.0 million in the average level of financial liabilities compared with last year.

Other Income and Expenses

Other income offset by other expenses amounts to NIS 88.3 million (about $18.6 million). These expenses include primarily NIS 44.5 million ($9.4 million) for the depreciation of production facilities, and a provision of NIS 31.7 million ($6.7 million) for early retirement of employees. Other income consists mainly of income of approximately NIS 10.4 million ($2.2 million) capital gain from an issue to a third party.

Last year, the Company's other expenses offset by other income amounted to about NIS 1,042.8 million ($220.1 million), which included mainly a write-down of NIS 947.4 million ($200 million) for impairment of assets in the magnesium segment, shut-down expenses of phosphate plants in the Negev Desert – NIS 36.4 million (about $7.7 million), a provision for closure of a mine at Iberpotash (Spain) – NIS 48.3 million ($10.2 million), and a provision in respect of early retirement of employees – NIS 30.3 million ($6.4 million).

Net Profit (Loss)

Net profit amounted to NIS 437.3million ($92.3 million), compared with a loss of approximately NIS 200.7 million ($42.4 million) last year. Net profit before extraordinary items amounted last year to NIS 334.2 million ($70.5 million).

2.3 Results of Operations for the Period October – December 2002

Sales

The sales of ICL Group in the report period amounted to NIS 2,281.0 million ($481.5 million), compared with NIS 2,088.7million ($440.9 million) in the same period last year, an increase of approximately 9.2%.

The increase in income is derived from the inclusion of CPL, which contributed NIS 127.6 million ($27.0 million) to income, and from the increase in quantities sold of potash from Israel and of flame retardants, a rise in the prices of some phosphate products, and the appreciation of the euro against the dollar. Conversely, income was adversely affected by falling prices in the Industrial Products segment, mainly bromine and bromine compounds, by the ongoing fall in the prices of magnesium, and by the smaller quantities sold of some products compared with the same period last year.

Below is a breakdown of sales by geographical areas:

Sales CIF	10-12/2002		10-12/2001	
	$ millions	%	$ millions	%
Israel	37.9	7.9	41.6	9.4
North America	57.6	12.0	56.6	12.8
South America	37.1	7.7	44.8	10.2
Europe	226.8	47.1	172.2	39.1
Asia	97.8	20.3	108.1	24.5
Rest of the world	24.3	5.0	17.6	4.0
Total	481.5	100.0	440.9	100.0

The growth in the proportional part of sales to Europe is largely the result of the inclusion of CPL and the appreciation of the euro against the dollar.

The decrease in sales to South America and Asia derives mainly from the decrease in sales of fertilizers in those markets compared to the corresponding quarter last year.

<u>Gross Profit</u>

Gross profit amounted to NIS 652.3 million ($137.7 million), about 3.5% higher than in the same period last year. The increase derives from increased income, efficiency, and the contribution of the devaluation of the shekel against the dollar, which eroded shekel costs in dollar terms. The decrease in the gross margin out of turnover in comparison with the corresponding quarter last year, stems mainly from the erosion of some prices, a smaller margin on some potash operations, an increase in maintenance expenses, and rising energy prices due to the increased cost of crude oil and sulfur.

<u>Operating Income</u>

Operating income amounted to NIS 149.9 million ($31.6 million), about 3.6 million dollars more than in the corresponding quarter last year. Operating margin out of turnover increased from 6.3% last year to 6.6% in the report period.

The improvement of the operating margin despite the increase in marine transportation costs, is the result of comprehensive savings measures in all companies and of favorable exchange-rate movements between the shekel and the euro versus the U.S. dollar.

<u>Financing Expenses</u>

Financing expenses amounted to approximately NIS 41.0 million ($8.7 million), compared with NIS 86.8 million ($18.3 million) in the same period last year. The decrease in financing expense derives both from the decrease in the average debt balance and from the decrease in the average interest rate for the period, and also from exchange-rate gains, derived from the appreciation of the euro versus the dollar.

<u>Other Income and Expenses, Net</u>

Other expenses offset by other income amount to NIS 19.4 million ($4.1 million).

Last year ICL had other expenses offset by other income amounting to approximately NIS 1.032.0 million ($217.9 million).

<u>Net Profit (Loss)</u>

Net profit for the quarter amounted to NIS 71.8 million ($15.2 million), compared with a loss of NIS 467.9 million ($98.8 million) in the same quarter last year.

Net profit before extraordinary items last year amounted to NIS 44.1 million ($9.3 million).

3. Segments of Operation

The segments of operation of ICL are presented below in the segments described in Section 1.3 above. Segment data from previous periods have been restated accordingly.

Sales CIF by segment	1-12/2002		1-12/2001		10-12/2002		10-12/2001	
	$ millions	% of total sales	$ millions	% of total sales	$ millions	% of total sales	$ millions	% of total sales
Fertilizers	984.7	46.0	891.2	44.0	228.1	43.3	212.0	44.0
ICL Industrial Products*	578.9	27.0	597.2	29.5	145.4	27.6	141.3	29.3
ICL Performance Products	448.1	20.9	396.5	19.6	119.9	22.8	94.8	19.7
ICL Metallurgy	77.4	3.6	82.3	4.1	19.7	3.7	18.1	3.8
Other and offsets	(108.2)		(108.4)		(31.6)		(25.3)	
Total	1.980.9		1,858.8		481.5		440.9	

* Including agricultural products.

Remark: Sales data in the segments and their percentages out of total sales, are before offsets of inter-segment sales.

