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

Directors Report on the State of the Company's Affairs
for the period ended 30.06.2002

1. Description of the Company and its Business Environment

1.1 Description of the Company

Israel Chemicals Group ("ICL Group" or "the Group") is a multinational group operating through companies held by the parent company – Israel Chemicals Ltd. ("ICL" or "the Company"), mainly in fertilizers and chemicals of various types.

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

ICL Group owns companies operating production plants in, among others, the United States, Germany, France, Spain, China, the Netherlands and England.[1] In addition to the manufacturing companies, ICL Group holds an array of service companies active in marketing, logistics and R&D.

The overseas companies of ICL Group are involved mainly in the manufacture of products which integrate with or are closely related to the operations of the companies in Israel. About 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 ("the Israel Corporation") holds approximately 53% of ICL's share capital. The Ofer Brothers Group is the controlling shareholder in the Israel Corporation.

1.2 Business Environment and Profitability

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

The demand for the Group's products is influenced by the demand for basic agricultural products (fertilizers and pesticides) and by the economic situation in developed countries (the source of the demand for chemicals).

The sales of ICL Group are made in foreign currency, mainly US dollars, while approximately one quarter of its expenses for inputs are in shekels. Consequently, a real devaluation or appreciation in the average dollar-shekel exchange rate affects the Company's operating profit. Changes in the dollar exchange rate against the euro and other foreign currencies also affect operating results, financing expenses, financial liabilities and the income tax expense item.

During the report period, ICL Group was hurt by the global economic slowdown. Conversely, the Group benefited from the devaluation of the shekel against the dollar, the appreciation of the euro exchange rate against the dollar at the end of the period, the moderate decrease in marine transportation rates, as from the falling dollar interest rate.

[1] The Group has operated in England are since 1 May, 2002 – see Section 8.6.

Competition in some of ICL's markets caused a fall in prices during the report period, particularly in the markets for magnesium metal and fertilizers, some magnesia products, flame retardants and other bromine products. ICL Group is taking steps to reduce these influences, both by adapting its marketing and production policies and by implementing savings and efficiency measures.

1.3 Organizational focusing and efficiency measures

As part of its strategy, ICL is in the midst of an organizational initiative which will lead to focused management in the various areas of activity, full utilization of synergies in the Group, increased efficiency of the various business units and a reduction of operating costs.

During the report period, ICL continued its organizational preparation for grouping activities according to the segments in which the company operates, and management according to those segments. Thus, ICL is acting to define several business divisions into which to group its activities.

As part of this initiative:

1.3.1 ICL Fertilizers is being established as a framework within which all activities in the fertilizer segment of the Group, in Israel and abroad, will be concentrated. This includes potash, phosphates and fertilizers.

To establish this new framework, the following actions were taken:

* 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 wholly-owned subsidiary Fertilizers & Chemicals Ltd. ("F&C") were sold to Rotem
* F&C business units which are not in the fertilizer segment, were put under the direction of the Bromine Group;
* Holdings in companies outside Israel are being re-organized.
* An organizational framework is being established in Europe (ICL Fertilizers Europe), for concentrating the activities of the fertilizers segment on that continent.

1.3.2 In the Puriphos business unit (which manufactures and markets food grade and technical grade white phosphoric acid (see also Section 3.2 below), responsibility was divided so that BK Giulini now bears overall responsibility (including decisions on sales and marketing, investments, production policy, etc.), while production and the maintenance of facilities and installations will be part of the activities of Rotem.

1.3.3 At the time of writing this report, a savings and efficiency drive for Dead Sea Periclase Ltd. ("Periclase") is being examined, in which its activities will be carried out in a separate business unit of the Bromine Group, in an attempt to optimize and increase the efficiency of production lines and focus on profitable operations. The operation and maintenance of the facilities will become part of the activities of Rotem – in view of its physical proximity to the Periclase facility. This step is still being investigated and analysed, in consultation with the workers' committee.

