

Makhteshim–Agan Industries Ltd.

Consolidated Financial Statements

(Unaudited)

As at June 30, 2006

(In U.S. Dollars)

Financial Statements as at June 30, 2006 (Unaudited)

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The Board of Directors
Makhteshim–Agan Industries Ltd.

Dear Sirs,

Review of the unaudited interim consolidated financial statements as at June 30, 2006

At your request, we have reviewed the interim consolidated balance sheet of Makhteshim–Agan Industries Ltd. and its subsidiaries as at June 30, 2006, and the related consolidated statements of income, changes in shareholders' equity and cash flows for the six-month and three-month periods then ended.

Our review was conducted in accordance with procedures prescribed by the Institute of Certified Public Accountants in Israel and included, inter alia, reading the said financial statements, reading the minutes of shareholders' meetings and of meetings of the Board of Directors and its committees, as well as making inquiries of persons responsible for financial and accounting matters.

We received review reports of other auditors, regarding the interim financial statements of certain subsidiaries, whose assets constitute 5.8% of the total consolidated assets as at June 30, 2006 and whose revenues constitute 8.5% and 8.3% of the total consolidated revenues for the six-month and three-month periods then ended.

Since the review performed is limited in scope and does not constitute an audit in accordance with generally accepted auditing standards, we do not express an opinion on the said interim consolidated financial statements.

In the course of our review, which included reading the review reports of other auditors as stated above, nothing came to our attention which would indicate the necessity of making material modifications to the interim consolidated financial statements referred to above, in order for them to be in conformity with generally accepted accounting principles and in accordance with Section D of the Securities Regulations (Periodic and Immediate Reports) – 1970.

Somekh Chaikin
Certified Public Accountants (Isr.)

August 6, 2006

Consolidated Balance Sheets

	As at June 30 2006 <u>(Unaudited)</u> <u>US \$ thousands</u>	As at June 30 2005 <u>(Unaudited)</u> <u>US \$ thousands</u>	As at December 31 2005 <u>(Audited)</u> <u>US \$ thousands</u>
Current assets			
Cash and cash equivalents	135,942	86,156	71,293
Short-term investments	2,148	2,872	1,269
Trade receivables	417,566	371,892	383,246
Other receivables	117,997	81,130	86,414
Inventories	569,054	534,048	566,416
	<u>1,242,707</u>	<u>1,076,098</u>	<u>1,108,638</u>
Long-term investments, loans and receivables			
Affiliated companies	2,419	-	-
Investment and other debts	24,199	20,899	22,684
	<u>26,618</u>	<u>20,899</u>	<u>22,684</u>
Fixed assets			
Cost	934,045	851,801	884,480
Less – accumulated depreciation	443,730	403,991	421,114
	<u>490,315</u>	<u>447,810</u>	<u>463,366</u>
Other assets and deferred expenses			
Cost	832,507	779,351	* 814,043
Less – accumulated amortization	288,416	249,059	277,462
	<u>544,091</u>	<u>530,292</u>	<u>536,581</u>
	<u>2,303,731</u>	<u>2,075,099</u>	<u>2,131,269</u>

	As at June 30 2006 <u>(Unaudited)</u> <u>US \$ thousands</u>	As at June 30 2005 <u>(Unaudited)</u> <u>US \$ thousands</u>	As at December 31 2005 <u>(Audited)</u> <u>US \$ thousands</u>
Current liabilities			
Credit from banks	308,720	174,758	248,038
Trade payables	357,076	343,677	338,598
Other payables	282,050	* 221,941	* 201,647
Proposed dividend	28,508	18,300	14,058
	<u>976,354</u>	<u>758,676</u>	<u>802,341</u>
Long-term liabilities			
Loans from banks	48,449	30,182	35,584
Convertible debentures	25,473	50,770	40,479
Other long-term liabilities	6,090	9,810	4,314
Deferred taxes, net	60,305	74,350	59,801
Employee severance benefits, net	30,426	25,649	28,014
	<u>170,743</u>	<u>190,761</u>	<u>168,192</u>
Minority interest	<u>30,083</u>	* 26,634	* 26,549
Shareholders' equity	<u>1,126,551</u>	* 1,099,028	* 1,134,187
	<u>2,303,731</u>	<u>2,075,099</u>	<u>2,131,269</u>

Danny Biran

Chairman of the Board of Directors

Shlomo Yanai

Chief Executive Officer

Eli Assraf

Chief Financial Officer

Date of approval of the financial statements: August 6, 2006

* Restated – See Note 1B(4)

The accompanying notes are an integral part of the financial statements.

