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 June 30, 2003

1. Description of the Company and its Business Environment

1.1 Description of the ICL Group

Israel Chemicals[1] (**"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's operations are based mainly on the natural resources in the Dead Sea – potash, bromine, magnesium and salt, and in the Negev Desert – phosphates and limestone, all under concessions from the State of Israel, as well as on potash mines in England and Spain under leases and licenses from the competent authorities in those countries. ICL mines these natural resources, sells them worldwide, and also develops, manufactures and markets downstream products based mainly on those raw materials.

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

ICL has multinational activities. The overseas operations of ICL 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 manufacturing operations are carried out in Israel, and more than 90% of ICL's products are sold outside Israel. ICL is not dependent on any customer, supplier or source of raw materials which are not included in the concessions granted to the ICL Group.

ICL operates in four main segments of operation based on managerial-functional considerations, as described below:

- **ICL Fertilizers** – Mining, processing and marketing of potash, phosphate and its products, fertilizers (including compound and special fertilizers), limestone and sand.
- **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 wide-ranging uses.
- **ICL Performance Products** – Manufacture and marketing of phosphate-based downstream products, including phosphoric acid (food grade and technical grade), phosphate salts, food additives, hygiene products for the food industry, as well as other products – mainly based on aluminium compounds, such as chemicals for the paper and water industries, pharmaceuticals and cosmetics, thermoplastic materials, etc.
- **ICL Metallurgy** – Manufacture and marketing of pure magnesium and magnesium alloys, mainly for the aluminium and automotive industries as part of a joint venture with Volkswagen.

[1] In this document, "Israel Chemicals Group" means Israel Chemicals Ltd. and its consolidated companies.

In addition to these segments, other activities of ICL include desalination and land transportation.

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

1.2 The Business Environment and Profitability of ICL

ICL is a multinational group. Its business results are influenced by global economic trends, by changes in trading conditions and financing, and by fluctuations in exchange rates.

The demand for ICL's products is influenced, inter alia, by the demand for basic agricultural products and by the economic situation in developed countries.

The sales of the ICL are made in foreign currency, mainly U.S. dollars, while about one quarter of costs are in shekels. Consequently, a real devaluation or appreciation in the average dollar-shekel exchange rate affects ICL'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 tax expense item.

During the Report Period, ICL 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, as well as the appreciation in the shekel/dollar exchange rate. Conversely, ICL benefited from somewhat improved demand in the fertilizers segment and from the appreciation of the euro, the British pound and the yen against the dollar (all compared with averages in the same period last year), and from the lower dollar interest rate.

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

1.3 This Directors' Report relates briefly to the period ended June 30, 2003, and assumes that the reader has access to the Directors' Report for the year 2002.

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 same period last year, in millions of NIS and millions of dollars:

	1-6/2003		1-6/2002		4-6/2003		4-6/2002		2002	
NIS	NIS millions	% of sales	NIS millions	% of sales	NIS millions	% of sales	NIS millions	% of sales	NIS millions	% of sales
Sales	4,831.4	100.0	4,175.2	100.0	2,422.6	100.0	2,258.1	100.0	8,541.7	100.0
Gross profit	1,599.6	33.1	1,345.6	32.2	865.9	35.7	782.6	34.7	2,709.8	31.7
Operating income	535.7	11.1	451.6	10.8	317.6	13.1	295.0	13.1	856.5	10.0
Pre-tax profit	411.7	8.5	289.1	6.9	247.7	10.2	190.5	8.4	566.2	6.6
Net profit	259.9	5.4	208.7	5.0	147.4	6.1	122.1	5.4	398.0	4.7
Cash flow from current operations*	1,248.8		726.4		401.6		469.2		1,529.2	
Investments										
Shares in subsidiaries	---		**128.5		---		**128.5		99.6	
Fixed assets less grants	293.2		321.0		134.7		162.0		719.0	
Total	293.2		449.5		134.7		290.5		818.6	

