

Makhteshim-Agan Industries Ltd.

**Financial Statements
As of December 31, 2007**

Financial Statements as of December 31, 2007

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Report of Independent Registered Public Accounting Firm to the Shareholders of Makhteshim-Agan Industries Ltd.

We have audited the accompanying balance sheets of Makhteshim-Agan Industries Ltd. (hereinafter - "the Company") as at December 31, 2007 and 2006, and the consolidated balance sheets of the Company and its subsidiaries (hereinafter - "the Consolidated") as at December 31, 2007 and 2006, and the statements of income, changes in shareholders' equity and cash flows - Company and consolidated - for each of the years in the three-year period ended December 31, 2007. These financial statements are the responsibility of the Company's Board of Directors and its Management. Our responsibility is to express an opinion on these financial statements based on our audits.

We did not audit the financial statements of certain subsidiaries, the assets of which included in the consolidation constitute 7.8% and 4% of the total consolidated assets as at December 31, 2007 and 2006, respectively, and total revenues of which included in the consolidation constitute 9%, 4.1% and 3.4% of the total consolidated revenues for the years ended December 31, 2007, 2006 and 2005, respectively. The financial statements of those subsidiaries were audited by other auditors whose reports have been furnished to us and our opinion, insofar as it relates to the amounts included for those companies, is based solely on the reports of the other auditors.

We conducted our audits in accordance with generally accepted auditing standards including those prescribed under the Auditors' Regulations (Manner of Auditors' Performance), 1973. Those standards require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Company's Board of Directors and by its Management, as well as evaluating the overall financial statement presentation. We believe that our audits and the reports of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and on the reports of other auditors, the financial statements referred to above present fairly, in all material respects, in conformity with generally accepted accounting principles in Israel, the financial position of the Company and the consolidated financial position of the Company and its subsidiaries, as at December 31, 2007 and 2006, and their results of the operations and cash flows - Company and consolidated - for each of the years in the three-year period ended December 31, 2007. Furthermore, in our opinion, these statements are prepared in accordance with the Securities Regulations (Preparation of Annual Financial Statements), 1993.

As explained in Note 2A. to the financial statements, since the Company's functional currency is the U.S. dollar, these financial statements are prepared in U.S. dollars.

Without qualifying our above opinion, we draw to that attention to that stated in Note 21 d (7) of the financial statements regarding a claim and motion for its recognition as a class action that was lodged against a subsidiary alleging air pollution.

Somekh Chaikin
Certified Public Accountants (Isr.)

Tel-Aviv, Israel
March 11, 2008

Consolidated Balance Sheet as of December 31

	Note	2007 \$ thousands	2006 \$ thousands
Current assets			
Cash and cash equivalents		198,154	324,362
Short-term investments	3	96,824	1,706
Trade receivables	4	553,961	486,368
Other receivables	5	144,799	106,372
Inventories	7	770,591	607,328
		1,764,329	1,526,136
Long-term investments, loans and receivables			
Affiliated companies		-	2,496
Other investments and receivables	9	65,118	46,125
		65,118	48,621
Fixed assets			
Cost	10	996,299	952,032*
Less - accumulated depreciation		476,028	446,043*
		520,271	505,989
Other assets			
Cost	11	932,767	886,073*
Less - accumulated amortization		393,789	347,897*
		538,978	538,176*
		2,888,696	2,618,922

	Note	2007 \$ thousands	2006 \$ thousands
Current liabilities			
Credit from banks	12	89,351	99,850
Trade payables	13	435,936	369,574
Other payables	14	269,196	271,413
Convertible debentures	16A	-	12,055
		794,483	752,892
Long-term liabilities			
Loans from banks	15	25,052	45,012
Convertible debentures	16B	-	675
Debentures	17	595,160	554,728
Other long-term liabilities	18	6,384	3,407
Deferred taxes	19	58,218	62,147
Employee severance benefits, net	20	44,140	38,131
		728,954	704,100
Minority interest		30,772	30,212
Commitments and contingent liabilities	21		
Shareholders' equity	23	1,334,487	1,131,718
		2,888,696	2,618,922

Avraham Bigger
Chief Executive Officer
Chairman of the Board of Directors

Raanan Cohen
Director

Ran Midan
Chief Financial Officer

Date the financial statements were approved: March 11, 2008

* Reclassified - see Note 2AA.