Consolidated Statements of Income

	For the six months ended		For the three months ended		For the
	June 30	June 30	June 30	June 30	year ended
	2006	2005	2006	2005	December 31
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
US \$ thousands	US \$ thousands	US \$ thousands	US \$ thousands	US \$ thousands	
Revenues	955,868	933,512	462,002	416,538	1,740,717
Cost of sales	614,282	563,188	298,572	251,295	1,059,715
Gross profit	341,586	370,324	163,430	165,243	681,002
Expenses					
Research and development, net	9,703	9,714	5,047	4,939	20,628
Selling and marketing	147,874	131,891	72,891	61,094	267,918
General and administrative	30,499	*33,516	15,552	*13,807	*62,051
	188,076	175,121	93,490	79,840	350,597
Operating income	153,510	195,203	69,940	85,403	330,405
Financing expenses, net	29,421	17,833	17,691	12,433	34,573
Income before other expenses, net	124,089	177,370	52,249	72,970	295,832
Other expenses, net	11,768	24,760	4,664	11,344	44,211
Income before taxes on income	112,321	* 152,610	47,585	* 61,626	*251,621
Taxes on income	11,627	34,821	4,987	8,761	39,952
Income after taxes on income	100,694	117,789	42,598	52,865	211,669
Company equity in earnings of affiliated companies	186	-	186	-	-
Minority interest in earnings of subsidiaries, net	(2,937)	(4,736)	(2,552)	(2,737)	(4,816)
Net income from continuing operations	97,943	*113,053	40,232	*50,128	*206,853
Cumulative effect as at the beginning of the year of change in accounting method	-	(2,025)	-	-	(2,025)
Net income	97,943	*111,028	40,232	*50,128	*204,828
	US\$	US\$	US\$	US\$	US\$
Earnings per share					
Basic earnings per share	0.23	**0.27	0.09	**0.12	**0.49
Fully diluted earnings per share	0.22	0.24	0.09	0.11	0.44

* Restated – see Note 1B(4)

** Restated – see Note 1B(2)

The accompanying notes are an integral part of the financial statements.

Statements of Changes in Shareholders' Equity

	Share capital (Unaudited) US\$ thousands	Premium on shares (Unaudited) US\$ thousands	Receipts from issuance of options (Unaudited) US\$ thousands	Capital reserves (Unaudited) US\$ thousands	Dividend proposed subsequent to balance sheet date (Unaudited) US\$ thousands	Retained earnings (Unaudited) US\$ thousands	Company shares held by the Company and by a subsidiary (Unaudited) US\$ thousands	Total (Unaudited) US\$ thousands
Six-month period ended June 30, 2006								
Balance as at December 31, 2005	120,391	589,261	-	(3,715)	23,500	*480,119	(75,369)	1,134,187
Employee options exercised	350	(350)	-	-	-	-	-	-
Conversion of convertible debentures	756	13,905	-	-	-	-	-	14,661
Adjustments deriving from translation of financial statements of investee companies	-	-	-	(1,298)	-	-	-	(1,298)
Dividend proposed	-	-	-	-	(23,500)	(28,127)	-	(51,627)
Capital reserve in respect of taxes relating to employee options	-	-	-	752	-	-	-	752
Capital reserve in respect of expenses relating to employee options	-	-	-	760	-	-	-	760
Self purchase of Company shares	-	-	-	-	-	-	(68,827)	(68,827)
Net income	-	-	-	-	-	97,943	-	97,943
Balance as at June 30, 2006	121,497	602,816	-	(3,501)	-	549,935	(144,196)	1,126,551
Six-month period ended June 30, 2005								
Balance as at December 31, 2004	109,258	417,487	3,009	(2,568)	12,700	* 345,596	(11,232)	874,250
Options exercised	699	7,183	(683)	-	-	-	-	7,199
Employee options exercised	167	(167)	-	-	-	-	-	-
Realization of Company shares held by subsidiary	-	2,324	-	-	-	-	1,524	3,848
Conversion of convertible debentures	6,875	129,388	-	-	-	-	-	136,263
Adjustments deriving from translation of financial statements of investee companies	-	-	-	(2,560)	-	-	-	(2,560)
Dividend proposed	-	-	-	-	(12,700)	(18,300)	-	(31,000)
Dividend proposed subsequent to the balance sheet date	-	-	-	-	15,000	(15,000)	-	-
Net income	-	-	-	-	-	* 111,028	-	111,028
Balance as at June 30, 2005	116,999	556,215	2,326	(5,128)	15,000	423,324	(9,708)	1,099,028

* Restated – See Note 1B(4).

The accompanying notes are an integral part of the financial statements.