Operating income by segment	1-12/2002		1-12/2001		10-12/2002		10-12/2001	
	$ millions	% of total sales	$ millions	% of total sales	$ millions	% of total sales	$ millions	% of total sales
Fertilizers	126.8	12.9	119.5	13.4	14.5	6.3	31.7	14.9
ICL Industrial Products*	35.8	6.2	41.9	7.0	8.9	6.1	3.6	2.5
ICL Performance Products	42.8	9.5	32.7	8.2	11.3	9.4	6.6	
ICL Metallurgy	(13.3)	(17.2)	(27.5)	(33.4)	(3.7)	(18.6)	(8.1)	(44.5)
Other and offsets	6.5		(6.2)		0.6)		(5.8)	
Operating income (consolidated)	198.6	10.0	160.4	8.6	31.6	6.6	28.0	6.3

* Including agricultural products.

3.1 ICL Fertilizers

Sales

The volume of operations in the segment in 2002 amounted to NIS 4,664.5 million ($984.7 million), an increase of approximately 10.5% compared with last year. The increase in sales turnover arises mainly from the higher quantities of potash and fertilizers sold (export and domestic), which was offset by lower prices in some potash markets (outside Europe) and a different mix of products and geographical distribution. The fourth quarter is traditionally weaker than the third, reflecting fertilizer seasonality.

Operating income

Operating income in the segment amounted to NIS 600.9 million ($126.8 million), an increase of about 6.1% compared with last year. The margin on sales came to about 12.9%, compared with 13.4% last year. The improved operating income was achieved by the increase in income noted above, lower shekel wage expenses (in dollar terms), and increased potash production at the Sdom facility. In contrast, the adverse effect of smaller production quantities at Iberpotash and the loss at CPL should be noted. A rise in the prices of fuel and of sulfur (raw material), as well as an increase in maintenance costs, were influential mainly in the fourth quarter.

Potash

Income from potash includes sales by Dead Sea Works (excluding the Chemicals division), Ibetrpotash and CPL.

Potash – Income and Profit

Millions of dollars	1-12/2002	1-12/2001	10-12/2002	10-12/2001
Income	582.3	472.3	140.7	115.7
Operating profit	120.7	112.9	22.8	33.2

The increase in income is the result of the consolidation of CPL ($74.1 million for the year, $27.0 million for the quarter), the increase in quantities to peak levels of potash sales from Israel, and the efficiency measures and the devaluation in Israel. Conversely, operational losses in Spain and England had an adverse impact on operating income, which increased in the report period by only about 6.9%.

Potash – Production and Sales

Thousands of tons	1-12/2002	1-12/2001	10-2/20021	10-12/2001
Production	4,469	3,742	1,147	902
Sales*	4,237	3,298	973	838

* To external customers (net of sales to Group companies).

The increase in potash production for the period and in the quarter derives from the continuing peak levels at Sdom due to improvements in the production array, and from the added production (starting from May 1, 2002) from CPL. In contrast, production in Spain decreased compared with last year, mainly as a result of mining problems, including in infrastructure, the availability of equipment and manpower limitations.

The increase in sales was mainly in Europe (CPL) and in Brazil – where sales reached record levels.

Fertilizers and Phosphates

Income for these items derives from sales in Israel and abroad of phosphate rock (as a raw material and for direct fertilization), fertilizers (including phosphate fertilizers, compound and fully-soluble fertilizers, which contain varying proportions of nitrogen, phosphorus and potassium), phosphoric acid used as a raw material for the production of fertilizers ("green acid"), and other products.

Fertilizers and Phosphates – Income and Profit

Millions of dollars	1-12/2002	1-12/2001	10-12/2002	10-12/2001

Income	432.7	439.5	95.2	96.3
Operating profit	6.2	6.8	(7.6)	(1.5)

The decrease in income derives mainly from the smaller quantities of phosphate rock sold and the 11% decrease in sales of green acid to outside customers due to the increase in the sales of this acid within the ICL Group, particularly as a raw material for the production of food grade phosphoric acid based on the new cleaning process developed by Puriphos, in the ICL Performance Products segment (see section 3.3 below).

The decrease in operating income, notably in the fourth quarter, was influenced mainly by the rise in sulfur and energy prices.

Fertilizers and Phosphates – Production and Sales

Thousands of tons	**1-12/2002**	**1-12/2001**	**10-2/20021**	**10-12/2001**
Phosphate rock				
Production (current)	3,676	2,797	886	880
Sales*	892	984	224	190
Fertilizers				
Production	1,560	1,517	367	373
Sales*	1,564	1,526	256	261

* To external customers (net of sales to Group companies).

The increase in the production of phosphate rock derives from the resumption of normal production after reducing stocks last year, which involved a decrease in production levels. The decrease in sales of phosphate rock in the period was due to fewer shipments to India, Brazil and in Israel. In fertilizers, record quantities of granulated fertilizers and compound formulations were manufactured and sold.

ICL's subsidiary Rotem Amfert Negev Ltd. ("Rotem") operates by virtue of mining concessions and licenses granted by the Minster of National Infrastructures and Israel Lands Administration ("ILA"). These concessions and licenses are due to expire in 2005. Rotem has obtained a new mining concession for existing fields, with minor changes, in the Zafir area (Oron – Zin) and in Mishor Rotem until 2021. The validity of the new concession is contingent upon receipt of a license from ILA for a concurrent period, a matter which is now being attended to. Rotem also received a new concession for mining natural phosphate in the Ef'fe field for 12 years, also contingent upon a license from ILA, and this matter too is being dealt with. The current mining concession allows Rotem to mine phosphate rock ores, phosphate lime and minerals combined with phosphate layers, and to exploit them for manufacture and marketing. By law and under the concessions, Rotem must pay royalties to the State.

