

Makhteshim–Agan Industries Ltd.

**Interim Consolidated
Financial Statements
(Unaudited)
As at September 30, 2006
(In U.S. Dollars)**

Financial Statements as at September 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 September 30, 2006

At your request, we have reviewed the interim consolidated balance sheet of Makhteshim–Agan Industries Ltd. and its subsidiaries as at September 30, 2006, and the related consolidated statements of income, statements of changes in shareholders' equity and consolidated statements of cash flows for the nine-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 interim reports of other auditors, regarding the review of financial statements of subsidiaries, whose assets included in the consolidation constitute 6.0% of the total assets included in the consolidated balance sheet as at September 30, 2006 and whose revenues included in the consolidation constitute 9.6% and 8.1% of the total revenues included in the consolidated statements of income for the nine-month and three-month periods then ended, respectively.

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, including 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.)

November 7, 2006

Consolidated Balance Sheets

	As at September 30 2006 (Unaudited) US \$ thousands	As at September 30 2005 (Unaudited) US \$ thousands	As at December 31 2005 (Audited) US \$ thousands
Current assets			
Cash and cash equivalents	117,060	60,013	71,293
Short-term investments	1,310	1,288	1,269
Trade receivables	448,157	422,592	383,246
Other receivables	103,214	78,946	86,414
Inventories	577,066	541,966	566,416
	1,246,807	1,104,805	1,108,638
Investments, loans and other long-term debits			
Affiliated companies	2,436	-	-
Investments and other debts	39,575	22,521	22,684
	42,011	22,521	22,684
Fixed assets			
Cost	950,447	869,476	884,480
Less – accumulated depreciation	453,362	412,784	421,114
	497,085	456,692	463,366
Other assets and deferred expenses			
Cost	841,323	785,956	* 814,043
Less – accumulated amortization	300,884	263,513	277,462
	540,439	522,443	536,581
	2,326,342	2,106,461	2,131,269

	As at September 30 2006 (Unaudited) US \$ thousands	As at September 30 2005 (Unaudited) US \$ thousands	As at December 31 2005 (Audited) US \$ thousands
Current liabilities			
Credit from banks	408,940	206,533	248,038
Trade payables	321,694	309,007	338,598
Other payables	235,177	* 208,476	* 201,647
Proposed dividend	-	14,850	14,058
	965,811	738,866	802,341
Long-term liabilities			
Loans from banks	43,111	55,938	35,584
Convertible debentures	24,694	50,173	40,479
Other long-term liabilities	3,685	4,769	4,314
Deferred taxes	73,509	67,621	59,801
Employee severance benefits, net	31,124	26,454	28,014
	176,123	204,955	168,192
Minority interest	30,171	* 25,654	* 26,549
Shareholders' equity	1,154,237	* 1,136,986	* 1,134,187
	2,326,342	2,106,461	2,131,269

Avraham Biger
Chairman of the Board of Directors

Shlomo Yanai
Chief Executive Officer

Ran Midan
Chief Financial Officer

Date of approval of the financial statements: November 7, 2006

* Restated – see Note 1B(4).