Statements of Shareholders' Equity (cont'd)

	Share capital	Premium on shares	Receipts from issuance of options	Capital reserves	Dividend proposed subsequent to balance sheet date	Retained earnings	Company shares held by the Company and by a subsidiary	Total
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	US\$ thousands	US\$ thousands	US\$ thousands	US\$ thousands	US\$ thousands	US\$ thousands	US\$ thousands	US\$ thousands
Three-month period ended June 30, 2006								
Balance as at March 31, 2005	121,315	601,701	-	(3,589)	28,508	509,447	(116,885)	1,140,497
Employee options exercised	84	(84)	-	-	-	-	-	-
Conversion of convertible debentures	98	1,199	-	-	-	-	-	1,297
Adjustments deriving from translation of financial statements of investee companies	-	-	-	(862)	-	-	-	(862)
Dividend proposed	-	-	-	-	(28,508)	256	-	(28,252)
Capital reserve in respect of taxes relating to employee options	-	-	-	331	-	-	-	331
Capital reserve in respect of expenses relating to employee options	-	-	-	619	-	-	-	619
Self purchase of Company shares	-	-	-	-	-	-	(27,311)	(27,311)
Net income	-	-	-	-	-	40,232	-	40,232
Balance as at June 30, 2006	<u>121,497</u>	<u>602,816</u>	<u>-</u>	<u>(3,501)</u>	<u>-</u>	<u>549,935</u>	<u>(144,196)</u>	<u>1,126,551</u>
Three-month period ended June 30, 2005								
Balance as at March 31, 2005	110,703	437,501	2,589	(3,693)	18,300	* 388,196	(9,708)	943,888
Options exercised	269	2,780	(263)	-	-	-	-	2,786
Employee options exercised	81	(81)	-	-	-	-	-	-
Conversion of convertible debentures	5,946	116,015	-	-	-	-	-	121,961
Adjustments deriving from translation of financial statements of investee companies	-	-	-	(1,435)	-	-	-	(1,435)
Dividend proposed	-	-	-	-	(18,300)	-	-	(18,300)
Dividend proposed subsequent to the balance sheet date	-	-	-	-	15,000	(15,000)	-	-
Net income	-	-	-	-	-	* 50,128	-	50,128
Balance as at June 30, 2005	<u>116,999</u>	<u>556,215</u>	<u>2,326</u>	<u>(5,128)</u>	<u>15,000</u>	<u>423,324</u>	<u>(9,708)</u>	<u>1,099,028</u>

* Restated – See Note 1B(4).

The accompanying notes are an integral part of the financial statements.

Statements of Shareholders' Equity (cont'd)

	Share capital	Premium on shares	Receipts from issuance of options	Capital reserves	Dividend proposed subsequent to balance sheet date	Retained earnings	Company shares held by the Company and by a subsidiary	Total
	(Audited)	(Audited)	(Audited)	(Audited)	(Audited)	(Audited)	(Audited)	(Audited)
	US\$ thousands	US\$ thousands	US\$ thousands	US\$ thousands	US\$ thousands	US\$ thousands	US\$ thousands	US\$ thousands
Year ended December 31, 2005								
Balance as at December 31, 2004	109,258	417,487	3,009	(2,568)	12,700	* 345,596	(11,232)	874,250
Employee options exercised	416	(416)	-	-	-	-	-	-
Conversion of convertible debentures into shares	7,807	138,852	-	-	-	-	-	146,659
Options exercised	2,910	31,014	(3,009)	-	-	-	-	30,915
Adjustments deriving from translation of financial statements of investee companies	-	-	-	(2,701)	-	-	-	(2,701)
Realization of Company shares held by a subsidiary	-	2,324	-	-	-	-	1,524	3,848
Self purchase of Company shares	-	-	-	-	-	-	(65,661)	(65,661)
Tax benefit from options to employees	-	-	-	1,554	-	-	-	1,554
Dividend	-	-	-	-	(12,700)	(46,805)	-	(59,505)
Dividend proposed subsequent to the balance sheet date	-	-	-	-	23,500	(23,500)	-	-
Net income for the year ended December 31, 2005	-	-	-	-	-	* 204,828	-	204,828
Balance as at December 31, 2005	120,391	589,261	-	(3,715)	23,500	480,119	(75,369)	1,134,187

* Restated – See Note 1B(4).

The accompanying notes are an integral part of the financial statements.