Brine percolation exists at one of the dikes of the evaporation ponds at the Dead Sea, owned by Dead Sea Works ("DSW"). After consultation with international experts, DSW has taken and is taking various maintenance actions to preserve the stability of the dykes. As at the date of this report, experts are of the opinion that there is no material threat to the stability of the dikes.

CPL, acquired in 2002 by the ICL Group (see section 8.6 below), does not currently purchase insurance for underground property damages, since it contends that the cover it provides does not justify the estimated cost of the premium. The Company has learned that other companies around the world which operate underground mines, act similarly.

3.2 ICL Industrial Products

Sales

Sales in this segment in the report period amounted to approximately NIS 2,742.3 million ($578.9 million), a decrease of about 3.1% compared with last year (in the quarter – an increase of 3%). The decrease in income derives mainly from smaller quantities sold and from the erosion of selling prices, along with a change in the composition of the product basket to a more expensive one, which offset the decrease in income.

Income from sales of flame retardants was about 16% higher than last year as a result of the recovery in demand, which caused sales of increased quantities, offset partially by the decrease in selling prices as competition intensified in the target markets. The increase in sales was mainly to the electronics, computer and communications industries.

Income from sales of the industrial division of Dead Sea Bromine were about 20% lower than last year, although some recovery was recorded in the fourth quarter. The decrease was due mainly to smaller quantities sold to the oil-drilling market as the number of new explorations decreased (particularly in Mexico Bay and in the North Sea), which seriously affects demand trends in this field. The prices of elementary bromine fell as a result of intensifying competition, inter alia as a result of the start of operation of a joint venture of one of the Company's competitors – Albermarle, in Jordan. During the year, a new bromine compounds facility of the ICL Group started operation in China, Sinobrom, in which ICL has a stake of 50%. In biocides for water treatment, income rose 7% as a result of clement weather in the U.S.A., but the increase in quantities was offset by a decrease in selling prices.

In magnesia for the refractory industry (sintered and fused) and for other uses (specialty and calcined magnesia products), falling demand adversely affected income and profitability. Following the ongoing decrease in the selling prices of sintered magnesia products (to the refractory market), which led to smaller quantities produced and sold, ICL decided to shut down part of its production facilities for these products. In chlorine-based products (produced from the Dead Sea), income remained stable.

Income from sales of agricultural products, mainly methyl bromide, decreased by about 10% compared with last year, and amounted to approximately $85 million. The decrease derived mainly from the smaller quantities of methyl bromide sold, and from some change in the sales mix, as well as from the gradual penetration of substitute products. Operating income from sales of these products amounted to about $25.7 million, which is some 13.0% lower than last year.

Montreal Protocol

Under the accord known as the "Montreal Protocol", to which Israel is a signatory, the manufacture and consumption of methyl bromide for soil fumigation in developed countries will gradually be reduced 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 $45 million, with an operating income of approximately $12 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 re-use. These uses are not within the purview of the Montreal Protocol. Total sales of the agricultural division in the Industrial Products 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 $40 million. The operating income in respect of these sales was about $14 million.

ICL's strategy is to remain in the soil fumigation field after the ban on use of methyl bromide for that use. Accordingly, in recent years, efforts have been invested in the development, licensing and marketing of new applications and alternatives to methyl bromide in this important market.

Operating income

Operating income in the segment was approximately NIS 169.7 million ($35.8 million) for the period, a decrease of about 14.6% compared with last year. The decrease derived mainly from the falling prices of flame retardants and other bromine products, the smaller quantities sold as aforesaid, and in part of the period from decreased production in order to reduce stocks. In contrast, efficiency measures had a positive effect by contributing first and foremost to a decrease in fixed expenses. Another positive factor was the strengthening of the dollar against the shekel.

Regulatory and other developments

There has been a trend recently of European Union regulators to legislate rules which are liable, in the future, to influence the production or use of various flame retardants manufactured by the Industrial Products segment.

Notably, the European market authorities recently completed a risk assessment relating to the flame retardants Penta and Octa and decided to phase them out by mid-2004. This decision, by itself, will have little effect on sales in the segment in the future. Concerning the flame retardants known as Decca, HBCD and TBBA, the risk assessment is in progress through a dialogue between the EU authorities and a panel representing the companies producing bromine and bromine compounds, and completion of the environmental and toxicological information. In addition, two laws dealing with the recycling and use of certain chemicals defined as hazardous, have been legislated. The application of these laws in 2006 could affect the use of certain flame retardants, because of the liability which will be imposed on manufacturers for the recycling of plastic parts containing brominated products (a process which is supposed to take place at the end of the products' life). The competent authorities in the U.S.A. and Japan are monitoring the regulatory changes in Europe – so far without any similar regulatory initiatives on their part.

Instances of odor nuisances emanating from the industrial waste evaporation ponds at Ramat Hovav have recently been identified. These ponds are within the jurisdiction of Ramat Hovav Local Industrial Council and are therefore under its responsibility. The Council, together with the plants and the relevant authorities, are actively seeking a solution to the problem in the short term by reducing these nuisances, and in the long term by seeking an alternative to the evaporation ponds.

On February 23, 2003 the Ministry for the Environment demanded that the Ramat Hovav Industrial Council add new conditions to the business licenses of the waste treatment facilities in Ramat Hovav. The local council has not yet changed the special terms of the business license of the bromine compounds plant. ICL is unable to estimate, at this stage, the effects of the new demands on the plant.

3.3 ICL Performance Products

Sales

Sales in this segment amounted to approximately NIS 2,122.8 million ($448.1 million), an increase of about 13.0% compared with last year, due to increased sales of food-grade phosphoric acid, food additives, hygiene products and other chemicals, mainly in Europe and China. The strengthening of the euro against the dollar was also a significant contributory factor.