	1-6/2003		1-6/2002		4-6/2003		4-6/2002		2002	
$	$ millions	% of sales	$ millions	% of sales	$ millions	% of sales	$ millions	% of sales	$ millions	% of sales
Sales	1,120.5	100.0	968.3	100.0	561.8	100.0	523.7	100.0	1,980.9	100.0
Gross profit	371.0	33.1	312.1	32.2	200.8	35.7	181.5	34.7	628.4	31.7
Operating income	124.2	11.1	104.7	10.8	73.7	13.1	68.4	13.1	198.6	10.0
Pre-tax profit	95.5	8.5	67.1	6.9	57.5	10.2	44.2	8.4	131.3	6.6
Net profit	60.3	5.4	48.4	5.0	34.2	6.1	28.3	5.4	92.3	4.7
Cash flow from current operations*	289.6		168.5		93.1		108.8		354.6	
Investments										
Shares in subsidiaries	---		**29.8		---		**29.8		23.1	
Fixed assets less grants	68.0		74.4		31.2		37.6		166.7	
Total	68.0		104.2		31.2		67.4		189.8	

* See Section 4.3 below.

** Out of NIS 128.8 million ($29.8 million), NIS 29.0 million ($6.7 million) were returned after the balance sheet date.

2.2 Results of Operations for the Period January – June 2003

Sales

Sales of ICL Group in the report period amounted to NIS 4,831.4 million ($1,120.5 million), compared with NIS 4,175.2 million ($968.3 million) last year, an increase of approximately 15.7%.

The increase in the Group's sales reflects mainly an increase in turnover in the Fertilizers segment, largely the result of an increase in the prices of fertilizer and potash, and from increased quantities sold of potash, due partly to the inclusion of the sales of the English company Cleveland Potash Ltd. ("**CPL**"), which were included in the results of same period last year starting only from May (the acquisition date).

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	1-6/2003		1-6/2002		2002	
	$ millions	**%**	**$ millions**	**%**	**$ millions**	**%**
Israel	79.8	7.1	78.4	8.1	155.2	7.8
North America	118.8	10.6	121.3	12.5	238.6	12.0
South America	109.1	9.7	98.5	10.2	219.0	11.1
Europe	575.3	51.3	437.2	45.1	898.8	45.4
Asia	197.6	17.6	196.0	20.2	383.9	19.4
Rest of the world	39.9	3.7	36.9	3.9	85.4	4.3
Total	1,120.5	100.0	968.3	100.0	1,980.9	100.0

The breakdown of sales in the report period shows a considerable increase in the proportional part of sales in Europe, attributable to the increase in income from sales of fertilizers (including potash from CPL) and other products, partly the result of the strengthening of the euro against the dollar.

An 11% increase in sales to South America should be noted, due to high sales of potash, fertilizers and phosphate rock.

Gross Profit

Gross profit amounted to NIS 1,599.6 million ($371.0 million), an increase of 18.9% compared with last year. The gross profit margin out of sales turnover rose from 32.2% to approximately 33.1%.

The increase in income and the ongoing efficiency measures, particularly in the fertilizer companies in Europe, contributed to gross profit. Also influential was the gross profit of CPL, whose results were not fully included in the corresponding period last year. Conversely, the rise in the prices of energy and sulfur (the principal raw material in the manufacture of phosphate fertilizers) and the appreciation of the shekel against the dollar, had an adverse effect on profit.

Sales and Marketing Expenses

Expenses amounted to approximately NIS 799.9 million ($185.5 million), an increase of about 20.3% compared with last year. The increase is the result of the increase in quantities sold of some products, including the impact of the inclusion of the sales of CPL, the rise in the costs of marine transportation and the influence of the appreciation of the shekel and the euro against the dollar on expenses (in dollar terms), were all partially offset by the efficiency measures implemented in the Group.

General and Administrative Expenses

These expenses totaled NIS 198.6 million ($46.1 million), an increase of about 19.2% compared with last year. The increase derives from the consolidation of CPL and the effects of the appreciation of the shekel and the euro on expenses in dollar terms. Conversely, there was a reduction in expenses due to reorganization and efficiency measures in the Group.