Consolidated Statements of Cash Flows

	For the six months ended		For the three months ended		For the
	June 30	June 30	June 30	June 30	year ended
	2006	2005	2006	2005	December 31
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
US \$ thousands	US \$ thousands	US \$ thousands	US \$ thousands	US \$ thousands	
Cash flows generated by operating activities:					
Net income	97,943	* 111,028	40,232	* 50,128	*204,828
Adjustments to reconcile net income to net cash flows generated by operating activities (see A. below)	100,024	* 34,064	159,547	* 82,584	*(21,670)
Net cash inflow generated by operating activities	197,967	145,092	199,779	132,712	183,158
Cash flows generated by investing activities:					
Acquisition of fixed assets	(39,587)	(26,559)	(22,722)	(12,273)	(50,415)
Investment grant received	-	-	-	-	1,226
Investment in affiliated companies	(2,243)	-	(143)	-	-
Additions to other assets and deferred expenses, net	(26,004)	(14,994)	(15,904)	(10,453)	(38,270)
Short-term investments, net	(834)	(1,309)	(834)	(1,659)	194
Proceeds from disposal of fixed and other assets	148	163	59	94	334
Proceeds from sale of investments in former subsidiaries (see C. below)	6,047	-	6,047	-	-
Other long-term investments	(2,395)	-	-	-	-
Investments in newly consolidated companies and operations (see B. below)	(25,453)	(3,598)	(25,453)	(3,598)	(8,882)
Acquisition of minority interest in subsidiaries	(2,406)	(970)	(2,406)	-	(970)
Net cash outflow generated by investing activities	(92,727)	(47,267)	(61,356)	(27,889)	(96,783)
Cash flows generated by financing activities:					
Receipt of long-term loans from banks	15,000	663	15,000	663	3,846
Repayment of long-term loans from banks and others	(19,780)	(64,004)	(15,262)	(54,267)	(85,075)
Self purchase of Company shares	(68,827)	-	(27,311)	-	(65,661)
Increase (decrease) in short-term credit from banks, net	70,964	28,004	(24,312)	(11,491)	119,457
Proceeds from exercise of options	-	7,199	-	2,786	30,915
Dividend to shareholders	(37,176)	(23,900)	(23,003)	(12,700)	(56,647)
Dividend to minority shareholders in subsidiaries	(772)	(108)	(420)	(108)	(2,394)
Net cash outflow generated by financing activities	(40,591)	(52,146)	(75,308)	(75,117)	(55,559)
Increase in cash and cash equivalents	64,649	45,679	63,115	29,706	30,816
Cash and cash equivalents at beginning of period	71,293	40,477	72,827	56,450	40,477
Cash and cash equivalents at end of the period	135,942	86,156	135,942	86,156	71,293

* Restated – See Note 1B(4).

The accompanying notes are an integral part of the financial statements.

Consolidated Statements of Cash Flows (cont'd)

	For the six months ended		For the three months ended		For the
	June 30	June 30	June 30	June 30	year ended
	2006	2005	2006	2005	December 31
(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)	
US \$ thousands	US \$ thousands	US \$ thousands	US \$ thousands	US \$ thousands	
A. Adjustments to reconcile net income to net cash flows generated by operating activities					
Revenues and expenses not affecting cash flows:					
Depreciation and amortization	40,277	48,143	20,097	22,235	95,964
Adjustment of long-term liabilities to banks and others	611	(2,771)	2	(1,468)	(1,127)
Minority interest in earnings of subsidiaries, net	2,937	4,736	2,552	2,737	4,816
Increase (decrease) in employee severance benefits, net	1,636	(671)	1,863	(818)	1,533
Deferred taxes, net	(2,271)	17,532	(347)	6,602	7,830
Capital loss on realization of fixed and other assets, net	983	960	573	596	1,665
Amortization of discount on convertible debentures	172	282	87	121	497
Provision for loss with respect to options granted to employees of subsidiaries	-	850	-	711	55
Expenses in respect of employee options	760	-	619	-	-
Capital gain on sale of investment in former subsidiaries	(216)	-	(216)	-	-
Company equity in earnings of affiliated companies	(186)	-	(186)	-	-
Changes in operating assets and liabilities:					
Decrease (increase) in trade and other receivables	(60,397)	(926)	83,799	110,903	(17,076)
Decrease (increase) in inventories	2,679	(60,237)	8,345	(45,335)	(84,322)
Increase (decrease) in trade and other payables	113,039	*26,166	42,359	*(13,700)	*(31,505)
	100,024	34,064	159,547	82,584	(21,670)

* Restated – See Note 1B(4).

The accompanying notes are an integral part of the financial statements.

Consolidated Statements of Cash Flows (cont'd)

	For the six months ended		For the three months ended		For the
	June 30	June 30	June 30	June 30	year ended
	2006	2005	2006	2005	December 31
(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)	
US \$ thousands	US \$ thousands	US \$ thousands	US \$ thousands	US \$ thousands	
B. Investments in newly consolidated companies and operations					
Working capital (excluding cash and cash equivalents)	(8,035)	(1,597)	(8,035)	(1,639)	(7,158)
Fixed assets	(13,795)	(223)	(13,795)	(181)	(2,040)
Other assets	(7,940)	(8,027)	(7,940)	-	(8,027)
Long-term liabilities	7,750	77	7,750	68	1,240
Goodwill created on acquisition	(7,777)	(2,173)	(7,777)	(2,173)	(5,264)
Realization of Company shares held by a subsidiary	-	3,848	-	-	3,848
Payables in respect of acquisition of activities	1,000	-	1,000	-	-
Minority interest	3,344	4,497	3,344	327	8,519
	(25,453)	(3,598)	(25,453)	(3,598)	(8,882)
C. Proceeds from sale of investment in former subsidiaries					
Working capital (excluding cash and cash equivalents)	3,679	-	3,679	-	-
Fixed assets, net	607	-	607	-	-
Other assets, net	2,629	-	2,629	-	-
Long-term liabilities	(1,084)	-	(1,084)	-	-
Capital gain	216	-	216	-	-
	6,047	-	6,047	-	-
D. Non-cash activities					
Acquisition of other assets	-	12,250	-	715	22,448
Acquisition of fixed assets	-	4,537	-	2,490	13,029
Acquisition of subsidiary in exchange for company shares	-	-	-	-	3,848