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

Consolidated Statements of Income

	For the nine months ended		For the three months ended		For the
	September 30	September 30	September 30	September 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
Revenues	1,359,727	1,335,644	407,596	402,132	1,740,717
Cost of sales	884,712	811,513	270,430	248,325	1,059,715
Gross profit	475,015	524,131	137,166	153,807	681,002
Expenses					
Research and development, net	14,420	14,533	4,717	4,819	20,628
Selling and marketing	216,668	197,612	68,794	65,721	267,918
General and administrative	50,017	*47,749	19,518	*14,233	*62,051
	281,105	259,894	93,029	84,773	350,597
Operating income	193,910	264,237	44,137	69,034	330,405
Financing expenses, net	32,844	26,616	7,160	8,783	34,573
Income before other expenses, net	161,066	237,621	36,977	60,251	295,832
Other expenses, net	18,295	35,916	6,527	11,156	44,211
Income before taxes on income	142,771	*201,705	30,450	*49,095	*251,621
Taxes on income	17,894	37,269	6,267	2,448	39,952
Income after taxes on income	124,877	164,436	24,183	46,647	211,669
Company equity in earnings of affiliated companies	194	-	8	-	-
Minority interest in losses (income) of subsidiaries, net	(2,675)	(4,551)	262	185	(4,816)
Net income from continuing operations	122,396	*159,885	24,453	*46,832	*206,853
Cumulative effect as at the beginning of the year of change in accounting method	-	(2,025)	-	-	(2,025)
Net income	122,396	*157,860	24,453	*46,832	*204,828
	US\$	US\$	US\$	US\$	US\$
Earnings per share					
Basic earnings per share	0.28	**0.38	0.06	**0.11	**0.49
Fully diluted earnings per share	0.28	**0.34	0.06	**0.10	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	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
Nine-month period ended September 30, 2006								
Balance as at December 31, 2005	120,391	589,261	-	(3,715)	23,500	*480,119	(75,369)	1,134,187
Exercise of employee options	382	(382)	-	-	-	-	-	-
Self purchase of Company shares	-	-	-	-	-	-	(68,827)	(68,827)
Conversion of convertible debentures	850	14,845	-	-	-	-	-	15,695
Adjustments deriving from translation of financial statements of investee companies	-	-	-	136	-	-	-	136
Tax benefit in respect of employee options	-	-	-	898	-	-	-	898
Expenses in respect of employee options	-	-	-	1,379	-	-	-	1,379
Dividend	-	-	-	-	(23,500)	(28,127)	-	(51,627)
Net income	-	-	-	-	-	122,396	-	122,396
Balance as at September 30, 2006	121,623	603,724	-	(1,302)	-	574,388	(144,196)	1,154,237
Nine-month period ended September 30, 2005								
Balance as at December 31, 2004	109,258	417,487	3,009	(2,568)	12,700	*345,596	(11,232)	874,250
Exercise of options	1,113	11,513	(1,103)	-	-	-	-	11,523
Exercise of employee options	219	(219)	-	-	-	-	-	-
Sale of Company shares held by a subsidiary	-	2,324	-	-	-	-	1,524	3,848
Conversion of convertible debentures	6,944	130,033	-	-	-	-	-	136,977
Adjustments deriving from translation of financial statements of investee companies	-	-	-	(2,037)	-	-	-	(2,037)
Dividend	-	-	-	-	(12,700)	(32,735)	-	(45,435)
Dividend proposed subsequent to balance sheet date	-	-	-	-	14,058	(14,058)	-	-
Net income	-	-	-	-	-	*157,860	-	157,860
Balance as at September 30, 2005	117,534	561,138	1,906	(4,605)	14,058	*456,663	(9,708)	1,136,986

* 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 September 30, 2006								
Balance as at June 30, 2006	121,497	602,816	-	(3,501)	-	549,935	(144,196)	1,126,551
Exercise of employee options	32	(32)	-	-	-	-	-	-
Tax benefit in respect of employee options	-	-	-	146	-	-	-	146
Expenses in respect of employee options	-	-	-	619	-	-	-	619
Conversion of convertible debentures	94	940	-	-	-	-	-	1,034
Adjustments deriving from translation of financial statements of investee companies	-	-	-	1,434	-	-	-	1,434
Net income	-	-	-	-	-	24,453	-	24,453
Balance as at September 30, 2006	121,623	603,724	-	(1,302)	-	574,388	(144,196)	1,154,237
Three-month period ended September 30, 2005								
Balance as at June 30, 2005	116,999	556,215	2,326	(5,128)	15,000	* 423,324	(9,708)	1,099,028
Exercise of options	414	4,330	(420)	-	-	-	-	4,324
Exercise of employee options	52	(52)	-	-	-	-	-	-
Conversion of convertible debentures	69	645	-	-	-	-	-	714
Adjustments deriving from translation of financial statements of investee companies	-	-	-	523	-	-	-	523
Dividend	-	-	-	-	(15,000)	565	-	(14,435)
Dividend proposed subsequent to balance sheet date	-	-	-	-	14,058	(14,058)	-	-
Net income	-	-	-	-	-	*46,832	-	46,832
Balance as at September 30, 2005	117,534	561,138	1,906	(4,605)	14,058	*456,663	(9,708)	*1,136,986