The notes to the financial statements are an integral part thereof.

Company Balance Sheet as of December 31

		2007	2006
	Note	\$ thousands	\$ thousands
Current assets			
Cash and cash equivalents		8,833	225,080
Short-term investments	3	88,101	-
Other receivables	5	20,892	606
Loans to investee companies	6	56,741	54,909
		<u>174,567</u>	<u>280,595</u>
Long-term investments, loans and receivables			
Investee companies	8	1,755,523	1,419,137*
Bank deposits	9	10,888	10,927
Deferred taxes	19	1,299	11,240*
		<u>1,767,710</u>	<u>1,441,304</u>
Office furniture and equipment, net		<u>1,355</u>	<u>304**</u>
Other assets	11	<u>1,182</u>	<u>551**</u>
		<u>1,944,814</u>	<u>1,722,754</u>
Current liabilities			
Other payables	14	11,025	18,283*
Convertible debentures	16A	-	12,055
		<u>11,025</u>	<u>30,338</u>
Long-term liabilities			
Convertible debentures	16B	-	675
Debentures	17	594,493	554,728
Employee severance benefits, net	20	4,809	5,295
		<u>599,302</u>	<u>560,698</u>
Commitments and contingent liabilities	21		
Shareholders' equity	22	<u>1,334,487</u>	<u>1,131,718</u>
		<u>1,944,814</u>	<u>1,722,754</u>

Avraham Bigger
Chief Executive Officer
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Ran Midan
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Date the financial statements were approved: March 11, 2008

* Reclassified

** Reclassified - see Note 2AA.

The notes to the financial statements are an integral part thereof.

Consolidated Statement of Income

	Note	For the year ended December 31,		
		2007	2006	2005
		\$ thousands	\$ thousands	\$ thousands
Revenues	25	2,081,246	1,778,756	1,740,717
Cost of sales	26	1,383,880	1,172,017	1,059,715
Gross profit		697,366	606,739	681,002
Expenses				
Research and development, net	27	19,684	19,001	20,628
Marketing and sales	28	316,355	303,177	267,918
General and administrative	29	73,697	80,767	62,051
		409,736	402,945	350,597
Operating income		287,630	203,794	330,405
Financing expenses, net	30	49,316	44,244	34,573
Income before other expenses, net		238,314	159,550	295,832
Other expenses, net	31	18,531	74,641	44,211
Income before income tax		219,783	84,909	251,621
Income tax	19	31,953	(1,438)	39,952
Income after income tax		187,830	86,347	211,669
Company's share in earnings of affiliates		-	254	-
Minority interest in income of subsidiaries, net		(9,600)	(2,682)	(4,816)
Income from continuing operations		178,230	83,919	206,853
Cumulative effect as at beginning of the year of change in accounting method	2(T)	-	-	(2,025)
Net income		178,230	83,919	204,828
		\$	\$	\$
Earnings per share	33	0.40	0.19	0.49
Basic earnings per share		0.40	0.19	0.44
Fully diluted earnings per share		0.40	0.19	0.44

The notes to the financial statements are an integral part thereof.

Company Statement of Income

		For the year ended December 31,		
		2007	2006	2005
Note		\$ thousands	\$ thousands	\$ thousands
Income				
	Company's equity in earnings of investee companies, net	169,206	77,400*	216,697
	Management fees from investee companies	16,800	13,994	14,208
		186,006	91,394	230,905
Expenses				
	General and administrative	21,486	19,499	12,990
		21,486	19,499	12,990
Operating income				
		164,520	71,895	217,915
	Financing expenses (income), net	(19,286)	(11,813)	9,055
Income before other expenses				
		183,806	83,708	208,860
	Other expenses, net	225	4,392*	6
Income before income tax				
		183,581	79,316	208,854
	Income tax	5,351	(4,603)*	4,026
Net income				
		178,230	83,919	204,828
Earnings per share				
		\$	\$	\$
	Basic earnings per share	0.40	0.19	0.49
	Fully diluted earnings	0.40	0.19	0.44

* Restated.