Operating Income

Operating income in the segment amounted to NIS 202.6 million ($42.8 million), about 30.7% higher than last year. The margin was about 9.5%.

The increase in the margin stems primarily from the increased income, the decrease in the prices of raw materials, and from improved operational efficiency.

Expansion of production capacity of white phosphoric acid (Puriphos)

The Puriphos business unit manufactures phosphoric acid of a quality enabling its use for food and technical applications (white acid). Much of this acid is directed to the production of various downstream products within the ICL Group, and the remainder is sold to the food industry, the cleaning materials industry and for the treatment of metals, etc. The production facilities of the unit are at the Rotem plant in Mishor Rotem. During the year, a project was completed to expand production from about 120,000 tons to 180,000 tons per year in terms of phosphoric pentoxide (P_2O_5), about half in a production process of cleaning lower-quality (green) acid. Also introduced this year was a process for converting the remainder of the production capacity to a more efficient cleaning process.

3.4 ICL Metallurgy

Sales

Sales in this segment amounted to approximately NIS 366.5 million ($77.4 million), a decrease of about 6.0% compared with last year.

The decrease in income of the magnesium segment derives mainly from price erosion compared with last year, largely due to sales at low prices by Chinese manufacturers. Income was further negatively affected by the global slowdown in the aluminum and automotive industries, and by the change in the sales mix. Conversely, the strengthening euro against the dollar contributed to income.

Operating Income

Operating loss in the segment amounted to approximately NIS 63.2 million ($13.3 million), compared with a loss of about NIS 130.1 million ($27.5 million) last year.

The decrease in the operating loss derives from efficiency measures and reduced production costs, from a decrease of about $9.4 million in depreciation due to the impairment of the Company's assets in the fourth quarter of last year, and from the improved average price of chlorine (a by-product).

4. The Group's financial position

4.1 Assets and Liabilities

Net financial liabilities at the end of the year amounted to approximately NIS 5,506.3 million ($1,162.4 million), compared with NIS 5,895.2 million ($1,244.5

million) at the end of 2001, a decrease of approximately NIS 388.9 million ($82.1 million).

The decrease in the debt balance since the beginning of the year is derived mainly from the free cash flow of the Group's companies, the receipt from the securitization transaction (see section 4.2 below), and was achieved despite the effects of the acquisition of CPL at $36.0 million ($23.0 million purchase price and $13.0 million for consolidation of the acquired company loans).

4.2 Sources of finance

The sources of external financing of the ICL Group are primarily short-term and long-term credit from Israeli and international banks. During the report period, the Company continued to raise money in short-term non-tradable debentures (commercial papers). As at the date of the report, the outstanding balance of commercial papers of the Company was about $63 million.

Securitization

ICL and some of its subsidiaries and controlled companies in Israel, Holland, Germany, the U.S.A. and England (in this section – "the Companies"), entered into a securitization transaction that comprises the sale of all the debts of the principal subsidiaries of ICL Group in Israel and abroad.

Customer debts are sold to a special company established for this purpose ("the Acquiring Company"), which is not owned nor controlled by or related to the ICL Group, and which finances their acquisition by means of a loan which it receives from a financial entity also unrelated to ICL. The loan is financed from the proceeds of commercial papers issued in the U.S.A. Payment of the commercial papers and repayment of the loan are backed up by a credit line from a group of banks organized by Bank of America Securities.

The expected volume of the financial means extended for acquiring the customer debts of the Companies is about $250 million. The acquisition will be ongoing, so that the monies received from the customers whose debts were sold, will be used to acquire new customer debts.

As at 31.12.2002, the total amount of funding which ICL received against the sale of trade receivables, was NIS 440.5 million ($93 million).

The period during which the Companies will sell their customer debts to the Acquiring Company is one year from the date of closing the transaction. This period can be extended, with the consent of the parties, for additional periods of one year each, up to a maximum of four extensions. Each of the parties may terminate the arrangement if certain conditions obtain, as provided in the series of agreements.

The price at which the customer debts are sold is the amount of the sold debt less a deduction computed according to the period expected to elapse between the date of sale of the customer debt and the date of its payment.

When the debt is acquired, the Acquiring Company will pay most of the price of the debt in cash, and the balance in a deferred liability to be repaid after collection of the sold debt. The percentage of the cash advance varies, depending on the composition and behavior of the customer portfolio.

The Companies will bear all the losses generated to the Acquiring Company due to non-payment of customer debts included in the securitization transaction, up to the amount of the total balance of the debt not yet paid that is included under the deferred liability.

The sale is a true sale. The Acquiring Company will have no recourse to the Companies in respect of amounts paid, except for debts regarding which a commercial dispute arises between the Companies and their customers, i.e. a dispute in which the source is an allegation of non-fulfillment of an obligation of the seller in the supply agreement for the product, such as non-supply of the correct product, a defective product, late delivery, etc.

The Companies will handle collection of the customer debts included under the securitization transaction for the Acquiring Company.

4.3 Cash flows

The cash flow of ICL from current operations in 2002 amounted to approximately NIS 1,679.7 million ($354.6 million), compared with NIS 1,387.0 million ($292.8 million) last year.

The securitization of trade receivables replaces factoring of such receivables, which was performed in the past by some ICL companies which now participate in the securitization. The table below shows the aggregate impact on the cash flow of ICL.

(In millions of dollars)

	2002	2201
Funding received in respect of securitization	93	
Increase (decrease) minus customer debts	(29)	44
	64	44

The cash flow from current operations, which includes proceeds from securitization, minus the reduction of the balance of factoring, were the principal sources of finance for investments in fixed assets and for reducing the net financial liabilities of the Group.