The accompanying notes are an integral part of the financial statements.

Notes to the Financial Statements as at June 30, 2006 (Unaudited)

Note 1 - Financial Reporting Principles and Accounting Policies

A. General

1. These interim financial statements have been prepared in accordance with generally accepted accounting principles applicable to the preparation of interim-period financial statements in accordance with Standard No. 14 of the Israel Accounting Standards Board and with Section D of the Securities Regulations (Immediate and Periodic Reports), 1970.
2. The accounting policies applied in the preparation of these financial statements are consistent with those applied in the audited financial statements as at December 31, 2005, except for that stated in Section B., below.
3. These financial statements have been prepared in an abridged form as at June 30, 2006 and for the six and three-month periods then ended. They should be read in conjunction with the annual financial statements as at December 31, 2005 and for the year then ended, and the accompanying notes thereto.

B. First-time application of new accounting standards

- (1) Accounting Standard No. 20 (Amended) “The Accounting Treatment of Goodwill and Intangible Assets when Purchasing an Investee Company”

Commencing January 1, 2006, the Company applies Accounting Standard No. 20 (amended) regarding “The Accounting Treatment of Goodwill and Intangible Assets when Purchasing an Investee Company” (hereinafter – “the Standard”) of the Israeli Accounting Standards Board. The Standard provides the accounting treatment with respect to goodwill and intangible assets when purchasing a subsidiary and an investee company that is not a subsidiary, including a jointly controlled company.

The main changes provided in the Standard compared with the rules that were applied in the past are: allocation of the excess purchase cost of an investment in an investee company to identifiable intangible assets of the acquired company as well; distinguishing between intangible assets having a defined useful life and intangible assets having an undefined useful life; immediate recognition of income in the statement of income on the purchase date of negative goodwill created on the purchase after offset against intangible assets and non-monetary assets of the investee company; discontinuance of the systematic amortization of positive goodwill and intangible assets having an undefined useful life; to examine impairment in value of goodwill at least once a year.

The amount of the systematic amortization of positive goodwill in the six-month and three-month periods ended June 30, 2005 is \$ 4 million and \$ 2.2 million, respectively. The said goodwill amortization for the year ended December 31, 2005 amounted to \$ 9.9 million.

Notes to the Financial Statements as at June 30, 2006 (Unaudited)

Note 1 - Financial Reporting Principles and Accounting Policies (cont'd)**B. First-time application of new accounting standards (cont'd)**(2) Accounting Standard No. 21, "Earnings per Share"

Commencing January 1, 2006, the Company applies Accounting Standard No. 21, "Earnings per Share" (hereinafter – "the Standard") of the Israeli Accounting Standards Board. Pursuant to the Standard, the Company calculates the amounts of the basic earnings per share with respect to income or loss, as well as the amounts of the basic earnings per share relating to earnings or loss from continuing operations, which relate to the reporting entity's ordinary shareholders. The basic earnings per share are calculated by dividing net income or loss allocable to the reporting entity's ordinary shareholders, by the weighted-average number of ordinary shares outstanding during the period. For purposes of calculating the diluted earnings per share, the Company adjusted the income or loss allocable to the reporting entity's ordinary shareholders and the weighted-average number of ordinary shares outstanding, for the impact of all potentially dilutive ordinary shares. The Company's share in the earnings of investee companies was calculated based on its share in the earnings per share of those companies multiplied by the number of shares held by the Company.

According to the Standard's transitional rules, the comparative data for prior periods relating to earnings per share was restated. The impact of the first-time application of the Standard amounted to an increase in basic earnings per share of \$ 0.03 and \$ 0.02 for the six-month and three-month periods ended June 30, 2005, respectively. The increase in the basic earning per share for the year ended December 31, 2005 amounted to \$0.05.