Research and Development expenses

R&D expenses (net of grants from the Chief Scientist) amounted to NIS 65.4 million ($15.2 million), an increase of about NIS2.9 million ($0.7 million) compared with last year.

Operating Profit

Operating profit increased by some 18.6% compared with last year, reaching NIS 535.7 million ($124.2 million). The percentage of operating profit out of sales turnover reached 11.1%, compared with 10.8% last year. The improvement in operating profit derives, inter alia, from the improvement in gross profit (as explained above) and from the inclusion of the results of CPL, which were included in only part of the same period last year.

Financing Expenses

Financing expenses amounted to NIS 82.6 million ($19.2 million), compared with NIS 119.9 million ($27.8 million) last year.

The decrease in financing expenses compared with last year is derived mainly from the decline in the average dollar-interest rate during the period, which was 1.5% lower than last year (weighted interest of loans at fixed and variable interest rates) and from the reduction of the balance of outstanding loans by NIS 267.3 million ($62 million).

Other Income and Expenses

Other expenses offset by other income amounts to NIS 41.4 million (about $9.6 million). These expenses include primarily NIS 16.6 million ($3.8 million) for the write-off of production facilities, NIS 21.4 million ($5.0 million) for write-off of long-term inventory, and a provision of NIS 10.1 million ($2.3 million) for early retirement of employees.

Net Profit

Net profit amounted to NIS 259.9 million ($60.3 million), compared with a profit of approximately NIS 208.7 million ($48.4 million) in the same period last year.

2.3 Results of operations for the period April-June 2003

Sales

Sales of ICL Group in the quarter amounted to approximately NIS 2,422.6 million ($561.8 million), compared with NIS 2,258.1 million ($523.7 million) last year, an increase of about 7.3%.

The increase in Group sales reflects an increase in operation turnovers, particularly as a result of price rises in the Fertilizers segment and higher quantities of potash sold, due partly to the inclusion of the results of CPL, which were include in the results of the second quarter last year only from May.

The sharp appreciation of the euro against the dollar also contributed to the increase in income from sales in Europe.

The table below shows the geographical breakdown of sales in the second quarter of 2003:

Sales CIF	4-6/2003		4-6/2002		2002	
	$ millions	**%**	**$ millions**	**%**	**$ millions**	**%**
Israel	42.5	7.5	39.8	7.6	155.2	7.8
North America	55.4	9.9	59.5	11.4	238.6	12.0
South America	84.6	15.1	74.4	14.2	219.0	11.1
Europe	262.2	46.7	219.2	41.9	898.8	45.4
Asia	98.1	17.5	117.9	22.5	383.9	19.4
Rest of the world	19.0	3.3	12.9	2.4	85.4	4.3
Total	561.8	100.0	523.7	100.0	1,980.9	100.0

The breakdown of sales in the quarter indicates a considerable increase in the proportional part of sales in Europe, due to the increase in income from sales of fertilizers (including potash from ICL) and other products, even as the euro strengthened against the dollar. The decrease in sale in Asia and North America derives mainly from the decrease in sales, a reflection of the ongoing slowdown in the global economy, and in Asia also as a result of the decrease in sales of green acid (most of which is used within the Group for the manufacture of downstream products). A further explanation of the difference lies in the fact that in the second quarter last year, sales of potash to China were exceptionally high.

Gross Profit

Gross profit amounted to approximately NIS 865.9 million ($200.8 million), an increase of 10.6% compared with last year. Gross profit out of sales increased from 34.7% to about 35.7% of total turnover.

The increase in income and the ongoing efficiency measures, including in fertilizer operations in Europe, as well as the consolidation of CPL, whose results were included in only part of the corresponding quarter last year, contributed to gross profit. Conversely, the rise in the prices of energy and sulfur (an important raw material in the manufacture of phosphate fertilizers), together with the sharp appreciation in the shekel against the dollar, had an adverse effect on profit. .

Sales and Marketing Expenses

These expenses amounted to approximately NIS 410.5 million ($95.2 million), an increase of about 14.3% compared with last year. The effects of the increase in quantities sold of some products, the rise is marine transportation costs and the effects of the appreciation of the shekel and euro exchange rates against the dollar on results in dollar terms, were partially offset by efficiency measures.

