

Makhteshim–Agan Industries Ltd.

**Condensed Consolidated
Financial Statements
(Unaudited)
As at June 30, 2007
(In U.S. Dollars)**

Condensed Financial Statements as at June 30, 2007 (Unaudited)

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The Board of Directors
Makhteshim–Agan Industries Ltd.

Dear Sirs,

Review of the unaudited interim condensed consolidated financial statements as at June 30, 2007

At your request, we have reviewed the interim condensed consolidated balance sheet of Makhteshim–Agan Industries Ltd. and its subsidiaries as at June 30, 2007, and the related condensed consolidated statements of income, condensed changes in shareholders' equity and condensed 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 5.6% of the total consolidated assets as at June 30, 2007 and whose revenues constitute 7.9% and 7.2% 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 13, 2007

Condensed Consolidated Balance Sheets

	As at June 30 2007 <u>(Unaudited)</u> <u>US \$ thousands</u>	As at June 30 2006 <u>(Unaudited)</u> <u>US \$ thousands</u>	As at December 31 2006 <u>(Audited)</u> <u>US \$ thousands</u>
Current assets			
Cash and cash equivalents	426,590	135,942	324,362
Short-term investments	46,004	2,148	1,706
Trade receivables	547,177	417,566	486,368
Other receivables	99,050	*119,090	106,372
Inventories	598,313	569,054	607,328
	<u>1,717,134</u>	<u>1,243,800</u>	<u>1,526,136</u>
Long-term investments, loans and receivables			
Affiliated companies	-	2,419	2,496
Investment and other debts	75,826	*37,192	46,125
	<u>75,826</u>	<u>39,611</u>	<u>48,621</u>
Fixed assets			
Cost	975,195	916,288	952,652
Less – accumulated depreciation	464,773	431,148	446,534
	<u>510,422</u>	<u>** 485,140</u>	<u>** 506,118</u>
Other assets and deferred expenses			
Cost	922,232	850,264	885,453
Less – accumulated amortization	374,680	300,998	347,406
	<u>547,552</u>	<u>** 549,266</u>	<u>** 538,047</u>
	<u>2,850,934</u>	<u>2,317,817</u>	<u>2,618,922</u>

	As at June 30 2007 <u>(Unaudited)</u> <u>US \$ thousands</u>	As at June 30 2006 <u>(Unaudited)</u> <u>US \$ thousands</u>	As at December 31 2006 <u>(Audited)</u> <u>US \$ thousands</u>
Current liabilities			
Credit from banks and others	114,296	308,720	99,850
Trade payables	402,918	357,076	369,574
Other payables	309,809	* 283,143	271,413
Proposed dividend payable	-	28,508	-
Convertible debentures	4,930	-	12,055
Debentures	1,333	-	-
	<u>833,286</u>	<u>977,447</u>	<u>752,892</u>
Long-term liabilities			
Loans from banks	37,828	48,449	45,012
Convertible debentures	-	25,473	675
Debentures	553,538	-	554,728
Other long-term liabilities	7,982	6,090	3,407
Deferred taxes, net	75,699	* 73,298	62,147
Employee severance benefits, net	41,027	30,426	38,131
	<u>716,074</u>	<u>183,736</u>	<u>704,100</u>
Minority interest	<u>35,958</u>	<u>30,083</u>	<u>30,212</u>
Shareholders' equity	<u>1,265,616</u>	<u>1,126,551</u>	<u>1,131,718</u>
	<u><u>2,850,934</u></u>	<u><u>2,317,817</u></u>	<u><u>2,618,922</u></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: August 13, 2007