(3) Accounting Standard No. 22, "Financial Instruments: Disclosure and Presentation"

Commencing January 1, 2006, the Company applies Accounting Standard No. 22, "Financial Instruments: Disclosure and Presentation" (hereinafter – "the Standard") of the Israeli Accounting Standards Board. The Standard provides the rules for presentation of financial instruments in the financial statements and details the proper disclosure required in respect thereof. In addition, the Standard provides the method for classifying financial instruments as financial liabilities and as shareholders' equity and for classifying the interest, dividends, losses and gains related thereto and the circumstances in which financial assets and financial liabilities are to be offset, and supersedes Opinion No. 53, "The Accounting Treatment of Convertible Liabilities", and Opinion No. 48, "The Accounting Treatment of Options".

Pursuant to the Standard, the comparative data will not be restated.

The first-time application of the Standard did not have a material impact on the Company's financial position and its results of operations.

(4) Accounting Standard No. 24, "Share Based Payments"

Commencing January 1, 2006, the Company applies Accounting Standard No. 24, "Share Based Payments" (hereinafter – "the Standard") of the Israeli Accounting Standards Board. Pursuant to the Standard the Company recognizes share-based payment transactions in the financial statements, including transactions with employees or other parties that are settled with capital instruments, cash or other assets. Share-based payment transactions wherein goods or services are received, are recognized based on their fair value.

Notes to the Financial Statements as at June 30, 2006 (Unaudited)**Note 1 - Financial Reporting Principles and Accounting Policies (cont'd)****B. First-time application of new accounting standards (cont'd)**(4) Accounting Standard No. 24, "Share Based Payments" (cont'd)

Regarding transactions settled with capital instruments, the Standard applies to grants made after March 15, 2005 that did not fully vest by January 1, 2006. In the same manner, the Standard applies to changes in the terms of transactions settled with capital instruments executed after March 15, 2005, even when the grants regarding which the changes were made were prior to this date. In the financial statements for 2006, the comparative data for 2005 are restated, in order to reflect therein the recording of the expense relating to the said grants.

As a result of the first-time implementation of the provisions of the Standard, the Company adjusted by means of a restatement of the financial statements for the six and three-month periods ended June 30, 2005 and for the year ended December 31, 2005, in order to retroactively reflect therein the effect of the change in the accounting treatment of share-based payment transactions with employees and directors that are to be settled with capital instruments of the Company and that were granted after March 15, 2005, and which had not yet vested by December 31, 2005, or which were granted prior to that date by regarding which there was a change in the terms of their grant, as well as in respect of options granted to employees and directors settled in cash.

Set forth below is the effect of the changes on the financial statements:

	As at June 30, 2005		
	As previously reported	The change	As presented in the financial statements
	Unaudited		
	US \$ thousands	US \$ thousands	US \$ thousands
Other payables	221,427	514	221,941
Minority interest	26,649	(15)	26,634
Shareholders' equity	1,099,527	(499)	1,099,028

	As at December 31, 2005		
	As previously reported	The change	As presented in the financial statements
	Audited		
	US \$ thousands	US \$ thousands	US \$ thousands
Other assets	535,054	1,527	536,581
Other payables	197,173	4,474	201,647
Minority interest	28,586	(2,037)	26,549
Shareholders' equity	1,135,097	(910)	1,134,187

Notes to the Financial Statements as at June 30, 2006 (Unaudited)

Note 1 - Financial Reporting Principles and Accounting Policies (cont'd)

B. First-time application of new accounting standards (cont'd)

(4) Accounting Standard No. 24, "Share Based Payments" (cont'd)

	As at January 1, 2005		
	As previously reported	The change	As presented in the financial statements
		Audited	
	US \$ thousands	US \$ thousands	US \$ thousands
Shareholders' equity	874,495	(245)	874,250

	For the six months ended June 30, 2005		
	As previously reported	The change	As presented in the financial statements
		Unaudited	
	US \$ thousands	US \$ thousands	US \$ thousands
Administrative and general expenses	33,262	254	33,516
Pre-tax income	152,864	(254)	152,610
Net income	111,282	(254)	111,028

	For the three months ended June 30, 2005		
	As previously reported	The change	As presented in the financial statements
		Unaudited	
	US \$ thousands	US \$ thousands	US \$ thousands
Administrative and general expenses	13,776	31	13,807
Pre-tax income	61,657	(31)	61,626
Net income	50,159	(31)	50,128

	For the year ended December 31, 2005		
	As previously reported	The change	As presented in the financial statements
		Audited	
	US \$ thousands	US \$ thousands	US \$ thousands
Administrative and general expenses	61,386	665	62,051
Pre-tax income	252,286	(665)	251,621
Net income	205,493	(665)	204,828

Notes to the Financial Statements as at June 30, 2006 (Unaudited)

Note 1 - Financial Reporting Principles and Accounting Policies (cont'd)**B. First-time application of new accounting standards (cont'd)**(5) Accounting Standard No. 25, "Revenues"

Commencing from January 1, 2006, the Company applies Accounting Standard No. 25, "Revenues" (hereinafter – "the Standard") of the Israeli Accounting Standards Board. The Standard deals with recognition of revenues from the following three types of transactions: sale of goods, provision of services and use by others of the Company's assets, which generate interest, royalties and dividends, and provides the required accounting treatment (rules for recognition, measurement, presentation and disclosure) regarding these three transaction types.

