

**Makhteshim–Agan Industries Ltd.**

**Interim Consolidated  
Financial Statements  
(Unaudited)  
As at March 31, 2007  
(In U.S. Dollars)**

**Financial Statements as at March 31, 2007 (Unaudited)**

---

**Contents**

	<b>Page</b>
Auditors' Review Report	2
Consolidated Balance Sheets	3
Consolidated Statements of Income	4
Statements of Changes in Shareholders' Equity	5
Consolidated Statements of Cash Flows	7
Notes to the Financial Statements	10



**Somekh Chaikin**  
KPMG Millennium Tower  
17 Ha'arba'a Street, PO Box 609  
Tel Aviv 61006 Israel

Telephone 972 3 684 8000  
Fax 972 3 684 8444  
Internet [www.kpmg.co.il](http://www.kpmg.co.il)

**The Board of Directors**  
**Makhteshim–Agan Industries Ltd.**

Dear Sirs,

**Review of the unaudited interim consolidated financial statements as at March 31, 2007**

At your request, we have reviewed the interim consolidated balance sheet of Makhteshim–Agan Industries Ltd. as at March 31, 2007, and the consolidated statement of income, the statement of changes in shareholders' equity and the consolidated statement of cash flows for the three-month period 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 5.9% of the total assets included in the consolidated balance sheet as at March 31, 2007 and whose revenues included in the consolidation constitute 8.7% of the total revenues included in the consolidated statements of income for the three-month period 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, 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.

We hereby direct attention to that stated in Note 3(4) regarding a re-examination the Company is making of the facts forming the basis of the accounting treatment relating to issuance of options under an options' plan from 2005.

Somekh Chaikin  
Certified Public Accountants (Isr.)

May 13, 2007

## Consolidated Balance Sheet

	As at March 31 2007 <u>(Unaudited)</u> <u>US \$ thousands</u>	As at March 31 2006 <u>(Unaudited)</u> <u>US \$ thousands</u>	As at December 31 2006 <u>(Audited)</u> <u>US \$ thousands</u>
<b>Current assets</b>			
Cash and cash equivalents	272,829	72,827	324,362
Short-term investments	1,716	1,170	1,706
Trade receivables	680,592	518,324	486,368
Other receivables	105,582	101,238	106,372
Inventories	595,990	572,082	607,328
	<u>1,656,709</u>	<u>1,265,641</u>	<u>1,526,136</u>
<b>Investments, loans and other long-term debits</b>			
Affiliated companies	-	2,100	2,496
Other investments and receivables	71,002	* 38,600	46,125
	<u>71,002</u>	<u>40,700</u>	<u>48,621</u>
<b>Fixed assets</b>			
Cost	984,008	898,435	972,980
Less – accumulated depreciation	470,755	429,498	461,570
	<u>513,253</u>	<u>468,937</u>	<u>511,410</u>
<b>Other assets and deferred expenses</b>			
Cost	889,794	824,763	865,125
Less – accumulated amortization	345,066	289,488	332,370
	<u>544,728</u>	<u>535,275</u>	<u>532,755</u>
	<u>2,785,692</u>	<u>2,310,553</u>	<u>2,618,922</u>

	As at March 31 2007 <u>(Unaudited)</u> <u>US \$ thousands</u>	As at March 31 2006 <u>(Unaudited)</u> <u>US \$ thousands</u>	As at December 31 2006 <u>(Audited)</u> <u>US \$ thousands</u>
<b>Current liabilities</b>			
Credit from banks and others	116,532	342,881	99,850
Trade payables	399,445	383,033	369,574
Other payables	304,028	225,533	271,413
Proposed dividend payable	-	23,265	-
Convertible debentures	7,632	-	12,055
	<u>827,637</u>	<u>974,712</u>	<u>752,892</u>
<b>Long-term liabilities</b>			
Loans from banks	41,600	33,464	45,012
Convertible debentures	675	27,105	675
Debentures	561,965	-	554,728
Other long-term liabilities	6,519	4,367	3,407
Deferred taxes	67,898	* 76,076	62,147
Employee severance benefits, net	42,397	27,787	38,131
	<u>721,054</u>	<u>168,799</u>	<u>704,100</u>
<b>Minority interest</b>	<u>31,648</u>	<u>26,545</u>	<u>30,212</u>
<b>Shareholders' equity</b>	<u>1,205,353</u>	<u>1,140,497</u>	<u>1,131,718</u>
	<u>2,785,692</u>	<u>2,310,553</u>	<u>2,618,922</u>