1.3.4 Actions are being taken to integrate the marketing and other activities of the Spanish company Iberpotash and Cleveland Potash in England, which are best served within the new framework of ICL Fertilizers Europe.

2. Results of Operations

2.1 Principal Financial Results

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

NIS	1-6/2002		1-6/2001*		4-6/2002		4-6/2001*		2001	
	NIS millions	% of sales	NIS millions	% of sales	NIS millions	% of sales	NIS millions	% of sales	NIS millions	% of sales
Sales CIF	4,617.7	100.0	4,419.8	100.0	2,497.4	100.0	2,156.1	100.0	8,864.5	100.0
Gross profit	1,488.3	32.2	1,430.2	32.4	865.5	34.7	714.8	33.2	2,799.9	31.6
Operating income	499.5	10.8	412.7	9.3	326.2	13.1	210.3	9.8	764.7	8.6
Pre-tax profit	319.8	6.9	218.7	4.9	210.6	8.4	141.6	6.6	(659.2)	(7.4)
Net profit	230.8	5.0	191.7	4.3	135.0	5.4	105.1	4.9	(202.1)	(2.3)
Cash flow from current operations	803.3		439.8		518.9		218.7		1,396.5	
Investments										
Acquisition of shares in subsidiaries	**142.1		32.4		**142.1		32.4		32.4	
In fixed assets, less grants	<u>355.0</u>		<u>245.4</u>		<u>179.1</u>		<u>95.6</u>		<u>580.9</u>	
Total	497.1		277.8		321.2		128.0		613.3	

* Starting from 31.12.01, shipping expenses are presented under the Selling expenses item. In preceding years they were presented partially in Sales and partially in Cost of sales. The data for preceding years have been reclassified.

** Of the NIS 142.1 million, NIS 32.0 million were returned after the balance sheet date.

$	1-6/2002		1-6/2001*		4-6/2002		4-6/2001*		2001	
	$ millions	% of sales	$ millions	% of sales	$ millions	% of sales	$ millions	% of sales	$ millions	% of sales
Sales CIF	968.3	100.0	926.8	100.0	523.7	100.0	452.1	100.0	1,858.8	100.0
Gross profit	312.1	32.2	299.9	32.4	181.5	34.7	149.9	33.2	587.1	31.6
Operating income	104.7	10.8	86.5	9.3	68.4	13.1	44.1	9.8	160.4	8.6
Pre-tax profit	67.1	6.9	45.9	4.9	44.2	8.4	29.7	6.6	(138.2)	(7.4)
Net profit	48.4	5.0	40.2	4.3	28.3	5.4	22.0	4.9	(42.4)	(2.3)
Cash flow from current operations	168.5		92.2		108.8		45.9		29.2	
Investments										
Acquisition of shares in subsidiaries	**29.8		6.8		**29.8		6.8		6.8	
In fixed assets, less grants	74.4		51.5		37.6		20.1		121.8	
Total	104.2		58.3		67.4		26.9		128.6	

* Starting from 31.12.01, shipping expenses are presented under the Selling expenses item. In preceding years they were presented partially in Sales and partially in Cost of sales. The data for preceding years have been reclassified.

** Of the $29.8 million, $6.7 million were returned after the balance sheet date.

2.2 Results of Operations for the Period January – June 2002

Sales

Sales of ICL Group in the report period amounted to approximately NIS 4,617.7 million ($968.3 million), compared with NIS 4,419.8 million ($926.8 million) last year, an increase of approximately 4.5%.

The increase in the Group's sales reflects mainly an increase in quantities of potash sold, due in part to the incorporation of the results of the UK company Cleveland Potash Ltd. ("CPL") from 1 May 2002, which contributed about 16.6 million dollars to the Group's revenues. Also noteworthy is the increase in sales of phosphate products and flame retardants. The increase was partially offset by lower prices and smaller quantities sold of some of the Company's other products.

The appreciation of the euro against the dollar in the second quarter of the year also contributed to income from sales in Europe.