5. Investments

In the report period, investments in fixed assets net of investment grants amounted to approximately NIS 789.9 million ($166.7 million), and the acquisition of all the shares of the English potash company CPL amounted to some NIS 109.4 million ($23.1 million), compared with investments in fixed assets less grants amounting to NIS 577.0 ($121.8 million), and the purchase of 20% of the shares of Iberpotash at NIS 32.2 million ($6.8 million) last year.

6. Human Resources

The total number of employees at ICL Group as of December 31, 2002 is 8,772, compared with 7,975 on December 31, 2001. The increase in the number of employees is mainly the result of the acquisition of CPL and the start of operation of the new bromine compounds plant in China (which together added 1,014 employees). Without the additional employees at CPL and Sinobrom, the number of employees in 2002 was 217 less than in 2001.

7. Report on Exposure to Market Risks and their Management

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

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

- Prices: selling prices of certain products and the prices of certain inputs.
- Exchange rates and the CPI.
- Interest rates.
- Linkage bases.
- Derivatives positions

Additional details:

7.3 **Prices – Selling prices of certain products and prices of certain inputs**

Some of the Group's products (potash, phosphate, phosphoric acids and fertilizers) and of some of its inputs (fuel oil, marine transportation and sulfur) are characterized by a given price which ICL has limited ability to affect. The Group is exposed to changes in the prices of these products and inputs.

The prices of ICL's products have no hedging mechanisms. The ICL Group protects some marine transportation prices by means of long-term contracts. As at the date of this report, ICL does not hedge fuel oil prices and sulfur costs.

7.4 **Exchange rates and the CPI**

The dollar is the principal currency of the business environment in which most of the Group's companies operate. The majority of operations – sales, purchase of materials, selling expenses, marketing and financing, as well as the purchase of fixed assets – are transacted in foreign currency, mainly dollars, and so the dollar is used as ICL's currency of measurement and reporting.

7.4.1 Some of ICL's sales in non-dollar currencies expose it to changes in these exchange rates against the dollar. Exposure is measured after deduction of expenses in the currency of sale. ICL's policy is to protect a significant part of this exposure by using financial instruments and derivatives.

The income and expenses of the consolidated overseas companies which operate independently / autonomously in local non-dollar currencies, do not constitute exposure.

The prices of certain transactions, even though not carried out in dollars, are affected by changes in the dollar exchange rate against the rate of the transaction currency, and are adjusted to changes in the exchange rate within a short period. ICL does not protect itself against this temporary exposure.

7.4.2 Part of the costs of ICL's inputs in Israel are denominated and paid in shekels. Thus, ICL is exposed to a strengthening of the shekel exchange rate against the dollar (shekel appreciation). ICL's policy is to partially hedge this exposure. The actual rate of protection is usually derived from the exchange rate's position vis-à-vis the bottom of the exchange rate band and other variables.

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

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

7.4.5 ICL has monetary assets and liabilities in non-dollar currencies or in currencies which are not linked to the dollar, beyond the above net liability for severance pay. The differences between the assets and liabilities in the various currencies create exposure. The Company's policy is to protect against (most of) this exposure by means of financial instruments and derivatives.

7.4.6 Investment in independent / autonomous subsidiaries – Some of ICL's overseas consolidated companies report their financials in their domestic currency rather than in US dollars. The end-of-period balance-sheet balances of these companies are translated into dollars at the end of the period at the exchange rate of the dollar vis-à-vis the currency in which these companies report. The beginning-of-period balance-sheet balances, as well as capital changes during the period, are translated into dollars at the exchange rate at the beginning of the period or on the date of the change in capital, respectively. The differences arising from the effect of the change in the exchange rate between the dollar and the currency in which the companies report, create exposure. The effects of this exposure are charged directly to shareholders' equity. The Company does not protect against this exposure.

7.5 <u>**Interest rates**</u>

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

7.5.1 Derivatives transactions are carried out with banks. It is the opinion of ICL that there is no consequent credit risk. ICL does not demand and does not provide collateral for these derivatives.

7.5.2 ICL's companies monitor the extent of the exposure and the rates of protection in the various matters on an ongoing basis. The hedging policy for all types of exposure is discussed by the boards of directors of the Company and of ICL's companies as part of the discussions of the annual budget. The finance committees of ICL's companies receive quarterly reports for discussion of the quarterly results, as a control device for application of the policy and for its updating if necessary. The managements of the companies apply the policy with reference to actual developments and to expectations in the various markets.

7.5.3 ICL uses financial instruments and derivatives (hedging instruments) for hedging purposes only, to hedge its exposures as described above. Thus, ICL includes the financial results of these instruments together with the results of the assets and liabilities which they protect.

In interest-swap transactions, ICL has reached agreement with Israeli and international banks to swap, at regular intervals, notional amounts which bear variable rates of interest for notional amounts which bear interest at fixed rates.

As at December 31, 2002, ICL had interest-swap transactions in which it received variable interest based on the LIBOR (as at 31.12.02 – 1.4%), and paid interest at an average fixed rate of about 5.7% on a notional sum of 20 million dollars. A considerable part of these transactions combine the writing of options whereby, if the LIBOR-based variable interest reaches 7 – 7.5%, the transactions will be cancelled. These transactions will expire during the first quarter of 2003.

In addition to the above, ICL purchased options to cap the LIBOR-based interest rate at 5.5%, which cover, as at 31.12.02, a notional sum of 10 million dollars.