Avraham Bigger  
Chief Executive Officer  
Chairman of the Board of Directors

Raanan Cohen  
Director

Ran Maidan  
Chief Financial Officer

Date of approval of the financial statements: May 13, 2007

\* Reclassified

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

**Consolidated Statement of Income**

	For the three months ended		For the
	March 31	March 31	year ended
	2007	2006	December 31
	(Unaudited)	(Unaudited)	(Audited)
US \$ thousands	US \$ thousands	US \$ thousands	
Revenues	559,339	493,866	1,778,756
Cost of sales	361,094	315,710	1,172,017
<b>Gross profit</b>	<b>198,245</b>	178,156	606,739
<b>Expenses</b>			
Research and development, net	5,033	4,656	19,001
Selling and marketing	75,744	74,983	303,177
General and administrative	17,435	14,947	80,767
	<b>98,212</b>	94,586	402,945
<b>Operating income</b>	<b>100,033</b>	83,570	203,794
Financing expenses, net	11,437	11,730	44,244
<b>Income before other expenses, net</b>	<b>88,596</b>	71,840	159,550
Other expenses, net	4,372	7,104	74,641
<b>Income before taxes on income</b>	<b>84,224</b>	64,736	84,909
Taxes on income	15,883	6,640	(1,438)
<b>Income after taxes on income</b>	<b>68,341</b>	58,096	86,347
Company equity in earnings of affiliated companies	-	-	254
Minority interest in income of subsidiaries, net	(1,749)	(385)	(2,682)
<b>Net income</b>	<b>66,592</b>	57,711	83,919
	<b>US\$</b>	<b>US\$</b>	<b>US\$</b>
<b>Earnings per share</b>			
Basic earnings per share	0.15	0.13	0.19
Fully diluted earnings per share	0.15	0.13	0.19

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

## Statements of Changes in Shareholders' Equity

	Share capital	Premium on shares	Capital reserves	Dividend proposed subsequent to the balance sheet date	Retained earnings	Company shares held by the Company and by a subsidiary	Total
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	US\$ thousands	US\$ thousands	US\$ thousands	US\$ thousands	US\$ thousands	US\$ thousands	US\$ thousands
<b>Three-month period ended March 31, 2007</b>							
Balance as at December 31, 2006	123,232	614,052	2,719	-	535,911	(144,196)	1,131,718
Adjustments deriving from translation of financial statements of investee companies	-	-	828	-	-	-	828
Exercise of employee options	332	(332)	-	-	-	-	-
Conversion of convertible debentures into shares	503	3,939	-	-	-	-	4,442
Net income	-	-	-	-	66,592	-	66,592
Expenses in respect of options to employees	-	-	1,394	-	-	-	1,394
Tax benefit in respect of employee options	-	-	379	-	-	-	379
Balance as at March 31, 2007	<u>124,067</u>	<u>617,659</u>	<u>5,320</u>	<u>-</u>	<u>602,503</u>	<u>(144,196)</u>	<u>1,205,353</u>
<b>Three-month period ended March 31, 2006</b>							
Balance as at December 31, 2005	120,391	589,261	(3,715)	23,500	480,119	(75,369)	1,134,187
Adjustments deriving from translation of financial statements of investee companies	-	-	(436)	-	-	-	(436)
Self purchase of company shares	-	-	-	-	-	(41,516)	(41,516)
Dividend	-	-	-	(23,500)	125	-	(23,375)
Dividend proposed subsequent to the balance sheet date	-	-	-	28,508	(28,508)	-	-
Exercise of employee options	266	(266)	-	-	-	-	-
Conversion of convertible debentures into shares	658	12,706	-	-	-	-	13,364
Net income	-	-	-	-	57,711	-	57,711
Expenses in respect of options to employees	-	-	141	-	-	-	141
Tax benefit in respect of employee options	-	-	421	-	-	-	421
Balance as at March 31, 2006	<u>121,315</u>	<u>601,701</u>	<u>(3,589)</u>	<u>28,508</u>	<u>509,447</u>	<u>(116,885)</u>	<u>1,140,497</u>