General and Administration Expenses

These expenses amounted to approximately NIS 103.3 million ($24.0 million), an increase of about 10.6% compared with last year. The increase derives mainly from the inclusion of the expenses of CPL, which were included in the corresponding period last year only from May, and the effects of the appreciation of the shekel and the euro on results in dollar terms. Conversely, expenses were reduced due to reorganization within the Group.

Research and Development Expenses

R&D expenses (net of grants) amounted to approximately NIS 34.5 million ($8.0 million), a decrease of about NIS 0.7 million ($0.2 million) compared with last year.

Operating Income

Operating income increased by about 7.7% compared with last year, and reached approximately NIS 317.6 million ($73.7 million). Operating income out of sales amounted to about 13.1% - the same percentage as last year.

Financing Expenses

Financing expenses amounted to approximately NIS 54.5 million ($12.6 million), compared with about NIS 70.3 million ($16.3 million) last year.

The decrease in financing expenses compared with last year derives mainly from the reduction of the average balance of outstanding loans compared with the same quarter last year and from the decline in the average dollar interest rate for the period by 1.4% (weighted interest of loans at variable and fixed interest) .

Other Income and Expenses

Other expenses offset by other income amounted to approximately NIS 15.4 million ($3.6 million), deriving mainly form write-off of long-term inventory.

Net Profit

Net profit amounts to approximately NIS 147.4 million ($34.2 million), compared with a profit of NIS 122.1 million ($28.3 million) in the same period last year.

3. Segments of Operation

The segments of operation of ICL are presented below in the segments described in Section 1.1 above. Segment data from previous periods have been reclassified accordingly.

Sales CIF	1-6/2003		1-6/2002		4-6/2003		4-6/2002	
by segment	$ millions	% of total sales	$ millions	% of total sales	$ millions	% of total sales	$ millions	% of total sales
ICL Fertilizers	606.5	50.3	476.2	45.8	297.4	48.8	261.6	46.6
ICL Industrial Products*	277.0	23.0	282.9	27.2	138.7	22.8	146.8	26.2
ICL Performance Products	251.3	20.8	216.3	20.8	134.3	22.0	118.5	21.1
ICL Metallurgy	39.5	3.3	39.1	3.8	19.8	3.3	20.3	3.6
Others and setoffs	(53.8)		(46.2)		(28.4)		(23.5)	
Total	1,120.5		968.3		561.8		523.7	

* Including agricultural products.

Operating profit	1-6/2003		1-6/2002		4-6/2003		4-6/2002	
by segment	$ millions	% of total sales	$ millions	% of total sales	$ millions	% of total sales	$ millions	% of total sales
ICL Fertilizers	95.2	15.7	74.0	15.5	56.9	19.1	44.0	16.8
ICL Industrial Products*	12.8	4.6	11.6	4.1	7.0	5.1	12.0	8.2
ICL Performance Products	19.2	7.6	21.3	9.8	9.6	7.2	13.1	11.0
ICL Metallurgy	(6.4)	(16.3)	(6.9)	(17.7)	(2.6)	(13.2)	(3.2)	15.6
Others and setoffs	3.4		4.7		2.8		2.5	
Total	124.2	11.1	104.7	10.8	73.7	13.1	68.4	13.1

* Including agricultural products.

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

3.1 ICL Fertilizers

Sales

The volume of operations in the segment in the first half of 2003 amounted to NIS 2,615.0 million ($606.5 million), an increase of approximately 27.3% compared with last year. The increase in sales turnover arises mainly from the higher quantities of potash and fertilizers sold, including as a result of the acquisition of CPL, and from price rises, especially in Europe.

Operating profit

Operating profit in the segment amounted to NIS 410.7 million ($95.2 million), an increase of about 28.8% compared with last year. The improved operating profit was achieved mainly as a result of the increase in income noted above, and from the improved activities in the potash and fertilizer operations of the ICL Fertilizers segment in Europe. The margin on sales amounted to about 15.7%, compared with 15.5% last year.