* 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
Exercise of employee options	416	(416)	-	-	-	-	-	-
Conversion of convertible debentures	7,807	138,852	-	-	-	-	-	146,659
Exercised of options	2,910	31,014	(3,009)	-	-	-	-	30,915
Adjustments deriving from translation of financial statements of investee companies	-	-	-	(2,701)	-	-	-	(2,701)
Sale of Company shares held by a subsidiary	-	2,324	-	-	-	-	1,524	3,848
Self purchase of Company shares	-	-	-	-	-	-	(65,661)	(65,661)
Tax benefit in respect of employee options	-	-	-	1,554	-	-	-	1,554
Dividend	-	-	-	-	(12,700)	(46,805)	-	(59,505)
Dividend proposed subsequent to balance sheet date	-	-	-	-	23,500	(23,500)	-	-
Net income	-	-	-	-	-	*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 nine months ended		For the three months ended		For the
	September 30	September 30	September 30	September 30	year ended
	2006	2005	2006	2005	December 31
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	2005
	US \$ thousands		US \$ thousands		(Audited)
	US \$ thousands		US \$ thousands		US \$ thousands
Cash flows generated by operating activities:					
Net income	122,396	*157,860	24,453	*46,832	*204,828
Adjustments to reconcile net income to net cash flows generated by operating activities (see A. below)	14,232	*(62,110)	(83,310)	*(96,174)	*(21,670)
Net cash inflow (outflow) generated by operating activities	136,628	95,750	(58,857)	(49,342)	183,158
Cash flows generated by investing activities:					
Acquisition of fixed assets	(54,241)	(38,387)	(14,655)	(11,828)	(50,415)
Investment grant received	-	-	-	-	1,226
Additions to other assets and deferred expenses, net	(33,649)	(21,558)	(7,645)	(6,564)	(38,270)
Investment in affiliates	(2,243)	-	-	-	-
Short-term investments, net	-	15	834	1,324	194
Proceeds from sale of fixed and other assets	677	163	530	-	334
Other long-term investments	(211)	-	(298)	-	-
Investments in newly consolidated companies and activities (see B. below)	(25,453)	(3,598)	-	-	(8,882)
Proceeds from sale of investment in former subsidiary (see C. below)	6,047	-	-	-	-
Acquisition of minority interest in subsidiaries	(2,406)	(970)	-	-	(970)
Net cash outflow generated by investing activities	(111,479)	(64,335)	(21,234)	(17,068)	(96,783)
Cash flows generated by financing activities:					
Receipt of long-term loans from banks	23,107	3,846	8,107	3,183	3,846
Repayment of long-term loans from banks and others	(21,576)	(69,257)	(1,796)	(5,253)	(85,075)
Self purchase of Company shares	(68,827)	-	-	-	(65,661)
Increase in short-term credit from banks, net	155,261	85,794	84,297	57,790	119,457
Proceeds from exercise of options	-	11,523	-	4,324	30,915
Dividend to shareholders	(65,686)	(41,635)	(28,510)	(17,735)	(56,647)
Dividend to minority shareholders in subsidiaries	(1,661)	(2,150)	(889)	(2,042)	(2,394)
Net cash inflow (outflow) generated by financing activities	20,618	(11,879)	61,209	40,267	(55,559)
Increase (decrease) in cash and cash equivalents	45,767	19,536	(18,882)	(26,143)	30,816
Cash and cash equivalents at beginning of the period	71,293	40,477	135,942	86,156	40,477