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

**Statements of Shareholders' Equity (cont'd)**

	Share capital	Premium on shares	Capital reserves	Dividend proposed subsequent to the balance sheet date	Retained earnings	Company shares held by the Company and by a subsidiary	Total
	(Audited)	(Audited)	(Audited)	(Audited)	(Audited)	(Audited)	(Audited)
	US\$ thousands	US\$ thousands	US\$ thousands	US\$ thousands	US\$ thousands	US\$ thousands	US\$ thousands
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	651	(651)	-	-	-	-	-
Conversion of convertible debentures into shares	2,190	25,442	-	-	-	-	27,632
Self purchase of Company shares	-	-	-	-	-	(68,827)	(68,827)
Tax benefit in respect of employee options	-	-	1,146	-	-	-	1,146
Expenses in respect of options to employees	-	-	2,412	-	-	-	2,412
Dividend	-	-	-	(23,500)	(28,127)	-	(51,627)
Net income for 2006	-	-	-	-	83,919	-	83,919
Adjustments deriving from translation of financial statements of investee companies	-	-	2,876	-	-	-	2,876
Balance as at December 31, 2006	<u>123,232</u>	<u>614,052</u>	<u>2,719</u>	<u>-</u>	<u>535,911</u>	<u>(144,196)</u>	<u>1,131,718</u>

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

**Consolidated Statement of Cash Flows**

	<b>For the three months ended</b>		<b>For the</b>
	<b>March 31</b>	<b>March 31</b>	<b>year ended</b>
	<b>2007</b>	<b>2006</b>	<b>December 31</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>	<b>(Audited)</b>
<b>US \$ thousands</b>	<b>US \$ thousands</b>	<b>US \$ thousands</b>	
<b>Cash flows generated by operating activities:</b>			
Net income	<b>66,592</b>	57,711	83,919
Adjustments to reconcile net income to net cash flows generated by operating activities (see A. below)	<b>(74,628)</b>	*(62,431)	43,958
Net cash inflow (outflow) generated by operating activities	<b>(8,036)</b>	(4,720)	127,877
<b>Cash flows generated by investing activities:</b>			
Acquisition of fixed assets	<b>(22,060)</b>	(16,419)	(70,552)
Investment grant received	<b>2,315</b>	-	466
Additions to other assets and deferred expenses, net	<b>(20,844)</b>	(10,100)	(42,884)
Investment in affiliates	-	(2,033)	(2,033)
Investments in newly consolidated subsidiaries (see B below)	<b>(7,878)</b>	-	(28,689)
Repayment of liability regarding previously consolidated company	<b>(1,000)</b>	-	-
Proceeds from sale of investment in former subsidiary (see C. below)	-	-	6,047
Proceeds from sale of fixed and other assets	<b>34</b>	89	690
Acquisition of minority interest in subsidiary	<b>(1,105)</b>	-	(2,406)
Net cash used in investing activities	<b>(50,538)</b>	*(28,463)	(139,361)
<b>Cash flows from financing activities:</b>			
Receipt of long-term loans from banks	<b>2,383</b>	-	43,001
Repayment of long-term loans and liabilities from banks and others	<b>(2,488)</b>	(4,518)	(41,042)
Issuance of debentures less issuance expenses	-	-	554,466
Dividend to shareholders	-	(14,173)	(65,685)
Acquisition of Company shares by the Company	-	(41,516)	(68,827)
Short-term credit from banks, net	<b>7,503</b>	95,276	(154,393)
Dividend to minority shareholders in subsidiaries	<b>(357)</b>	(352)	(2,967)
<b>Net cash inflow generated by financing activities</b>	<b>7,041</b>	34,717	264,553
Increase (decrease) in cash and cash equivalents	<b>(51,533)</b>	1,534	253,069
Cash and cash equivalents at beginning of the period	<b>324,362</b>	71,293	71,293
<b>Cash and cash equivalents at end of the period</b>	<b>272,829</b>	72,827	324,362