The notes to the financial statements are an integral part thereof.

Statements of Changes in Shareholders' Equity

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

Statements of Changes in Shareholders' Equity (continued)

	Share capital	Premium on shares	Capital reserves*	Proposed dividend subsequent to balance sheet date	Retained earnings	Company shares held by the Company and by a subsidiary	Total
	\$ thousands	\$ thousands	\$ thousands	\$ thousands	\$ thousands	\$ thousands	\$ thousands
Balance as at December 31, 2005	120,391	589,261	(3,715)	23,500	480,119	(75,369)	1,134,187
Employee options exercised	651	(651)	-	-	-	-	-
Conversion of convertible debentures into shares	2,190	25,442	-	-	-	-	27,632
Acquisition of Company shares (see Note 23C)	-	-	-	-	-	(68,827)	(68,827)
Tax benefit from options to employees	-	-	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 the year ended December 31, 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	123,232	614,052	2,719	-	535,911	(144,196)	1,131,718

* The capital reserves include a capital reserve in respect of employee options in an amount of \$2.4 million and tax benefit in respect of employee options in an amount of \$2.7 million.

Statements of Changes in Shareholders' Equity (continued)

	Share capital	Premium on shares	Capital reserves*	Proposed dividend subsequent to balance sheet date	Retained earnings	Company shares held by the Company and by a subsidiary	Total
	\$ thousands	\$ thousands	\$ thousands	\$ thousands	\$ thousands	\$ thousands	\$ thousands
Balance as at December 31, 2006	123,232	614,052	2,719	-	535,911	(144,196)	1,131,718
Employee options exercised	695	(695)	-	-	-	-	-
Conversion of convertible debentures into shares	1,347	10,793	-	-	-	-	12,140
Tax benefit from options to employees	-	-	1,744	-	-	-	1,744
Expenses in respect of options to employees	-	-	5,411	-	-	-	5,411
Dividend declared after the balance sheet date	-	-	-	120,000	(120,000)	-	-
Net earnings for 2007	-	-	-	-	178,230	-	178,230
Adjustments deriving from translation of financial statements of investee companies	-	-	5,244	-	-	-	5,244
Balance as at December 31, 2007	125,274	624,150	15,118	120,000	594,141	(144,196)	1,334,487

* The capital reserves include a capital reserve in respect of employee options in an amount of \$7.8 million and a tax benefit in respect of employee options in an amount of \$4.4 million.

Consolidated Statements of Cash Flows

	For the year ended December 31,		
	2007	2006	2005
	\$ thousands	\$ thousands	\$ thousands
Cash flows from operating activities			
Net income	178,230	83,919	204,828
Adjustments to reconcile net income to net cash flows from operating activities (see A. below)	(43,570)	43,958	(21,670)
Net cash provided by operating activities	134,660	127,877	183,158
Cash flows from investing activities			
Acquisition of fixed assets	(60,747)	(70,552)	(50,415)
Investment grant received	4,309	466	1,226
Additions to other assets, net	(68,714)	(42,884)	(38,270)
Investment in affiliates	-	(2,033)	-
Short-term investments, net	(95,118)	-	194
Investments in newly consolidated companies (see B. below)	(7,878)	(28,689)	(8,882)
Proceeds from realization of investment in previously consolidated subsidiaries (C)	18,074	6,047	-
Proceeds from disposal of fixed assets	4,980	690	334
Dividend from affiliate	530	-	-
Other long-term investments	(1,000)	-	-
Acquisition of minority interest in subsidiaries	(1,105)	(2,406)	(970)
Net cash used in investing activities	(206,669)	(139,361)	(96,783)
Cash flows from financing activities			
Receipt of long-term loans from banks	3,696	43,001	3,846
Repayment of long-term loans and liabilities from banks and others	(8,274)	(41,042)	(85,075)
Issuance of debentures, less issuance expenses	-	554,466	-
Increase (decrease) in short-term credit from banks and others, net	(44,588)	(154,393)	119,457
Proceeds from options exercised	-	-	30,915
Acquisition of Company shares by the Company	-	(68,827)	(65,661)
Dividend to shareholders	-	(65,685)	(56,647)
Dividend to minority shareholders in subsidiaries	(5,033)	(2,967)	(2,394)
Net cash provided by (used in) financing activities	(54,199)	264,553	(55,559)
Increase (decrease) in cash and cash equivalents	(126,208)	253,069	30,816
Cash and cash equivalents at beginning of the year	324,362	71,293	40,477
Cash and cash equivalents at end of the year	198,154	324,362	71,293