Potash

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

Potash – Income and Profit

Millions of dollars	1-6/2003	1-6/2002#	4-6/2003	4-6/2002#	2002#
Income*	384.7	274.8	191.8	163.6	578.3
Operating profit	88.0	66.9	51.9	42.5	120.7

* Including income from inter-segment sales
# Includes the results of CPL starting from May 1, 2002.

The increase in income is the result of the consolidation of CPL, whose sales were included starting from May only, the increase in quantities of potash sold and the rise in its prices, partly due to the effects of the appreciation of the euro against the dollar. The efficiency measures and the ongoing and comprehensive reorganization in Spain and England are starting to bear fruit, and had a positive effect on operating profit, which increased during the period by some 31.5%.

Potash – Production and Sales

Thousands of tons	1-6/2003	1-6/2002#	4-6/2003	4-6/2002#	2002#
Production	2,590	2,144	1,307	1,156	4,469
Sales*	2,686	2,072	1,353	1,266	4,237

* To external customers (net of sales to Group companies).
# Includes the results of CPL starting from May 1, 2002.

The increase in potash production derives from the acquisition of CPL and from an increase in quantities manufactured in Spain and England, where the Company is continuing the measures introduced for increasing operating efficiency. It should be noted that in progress is the expansion of potash production capacity in the potash plant in Sdom ("Stage 10"), which has not yet been completed as of the date of this report.

The increase in sales is mainly in Europe, particularly the quantities coming from CPL, and in Brazil and Asia.

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	1-6/2003	1-6/2002	4-6/2003	4-6/2002	2002
Income*	232.8	211.3	111.1	103.0	427.6
Operating profit	6.8	6.6	5.7	1.3	6.2

* Including inter-segment income.

The increase in income derives mainly from the larger quantities of fertilizers sold, especially in Europe, along with a rise in the prices of some fertilizer products, partly due to the effects of appreciation of the euro against the dollar. In contrast, sales of

phosphate rock decreased, as did sales of green acid to outside customers, due mainly to the increase in the uses of this acid within the ICL Group.

Operating profit in the second quarter was positively influenced by the increase in income from price rises and improved phosphoric acid production, which were offset by the effects of the rise in the prices of sulfur, energy and marine transportation.

Fertilizers and Phosphates – Production and Sales

Thousands of tons	1-6/2003	1-6/2002	4-6/2003	4-6/2002	2002
Phosphate rock					
Production*	1,253	1,413	631	712	2,699
Sales**	357	428	209	187	892
Fertilizers					
Production	814	787	418	430	1,560
Sales**	837	794	384	393	1,564

* As an end product.
** To external customers (net of sales to Group companies).

Phosphate rock (as an end product) is produced as required for internal uses and for sales, with stock levels maintained accordingly.

The decrease in the sales of rock during the period derives largely from the policy of the segment to transfer most of its production to internal uses with higher added value for the production of acids and fertilizers.

Fertilizers showed growth in production and sales in Europe, mainly due to relatively higher demand (in the first quarter), and a change in the product mix (more compound fertilizers).

Brine percolation is occurring 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 dike. The experts are of the opinion that there is no material threat to the stability of the dike.

3.2 ICL Industrial Products

Sales

Sales in this segment in the report period amounted to approximately NIS 1,194.4 million ($277.0 million), a decrease of about 2.1% compared with last year. The decrease in income derives mainly from a different product mix offset in part by the strengthening of the main currencies against the dollar.

Income from sales of flame retardants was about 4% lower than last year as a result of smaller quantities sold in the second quarter and despite a slight recovery in the prices of some products, due partly to the strengthening of the euro.

Income from sales of the Business Unit – Industrial Bromine Products was about 12% higher than last year. The increase was due mainly, to increased sales of clear solutions used in oil drilling, following an increase in the number of new explorations. This increase was partially offset by falling prices. In elementary bromine, sales showed a slight increase which was offset by the fall in prices as a result of intensifying competition, inter alia due to of the start of operation of the joint venture of one of the Company's competitors in Jordan.

During the period, the segment's new bromine compounds facility in China – Sinobrom, in which ICL has a 50% stake – was expanded.