\* Reclassified

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

**Consolidated Statement of Cash Flows (cont'd)**

	<b>For the three months ended</b>		<b>For the</b>
	<b>March 31</b>	<b>March 31</b>	<b>year ended</b>
	<b>2007</b>	<b>2006</b>	<b>December 31</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>	<b>(Audited)</b>
	<b>US \$ thousands</b>	<b>US \$ thousands</b>	<b>US \$ thousands</b>
<b>A. Adjustments to reconcile net income to net cash flows from operating activities</b>			
<b>Revenues and expenses not affecting cash flows:</b>			
Depreciation and amortization	25,355	20,180	103,090
Adjustments of long-term liabilities to banks and others	6,223	609	841
Minority interest in earnings of subsidiaries, net	1,749	385	2,682
Increase (decrease) in employee severance benefits, net	8,081	(227)	6,771
Deferred taxes, net	5,617	(1,924)	(20,478)
Amortization of discount on convertible debentures	26	85	296
Capital loss on disposal of fixed and other assets, net	261	410	299
Company's equity in earnings of affiliated companies	-	-	(254)
Capital gain on sale of investment in subsidiary	-	-	(216)
Expenses in respect of employee options	1,643	-	3,238
<b>Changes in operating assets and liabilities:</b>			
Increase in trade and other receivables	(202,906)	*(146,963)	(114,523)
Decrease (increase) inventories	19,740	(5,666)	(28,672)
Increase in trade and other payables	59,583	70,680	90,884
	<b>(74,628)</b>	<b>*(62,431)</b>	<b>43,958</b>

\* Reclassified

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

**Consolidated Statement of Cash Flows (cont'd)**

	<b>For the three months ended</b>		<b>For the</b>
	<b>March 31</b>	<b>March 31</b>	<b>year ended</b>
	<b>2007</b>	<b>2006</b>	<b>December 31</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>	<b>(Audited)</b>
	<b>US \$ thousands</b>	<b>US \$ thousands</b>	<b>US \$ thousands</b>
<b>B. Investment in newly consolidated subsidiaries</b>			
Working capital (excluding cash and cash equivalents)	(4,593)	-	(8,998)
Fixed assets, net	(1,857)	-	(16,045)
Other assets, net	(4,559)	-	(10,633)
Excess cost created on acquisition	(2,032)	-	(8,012)
Long-term liabilities	3,000	-	9,726
Investment in affiliated company	2,163	-	-
Payables in respect of acquisition of activities	-	-	1,792
Minority interest	-	-	3,481
	<u>(7,878)</u>	<u>-</u>	<u>(28,689)</u>
<b>C. Proceeds from sale of investment in former subsidiary</b>			
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>-</u>	<u>-</u>	<u>6,047</u>
<b>D. Non-cash activities</b>			
Acquisition of other assets	<u>4,716</u>	<u>332</u>	<u>17,901</u>
Acquisition of fixed assets on supplier credit	<u>-</u>	<u>2,128</u>	<u>4,767</u>

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

**Notes to the Financial Statements as at March 31, 2007 (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 Standards Board 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, 2006, except for that stated in Section B., below.
3. These financial statements have been prepared in an abridged form as at March 31, 2007, and for the three-month period then ended. The financial statements should be read in conjunction with the annual financial statements as at December 31, 2006 and for the year then ended, and the notes related thereto.

**B. First-time application of new accounting standards**

- (1) Commencing from January 1, 2007, the Company applies Accounting Standard No. 26, regarding "Inventory" (hereinafter – "the Standard"), of the Israeli Accounting Standards Board.

Pursuant to the Standard's provisions, the Company measures the inventory at the lower of cost or net realizable value. The Standard also provides guidelines regarding allocation of conversion costs to inventory.

According to its transitional rules, the Standard is to be applied retroactively to the comparative data relating to prior periods

Application of the new Standard does not have a material impact on the Company's results of operations and its financial position.

- (2) Commencing from January 1, 2007, the Company applies Accounting Standard No. 27, regarding "Fixed Assets" (hereinafter – "the Standard"), of the Israeli Accounting Standards Board. The Standard provides principles for the recognition, measurement and elimination of fixed-asset items and the disclosure required in respect thereof.

The main changes provided by the Standard compared with the principles previously applied are: inclusion as part of the cost of a fixed-asset item an estimate of the costs to be incurred in respect of an obligation to dismantle and transfer the item and to restore the site on which it is located, already at the time of the initial recognition of thereof; provision of an alternative to measurement of groups of similar fixed-asset items at a revalued amount less accumulated depreciation where an increase in the value of the asset as a result of the revaluation beyond its original cost is to be recorded directly in the shareholders' equity section in the category "reserve for revaluation"; separate depreciation of every component of a fixed-asset item having a significant cost in relation to the item, including costs of significant periodic examinations; determination that a fixed-asset

**Notes to the Financial Statements as at March 31, 2007 (Unaudited)**

---

**Note 1 - Reporting Principles and Accounting Policy****B. First-time application of new accounting standards (cont'd)**

item acquired in exchange for a non-monetary asset in a transaction that is commercial in nature, is to be measured at fair value; a requirement to review the residual value, useful life and depreciation method of the asset at least at the end of each fiscal year, and if the expectations are different than the prior estimates the changes are to be treated as a change in accounting estimate.