The first-time application of the Standard did not have a material impact on the Company's financial position and its results of operations.

C. Disclosure of the impact of new accounting standard in the period prior to its application

In July 2006, the Israeli Accounting Standards Board published Accounting Standard No. 29, "Adoption of International Financial Reporting Standards (IFRS) (hereinafter – "the Standard")". The Standard provides that entities that are subject to the Securities Law, 1968 and that are required to report in accordance with this Law's provisions, shall prepare their financial statements pursuant to IFRS Standards for periods commencing January 1, 2008. The Standard permits early adoption beginning with financial statements published after July 31, 2006.

Initial adoption of IFRS Standards is to be effected by means of application of the provisions of IFRS 1, "First-Time Application of IFRS Standards", for purposes of the transition.

In accordance with the Standard, the Company is required to include in a note to the annual financial statements as at December 31, 2007 the balance-sheet data as at December 31, 2007 and the income-statement data for the year then ended, after they have undergone application of the recognition, measurement and presentation rules of IFRS Standards.

The Company is examining the impact of the Standard on its financial statements. The Company does not intend to make an early adoption of the IFRS Standards.

D. Financial statements in US dollars

The Company and its Israeli subsidiaries maintain their current accounting records in nominal shekels and dollars using a multi-currency system. Since most of the Group's revenues are received in dollar and the principal raw materials and fixed assets are purchased in dollar. The dollar is the principal currency of the economic environment in which the Group operates ("the functional currency"). Accordingly, the dollar is the measurement and reporting currency in these financial statements. It should not be construed that the translated amounts actually represent or can be converted into dollars, unless otherwise indicated in these statements.

Notes to the Financial Statements as at June 30, 2006 (Unaudited)

Note 1 - Financial Reporting Principles and Accounting Policies (cont'd)

D. Financial statements in US dollars (cont'd)

Changes in the representative exchange rates of the U.S. dollar and the Consumer Price Index (CPI) are as follows:

	CPI	Exchange rate of the U.S.\$ to the NIS	Exchange rate of the U.S.\$ to the Euro	Exchange rate of the U.S.\$ to the Brazilian Real
	%	%	%	%
During the six-month period ended:				
June 30, 2006	1.55	(3.54)	(6.91)	(7.53)
June 30, 2005	0.50	6.17	12.89	(11.50)
During the three-month period ended				
June 30, 2006	0.97	(4.82)	(4.51)	(0.30)
June 30, 2005	1.10	4.88	7.20	(11.96)
During the year ended				
December 31, 2005	2.39	6.85	15.29	(11.8)

Notes to the Financial Statements as at June 30, 2006 (Unaudited)

Note 2 - Segment Information

A. Geographical segments according to location of assets

	<u>Israel</u> <u>(Unaudited)</u> <u>US\$ thousands</u>	<u>Latin America</u> <u>(Unaudited)</u> <u>US\$ thousands</u>	<u>Europe</u> <u>(Unaudited)</u> <u>US\$ thousands</u>	<u>Adjustments</u> <u>(Unaudited)</u> <u>US\$ thousands</u>	<u>Consolidated</u> <u>(Unaudited)</u> <u>US\$ thousands</u>
For the six months ended June 30, 2006					
Segment revenues	687,992	141,869	183,879	(57,872)	955,868
Segment results**	115,989	3,165	29,126	(563)	147,717
For the six months ended June 30, 2005					
Segment revenues	637,874	138,224	210,133	(52,719)	933,512
Segment results***	* 126,357	15,060	46,014	(2,410)	* 185,201
For the three months ended June 30, 2006					
Segment revenues	346,595	74,318	66,768	(25,679)	462,002
Segment results**	56,574	2,965	6,273	1,231	67,043
For the three months ended June 30, 2005					
Segment revenues	293,841	57,580	79,354	(14,237)	416,538
Segment results***	* 72,408	2,395	9,053	(1,270)	* 82,586
For the year ended December 31, 2005					
Segment revenues	1,130,495	386,472	333,502	(109,752)	1,740,717
Segment results***	* 195,173	49,600	67,403	(3,183)	* 308,993

* Restated - see Note 1B(4).

** Includes amortization of goodwill on the acquisition of products and amortization of other assets arising on the acquisition of subsidiaries.

*** Includes amortization of goodwill on acquisition of products and amortization of goodwill and other assets arising on acquisition of subsidiaries.