Below is a breakdown of sales by geographical markets:

Sales CIF	1-6/2002		1-6/2001	
	$ millions	%	$ millions	%
Israel	78.4	8.1	81.2	8.8
North America	121.3	12.5	144.2	15.6
Latin America	98.5	10.2	74.6	8.1
Europe	437.2	45.1	407.5	43.9
Asia	196.0	20.2	180.0	19.4
Rest of the world	36.9	3.9	39.3	4.2
Total	968.3	100.0	926.8	100.0

The breakdown of sales in the report period shows an increase in the proportional part of sales in Europe and Latin America and Asia at the expense of North America and Israel. This is due to the increase in income from sales of fertilizers and specialty chemicals in Europe, and an increase in sales of fertilizers in Latin America and Asia. Conversely, sales of bromine products in North America decreased, against a background of the economic slowdown in the region.

Gross Profit

Gross profit amounted to NIS 1,488.3 million ($312.1 million), an increase of 4.1% compared with last year. Gross profit margin out of sales turnover (CIF) remained similar – 32.2% (32.4% last year).

The increase in income contributed to gross profit. Another positive influence was the devaluation of the shekel against the dollar, which led to erosion of labour costs and other shekel costs in dollar terms. Slightly lower fuel prices also contributed to the profit margin.

The margin was adversely affected by price erosion and reduced production – partially under the policy of reducing stocks – of some products.

Sales, Transport and Marketing Expenses

Expenses amounted to approximately NIS 735.4 million ($154.2 million), an increase of about 1.1% compared with last year.

The increase in expenses stems primarily from the increase in quantities sold of some products, the effects of the first-time inclusion of CPL's results, and the effects of the sharp appreciation in the euro exchange rate against the dollar on the results of the subsidiaries in Europe, which was offset by the erosion of shekel costs and efficiency measures.

General and Administrative Expenses

Expenses totaled NIS 184.3 million ($38.6 million), a decrease of about 11.4% compared with last year. As a result, the percentage of expenses in the report period decreased from 4.7% of turnover to 4.0%. The decrease, despite the first-time consolidation of CPL, is derived mainly from a decrease in the expenses of the subsidiaries as part of the efficiency and reorganizing processes, and from the effects of the strengthening of the 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 approximately NIS 69.1 million ($14.5 million), a decrease of about 2.8 million dollars compared with last year. The decrease resulted from efficiency and savings measures at IMI, the Group's R&D institute, and at subsidiaries.

Operating Income

Operating income increased by some 21.0% compared with last year, reaching approximately NIS 499.5 million ($104.7 million). Operating income as a percentage of turnover increased from 9.3% last year to 10.8% this year. The increase in operating income derives mainly from the increase in gross profit and decrease in general and administrative and R&D expenses.

Financing Expenses

Financing expenses amounted to NIS 132.6 million ($27.8 million), compared with NIS 204.7 million ($42.9 million) last year.

The decrease in financing expenses compared with the corresponding period last year is derived mainly from the average dollar-interest rate during the period, which was about 1.9% lower than last year (weighted average interest of loans at fixed and variable interest rates), and from the decrease in the average balance of liabilities by about $155 million.

Other Income (Expenses), Net

Other expenses net of other income amount to NIS 47.1 million (about $9.9 million). In the same period last year, the ICL Group had other income less expenses of NIS 10.6 million ($2.2 million). Other expenses for the period include mainly a provision for efficiency measures at Dead Sea Bromine, impairment of assets at F&C, and the erosion of pension reserves.

Net Profit

Net profit amounted to NIS 230.8 million ($48.4 million), compared with a net profit of NIS 191.7 million ($40.2 million) in the same period last year, an increase of about 20.4%.

2.3 Results of Operations for the Period April – June 2002

Sales

Sales of ICL Group in the report period amounted to approximately NIS 2,497.4 million ($523.7 million), compared with NIS 2,156.1 million ($452.1 million) last year, an increase of approximately 15.8%.