The Company elected to measure the fixed-asset items at cost less accumulated depreciation.

Application of the new Standard does not have a material impact on the Company's results of operations and its financial position.

- (3) Commencing from January 1, 2007, the Company applies Accounting Standard No. 23, regarding "The Accounting Treatment of Transactions between an Entity and the Controlling Interest Therein" (hereinafter – "the Standard"), of the Israeli Accounting Standards Board. The Standard essentially supersedes the main provisions set forth in the Securities Regulations (Presentation of Transactions between a Company and a Controlling Interest Therein in the Financial Statements). The Standard provides that assets (except for an intangible asset not having an active market) and liabilities with respect to which a transaction was executed between the entity and the controlling interest therein are to be measured on the transaction date based on fair value and the difference between the fair value and consideration recorded on the transaction is to be recorded in the shareholders' equity. A debit balance difference constitutes essentially a dividend and, therefore, it reduces the balance of the retained earnings. A credit balance difference constitutes essentially a shareholder's investment and, therefore, it is presented in a separate category in the shareholders' equity section called "capital reserve from a transaction between an entity and the controlling interest therein".

The Standard addresses three issues relating to transactions between an entity and the controlling interest therein:

- 1) Transfer of an asset to the entity from the controlling interest therein or, alternatively, transfer of an asset from the entity to the controlling interest therein;
- 2) Assumption of a liability of the entity to a third party, in whole or in part, by the controlling interest therein, indemnification of the entity by the controlling interest therein in respect of an expense, and waiver by the controlling interest to the entity of a debt due to the controlling interest, in whole or in part;
- 3) Loans made to the controlling interest or loans received by the controlling interest.

In addition, the Standard provides the disclosure to be provided in the financial statements in connection with transactions between the entity and the controlling interest therein during the period.

Pursuant to the Standard's transitional provisions, the Company applies the Standard to transactions with controlling interests therein executed after January 1, 2007, as well as to loans made or received from the controlling interest prior to the Standard's commencement date, beginning from its commencement date.

Application of the new Standard does not have a material impact on the Company's results of operations and its financial position.

**Notes to the Financial Statements as at March 31, 2007 (Unaudited)****Note 1 - Reporting Principles and Accounting Policy****B. First-time application of new accounting standards (cont'd)**

- (4) Commencing from January 1, 2007, the Company applies Accounting Standard No. 30, regarding “Intangible Assets” (hereinafter – “the Standard”), of the Israeli Accounting Standards Board. The Standard explains the accounting treatment of intangible assets and defines how to measure the book value of these assets, while providing detail in respect of the required disclosures. The Standard will be initially applied retroactively, except with respect to a research and development project in process acquired in the framework of a business combination that took place prior to January 1, 2007 and that fulfills the definition of an intangible asset on the acquisition date and that was recorded as an expense on the acquisition date. As of January 1, 2007, the entity will recognize the research and development project as an asset while making a tax allocation.

Commencing from the first quarter of 2007, the Company is examining the need to capitalize costs in respect of product development where the conditions required by the Standard exist, among other things, where the technical possibility exists to complete the asset, the asset is expected to produce future economic benefits and the required expenses that can be allocated to the asset during its development period are capable of reasonable estimation.

**C. 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:

	<u>CPI</u> <u>%</u>	<u>Representative exchange rate of the U.S. \$ to the NIS</u> <u>%</u>	<u>Representative exchange rate of the U.S. \$ to the Euro</u> <u>%</u>	<u>Representative exchange rate of the U.S. \$ to the Brazilian real</u> <u>%</u>
<b>During the three-month period ended: March 31, 2007</b>	<b>(0.23%)</b>	<b>(1.7%)</b>	<b>(1.1%)</b>	<b>(4.1%)</b>
During the three-month period ended: March 31, 2006	0.58%	1.35%	(2.51%)	(5.8%)
During the year ended December 31, 2006	(0.1%)	(8.21%)	(10.17%)	(8.75%)

**Notes to the Financial Statements as at March 31, 2007 (Unaudited)****Note 2 - Segment Information****A. Products and services:**

Commencing from 2006, the Company presents its segments' information according to a primary format, which is based on a breakdown by business segments, and a secondary format, which is based on a breakdown by geographical segments.