Notes to the Financial Statements as at June 30, 2006 (Unaudited)

Note 2 - Segment Information (cont'd)

B. Sales by geographic area

	For the six months ended		For the three months ended		For the
	June 30	June 30	June 30	June 30	year ended
	2006	2005	2006	2005	December 31
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	2005
	US\$ thousands	US\$ thousands	US\$ thousands	US\$ thousands	(Audited)
	US\$ thousands	US\$ thousands	US\$ thousands	US\$ thousands	US\$ thousands
Israel	63,561	57,918	34,430	29,141	110,163
Latin America	166,571	150,288	83,430	72,665	422,777
Europe	410,283	444,492	180,405	175,368	700,912
North America	205,985	184,779	105,839	89,465	308,798
Other	109,468	96,035	57,898	49,899	198,067
	955,868	933,512	462,002	416,538	1,740,717

Note 3 - Additional Information

- (1) As part of the commitments of the Company and of its subsidiaries under agreements signed in September 2004, regarding a securitization transaction whereby trade receivables were sold to companies in the RaboBank International Group, the balance of the trade receivables sold for cash amounted, as at the balance sheet date, to \$ 250 million (June 30, 2005 – \$ 205.6 million, December 31, 2005 – \$ 146.5 million).

The maximum expected volume of the financial means available to the acquiring companies for the purpose of purchasing the trade receivables of the consolidated subsidiaries, is about US\$ 250 million, on a current basis, such that the amounts to be collected from customers whose debts were sold, will serve to purchase new trade receivables.

- (2) The Company and Milenia committed to indemnify financial institutions, upon the existence of certain conditions, in respect of credit received by Milenia's customers from those financial institutions and which was used for repayment of the debts of those customers to Milenia for sales made to them.

As at the balance sheet date, the amount of the liability to indemnify is \$ 82.7 million (December 31, 2005 – \$ 76 million).

- (3) On March 8, 2005, the Company's Board of Directors decided to adopt a new options' plan for officers and employees of the Company and its subsidiaries. Pursuant to the plan, 14,900,000 option warrants exercisable into up to 14,900,000 ordinary shares of the Company of a par value of NIS 1 each were issued on March 14, 2005. Of these, 2,500,000 options were deposited with a trustee for future distributions.

On March 8, 2006, the Company's Board of Directors decided to issue the balance of the above-mentioned options to employees. The fair value of the capital instruments granted is about \$ 3.7 million as at the grant date.

Under the plan, the options were issued to the offerees in accordance with the provisions of Section 102 of the Income Tax Ordinance under the Capital Track.

Notes to the Financial Statements as at June 30, 2006 (Unaudited)

Note 3 - Additional Information (cont'd)

- (4) During the period of the report, NIS 4,493 thousand par value debentures (Series A) were converted into 471 thousand of the Company's ordinary shares of NIS 1 par value. Furthermore, in the current period \$ 13,675 thousand par value of the debentures that were allotted in March 2004 in a private placement to institutional investors (hereinafter – "the Debentures") were converted into 3,011 thousand shares of the Company of a par value of NIS 1. As a result of the conversion, as stated, the Company's shareholders' equity increased by about \$ 14.7 million.
- (5) On March 8, 2006, the Company's Board of Directors decided to make a change regarding the dividend distribution policy, such that commencing with the fourth quarter of 2005, a dividend will be distributed at the rate of 50% of the net earnings for the period.

In May 2006, the Company's Board of Directors resolved to distribute a dividend, in the amount of \$ 28.8 million, to be paid on August 31, 2006.

- (6) On November 14, 2005, the Company's Board of Directors decided to adopt a policy according to which the Company will act to buy back its own shares in the amount of \$150 million.

The decision of the Board of Directors provides different parameters for acquisition of the shares as stated above including, among others, acquisition in response to supply without creation of demand, limitations on the scope of daily acquisitions, price criteria and execution of off-market transactions.

The shares acquired will become dormant shares as long as they are held by the Company.

As at the balance sheet date, the Company holds 24,875,073 of its own shares, constituting approximately 5.4% of its total issued and paid-up share capital in the amount of \$ 134 million.

Subsequent to balance sheet date, the Company's Board of Directors approved conclusion of the plan for self-purchase of shares following its completion.

Note 4 - Seasonality

Sales of herbicide products are directly related to the agricultural seasons and the cyclical pattern of the growing seasons and, therefore, the Company's revenues are not spread evenly throughout the year. Countries located in the northern part of the globe are all characterized by the same timing of the agricultural seasons and, as a result, sales made by these countries are usually highest in February through April. On the other hand, in the southern part of the globe the seasonal trends are exactly the opposite and most of the local sales are concentrated in the months August through November, except for Australia where most of the sales are made in the months April through July. The Company's worldwide operations act to balance out the above-mentioned seasonal impacts, notwithstanding the fact that most of the Company's sales are made in the earth's northern section.