* Reclassified

** Reclassified - see Note 1B(4).

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

Condensed 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
	2007	2006	2007	2006	December 31
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
US \$ thousands	US \$ thousands	US \$ thousands	US \$ thousands	US \$ thousands	
Revenues	1,109,225	* 952,131	549,886	* 458,265	1,778,756
Cost of sales	722,298	614,282	361,204	298,572	1,172,017
Gross profit	386,927	337,849	188,682	159,693	606,739
Expenses					
Research and development, net	9,767	9,703	4,734	5,047	19,001
Selling and marketing	153,885	147,874	78,141	72,891	303,177
General and administrative	34,838	30,499	17,403	15,552	80,767
	198,490	188,076	100,278	93,490	402,945
Operating income	188,437	149,773	88,404	66,203	203,794
Financing expenses, net	23,425	* 25,684	11,988	* 13,954	44,244
Income before other expenses, net	165,012	124,089	76,416	52,249	159,550
Other expenses, net	11,550	11,768	7,178	4,664	74,641
Income before taxes on income	153,462	112,321	69,238	47,585	84,909
Taxes on income	29,754	11,627	13,871	4,987	(1,438)
Income after taxes on income	123,708	100,694	55,367	42,598	86,347
Company equity in earnings of affiliated companies	-	186	-	186	254
Minority interest in earnings of subsidiaries, net	(4,866)	(2,937)	(3,117)	(2,552)	(2,682)
Net income	118,842	97,943	52,250	40,232	83,919
	US\$	US\$	US\$	US\$	US\$
Earnings per share					
Basic earnings per share	0.27	0.23	0.12	0.09	0.19
Fully diluted earnings per share	0.27	0.22	0.12	0.09	0.19

* Reclassified

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

Condensed Statements of Changes in Shareholders' Equity

	Share capital (Unaudited) US\$ thousands	Premium on shares (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, 2007							
Balance as at December 31, 2006	123,232	614,052	2,719	-	535,911	(144,196)	1,131,718
Employee options exercised	434	(434)	-	-	-	-	-
Conversion of convertible debentures	838	7,013	-	-	-	-	7,851
Adjustments deriving from translation of financial statements of investee companies	-	-	3,367	-	-	-	3,367
Capital reserve in respect of taxes relating to employee options	-	-	1,311	-	-	-	1,311
Capital reserve in respect of expenses relating to employee options	-	-	2,527	-	-	-	2,527
Net income	-	-	-	-	118,842	-	118,842
Balance as at June 30, 2007	<u>124,504</u>	<u>620,631</u>	<u>9,924</u>	<u>-</u>	<u>654,753</u>	<u>(144,196)</u>	<u>1,265,616</u>
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	<u>121,497</u>	<u>602,816</u>	<u>(3,501)</u>	<u>-</u>	<u>549,935</u>	<u>(144,196)</u>	<u>1,126,551</u>

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

Condensed Statements of Shareholders' Equity (cont'd)

	Share capital	Premium on shares	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)
	US\$ thousands	US\$ thousands	US\$ thousands	US\$ thousands	US\$ thousands	US\$ thousands	US\$ thousands
Three-month period ended June 30, 2007							
Balance as at March 31, 2007	124,067	617,659	5,320	-	602,503	(144,196)	1,205,353
Employee options exercised	102	(102)	-	-	-	-	-
Conversion of convertible debentures	335	3,074	-	-	-	-	3,409
Adjustments deriving from translation of financial statements of investee companies	-	-	2,539	-	-	-	2,539
Capital reserve in respect of taxes relating to employee options	-	-	932	-	-	-	932
Capital reserve in respect of expenses relating to employee options	-	-	1,133	-	-	-	1,133
Net income	-	-	-	-	52,250	-	52,250
Balance as at June 30, 2007	<u>124,504</u>	<u>620,631</u>	<u>9,924</u>	<u>-</u>	<u>654,753</u>	<u>(144,196)</u>	<u>1,265,616</u>
Three-month period ended June 30, 2006							
Balance as at March 31, 2006	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>(3,501)</u>	<u>-</u>	<u>549,935</u>	<u>(144,196)</u>	<u>1,126,551</u>

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

Condensed 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.