The increase in income is derived partially from the inclusion of the results of CPL starting on 1 May, 2002, which contributed 16.6 million dollars to revenues, from the increase in quantities sold of some of he Company's products (particularly potash, phosphate and flame retardants), and from the appreciation of the euro and the yen against the dollar. These factors were offset by a decrease in the prices of potash, some phosphate fertilizers, flame retardants, magnesium and other products, compared with the second quarter of 2001.

Below is a breakdown of sales by geographical markets:

Sales CIF	4-6/2002		4-6/2001	
	$ millions	%	$ millions	%
Israel	39.8	7.6	43.0	9.5
North America	59.5	11.4	68.9	15.2
Latin America	74.4	14.2	51.9	11.5
Europe	219.2	41.9	183.5	40.6
Asia	117.9	22.5	84.6	18.7
Rest of the world	12.9	2.4	20.2	4.5
Total	523.7	100.0	452.1	100.0

Gross Profit

Gross profit amounted to NIS 865.5 million ($181.5 million), and the gross profit margin out of sales increased from 33.2% to 34.7% of turnover. Most of the improvement derives from the increase in quantities sold, along with erosion of shekel costs in dollar terms.

Operating Income

Operating income amounted to approximately NIS 326.2 million ($68.4 million), reflecting an improvement of NIS 115.9 million ($24.3 million) over the second quarter of 2001. The operating margin increased from 9.8% last year to 13.1% this year out of total sales for the period.

Other Income (Expenses), Net

Other expenses net of other income amount to approximately NIS 37.9 million (about $7.9 million), compared with other income of NIS 1.8 million ($0.4 million) in the same period last year.

Net Profit

Net profit amounted to NIS 135.0 million ($28.3 million), compared with NIS 105.1 million ($22.0 million) last year.

3. <u>Segments of Operation</u>

Below are sales and operating income data, by segment of operation:

Sales CIF by segment	1-6/2002		1-6/2001		4-6/2002		4-6/2001	
	$ millions	% of total sales	$ millions	% of total sales	$ millions	% of total sales	$ millions	% of total sales
Fertilizers	404.8	41.8	372.8	40.2	217.0	41.4	179.4	39.7
Specialty chemicals	334.3	34.5	312.8	33.7	188.4	36.0	157.3	34.8
Bromine and its compounds	181.1	18.7	190.6	20.6	93.0	17.8	93.2	20.6
Metallurgy	32.3	3.3	36.4	3.9	16.6	3.2	14.8	3.3
Other	15.8	1.7	14.2	1.6	8.7	1.6	7.4	1.6
Total	968.3	100.0	926.8	100.0	523.7	100.0	452.1	100.0

Operating income by segment	1-6/2002		1-6/2001		4.6/2002		4-6/2001	
	$ millions	% of total sales	$ millions	% of total sales	$ millions	% of total sales	$ millions	% of total sales
Fertilizers	71.7	17.7	56.0	15.0	43.2	19.9	28.6	15.9
Specialty chemicals	28.6	8.5	23.3	7.4	17.2	9.1	13.3	8.4
Bromine and its compounds	8.7	4.8	22.4	11.8	9.9	10.6	11.1	11.9
Metallurgy	(6.9)	(21.4)	(13.8)	(37.8)	(3.2)	(19.3)	(8.2)	(55.4)
Other	2.6	16.8	(1.4)	(10.0)	1.3	14.9	(0.7)	(9.5)
Total	104.7	10.8	86.5	9.3	68.4	13.1	44.1	19.8

3.1 <u>Fertilizers</u>

<u>**Sales**</u>

The volume of operations in the segment in the first half of 2002 amounted to approximately NIS 1,930.5 million ($404.8 million), an increase of approximately 8.6% compared with last year. The increase in sales turnover arises mainly from the increase in quantities sold of potash, phosphate and fertilizers (export and local market). Income was offset, however, by lower prices in the Company's main markets, and a different mix of products and a different geographical distribution.