The notes to the financial statements are an integral part thereof.

Consolidated Statements of Cash Flows (Contd.)

	For the year ended December 31,		
	2007	2006	2005
	\$ thousands	\$ thousands	\$ thousands
A. Adjustments to reconcile net income to net cash flows from operating activities			
Revenues and expenses not affecting operating cash flows			
Depreciation and amortization	95,008	103,090	95,964
Adjustment of long-term liabilities to banks and others	39,672	841	(1,127)
Minority interest in income of subsidiaries, net	9,600	2,682	4,816
Increase in employee severance benefits, net	4,596	6,771	1,533
Deferred taxes, net	1,056	(20,478)	7,830
Amortization of discount on convertible debentures	146	296	497
Capital loss (gain) on disposal of fixed assets	(4,470)	299	1,665
Provision for loss with respect to options granted to employees of subsidiaries	-	-	55
Company's share in earnings of affiliate	-	(254)	-
Capital gain on sale of investment in subsidiary	(10,282)	(216)	-
Expenses in respect of options to employees	5,723	3,238	665
Changes in operating assets and liabilities			
Increase in trade and other receivables	(122,154)	(114,523)	(17,076)
Increase in inventories	(159,379)	(28,672)	(84,322)
Increase (decrease) in trade and other payables	96,914	90,884	(32,170)
	<u>(43,570)</u>	<u>43,958</u>	<u>(21,670)</u>
B. Investments in newly consolidated companies			
Working capital (excluding cash and cash equivalents)	(4,593)	(8,998)	(7,158)
Fixed assets, net	(1,857)	(16,045)	(2,040)
Other assets, net	(4,559)	(10,633)	(8,027)
Surplus cost created on acquisition	(2,032)	(8,012)	(5,264)
Long-term liabilities	3,000	9,726	1,240
Sale of Company shares held by a subsidiary	-	-	3,848
Investment in affiliate company	2,163	-	-
Payables in respect of acquisition of activities	-	1,792	-
Minority interest	-	3,481	8,519
	<u>(7,878)</u>	<u>(28,689)</u>	<u>(8,882)</u>

The notes to the financial statements are an integral part thereof.

Consolidated Statements of Cash Flows

	For the year ended December 31,		
	2007	2006	2005
	\$ thousands	\$ thousands	\$ thousands
C. Proceeds from realization of investment in previously consolidated subsidiary flows from operating activities			
Working capital (excluding cash and cash equivalents)	4,345	3,679	-
Fixed assets, net	196	607	-
Other assets, net	11,140	2,629	-
Long-term liabilities	(2,586)	(1,084)	-
Minority rights	(5,303)	-	-
Capital gain	10,282	216	-
	18,074	6,047	-
D. Non-cash activities			
Acquisition of other assets	5,936	17,901	22,448
Acquisition of fixed assets on supplier credit	-	4,767	13,029
Acquisition of subsidiary in exchange for Company shares	-	-	3,848

The notes and appendix to the financial statements are an integral part thereof.