Condensed 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
	2007	2006	2007	2006	December 31
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	2006
	US \$ thousands		US \$ thousands		(Audited)
	US \$ thousands		US \$ thousands		US \$ thousands
Cash flows generated by operating activities:					
Net income	118,842	97,943	52,250	40,232	83,919
Adjustments to reconcile net income to net cash flows generated by operating activities (see A. below)	98,086	* 97,542	172,714	* 159,460	43,958
Net cash inflow generated by operating activities	216,928	195,485	224,964	199,692	127,877
Cash flows generated by investing activities:					
Acquisition of fixed assets	(31,228)	(39,587)	(9,668)	(22,722)	(70,552)
Investment grant received	3,922	-	1,607	-	466
Investment in affiliated companies	-	(2,243)	-	(143)	(2,033)
Additions to other assets and deferred expenses, net	(33,424)	(26,004)	(12,080)	(15,904)	(42,884)
Short-term investments, net	(44,262)	(834)	(44,262)	(834)	-
Proceeds from disposal of fixed and other assets	49	148	15	59	690
Proceeds from sale of investments in former subsidiaries (see C. below)	-	6,047	-	6,047	6,047
Other long-term investments	-	* 87	-	*87	-
Investments in newly consolidated companies and operations (see B. below)	(7,878)	(25,453)	-	(25,453)	(28,689)
Repayment of liabilities in respect of subsidiaries	(1,000)	-	-	-	-
Dividend from affiliated	530	-	530	-	-
Acquisition of minority interest in subsidiaries	(1,105)	(2,406)	-	(2,406)	(2,406)
Net cash outflow generated by investing activities	(114,396)	(90,245)	(63,858)	(61,269)	(139,361)
Cash flows generated by financing activities:					
Receipt of long-term loans from banks	3,444	15,000	1,061	15,000	43,001
Repayment of long-term loans from banks and others	(3,940)	(19,780)	(1,452)	(15,262)	(41,042)
Self purchase of Company shares	-	(68,827)	-	(27,311)	(68,827)
Issuance of debentures less issuance expenses	-	-	-	-	554,466
Increase (decrease) in short-term credit from banks, net	642	70,964	(6,861)	(24,312)	(154,393)
Dividend to shareholders	-	(37,176)	-	(23,003)	(65,685)
Dividend to minority shareholders in subsidiaries	(450)	(772)	(93)	(420)	(2,967)
Net cash outflow generated by financing activities	(304)	(40,591)	(7,345)	(75,308)	264,553
Increase in cash and cash equivalents	102,228	64,649	153,761	63,115	253,069
Cash and cash equivalents at beginning of period	324,362	71,293	272,829	72,827	71,293
Cash and cash equivalents at end of the period	426,590	135,942	426,590	135,942	324,362

* Reclassified

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

Condensed 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
	2007	2006	2007	2006	December 31
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	2006
	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	47,804	40,277	22,449	20,097	103,090
Adjustment of long-term liabilities to banks and others	(1,904)	611	(8,127)	2	841
Minority interest in earnings of subsidiaries, net	4,866	2,937	3,117	2,552	2,682
Increase (decrease) in employee severance benefits, net	6,727	1,636	(1,354)	1,863	6,771
Deferred taxes, net	11,805	(2,271)	6,188	(347)	(20,478)
Capital loss on realization of fixed and other assets, net	425	983	164	573	299
Amortization of discount on convertible debentures	90	172	64	87	296
Expenses in respect of employee options	2,801	760	1,158	619	3,238
Capital gain on sale of investment subsidiary	-	(216)	-	(216)	(216)
Company equity in earnings of affiliated companies	-	(186)	-	(186)	(254)
Changes in operating assets and liabilities:					
Decrease (increase) in trade and other receivables	(59,431)	*(40,385)	143,475	* 106,206	(114,523)
Decrease (increase) in inventories	19,152	2,679	(588)	8,345	(28,672)
Increase (decrease) in trade and other payables	65,751	*90,545	6,168	*19,865	90,884
	98,086	97,542	172,714	159,460	43,958

* Reclassified

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

Condensed 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
	2007	2006	2007	2006	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)	(4,593)	(8,035)	-	(8,035)	(8,998)
Fixed assets	(1,857)	(13,795)	-	(13,795)	(16,045)
Other assets	(4,559)	(7,940)	-	(7,940)	(10,633)
Long-term liabilities	3,000	7,750	-	7,750	9,726
Goodwill created on acquisition	(2,032)	(7,777)	-	(7,777)	(8,012)
Realization of Company shares held by a subsidiary	2,163	-	-	-	-
Payables in respect of acquisition of activities	-	1,000	-	1,000	1,792
Minority interest	-	3,344	-	3,344	3,481
	(7,878)	(25,453)	-	(25,453)	(28,689)
C. Proceeds from sale of investment in former subsidiaries					
Working capital (excluding cash and cash equivalents)	-	3,679	-	3,679	3,679
Fixed assets, net	-	607	-	607	607
Other assets, net	-	2,629	-	2,629	2,629
Long-term liabilities	-	(1,084)	-	(1,084)	(1,084)
Capital gain	-	216	-	216	216
	-	6,047	-	6,047	6,047
D. Non-cash activities					
Acquisition of other assets	-	-	-	-	17,901
Acquisition of fixed assets	-	-	-	-	4,767