Sales*

Thousands of tons	1-6/2002	1-6/2001	4-6/2004	4-6/2001
Potash	2,086	1,617	1,266	782
Phosphate rock	388	347	176	116
Fertilizers	832	730	406	355

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

Income (CIF) for the period from sales of potash (from Sdom, Spain and England, to external customers) amounted to approximately $219 million, about 27% higher than last year. The balance of the income is mainly from sales in Israel and abroad of phosphate rock (as a raw material and for direct fertilization), fertilizers (including phosphate fertilizers, as well as compound fertilizers and fully soluble fertilizers, which contain different proportions of nitrogen, phosphorus and potassium), and phosphoric acid, which is used as a raw material in the production of fertilizers ("green acid").

The increase in sales of potash stems manly from the increase in sales to Asian and South American markets, and the first-time inclusion of the sales of CPL. The increase was offset by somewhat lower average prices, due in part to a different sales mix. In the phosphate fertilizers market, greater quantities were sold both in Europe and in South America, but the ongoing weakness in phosphate markets was reflected in relatively low prices of some of the products. Nevertheless, the prices of some phosphate products are fairly stable, and a few products have even been showing some signs of recovery towards the end of the second quarter of 2002.

Production

Thousands of tons	1-6/2002	1-6/2001	4-6/2002	4-6/2001
Potash	2,147	1,964	1,158	963
Phosphate rock	1,843	1,482	933	797

The increase in potash production for the period is the result of the continued increase in production in Sdom following improvement in the production system, and the additional production at CPL (since 1 May, 2002). In Spain, however, production was lower than last year, mainly due to current problems of mining, including infrastructure mining, equipment availability and manpower limitations.

The increase in production of phosphate rock follows the return to regular production after implementation of a policy of reducing stocks last year, which necessitated a reduction in production levels.

ICL's subsidiary 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 license from ILA, and this matter too is being dealt with. The present mining concession allows the company 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.

Operating income

Operating income in the segment amounted to NIS 342.0 million ($71.7 million), an increase of about 28.0% compared with last year. The margin on sales came to about 17.7%, compared with 15.0% last year. The improvement derives from the increase in income described above, lower shekel cost of wages (in dollar terms) and energy, and the increase in potash production in Sdom. In contrast, the adverse effect of smaller production quantities at Iberpotash should be noted.

3.2 Specialty Chemicals

Sales

Sales in this segment, which includes a wide range of products, amounted to approximately NIS 1,594.1 million ($334.3 million), an increase of about 6.9% compared with last year. The increase is attributable to increased sales of most specialty chemicals in and outside Europe, as well as to the effects of the strengthening euro against the dollar rate in the second quarter of 2001.

Conversely, there were decreases in the sales of magnesia products (particularly to the refractory market), products of the chemicals division of Dead Sea Works, as well as biocides for water treatment, due to increasing competition which is driving down the prices.

Operating Income

Operating income in the segment amounted to NIS 136.2 million ($28.6 million), about 22.8% higher than last year. The margin was about 8.5%, compared with 7.4% last year.

The increase in the margin stems primarily from greater efficiency and improvement in operations in the activities of the chemicals manufactured in Europe and of white acid, which was offset by a decrease in the margin in magnesia and biocide operations.

Expansion of white acid production capacity (Puriphos)

The business unit Puriphos produces white phosphoric acid of a quality allowing it to be used for food and technical applications. A substantial part of the acid is used for various downstream products in ICL, for metal treatment, etc.. The business unit's production facilities are located in the Rotem plant at Mishor Rotem. In April 2002 Puriphos completed expansion of its production capacity, and the early part of the second quarter was devoted to running-in the expanded installations. The expansion will enable an increase in production from about 120,000 tons P_2O_5 per year to 180,000 tons P_2O_5 per year.

3.3 Bromine and its Compounds

Sales

The scope of operations in this segment in the report period amounted to approximately NIS 863.6 million ($181.1 million), a decrease of 5.0% compared with last year. The decrease in income is derived from erosion of selling prices and from smaller quantities sold, along with a change in the composition of the product mix.