Cash and cash equivalents at end of the period	117,060	60,013	117,060	60,013	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 nine months ended		For the three months ended		For the
	September 30	September 30	September 30	September 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
A. Adjustments to reconcile net income to net cash flows generated by operating activities					
Revenues and expenses not affecting cash flows:					
Depreciation and amortization	61,735	72,859	21,458	24,716	95,964
Adjustments of long-term liabilities to banks	977	(96)	366	2,675	(1,127)
Minority interest in earnings (losses) of subsidiaries, net	2,675	4,551	(262)	(185)	4,816
Increase in employee severance benefits, net	2,322	133	686	804	1,533
Deferred taxes, net	16,868	12,815	19,139	(4,717)	7,830
Capital loss (gain) of disposal of fixed and other assets, net	91	850	(892)	(110)	1,665
Increase in value of long-term investments	(856)	-	(466)	-	-
Amortization of discount on convertible debentures	433	409	261	127	497
Expenses in respect of employee options	1,985	*492	1,225	*238	*665
Company's equity in earnings of affiliated companies	(194)	-	(8)	-	-
Provision for loss with respect to options granted to employees of subsidiaries	-	1,129	-	279	55
Capital gain on sale of investment in subsidiary	(216)	-	-	-	-
Changes in operating assets and liabilities:					
Increase in trade and other receivables	(77,134)	(53,075)	(37,139)	(52,149)	(17,076)
Increase inventories	(3,300)	(68,155)	(5,979)	(7,918)	(84,322)
Increase (decrease) in trade and other payables	8,846	*(34,022)	(81,699)	*(59,934)	*(32,170)
	14,232	(62,110)	(83,310)	(96,174)	(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 nine months ended		For the three months ended		For the
	September 30	September 30	September 30	September 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
B. Investment in newly consolidated companies and activities					
Working capital (excluding cash and cash equivalents)	(8,035)	(1,597)	-	-	(7,158)
Fixed assets	(13,795)	(223)	-	-	(2,040)
Other assets	(7,940)	(8,027)	-	-	(8,027)
Long-term liabilities	7,750	77	-	-	1,240
Sale of Company shares held by subsidiary	-	3,848	-	-	3,848
Minority interests	3,344	4,497	-	-	8,519
Payables in respect of acquisition of activities	1,000	-	-	-	-
Excess cost created on acquisition	(7,777)	(2,173)	-	-	(5,264)
	<u>(25,453)</u>	<u>(3,598)</u>	<u>-</u>	<u>-</u>	<u>(8,882)</u>
C. Proceeds from sale of investments in former subsidiaries					
Working capital (excluding cash and cash equivalents)	3,679	-	-	-	-
Fixed assets, net	607	-	-	-	-
Other assets, net	2,629	-	-	-	-
Long-term liabilities	(1,084)	-	-	-	-
Capital gain	216	-	-	-	-
	<u>6,047</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
D. Non-cash activities					
Acquisition of other assets on supplier credit	<u>4,100</u>	<u>11,397</u>	<u>1,100</u>	<u>-</u>	<u>22,448</u>
Acquisition of fixed assets on supplier credit	<u>-</u>	<u>9,988</u>	<u>-</u>	<u>5,451</u>	<u>13,029</u>
Acquisition of subsidiary in exchange for Company shares	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,848</u>