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

Notes to the Financial Statements as at June 30, 2007 (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, 2006, except for that stated in Section B., below.
3. These financial statements have been prepared in an abridged form as at June 30, 2007 and for the six and three-month periods then ended. It should be read in conjunction with the annual financial statements as at December 31, 2006 and for the year then ended, and the accompanying notes 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 June 30, 2007 (Unaudited)

Note 1 - Financial Reporting Principles and Accounting Policies (cont'd)**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 June 30, 2007 (Unaudited)

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

Furthermore, according to accounting standard No. 30, computer software which is integral to related item of hardware, previously shown as fixed assets, is included as other assets.

Due to application of the new standard, the Company reclassified computer software which is not integral to a related item as other assets (previously shown as fixed assets) in the amount of US \$ 5.3 million and US \$ 5.2 million as of June 30, 2006 and December 31, 2006 respectively.

- (5) 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 Israeli 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 application of the Standard on its financial statements. The Company does not intend to make an early adoption of the IFRS Standards.

Notes to the Financial Statements as at June 30, 2007 (Unaudited)**Note 1 - Financial Reporting Principles and Accounting Policies (cont'd)****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 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, 2007	0.97	0.57	(2.05)	(9.91)
June 30, 2006	1.55	(3.54)	(6.91)	(7.53)
During the three-month period ended				
June 30, 2007	1.21	2.26	(0.94)	(6.06)
June 30, 2006	0.97	(4.82)	(4.51)	(0.30)
During the year ended				
December 31, 2006	(0.1)	(8.21)	(10.17)	(8.75)

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 six-month and three-month periods ended June 30, 2006 were restated in order to reflect the segments' report in the above-mentioned format.

Notes to the Financial Statements as at June 30, 2007 (Unaudited)**Note 2 - Segment Information (cont'd)****A. Products and services: (cont'd)**

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, Lykohan (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>
For the six months ended				
June 30, 2007				
Segment income	1,009,769	100,969	(1,513)	1,109,225
Segment results	177,806	10,631	-	188,437
For the six months ended				
June 30, 2006 *				
Segment income	842,553	110,629	(1,051)	952,131
Segment results	136,388	13,385	-	149,773
For the three months ended				
June 30, 2007				
Segment income	498,600	51,953	(667)	549,886
Segment results	83,888	4,516	-	88,404
For the three months ended				
June 30, 2006 *				
Segment income	402,238	56,542	(515)	458,265
Segment results	59,673	6,530	-	66,203
For the year ended				
December 31, 2006				
Segment income	1,581,328	199,770	(2,342)	1,778,756
Segment results	192,900	10,894	-	203,794

* Restated

Notes to the Financial Statements as at June 30, 2007 (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
	2007	2006	2007	2006	December 31
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	2006
	US\$ thousands	US\$ thousands	US\$ thousands	US\$ thousands	(Audited)
					US\$ thousands
Israel	55,922	63,561	30,535	34,430	111,565
Latin America	205,511	** 162,834	100,380	** 79,693	430,042
Europe	490,604	410,283	222,090	180,405	689,965
North America	233,658	205,985	131,375	105,839	349,404
Other	123,530	109,468	65,506	57,898	197,780
	1,109,225	** 952,131	549,886	** 458,265	1,778,756

** Reclassified

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 \$275 million (June 30, 2006 – \$250 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 \$50.6 million (June 30, 2006 – \$82.7 million).

- (3) During the period of the report, NIS 30,617 thousand par value debentures (Series A) were converted into 3,365 thousand of the Company's ordinary shares of NIS 1 par value. Furthermore in the current period \$675 thousand par value of the debentures that were allotted in March 2004 in placement to institutional investors were converted into 149 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 \$7.8 million.

Notes to the Financial Statements as at June 30, 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.

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. After reviewing the issue, no requirement has arisen to amend its financial statements nor will it be required to record any additional expense on account of the options issued under 2005 plan, also due to such change not being material.

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.