ICL also purchased and wrote interest options which serve to collar the LIBOR interest rate in the range of 2.5 – 6.5%. As at 31.12.02, these options cover a notional sum of 76 million dollars.

7.6 **Linkage base report**

Hereunder the linkage terms of monetary balances.

Composition as at 31.12.02 in thousands of dollars):

			In NIS				
	Dollar-linked	Non-dollar currency (mainly euro)	CPI-linked	Unlinked	Non-monetary	Current maturities	Total
Assets:							
Current	152,208	238,346	54,029	74,805	535,334	3,613	1,058,335
Non current	3,542	1,626	11,797	4,890	61,609	(3,613)	79,850
	155,749	239,972	65,826	79,695	596,943	0	1,138,185
Liabilities:							
Current	274,415	224,211	46,296	163,769	6,265	423,018	1,137,974
Long-term	859,833	223,341	4,089	96,478	220,167	(423,018)	980,890
	1,134,248	447,552(1))	50,385	260,247	226,432	0	2,118,864
Total balance-sheet balance, net	978,499	207,580	(15,441)	180,552	(370,511)	0	980,679

(1) Including autonomous units reporting in euros, whose euro liabilities do not create exposure.

7.7 Derivatives Positions

Hedging transactions against the effects of changes in exchange rates on cash flows				
	Nominal Value Up to one year		Fair Value Up to one year	
	Long	**Short**	**Long**	**Short**
Currency: $/NIS in $-000				
Forward Setoff recognized for accounting	9,000		-8.6	
Put options Setoff recognized for accounting	63,700		105.8	
Call options Setoff recognized for accounting	78,325		1,080.4	
Currency: $/Euro in $-000				
Put options Setoff recognized for accounting		11,000		-319
Call options Setoff recognized for accounting		11,000		204
Forward Setoff recognized for accounting Setoff not recognized for accounting	16,575	32,500	1,009	-854
Currency: $/JPY in $-000				
Put options Setoff recognized for accounting		23,500		-547
Call options Setoff not recognized for accounting		23,500		386
Forward Setoff recognized for accounting		9,140		-63
Currency: GBP/$ in $-000				
Put options Setoff recognized for accounting		1,500		-19
Call options Setoff recognized for accounting		2,000		10

Interest hedging transactions against the effects of changes in variable interest rates (LIBOR) on dollar loans								
	Nominal Value				**Fair Value**			
	Up to one year		**More than one year**		**Up to one year**		**More than one year**	
	Long	**Short**	**Long**	**Short**	**Long**	**Short**	**Long**	**Short**
Swap	20,000				-68			
Caps			86,000				1,166	
Floors			76,000				-2,254	

8. Events during the period

8.1 In February 2000, a civil class action was filed in the U.S.A. against subsidiaries in the ICL Industrial Products segment, in which compensation was sought for alleged violations of the American anti-trust laws. A settlement agreement was reached between the defendants and the plaintiffs for clearance of the claim, which was approved by the American court on March 14, 2002 and became an absolute decision. The amounts paid in clearance of the claim were charged as an expense in 2000.

In 1999, one of the two main competitors of ICL in its Industrial Products segment announced that it was cooperating with the anti-trust authorities in the European Union with regard to similar allegations. As of the date of this report, ICL and its legal advisers are unable to estimate the effect of this event on its business results, if any, due to the uncertainty as to its outcome. Therefore, no provision has been made in respect thereof in the financial statements.

8.2 In a notice dated October 7, 2002, the Anti-Trust Commissioner announced that in areas and matters in which the wholly-owned subsidiaries of ICL were declared a monopoly in the past, the Company will also be declared a monopoly.

8.3 Contrack-Line Ltd. ("Contrackline") filed a claim in the Tel Aviv District Court against the subsidiary Dead Sea Works Ltd. ("DSW") and others, the main cause of which is infringement of a patent relating to a dredge for crushing the salt mushrooms in the Dead Sea, and other alleged harm to the rights of the plaintiff relating to the dredge. DSW appealed the decision in the Supreme Court. The appeal was heard on October 21, 2002, where it was agreed, with the parties' consent, that the dispute would be transferred for mediation.

Concurrently with the appeal and based on the above decision (the dispute is now in mediation), Contrackline filed a financial claim against DSW in the District Court for 51 million dollars, in respect of the damage/loss it sustained. Contrackline requested to be excused from the court fee, and the court decided that it should pay a symbolic fee of NIS 10,000 for a claim amount of up to 20 million dollars. Both parties have appealed this decision. The ruling in these appeals has been deferred until after the ruling on the appeals in the Supreme Court (or conclusion of the mediation proceedings).

ICL included a provision in its books which it believes, based on the opinion of its legal advisers and taking into consideration the above developments, to be sufficient to cover its exposure in these proceedings.

8.4 A group headed by V.I.D. Desalination Co. Ltd. ("VID") which is held by the subsidiary I.D.E. Technologies Ltd. ("IDE"), won, together with others, a tender published by the Government of Israel ("the Tender") for the installation and operation (by the BOT method) of a desalination plant in Ashkelon. The Tender was originally for the desalination of 50 million cubic meters of water per year over a period of about 24 years. After VID won the Tender, the State announced that it wishes to double the quantity of desalinated water to be supplied, to 100 million cubic meters per year, and on April 28, 2002 an agreement was signed between the State and VID for this purpose. The part of IDE in the ownership and control of VID is 50%, and the part of the French company Vivendi Water and of Dankner Elran Co., is 25% each.

On January 23, 2003, VID signed a series of agreements with a group of companies and institutional investors for financing the erection and operation of the desalination project. The financing is likely to reach as much as 150 million dollars, subject to the fulfillment of various milestones. The remaining $50 million will be financed by VID from shareholders equity and shareholders' loans.