Company Statements of Cash Flows

	For the year ended December 31		
	2007	2006	2005
	\$ thousands	\$ thousands	\$ thousands
Cash flows from operating activities			
Net income	178,230	83,919	204,828
Adjustments to reconcile net income to cash flows from operating activities (see A. below)	(177,024)	(20,125)	(165,253)
Net cash provided by operating activities	1,206	63,794	39,575
Cash flows from investing activities			
Investment in investee companies	-	(8,199)	(2,313)
Long-term loans to investee companies	(124,371)	(220,034)	(4,669)
Repayment of long-term loans to investee companies	-	5,145	-
Short-term credit to investee companies, net	(1,832)	778	5,181
Acquisition of fixed and other assets	(2,543)	(400)	(400)
Investment in short-term bank deposits, net	(88,101)	-	-
Realization of long-term bank deposits	-	8,300	1,900
Proceeds from realization of investment in subsidiary	-	6,725	-
Net cash provided by (used in) investing activities	(216,847)	(207,685)	(301)
Cash flows from financing activities			
Issuance of debentures, less issuance expenses	-	554,466	-
Proceeds from options exercised	-	-	30,915
Dividend to shareholders	-	(66,505)	(57,340)
Acquisition of Company shares	-	(68,827)	(65,661)
Repayment of debentures	(606)	-	-
Increase (decrease) in short-term credit from banks, net	-	(59,000)	59,000
Net cash stemming from (used in) financing activities	(606)	360,134	(33,086)
Increase (decrease) in cash and cash equivalents	(216,247)	216,243	6,188
Cash and cash equivalents balance at beginning of the year	225,080	8,837	2,649
Cash and cash equivalents balance at end of the year	8,833	225,080	8,837

The notes and appendix to the financial statements are an integral part thereof.

Company Statements of Cash Flows (CONTD.)

	For the year ended December 31		
	2007	2006	2005
	\$ thousands	\$ thousands	\$ thousands
A. Adjustments to reconcile net income to net cash flows from operating activities			
<u>Revenues and expenses not affecting operating cash flows:</u>			
Depreciation and amortization	603	481	663
Capital gain on disposal of fixed assets	221	-	6
Capital gain from sale of investee company	-	(216)	-
Equity in operating results net of dividend received in cash	(169,206)	(14,636)	(152,910)
Increase (decrease) in employee severance benefits, net	(486)	1,159	(455)
Amortization of discount on convertible debentures	146	296	497
Adjustment of long-term investments	(37,526)	(11,556)	(160)
Deferred taxes, net	5,133	(3,060)	968
Expenses in respect of options to employees	5,411	2,412	-
Adjustment of long-term loans from banks and others	39,672	1,737	-
<u>Changes in operating assets and liabilities:</u>			
Decrease (increase) in other receivables	(15,605)	(1,600)	(17,016)
Increase in other payables	(5,387)	4,858	3,154
	(177,024)	(20,125)	(165,253)

The notes and appendix to the financial statements are an integral part thereof.

Notes to the Financial Statements as at December 31, 2007

NOTE 1 - GENERAL**A. General**

The financial statements are prepared in accordance with the Securities Regulations (Preparation of Annual Financial Statements), 1993.

B. Definitions

In these financial statements

1. The Company - Makhteshim-Agan Industries Ltd.
2. The Group - Makhteshim-Agan Industries Ltd. and its investees.
3. Subsidiaries - Companies, including partnerships, whose financial statements are fully consolidated, directly or indirectly, with the financial statements of the Company.
4. Proportionately consolidated companies - Companies, including partnerships, whose financial statements are proportionately consolidated, directly or indirectly, with those of the Company.
5. Affiliated companies - Companies, except for consolidated and proportionately subsidiaries, where the corporation's investment therein is included, directly or indirectly, in the corporation's financial statements according to the equity method.
6. Investees - Consolidated or included companies and proportionately subsidiaries.
7. Related parties - As defined in Opinion 29 of the Institute of Certified Public Accountants in Israel.
8. Interested parties - As defined in Paragraph (1) of the definition of an "interested party" in a corporation, in Section 1 of the Israeli Securities Law, 1968.
9. Controlling shareholders - As defined in the Israeli Securities Regulations (Presentation of Transactions between a Corporation and a Controlling Shareholder Therein in Financial Statements), 1996.
10. CPI - The Consumer Price Index as published by the Israeli Central Bureau of Statistics.
11. Dollar - The United States dollar.