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

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

Note 1 - Reporting Principles and Accounting Policy**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 Institute and with Article 4 of the Securities Regulations (Immediate and Periodic Reports), 1970.
2. The accounting policies applied in 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 September 30, 2006, and for the nine-month and three-month periods then ended. The financial statements should be read in conjunction with the annual financial statements as at December 31, 2005 and for the year then ended, and the notes related 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 on the acquisition date in the statement of income of negative goodwill created on the acquisition 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; examination of impairment in value of the goodwill at least once a year.

The amount of the systematic amortization of positive goodwill in the nine-month and three-month periods ended September 30, 2005 is \$7 million and \$2.5 million, respectively. The said goodwill amortization for the year ended December 31, 2005 amounted to \$ 9.9 million.

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 ordinary shareholders. The basic earnings per share are calculated by dividing net income or loss allocable to the 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 \$0.04 and \$0.01 for the nine-month and three-month periods ended September 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 was not 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 equity instruments, cash or other assets. Share-based payment transactions wherein goods or services are received, are recognized based on their fair value.

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 equity 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 equity 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 nine and three-month periods ended September 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 equity 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 September 30, 2005		
	As previously reported	The change	As presented in the financial statements
		Unaudited	
	US \$ thousands	US \$ thousands	US \$ thousands
Other payables	207,755	721	208,476
Minority interest	25,638	16	25,654
Shareholders' equity	1,137,723	(737)	1,136,986

	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

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 nine months ended September 30, 2005		
	As previously reported	The change	As presented in the financial statements
		Unaudited	
	US \$ thousands	US \$ thousands	US \$ thousands
Administrative and general expenses	47,257	492	47,749
Income before taxes on income	202,197	(492)	201,705
Net income	158,352	(492)	157,860

	For the three months ended September 30, 2005		
	As previously reported	The change	As presented in the financial statements
		Unaudited	
	US \$ thousands	US \$ thousands	US \$ thousands
Administrative and general expenses	13,995	238	14,233
Income before taxes on income	49,333	(238)	49,095
Net income	47,070	(238)	46,832

	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
Income before taxes on income	252,286	(665)	251,621
Net income	205,493	(665)	204,828

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

- (1) 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.

(2) Accounting Standard No. 26, "Inventory"

In August 2006 the Israeli Accounting Standards Board published Accounting Standard No. 26, "Inventory" (hereinafter – "the Standard"). The Standard provides guidelines for determining the cost of inventory and its subsequent recognition as an expense as well as for determining the amount of the impairment in order to adjust the inventory to net realizable value. The Standard also provides guidelines regarding cost formulas used to allocate costs to various types of inventory. The Standard will apply to financial statements for periods beginning on January 1, 2007 or thereafter. The Company is examining the impact of the Standard on its financial statements.

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

C. Disclosure of the impact of new accounting standard in the period prior to its application (cont'd)

(3) Accounting Standard No. 27, "Fixed Assets"

In September 2006 the Israeli Accounting Standards Board published Accounting Standard No. 27, "Fixed Assets" (hereinafter – "the Standard"). The Standard prescribes rules for the presentation, measurement and elimination of fixed-asset items and for the disclosure required in respect thereof. The Standard provides, inter alia, that upon the initial recognition of a fixed-asset item, the entity shall estimate and include in the cost of the item all the costs it will incur in respect of an obligation to dismantle and remove the item and to restore the site on which it was located. Furthermore, the Standard provides that a group of similar fixed-asset items shall be measured at cost net of accumulated depreciation, and less impairment losses, or alternatively, at its revalued amount less accumulated depreciation, while an increase in the value of the asset above its initial cost as a result of the revaluation will be recorded directly to shareholders' equity in a revaluation reserve. Any part of a fixed-asset item having a cost that is significant in relation to the total cost of the item shall be depreciated separately, including the costs of significant periodic examinations. The Standard also provides that a fixed asset that was acquired in exchange for another non-monetary item in a transaction that is commercial in nature shall be measured at fair value.

The Standard applies to financial statements for periods beginning on January 1, 2007. An entity that on January 1, 2007 chooses for the first time to use the revaluation method for measuring fixed assets, shall on this date recognize a revaluation reserve in the amount of the difference between the revalued amount of the asset on that date and its cost on the books. Furthermore, an entity that in the past, upon the initial recognition of a fixed asset, had not included in its cost the initial estimate of costs for dismantling and removing the asset and for restoring the site on which it is located, shall measure these costs as follows:

- (a) The aforementioned liabilities as at January 1, 2007 should be measured in accordance with generally accepted accounting principles;
- (b) The amount that would have been included in the cost of the relevant asset on the date on which the liability was initially incurred should be capitalized to the amount of the liability mentioned in item (a) above to the date on which the liability was initially incurred (hereinafter – "the Capitalized Amount");
- (c) The accumulated depreciation on the Capitalized Amount as at January 1, 2007 should be measured on the basis of the useful life of the asset as at that date;
- (d) The difference between the amount to be charged to the asset in accordance with items (b) and (c) above, and the amount of the liability in accordance with item (a) above, shall be included in retained earnings.

Other than the mentioned above, the Standard will be adopted on a retroactive basis. The Company is examining the effect of the Standard on its financial statements.

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

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 dollars and the principal raw materials and fixed assets are purchased in dollars, 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.