Income from sales of flame retardants was about 18.0% higher than last year, as a result of recovery in demand, which led to larger quantities sold of leading products, but was offset by a decrease in the selling price along with more intense competition in the destination markets. The increase in sales is the direct result of greater demand by the electronics, computers and telecommunications industries.

Income from sales of industrial products decreased compared with last year by about 27%. The decrease is derived mainly from decreased sales to the oil drilling market (fewer drilling starts), and the generally lower prices and poorer sales of elementary bromine. Demand in this segment depends largely on the oil market and prices, and is a function of the number of new oil and gas operations, especially in Mexico Bay and the North Sea.

In agricultural products, turnover decreased by about 12% compared with last year. The decrease derived mainly from a quantity decrease in sales of methyl bromide and from a change in the mix of sales with the gradual penetration of substitute products. Sales in the second quarter were similar to last year, while in the first quarter they were lower than in the first quarter of 2001, when they were influenced by increased demand for methyl bromide by farmers.

The Montreal Protocol: Under the accord known as the "Montreal Protocol", 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 $12 million, with an operating income of approximately $2 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 $18 million. The operating income in respect of these sales was about $5 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. As a result of this strategy, long-term agreements have been signed with BASF and Dow Agrosciences (DAS) for the distribution of two main substitutes for methyl bromide – Basamide, produced by BASF, and Telon produced by DAS.

Regulatory Developments and Others

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

One such decision is to phase out the flame retardants Penta and Octa, which will have little effect on the Company's sales. Concerning the flame retardants known as Decca, HBCD and TBBPA, a risk assessment is in progress through a dialogue between the EU authorities and a panel representing the bromine companies. In addition, two laws dealing with the recycling and use of certain chemical defined as hazardous, are in the legislation process. The application of these proposed laws could affect the use of certain flame retardants, because of the liability of manufacturers for the recycling of plastic parts containing bromided products (a process which is supposed to take place at the end of the products' life). As at the date of this report, the Company is not aware of similar assessments in the USA or Japan.

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 its responsibility. The Council, together with the plants and the relevant authorities, are actively seeking a short-term solution to the problem by reducing these nuisances, while researching a long-term solution by seeking an alternative to the evaporation ponds.

Operating Income

The operating income in the segment for the report period amounted to approximately NIS 41.5 million ($8.7 million), compared with NIS 107.0 million ($22.4 million) last year.

The decrease in the margin derived mainly from a drop in the prices of flame retardants, from smaller quantities sold of industrial and agricultural products, and from reduced production while reducing stocks. Conversely, positive influences were efficiency measures, which contributed mainly to the reduction of overhead, and the strengthening of the dollar against the shekel.

3.4 Metallurgy

Sales

Sales turnover in the segment amounted to approximately NIS 153.8 million ($32.3 million), a decrease of approximately 11.5% compared with last year.

The decrease in revenues from magnesium is derived from price erosion due to increased competition in the market, mainly due to sales at low prices by Chinese manufacturers. In addition, income was adversely affected by the worldwide slowdown in the aluminium and automotive industries, and by a change in the mix of sales.

Operating Income

The operating loss in the segment amounted to approximately NIS 32.9 million ($6.9 million) compared with a loss of NIS 65.6 million ($13.8 million) in the same period last year.

The decrease in the operating loss derives cutting the costs of the production system, and from a decrease of about $4.5 million in depreciation, due to impairment of the Company's assets in the fourth quarter of 2001.

4. The Group's financial position

4.1 Assets and Liabilities

Net financial liabilities at the end of June 2002 amounted to approximately NIS 5,839.7 million ($1,224.5 million), compared with NIS 5,935.0 million ($1,244.5 million) at the end of 2001, a decrease of approximately NIS 95.4 million ($20.0 million).