C. Description of the Company and its activities

1. The Company is engaged, through its local and foreign investee companies in the development, manufacture and marketing of pesticides, intermediate materials for other industries and synthetic fragrances, mainly for export. The Company is held by Koor Industries Ltd. (hereinafter, "Koor").

As of December 31, 2007, Koor holds approximately 36.8% of the Company's issued and paid shares (meaning, neutralizing treasury shares and shares owned by a subsidiary company of the Company) of Makhteshim-Agan Industries and approximately 39.0% of the voting rights in it. (On December 31, 2006, Koor held approximately 37.1% of the Company's issued and paid shares and approximately 39.6% of the voting rights in it.)

Notes to the Financial Statements as at December 31, 2007

NOTE 1 – GENERAL (CONTD.)**C. Description of the Company and its activities (Contd.)**

2. The Company was established on December 8, 1997 for the purpose of implementing a plan for changing the structure of holdings in the companies Makhteshim Chemical Works Ltd. (hereinafter, "Makhteshim") and Agan Chemical Industries Ltd. (hereinafter, "Agan"). In 1998, the structure of holdings in the Group was changed. Prior to the implementation of the arrangement, Makhteshim was a subsidiary of Koor, which held approximately 67% of its share capital. Makhteshim held a 46.6% interest in Agan and Koor held directly 5% of Agan's capital.

The Company allocated shares to all of the shareholders of Makhteshim and of Agan (other than allocating shares to Makhteshim for the shares it held in Agan) in exchange for transferring the shares they held in Makhteshim and Agan to the Company. Following implementation of the arrangement, the Company fully owns and controls Makhteshim and Agan.

3. 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 characterized by the same timing of the agricultural seasons and, as a result, sales made in these countries are usually highest in the first half of the year. In the southern hemisphere, the seasonal trends are the opposite and most of the local sales are made in the second half of the year, 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 aforementioned seasonal impacts, notwithstanding the fact that most of the Company's sales are made in the northern hemisphere.

4. On March 12, 2007, the Company's Board of Directors approved implementation of a re-organization plan for the Company (hereinafter, "the Plan" or "the Reorganization"). The Plan was developed on the basis of recommendations made by an internal teams of the Company with the assistance of the McKenzie research and consulting company, which was engaged by the Company in order to study the existing organizational structure and to formulate a plan including recommendations for execution of changes in the Makhteshim-Agan Group's structure and manner of operations.

The Plan aims to achieve two main targets:

- The continued evolution of the Company into a multi-national company whose activities focus primarily on worldwide marketing. For this purpose and in accordance with the recommendations in the Plan, the Company intends to concentrate broader authority in the hands of regional management in the Company's primary areas of activity: Europe, North America, South America, and the rest of the world, with the intention of expanding the Group's marketing channels in order to more successfully respond to the varying needs of customers in each region.
- Execution of operational merger between Makhteshim and Agan, which will include consolidation of various functions in the areas of raw-material purchasing, sales, finance, etc. with the aim of streamlining the activities and making optimal use of the Company's production facilities and supply chain.

The Board of Directors directed Company Management to begin implementation of the Plan immediately.

As of the date of this statement, the process of implementing the Plan has not entailed any material costs or significant reduction of the Group's personnel and, in the Company's estimation, that no significant changes of this type or material costs are expected in the foreseeable future. Likewise, the Company estimates that implementation of the Plan will be completed during 2009.

Notes to the Financial Statements as at December 31, 2007

NOTE 2 - REPORTING PRINCIPLES AND ACCOUNTING POLICY**A. Financial statements in United States dollars**General

The Company and its subsidiaries in Israel 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 (hereinafter, "the operating 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 indicated otherwise.