In biocides for water treatment, income fell by about 16% as a result of an decrease in quantities sold. The decreased quantities were mainly the result of rainy and cold

weather, which affected demand for swimming pool chemicals in North America in the second quarter.

In chlorine-based products (produced from the Dead Sea), income rose as a result of large quantities of raw salt sold.

In magnesia products (sintered and calcined) for the refractory industry and for other uses (specialty and calcined magnesia products), income was similar to last year. The change in the product mix, which includes a decrease in sales of products to the refractory industry on the one hand and an increase in sales of specialty and calcined products on the other hand, was accompanied by a rise in the prices of most of the products. The merging of the operations of Periclase with those of sister companies in ICL is proceeding as planned. The plan includes a decrease in the production of sintered magnesia and of hydrochloric acid (a by-product).

Income from sales of agricultural products, mainly methyl bromide, decreased by about 2% compared with last year, and amounted to approximately NIS 125.0 million ($29.0) million. The decrease derived mainly from the smaller quantities of methyl bromide sold (following implementation of the Montreal Protocol – see below), and from some change in the sales mix with the gradual penetration of substitute products. The price of methyl bromide enjoyed a further slight increase.

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 $11.4 million, with an operating profit of approximately $2.2 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 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 $17.6 million. The operating profit in respect of these sales was about $4.4 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 profit

Operating profit in the segment was approximately NIS 55.3 million ($12.8 million) for the period, compared with a profit of NIS 50.1 million ($11.6 million) last year. The improvement stemmed mainly from improved margins in bromine products in the first quarter and from improved margins in chlorine-based products from the Dead Sea, both as a result of the aforementioned increase in income and from efficiency measures. These were offset, however, by the increased costs of energy and other inputs.

The environment

Some of the products of the Industrial Products segment are hazardous, at some level, to those likely to be exposed to them – both during production and during transportation, storage or use.

The segment's policy is to act at all times to prevent and monitor the risks, and to invest in safety, the treatment of waste, effluents and air emissions, the training of employees and consumers, all in full cooperation with the authorities, as well as other activities (on the internal compliance system, including the application of ISO 14000 and joining the international "Responsible Care" program, see Section 8.1 below).

There has been a trend recently of the regulators of the European Union and other countries 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 Union market authorities recently completed a risk assessment relating to the flame retardants Penta and Octa, and decided to phase them out by mid-2004. Also, legislation was recently enacted in California, which will prohibit the use of these products from the beginning of 2008. (This decision, by itself, will have little effect on the segment's sales in the segment in the future.) Concerning the flame retardants known as Decca, HBCD and TBBPA, the risk assessment is in progress through a dialogue between the EU authorities and a panel representing manufacturers of bromine and bromine compounds (BSEF), and completion of the environmental and toxicological information. As an outcome of this process it was decided to reclassify TBBPA, which will increase the packaging costs of shipments to Europe. Two laws dealing with the recycling and use of certain chemicals defined as hazardous, were recently legislated in the EU. 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 above-mentioned regulatory changes in Europe – so far without any similar regulatory initiatives on their part which would limit the use of these materials, aside from the California legislation mentioned above.

Instances of odor nuisances have recently been identified emanating from the industrial waste evaporation ponds at Ramat Hovav, where the bromine compounds plant of ICL Industrial Products segment is located. 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 1,083.6 million ($251.3 million), an increase of about 16.2% compared with last year, due to increased sales of food additives, chemicals for water and paper, and hygiene products, and a rise in the prices of white acid. Conversely, other areas of operation have slowed, affected by the economic situation in Europe, and growth in Asia also slowed somewhat in the second quarter. The strengthening of the euro against the dollar was also a significant contributory factor to sales turnover in dollar terms.

Operating profit

Operating profit in the segment amounted to approximately NIS 82.8 million ($19.2 million), about 9.9% lower than last year. The margin was about 7.6%, compared with 9.8% last year, affected by a rise in the cost of raw materials, energy and other expenses in dollar terms. Operating profit was also adversely affected by a temporary interruption of operations for process conversion, and due to the running-in of the white acid production facility during the transition to the new cleaning process.