Changes in the representative exchange rate of the dollar and the Consumer Price Index (CPI) are as follows:

	CPI	Representative exchange rate of the U.S. \$ to the NIS	Representative exchange rate of the U.S. \$ to the Euro	Representative exchange rate of the U.S. \$ to the Brazilian real
	%	%	%	%
During the nine-month period ended:				
September 30, 2006	0.77	(6.54)	(6.74)	(7.13)
September 30, 2005	1.89	6.73	13.46	(16.22)
During the three-month period ended:				
September 30, 2006	(0.77)	(3.10)	0.25	0.46
September 30, 2005	1.38	0.52	0.51	(4.72)
During the year ended December 31, 2005	2.39	6.85	15.29	(11.8)

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 nine months ended September 30, 2006					
Segment income	951,047	245,651	255,957	(92,928)	1,359,727
Segment results**	128,453	8,820	47,338	446	185,057
For the nine months ended September 30, 2005					
Segment income	876,086	251,498	285,466	(77,406)	1,335,644
Segment results***	*155,453	30,232	65,993	(2,415)	*249,263
For the three months ended September 30, 2006					
Segment income	263,055	107,519	72,078	(35,056)	407,596
Segment results**	12,464	5,655	18,212	1,009	37,340
For the three months ended September 30, 2005					
Segment income	238,212	113,274	75,333	(24,687)	402,132
Segment results***	*28,916	15,172	19,979	(5)	*64,062
	<u>Israel</u> <u>(Audited)</u> <u>US\$ thousands</u>	<u>Latin America</u> <u>(Audited)</u> <u>US\$ thousands</u>	<u>Europe</u> <u>(Audited)</u> <u>US\$ thousands</u>	<u>Adjustments</u> <u>(Audited)</u> <u>US\$ thousands</u>	<u>Consolidated</u> <u>(Audited)</u> <u>US\$ thousands</u>
For the year ended December 31, 2005					
Segment income	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.

Note 2 - Segment Information (cont'd)

B. Sales by geographic area

	For the nine months ended		For the three months ended		For the
	September 30	September 30	September 30	September 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	89,211	86,756	25,649	28,838	110,163
Latin America	279,849	285,032	117,016	134,769	422,777
Europe	555,350	571,925	145,067	127,433	700,912
North America	275,524	241,469	69,539	56,690	308,798
Other	159,793	150,462	50,325	54,402	198,067
	1,359,727	1,335,644	407,596	402,132	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 \$243.1 million (September 30, 2005 – \$152.7 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 \$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 \$65 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 options 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 distribution.

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.

Note 3 - Additional Information (cont'd)

- (4) During the period of the report, NIS 8,208 thousand par value debentures (Series A) were converted into 873 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 issued in March 2004 in a private placement to institutional investors (hereinafter – "the Debentures") were converted into 3,011 thousand of the Company's ordinary shares of NIS 1 par value. As a result of the conversion, as stated, the Company's shareholders' equity increased by about \$15.7 million.
- (5) On March 8, 2006, the Company's Board of Directors passed a resolution to change the dividend distribution policy such that as of the fourth quarter of 2005 a dividend would be distributed in the amount of up to 50% of the net earnings for the period.

On November 7, 2006, the Board of Directors decided to re-examine the dividend policy it adopted on April 23, 2001 that was revised on March 8, 2006. The re-examination process will be completed up to publication date of the Company's financial results for 2006. Therefore, no dividend will be distributed in respect of the second and third quarters of 2006.

In May 2006, the Company's Board of Directors decided to distribute a dividend in the amount of \$28.8 million that was 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 up to \$150 million.

The shares purchased are dormant shares so long as they are held by the Company.

As at the balance sheet date, the Company holds 24,875,703 of its own shares, constituting approximately 5.4% of its total issued and paid-up share capital, at a cost of \$134 million.

In August 2006, the Company's Board of Directors approved conclusion of the plan for self-purchase of the shares as a result of its completion.

Note 4 - Seasonality

Sales of crop protection 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 hemisphere 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 hemisphere 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 northern hemisphere.