Balance sheet

1. Non-monetary items (items for which the stated amounts reflect their historical value upon acquisition or creation) that were acquired in a currency other than the dollar, are translated according to the exchange rate of the dollar on their date of acquisition or creation. The following items are treated as non-monetary items: fixed assets and the related accumulated depreciation, inventory, other assets, deferred expenses and the related accumulated amortization and shareholders' equity items which derive from funds invested by shareholders.

The amounts of the non-monetary assets do not necessarily represent their realizable value or current economic value, but only the original, historical value in dollars.

2. Investments in investee companies are included on the basis of the balance sheet equity method and the minority rights in subsidiaries are determined on the basis of these companies' balance sheets, translated into dollars.
3. Monetary items (items for which the amounts stated in the balance sheet reflect current or realizable values, as of the balance sheet date) are translated into dollars at the exchange rate on the balance sheet date.

Statement of Income

1. The components of the statement of income reflecting transactions carried out during the year of the report – sales, purchases, labour costs, etc., in a currency other than the dollar, are translated according to the exchange rate of the dollar on the date of the cash flow or the balance sheet date, whichever is earlier. Changes in monetary balances are included in the specific expense or income items to which they relate.
2. The components of the statement of income relating to non-monetary balance sheet items have been translated according to the same exchange rate used for translating the related balance sheet items (changes in inventory, depreciation and amortization, capital gains, etc.).
3. The Company's share in the operating results of investees and the minority share in the results of the subsidiaries are determined on the basis of the U.S. dollar financial statements of those companies.
4. Taxes on income:

Current taxes are composed of payments on account during the year, plus amounts due as of the balance sheet date (or net of amounts refundable at the balance sheet date). The payments on account were translated according to the exchange rate of the dollar on the date of each payment, while the amounts due (or claimable as a refund) were translated according to the exchange rate of the dollar on the balance sheet date. Therefore, current taxes also include the expense or income resulting from the erosion or appreciation of the payments on account, from the payment date until the balance sheet date.

Deferred taxes - see Note 2R and Note 19G.

Notes to the Financial Statements as at December 31, 2007

NOTE 2 - REPORTING PRINCIPLES AND ACCOUNTING POLICY (CONTD.)**A. Financial statements in United States dollars (Contd.)**Transactions in foreign currency

Transactions denominated in foreign currency are recorded at the time of their initial recognition based on the exchange rate on the transaction date. Exchange rate differences deriving from settlement of monetary items, or deriving from reporting the Company's monetary items at exchange rates different than those used for the initial recording during the period, or from those reported in the Company's prior financial statements, are recorded in the statement of income.

B. Dividend proposed subsequent to the balance sheet date

Pursuant to Israeli Accounting Standard No. 7, "Events Occurring Subsequent to the Balance Sheet Date", a liability which relates to a dividend proposed or declared subsequent to the balance sheet date, is reflected in the financial statements only in the period declared. In addition, separate expression of the amount of the dividend intended for distribution is provided as part of the statement of changes in shareholders' equity, as stated, against reduction of the retained earnings' balance.

C. Foreign investee companies

As of January 1, 2004, the Company applies Israeli Accounting Standard No. 13, "Effect of changes in Exchange Rates of Foreign Currency". The Standard deals with the translation of transactions in foreign currencies and the translation of financial statements for foreign operations for purposes of including them in the financial statements of the reporting entity. The Standard provides principles for classifying foreign operations as an autonomous foreign investee or as an integrated investee, on the basis of the indicators described in the Standard and on management judgment, and it provides the method for translating the financial statements of autonomous foreign investees.

The financial statements of foreign investees that are integral to the Group's operations based on the criteria provided in Accounting Standard No. 13, are translated into dollars as follows: non-monetary items in the balance sheet are translated at the historical exchange rates as of the transaction date whereas monetary balance sheet items are translated at the exchange rate in effect on the balance sheet date. Items in the statement of income are translated at average exchange rates, except for revenues and expenses related to non-monetary items that are translated according to the historical exchange rates that were used to when translating the related non-monetary items. Differences resulting from translation are recorded in the statement of income.