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 unit's production facilities are at the Rotem plant in Mishor Rotem. In the first half of 2002, production at the facility was expanded and a new and more efficient cleaning process developed by the Company, was introduced, following which production capacity increased from about 120,000 tons to 180,000 tons per year in terms of phosphorus pentoxide, about half in a production process of cleaning green acid. During the period, the remainder of the production capacity was converted to the more efficient cleaning process and the production facility for the converted products was run in.

3.4 ICL Metallurgy

Sales

Sales in this segment amounted to approximately NIS 170.5 million ($39.5 million), an increase of about 1.2% compared with last year.

The increase in income of the magnesium segment derives from a rise in prices, largely due to the strengthening euro, and from changes in the product mix and the geographical distribution of sales. The improvement was offset by a decrease in quantities sold , as part of a deliberate policy of optimization of production and sales. The global slowdown, notably in the aluminium and automotive industries, is still having an adverse effect on sales in this field. Nevertheless, some positive influence on the global balance of supply and demand is possible following the announcement by a western manufacturer of closing down its magnesium facility, and an increase in production costs of Chinese magnesium.

Operating profit

Operating loss in the segment amounted to approximately NIS 27.7 million ($6.4 million), compared with NIS 29.9 million ($6.9 million) last year. The decrease in the loss compared with last year despite the increase in energy costs and shekel expenses in dollar terms, derives from the above-mentioned improvement in proceeds and from the achievement of greater operating efficiency in production process.

4. The financial position of the Group

4.1 Assets and Liabilities

Net financial liabilities at the end of the period amounted to approximately NIS 4,215.4 million ($977.6 million), compared with NIS 5,012.3 million ($1,162.4 million) at the end of 2002, a decrease of approximately NIS 796.7 million ($184.4 million).

The decrease in the debt balance since the beginning of the year is derived mainly from net receipts of approximately NIS 485.5 million ($112.6 million) from the

securitization transaction (see section 4.2 and 4.3 below), and from the free cash flow of ICL companies of about NIS 311.4 million ($72.2 million).

4.2 Sources of finance

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

As part of the securitization transaction (see Section 4.2 of the Directors Report for the year 2002) entered into by ICL in December 2002, the customer debt balance sold in cash as at the balance sheet date amounts to about $250 million (the maximum permitted under the agreement), compared with about $93 million at the end of 2002, an increase of $157 million during the period. Correspondingly, the balance of factoring of trade receivables decreased by $ 44 million and the net contribution to sources of finance amounted to $ 113 million.

During the period, the Company continued to raise funds in short-term commercial papers. As at the report date, the outstanding balance of the commercial papers of the Company amounted to about $82.6 million.

Up to June 30, 2003, approximately $1.6 million of convertible debentures of the Company were converted to ICL shares (after that date, about $5 million dollars of convertible debentures were converted to ICL shares). The balance of the outstanding debentures as at 30.6.03 is approximately $76 million.

4.3 Cash flows

The cash flow of ICL from current operations in the first half of 2003 amounted to approximately NIS 1,248.8 million ($289.6 million), including $112.6 million net received in respect of the securitization transaction (see Section 4.1), compared with NIS 726.4 million ($168.5 million) last year. These amounts were the main source for financing investment 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 293.2 million ($68.0 million), compared with investments in fixed assets less grants amounting to NIS 321.0 ($74.4 million), last year.

6. Human Resources

The total number of employees at ICL Group as at June 30, 2003 is 8,742, compared with 8,772 on December 31, 2002.

7. Exposure to Market Risks and their Management

No material change occurred during the report period, compared with the Directors' Report as at December 31, 2002.

8. Internal compliance and certain legal proceedings

8.1 Within the Group framework, ICL maintains internal compliance systems to ensure compliance with the provisions of pertinent laws. Inter alia, internal compliance plans were prepared and are operated for matters relating to restraint of trade, securities laws and the prevention of sexual harassment. These matters are monitored regularly by the managements and boards of directors of the various segments, and short seminars are attended by those responsible for them.