The Company's reporting format reflects the main and significant source of the risks and rewards to which it is exposed. In formulation of the segments' report, the Company examined the risks and rewards deriving from the various segments, along with the nature of the products, production processes, product consumers and methods used for product distribution.

The comparative amounts appearing in the note to the first quarter of 2006 were restated in order to reflect the segments' report in the above-mentioned format.

The Company operates in the following areas:

Agro products – This is the main area of operation of the Company and involves the manufacture and marketing of convention agro products.

Non-agro products – This area of activity includes a large number of sub-areas, including, Lykopan (oxidizing retardant), aromatic products, and other chemicals, and combines all the Company's activities not included in the agro-products segment.

	<u>Agro</u> <u>US\$ thousands</u>	<u>Non-Agro</u> <u>US\$ thousands</u>	<u>Adjustments</u> <u>US\$ thousands</u>	<u>Consolidated</u> <u>US\$ thousands</u>
<b>For the three months ended</b>				
<b>March 31, 2007</b>				
Segment income	511,169	49,016	(846)	559,339
Segment results	93,918	6,115	-	100,033
<b>For the three months ended</b>				
<b>March 31, 2006</b>				
Segment income	440,314	54,088	(536)	493,866
Segment results	76,715	6,855	-	83,570
<b>For the year ended</b>				
<b>December 31, 2006</b>				
Segment income	1,581,328	199,770	(2,342)	1,778,756
Segment results	192,900	10,894	-	203,794

**Notes to the Financial Statements as at March 31, 2007 (Unaudited)****Note 2 - Segment Information (cont'd)****B. Sales by geographic area**

	<b>For the three months ended</b>		<b>For the</b>
	<b>March 31</b>	<b>March 31</b>	<b>year ended</b>
	<b>2007</b>	<b>2006</b>	<b>December 31</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>	<b>(Audited)</b>
	<b>US \$ thousands</b>	<b>US \$ thousands</b>	<b>US \$ thousands</b>
Israel	<b>25,387</b>	29,131	111,565
Latin America	<b>105,130</b>	83,141	430,042
Europe	<b>268,512</b>	229,878	689,965
North America	<b>102,292</b>	100,146	349,404
Other	<b>58,018</b>	51,570	197,780
	<b>559,339</b>	493,866	1,778,756

**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 \$234.7 million (March 31, 2006 – \$202.1 million, December 31, 2006 – \$175.8 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 an amount ranging between \$250 million and \$275 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 \$51.3 million (December 31, 2006 – \$65 million).

- (3) During the period of the report, NIS 19,030 thousand par value debentures (Series A) were converted into 2,091 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 \$4.4 million. Furthermore, in the current period no debentures issued in March 2004 in a private placement to institutional investors were converted.

**Notes to the Financial Statements as at March 31, 2007 (Unaudited)**

---

**Note 3 - Additional Information (cont'd)**

- (4) Accounting treatment of options granted under the Company's 2005 option plan

On March 13, 2005, the Company's Board of Directors approved an employee share option plan, an immediate report and related description in respect of which was published on March 14, 2005. Relying on the transitional rules of Accounting Standard 24, "Share-Based Payments", the Company did not apply that Standard to the grants made under the option plan, and did not record an expense in respect thereof, pursuant to the Standard's transitional rules which provide that the Standard applies to grants after March 15, 2005, and which had not vested prior to January 1, 2006.

In connection with review of the draft prospectus submitted by the Company for listing of bonds it issued, and following a meeting with the staff of the Israeli Securities Authority on May 8, 2007, questions arose regarding the factual circumstances leading to removal of the grants from application of the aforesaid Standard.

Had Standard 24 been applied to all of the grants made under the 2005 option plan, the Company estimates the maximum additional expense that would have been recorded in respect thereof at the sum of approximately \$6 million in 2005, approximately \$8 million in 2006 (approximately \$2 million per quarter) and approximately \$2 million in the first quarter of 2007.

The Company Board of Directors has decided to re-examine the facts on the basis of which the grants were treated for accounting purposes, under the supervision of the Company's Audit Committee. If the outcome of the examination indicates that the Company should have applied the Standard to the aforesaid grants, or part thereof, and taking into account the materiality of this matter, the Company may restate its financial statements for the years 2005 and 2006 and for the first quarter of 2007, by the maximum amounts stated above.

**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.