8.5 On May 29, 2001 a class action was filed against Fertilizers & Chemicals Ltd. ("F&C") and numerous other defendants, for about NIS 114 million ($24 million), for spilling effluents into the Kishon stream, which the plaintiffs allege has caused the cancer from which they suffer. This claim is added to others, including against F&C, for bodily injury and financial losses allegedly sustained by the plaintiffs as a result of pollution of the Kishon, for which it is alleged that F&C and the other defendants are liable. In the opinion of ICL's management, which is based on the opinion of the legal advisers who are handling the case, the risk inherent in the claim cannot be estimated at this stage, and therefore no provision was made in the financial statements.

8.6 On April 30, 2002, the entire share capital of the British company Cleveland Potash Ltd. ("CPL") was acquired by ICL Fertilizers. The total cost of the acquisition, after adjustments deriving from certain stipulations in the agreement, was approximately $23 million. On the accounting handling of CPL's pension fund – see Note 2(j) to the financial statements.

8.7 Concerning a permit to manufacture a flame retardant (FR720) at the plant of the subsidiary Brom Chemie in Holland ("Bromchemie"), of the ICL Industrial Products segment, legal action was filed by the Dutch Ministry for the Environment and two "green" organizations for the suspension and revocation of the permit. The Administrative Court in Holland ruled that the permit is invalid, and its decision cannot be appealed. About one year ago, the Dutch Minister for the Environment banned the manufacture, use and import of the above product in Holland. The ban was recently lifted. Based on the judgment of the management, above matters will not have a material impact on the business results of the Company.

8.8 In February 2002 the Israel Union for Environmental Defense ("IUED") submitted an appeal to the Water Tribunal, which is directed against the Water Commissioner and against two subsidiaries of ICL from its Fertilizers segment, in which it requests to direct the Water Commissioner to issue orders against the subsidiaries, obligating them, inter alia, to redress and/or reinstate the salinity of the Havurat Yehuda aquifer (in which the "Ef'fe 13" bore is located), to its original levels and/or to take all necessary action in order to prevent recurrence of the alleged pollution. The appeal further requests that the orders obligate the subsidiaries to immediately halt the permeation of industrial effluents into the sub-terrain and to pump the polluted water from Ef'fe 13 and other bores – in order to minimize the spreading of the pollution and to control the rising salinity levels, while utilizing the polluted water instead of unpolluted water extracted from other sources.

The managements of the subsidiaries believe that they have good arguments to show why such orders should not be given, why the pollution was not caused by the subsidiaries, that the Water Tribunal is not competent to rule in this case, and that IUED has no standing in the proceeding. Furthermore, another subsidiary of ICL has expressed its willingness to purchase the water from the Ef'fe 13 bore. The Water Commissioner notified the Tribunal that in his opinion, the reliefs should not be granted since, inter alia, to the extent that pollution was caused – it has been halted, and since practical solutions are being investigated for use of the aquifer's water which will in any case solve the problem of the alleged pollution. The appeal is pending in the Tribunal and has not yet been heard.

As the requested reliefs are very general and cannot be quantified, it is impractical to try to estimate, at this stage, the potential cost of the actions, if any, that the subsidiaries may be required to take.

8.9 Within the Group framework, ICL maintains internal enforcement systems to ensure compliance with the provisions of pertinent laws. It is made clear to company managers and officers that their managerial responsibilities include ensuring that the provisions of the law are observed in the company in which they work. Such matters are also discussed regularly by the managements and boards of directors of the various companies. The actions taken for this purpose include the appointment, in every company and at every production site, of a safety officer who checks this compliance from time to time; an internal compliance plan has been operated for matters relating to securities laws; the subject of prevention of sexual harassment is also covered by a plan; management periodically attends short seminars on all these subjects, and the implementation of the provisions of the various law is monitored regularly.

In view of the importance which ICL Group attaches to these issues, the Board of Directors of the Company, at its meeting on August 25, 2002, appointed the General Manager of the Industrial Products segment, Mr. Asher Greenbaum, to be in charge, on behalf of the ICL Group, for matters of safety, ecology and security.

8.10 On January 1, 2002, Mr. Eli Amit, until then the manager of the Economics Unit at ICL, was appointed Vice President for Economics.

On February 28, 2002, Adv. Aner Berger was appointed General Counsel and Company Secretary.

On March 24, 2002, Mr. Joseph Lastigzon left his position as a vice president of the Company.

8.11 On April 28, 2002 the Board of Directors of the Company decided to distribute a dividend equal to $26,000,000 ($25,720,000 after the dividend due to a subsidiary), which is NIS 126,568,000 at the representative exchange rate of the dollar on the determining date. The dividend per share (rounded off to four figures after the decimal point) was 10.5473 agorot per share. The dividend was distributed on May 22, 2002.

On December 9, 2002 the Board of Directors of the Company decided to distributed a dividend equal to $29,037,000 ($28.281,000 after the dividend due to a subsidiary), which is NIS 134,935,000 at the representative exchange rate of the dollar on the determining date. The dividend per share (rounded off to four figures after the decimal point) was 11.2446 agorot per share. The dividend was distributed on December 30, 2002.

9. Events after the balance-sheet date

9.1 On January 23, 2003 the Board of Directors of ICL approved a plan for a private placement of options exercisable for 25,000,000 shares of the Company to a group of senior officers of the ICL Group, including the Chairman of the Board and the CEO of the Company. On February 24, 2003 the allotment of the options to the Chairman of the Board was approved by the General Meeting of the Shareholders of the Company.