Some of the products of ICL Group are hazardous, at some level, to those likely to be exposed to them – both during production and during transportation, storage or use. Some production processes have the potential to cause some environmental disturbance, inter alia in connection with effluents, air emissions and waste, including hazardous waste. ICL is liable to incur costs for the prevention or cleaning up of pollution. ICL is taking various steps to prevent or minimize these risks. Some ICL companies apply ISO 14000, which deals with environment management, and have joined the international "Responsible Care" program for the improvement of aspects of the quality of the environment, the occupational safety and health of employees, the products and the production processes. In addition, safety officers have been appointed in all companies and production sites, and from time to time they check compliance with instructions. ICL is also preparing internal compliance plans for the prevention or minimization of risks to ecology, safety and security.

8.2 Contrack-Line Ltd. ("**Contrackline**") filed a claim in the Tel Aviv District Court against the subsidiary DSW, of ICL Fertilizers segment, and against others, the main cause of which is infringement of a patent relating to a dredge for "harvesting" fungi in the Dead Sea, and other alleged harm to the rights of the plaintiff relating to the dredge. The District Court ruled that DSW was infringing the patent, and the decision was appealed in the Supreme Court. Mediation proceedings between the parties were unsuccessful, and the appeal 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 about 52 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 appealed this decision. The ruling in these appeals has been deferred until after the ruling on the appeals in the Supreme Court.

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.

8.3 On May 29, 2001 a class action under the Prevention of Environmental Damage Law (Civil actions), 5752-1992, was filed against Fertilizers & Chemicals Ltd. ("**F&C**") of ICL Industrial Products segment, and numerous other defendants. The claim alleges that the defendants are polluting the Kishon stream, and have requested that the court direct them to cease the flow of effluents into the stream and to rehabilitate the stream and restore it to its former condition.

On June 13, 2001, on May 22, 2002, on December 31, 2002 and on 30 March, 2003, numerous claims were filed against F&C and many other defendants, amounting in all to about NIS 141 million (about $30 million), in respect of spilling effluents into the Kishon stream which, according to the plaintiffs, caused the cancer from which they are suffering. These claims are additional to those already filed, inter alia against F&C, concerning physical and monetary damage allegedly sustained by the plaintiffs as a result of pollution of the Kishon, for which they allege 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 claims cannot be

estimated at this stage, and therefore no provision was made in the financial statements.

9. Other developments during or after the report period

9.1 V.I.D. Desalination Co. Ltd. ("**VID**"), in which the subsidiary I.D.E. Technologies Ltd. ("**IDE**") is a shareholder, won 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 Desalination Project**"), for 100 million cubic meters (after increasing the volume initially tendered) of water per year. IDE holds about half the ownership and control of VID.

On January 22, 2003, VID signed a series of agreements with a group of lenders and institutional investors for financing the erection of the Desalination Project. The financing is likely to reach about NIS 760 million (plus supplementary financing of up to NIS 52 million), subject to the achievement of various milestones. The balance of about NIS 235 million (as well as supplementary financing, if any, of about NIS 17 million) will be financed by VID from shareholders equity and shareholders' loans.

9.2 On March 27, 2003 the Board of Directors of the Company decided to distribute a dividend equal to $26.4 million ($26.1 million after the dividend due to a subsidiary), which was NIS 122.0 million at the representative exchange rate of the dollar. The dividend per share (rounded off to three figures after the decimal point) was 10.316 agorot per share. The dividend was distributed on April 24, 2003.

On August 20, 2003 the Board of Directors of the Company decided to distribute a dividend equal to $36.2 million ($35.9 million after the dividend due to a subsidiary), which was NIS 155.7 million at the representative exchange rate of the dollar. The dividend per share (rounded off to four figures after the decimal point) was 12.9332 agorot per share. The dividend will be distributed on September 16, 2003.

9.3 On May 18,2003, the General Meeting of the Shareholders of the Company appointed KPMG Somech Haikin as the auditors of the Company, starting on January 1, 2003.

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.

August 20, 2003

Akiva Mozes CEO	Yossi Rosen Chairman of the Board