The decrease in the debt balance since the beginning of the year is derived from the free cash flow of the Group's companies, and from receipt of approximately NIS 38.0 million ($8.0 million) in consideration of the sale of land in Raanana, and was achieved despite the influence of the acquisition of CPL (about $30 million) cost of acquisition and $13 million in respect of consolidation of the loans of the acquired company) and the effects of the strengthening euro on the dollar value of loans taken by the Group's companies in Europe (approximately $20 million). After the balance sheet date, as part of the adjustments deriving from the CPL acquisition agreement, about $6.7 million were returned to ICL out of the cost of the acquisition.

4.2 Sources of finance

ICL Group's sources of external financing are primarily short-term and long-term credit from Israeli and international banks.

During the report period, no change occurred in the bank-loan balance, but there was a temporary transition from long-term to short-term loans while retaining the unexploited long-term credit lines.

At the report date, the Company is contemplating securitization of its trade receivables.

4.3 Cash flow

The cash flow of ICL from current operations during the first half of the year amounted to approximately NIS 803.3 million ($168.5 million), compared with NIS 439.8 million ($92.2 million) last year, an increase of NIS 363.5 million ($76.3 million)..

The cash flow from current operations and the income of NIS 38.0 million ($8.0 million) from sale of land in Raanana, were the principal sources of finance for investments in fixed assets and the acquisition of CPL, and for the decrease in 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 355.0 million ($74.4 million), compared with investments (net of grants) of NIS 245.4 ($51.5 million) last year.

6. Human Resources

The total number of employees (excluding students) at ICL Group as at June 30, 2002 is 8,652, compared with 8,165 on June 30, 2001. The increase is the result of the addition of CPL employees.

7. Report on Exposure to Market Risks and their Management

No significant change occurred during the report period compared with the Directors' Report of December 31, 2001.

8. Events during the period

8.1 In February 2000 a civil class action was filed in the U.S.A against subsidiaries of Dead Sea Bromine ("DSB"), in which a claim for compensation was made based on an alleged violation of the anti-trust laws of the U.S. A settlement agreement was reached between the attorneys for the plaintiff and the defendants to dismiss the claim. The settlement was approved by the U.S. court on March 14, 2002 and became final and non-appealable. The amount paid to settle the claim were included as an expense in the year 2000.

In 1999, one of DSB's main competitors notified DSB that it was cooperating with the European Union's anti-trust authorities in relation to an investigation concerning similar allegations. As at the date of this report, DSB and its legal advisers are unable to estimate the effects of this event on its business results, if any, due to the uncertainly as to its possible outcome, and therefore, no provision was made in the financial statements for this event.

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

8.3 Contrack-Line Ltd. ("Contrackline") filed a claim in the Tel Aviv District Court against the subsidiary DSW, and against others, the main cause of which was violation of its patent, which concerns a dredge that crushes the salt mushrooms in the evaporation ponds of DSW, and prejudice of other rights of the plaintiffs relating to the dredge.

The court ruled that DSW had violated the patent. The appeal in the Supreme Court against that decision is still pending.

Concurrently with the appeal and based on the above decision, Contrackline filed a financial claim against DSW in the District Court, for US $51 million in respect of the loss/damage it sustained. Contrackline requested exemption from the court fee which it was required to pay, and the Court allowed Contrackline to pay a symbolic court fee of NIS 10,000 for the amount of the claim of up to $20 million.

In the opinion of the management of DSW, based on the opinion of its legal advisers, there is a good chance that the appeal to the Supreme Court will be allowed. Accordingly, the company has no made a provision in its financial statements for these proceedings. Since the appeal is still pending, the outcome and implications of the proceedings for DSW cannot be estimated.

8.4 The subsidiary 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. After winning 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 on this matter was signed between the State and the group. The group in which IDE is a member for the purpose of the Tender, also includes the French company Vivendi Water, and Dankner Elran Ltd. IDE's share in the group is 50%, while the other two companies hold 25% each.