9.2 On January 30, 2003 the Board of Directors of ICL approved the amendment of the terms of the July 1999 allotment of options for shares, so that employees who exercise the options will be allotted shares in an amount equal to the benefit to which they are entitled. On February 24, 2003 the amendment was approved in connection with the options allotted to the Chairman of the Board and the CEO of the Company, by the General Meeting of the Shareholders of the Company.

9.3 On January 30, 2003 the Board of Directors of ICL gave its approval to the management of the Company to purchase, from time to time, itself or through a subsidiary, up to 20 million ordinary shares of ICL out of the Company's distributable profits, as provided in the Companies Law, 5759-1999. The purchase can be made either on or off the floor of the stock exchange. The method, prices and dates of purchasing the shares will be decided by the management of ICL at its discretion, in accordance with the above and subject to the provisions of the internal compliance plan on the subject of securities. During February 2003, an amount of 2,196,632 shares were acquired by a subsidiary of the Company.

9.4 On February 4, 2003, ICL received notice from Maalot, The Israeli Securities Rating Co. Ltd. ("Maalot"), of renewal of the A-1 rating for the recycling of existing series of NIS 350 million ($70 million) of commercial papers of ICL. The rating committee of Maalot also set an A-1 rating for additional series of NIS 150 million ($30 million) of such commercial papers, if and when such a series would be issued. ICL undertook towards Maalot to maintain back-up of credit lines in the amount of the recycled series, and to submit an undertaking to obtain additional back-up credit lines in the amount of the additional series, if and when such a series is issued.

9.5 On January 1, 2003, Mrs. Ossi Sessler was appointed Relations Officer for Investors and Financial Communications at ICL, and Mr. Asher Rappaport, Assistant to the CEO of ICL, was appointed Vice President.

9.6 On March 27. 2003 the Board of Directors of the Company decided to distributed a dividend equal to $26.350,000 ($26,100,000 after the dividend due to a subsidiary), which is NIS 123,792 thousand at the representative exchange rate of the dollar on the determining date. The dividend per share (rounded off to four figures after the decimal point) was 10.316 agorot per share. The dividend will be distributed on April 24, , 2003.

10. <u>Social-community involvement of ICL and its subsidiaries</u>

The ICL Group focuses its community engagement in the towns and development areas where most of the Group's companies' employees live, out of a recognition of the need to be involved in and to support the community. ICL Group and its employees direct their efforts mainly to the development towns in the Negev – Dimona, Yeruham, Arad and Be'er Sheva, and in the north of Israel – Kiryat Ata.

ICL's efforts are mainly for disabled children, women and children at risk, populations in socioeconomic distress and those with special medical needs.

The financial contribution of the ICL Group in 2002 amounted to NIS 2.34 million ($497,000).

Some of the projects in which the Group, its managers, employees and their children, as well as ICL retirees, are involved, are listed below:

<u>Young Persons' Clubs</u>

In 2001, the Boards of Directors of the Israel Corporation, ICL and the Group's subsidiaries formulated a strategic plan for the Group's social and community involvement. The main project is the "adoption" of a network of clubs for children in distress. These clubs are basically a therapeutic framework, a model for the organized home and functional family, intended for children aged 6 – 13. The children who attend these clubs are defined as being at risk, whose parents are unable to look after them during the day for various reasons – financial, violence, neglect, dysfunction, and so on.

Pursuant to a resolution of the board of directors of the ICL Group, the Group will assist for five years in the development and upkeep of the clubs, both by financial and material means (money and equipment), and with educational and value content by means of active and close contact and participation of ICL employees and retirees in the clubs' activities. ICL companies have adopted specific towns in the Negev and the north of the country, and within each company, employees have adopted one of the clubs in the company's adopted town.

In 2002, ICL increased the number of adopted clubs from the six which were involved in the pilot project in 2001, to twenty at present. The clubs are in Yeruham, Be'er Sheva, Dimona, Arad and Kiryat Ata.

The financial contribution to each club is NIS 50,000 per year. The active contribution includes work by teams of employees – repairs in the club buildings, environmental development, donations of computers, domestic appliances, games and books, as well as enrichment activities, hikes, and activities on festivals and holidays. The companies of the Group supported the clubs directly with about NIS 422,000, plus an investment of thousands of hours of employees.

Response to various issues

Another important contribution of the ICL Group, in the amount of about NIS 500,000 in 2002, is support for Soroka Hospital in Be'er Sheva, which serves the companies' employees, their families and the communities in which the companies operate. Once a year, the donation collected is used for the construction, development and equipping of one of the hospital's departments. In the summer months, the children of employees assist in various activities and tasks.

ICL Group has replaced the holiday gifts (New Year and Passover) traditionally distributed to colleagues and others, with food parcels and gift vouchers which they donate to needy families in the Negev, and with parcels for children with cancer who are hospitalized and in the daily care of the Soroka Medical Center.

ICL has also contributed money and money equivalents to various support organizations operating in the south of the country. Together with the Soldiers' Committee, ICL Group has adopted army units and bases, where they hold joint activities for the soldiers' wellbeing.

ICL was a driving force behind the opening of a branch of "Inbal" (formerly Meital) in Be'er Sheva – a support center for children who are victims of sexual abuse. ICL has undertaken to donate $50,000 per year for five years, to the financing of Inbal's activities.

ICL also initiated the opening of a branch of "Yated" in the south, an organization for children with Down's syndrome, and undertook to donate $20,000 per year for the first three years of its activities. That period, which recently ended, has now been extended for a further three years by the Committee for Community Relations, a sub-committee of the Board of Directors of ICL.

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

27.03.2003
Date

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Akiva Mozes	Yossi Rosen
CEO	Chairman of the Board