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MAKHTESHIM AGAN INDUSTRIES

**"ilAA-" Rating Placed on CreditWatch with Negative Implications in
View of the Signing of the Letter of Intent for the Acquisition of
Albaugh**

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Summary

- On June 27, 2010 Makhteshim Agan Industries Ltd. announced that the board of directors of the company had approved an engagement by the company in a memorandum of understanding for the acquisition of the entire share capital of Albaugh Inc., manufacturers and marketers of crop protection products, in consideration for approximately one billion dollars.
- The acquisition transaction, if and when executed, is liable to have negative implications on the company's rating, should we reach the conclusion that it will lead to increased business risk and/or erosion of the company's financial position. However, at the present stage this is a memorandum of understanding only and it is not certain that the transaction will indeed be executed.
- We are placing the "ilAA-" rating of Makhteshim Agan, which engages in the manufacture and marketing of chemicals, on CreditWatch with negative implications.

Rating Action

- On June 29, 2010, Standard & Poor's Maalot placed the "ilAA-" rating of Makhteshim Agan, which engages in the manufacture and marketing of chemicals, on CreditWatch with negative implications.

Major Considerations for the Rating

On June 27, 2010 Makhteshim Agan Industries Ltd. announced that the board of directors of the company had approved an engagement by the company in a memorandum of understanding, pursuant whereto the company would acquire the entire share capital of Albaugh Inc., a private company incorporated in the USA. The acquisition transaction is subject to a due diligence process, the fulfillment of suspending conditions and a binding final agreement.

To the best of the company's knowledge, Albaugh is the largest manufacturer of generic crop protection products in North and South America and possesses a significant market share.

According to the terms and conditions of the memorandum of understanding, in consideration for the acquisition of the entire share capital the company will pay an amount of approximately 1 billion dollars, as follows:

On the closing date, the company will pay to the seller an amount of \$340 million in cash, and an amount of \$455 million will be paid on credit extended by the seller and defrayed in seven equal yearly installments bearing interest. Additionally, the seller will be allotted approximately 59 million shares in the company, which shall constitute approximately 12% of Makhteshim's share capital in full dilution. The acquisition will also include purchase of a net financial debt of the acquired company in an amount of approximately \$280 million.

The company estimates that the transaction is expected to be closed before the end of 2010. At the same time, the company is unable to estimate whether a binding agreement will be signed between the parties, or whether the transaction will indeed be executed.

According to our initial estimates and to the company's representations, the acquisition, if executed, is liable to expose the company to increased credit risk, among other things as a result of the following: a significant increase in net debt, increased leveraging and a possible decrease in the company's liquidity; exposure to a single product – Glyphosate – which is expected to account for around 20% of the sales of the merged company and which has recently been exposed to harsh competition by Chinese manufacturers and to a drop in prices; greater exposure to South American markets; a decrease in profitability in view of the lower profitability of the acquired company; the need to contend with challenges arising from a large-scale merger in relation to the size of the existing business.

Conversely, these risks are likely to be offset in part, among other things, as a result of the following: the enhancement of Makhteshim's competitive position in the main markets where the acquired company is active, expansion of the company's product portfolio and activities, as well as a result of the synergy anticipated by the company, amounting to \$50-\$60 million annually.

The present rating is based on Makhteshim Agan's strong business positioning as the world's seventh largest company in crop protection products, and in this context, the largest generic company in this field; the broad geographic dispersal of sales and production sites, which mitigate the impact of seasonality and the dependency on the situation in a particular market; the company's broad product range; its high reputation among customers and suppliers; global marketing and distribution capabilities; high licensing competencies; and the demographic conditions that support long-term growth in global demand for crop protection products. These factors are partly offset by exposure to stringent legislation; exposure to the agriculture industry, which is influenced by weather conditions and is characterized by cyclicality; volatile raw material prices and shipping costs.

CreditWatch

The placing of a rating on CreditWatch with negative implications expresses our estimate that the acquisition may have negative implications on the company's rating should we reach the conclusion that the company's business and/or financial risk will increase, either as a result of the method of funding the acquisition and its impact on the company's financial position or as a result of the impact of the acquired business on the company's business and financial position.

As we mentioned in our last rating report (December 3, 2009), given our estimate of Makhteshim's business position, the current rating reflects our expectations of an adjusted FFO-to-debt ratio in the range of 20%-30% and an adjusted debt-to-EBITDA ratio that does not exceed 4.0x. According to the figures for the twelve months ended March 31, 2010, the adjusted FFO-to-debt ratio was 14.5%, and the adjusted debt-to-EBITDA ratio was 6.0x.

For further information on the rating of Makhteshim Agan Industries Ltd., see the rating report of December 3, 2009 in S&P Maalot's website at www.maalot.co.il.

List of Ratings

	Current rating	Previous rating
Makhteshim Agan Series B – D	ilAA-/Watch Negative ilAA-/Watch Negative	ilAA-/Stable ilAA-