8.5 On May 29, 2001 a class action was filed against F&C and others, pursuant to the Abatement of Environmental Nuisances Law (Civil actions), 5752-1992, alleging that the defendants were polluting the Kishon stream. The plaintiffs requested that the court instruct the defendants to cease spilling effluents into the Kishon and restore the stream to its former condition.

On June 13, 2001 and on May 22, 2002, a claim for NIS 110 million (approximately $23 million dollars) was filed against F&C and numerous other entities, for discharging effluents into the Kishon stream, which the plaintiffs allege has caused the cancer from which they suffer. These claims are added to others, including against F&C, for bodily harm and financial losses allegedly sustained by the plaintiffs as a result of pollution of the Kishon, for which it is alleged that the defendants, including F&C, are liable.

In the opinion of the management of F&C, which is based on the advice of the legal advisers who are handling the claim, the outcome of the claim cannot yet be estimated, and therefore no provision was made in the financial statements.

8.6 On November 29, 2001 a subsidiary acquired for the fertilizers segment of ICL, the entire share capital of the British company Cleveland Potash Ltd. ("CPL"). The closing was on April 30, 2002, and starting on May 1, 2002, ownership of CPL's shares was transferred to the subsidiary. The total acquisition price after adjustments for various stipulations in the agreement, is approximately $24 million.

8.7 During 2001, the Dutch Ministry for the Environment and two "green" organizations filed an application in the Administrative Court in Holland to suspend and revoke a manufacturing permit which was granted to one of the companies in ICL Group for a flame retardant (FR 720). The court suspended the manufacturing permit by an injunction, until a final decision on the application is made. During the report period, the Dutch Minister for the Environment signed an order which prohibits the manufacture, use and import of the product in Holland. The company applied for cancellation of the order. The management of the company believes that these proceedings will not have a material effect on the company's business results.

8.8 Following deterioration in the global insurance market in general, and reduction of the insurance capacity in particular, the Company was able to obtain property insurance against earthquake at $400 million any one event – which is the maximum cover attainable as at the date of this report, for property in Israel. Experts estimate that the maximum probable loss in the event of an earthquake will be $700 million.

CPL, recently acquired by ICL Group (see section 8.6 above), decided not to purchase insurance for damage to underground property at this stage, as the company believes that the cost of the premium for the cover on offer is unjustified. From the inquiries CPL made, a similar stance has been adopted by other companies of the same type around the world.

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

As at the date of approval of the financial statements, responses to the appeal have not yet been filed, and a ruling with respect thereto is yet to be issued. The managements of these subsidiaries believe that they have a good defence against the appeal and that they can prove that such orders should not be issued, and that the pollution was not caused by the subsidiaries. In addition, the subsidiaries' managements claim that the Water Tribunal is not authorized to issue a ruling in this case, and that IUED has no standing in this proceeding. Furthermore, another subsidiary of ICL has expressed its willingness to purchase the water from the Effe 13 bore.

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

8.10 In the framework of its companies, ICL Group maintains internal systems for ensuring compliance with the provisions of relevant laws. It is made clear to company managers and position-holders that their managerial responsibilities include ensuring that the provisions of the law are observed in the subsidiary in which they work. These matters are also discussed regularly by the various managements and boards of directors. In each company and at each production site, a safety officer is appointed, who checks this compliance from time to time; an internal compliance plan has been prepared and operated for anti-trust issues, as well as for matters relating to securities laws; the subject of prevention of sexual harassment is also covered by a plan, which is overseen by a specially-appointed person. Management periodically attends short seminars on all these subjects, and the implementation of the provisions of the various law is monitored regularly.

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

8.12 On April 28, 2002 the Board of Directors of the Company resolved to distribute a dividend equal to $26,000,000 ($25,720,000 after a dividend payable to a subsidiary, which is equal, at the representative exchange rate on the date of payment, to approximately NIS 126.6 million. The dividend per share (rounded to four digits after the decimal point) was 10.5473 agorot per share. The dividend was paid on May 22, 2002.

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

August 25, 2002

Akiva Mozes	Yossi Rosen
CEO	Chairman of the Board