The financial statements of foreign investees that operate as "autonomous entities" based on the criteria provided in Accounting Standard No. 13, are translated into dollars as follows: monetary and non-monetary balance sheet items are translated based on the closing exchange rate. Commencing from January 1, 2004, a balance of goodwill created on acquisition of an autonomous investee entity overseas is treated as an asset of that entity and is translated based on the closing rate. Items in the statement of income are translated at the exchange rate on the transaction date.

Translation differences are recorded in a separate category in the shareholders' equity section ("adjustments deriving from translation of financial statements of investee companies") up to the time of realization of the net investment.

D. Consolidated financial statements

1. The consolidated financial statements include the financial statements of those companies the Company controls. Companies that are under joint control are consolidated by the proportionate consolidation method.
2. A list of companies whose financial statements are included in the consolidated statements, as well as the rate of control and ownership thereof, is presented in the appendix to the financial statements.

Notes to the Financial Statements as at December 31, 2007

NOTE 2 - REPORTING PRINCIPLES AND ACCOUNTING POLICY (CONTD.)**D. Consolidated financial statements (Contd.)**

3. For purposes of the consolidation, the amounts appearing in the financial statements of the subsidiaries were taken into account, after the adjustments required by the application of the uniform accounting policies used by the Group.
4. Commencing January 1, 2006, the Company applies Israeli Accounting Standard No. 20 (revised) regarding "The Accounting Treatment of Goodwill and Intangible Assets when Purchasing an Investee Company" (hereinafter, "the Standard"). Pursuant to the Standard:
 - a. The excess of the acquisition cost of an investment in a subsidiary over the Company's share in the fair value of its identifiable assets (including intangible assets) less the fair value of its identifiable liabilities (net of tax) as of the acquisition is goodwill.
 - b. Goodwill is not amortized on a systematic basis. Instead, the Company examines whether there has been a decline in value of the goodwill, once a year or more frequently if events or changes in circumstances occurred indicating that a decline in value of the asset may have transpired.
 - c. The excess cost allocated to the assets and liabilities is recorded in the appropriate categories in the balance sheet. The goodwill is presented in the consolidated balance sheet in the category "other long-term assets".
 - d. Until December 31, 2005, the goodwill was amortized over its useful life on a systematic basis.

The amount of the goodwill amortization recorded, the amortization of which was discontinued on January 1, 2006, amounted to approximately \$9.9 million for the year ending December 31, 2005.
5. The consolidated financial statements include the share of assets, liabilities, expenses and income of proportionately consolidated subsidiaries, based on the percentage interest held in these companies.
6. Reciprocal balances and transactions between subsidiaries, including profits on inter-company sales that have not yet been realized outside the Group, are eliminated in consolidation.

E. Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Even though the estimates are made based on management's best judgment, their ultimate impact on the transactions and other items, as stated, may be different than the estimates made with respect thereto.

F. Cash equivalents

Cash equivalents include short-term bank deposits with an original maturity not exceeding three months.

G. Negotiable Securities1. Negotiable securities

Negotiable securities are current investments that are presented on the basis of their realizable value on the stock exchange on the date of the balance sheet. Changes in the value of securities are credited on the statement of income.

Notes to the Financial Statements as at December 31, 2007

NOTE 2 - REPORTING PRINCIPLES AND ACCOUNTING POLICY (CONTD.)**G. Negotiable Securities (Contd.)**

2. Non-negotiable securities

Non-negotiable securities are presented according to the cost (for debentures, with the addition of accumulated interest), which according to the estimate of the company's management does not exceed the realization value.

H. Short-term investments

Short-term investments include bank deposits with an original maturity exceeding three months.

I. Allowance for doubtful accounts

The financial statements include an allowance for specific doubtful accounts, which fairly reflects, in management's estimation, the loss expected from receivables the collection of which is doubtful. Management determines the allowance, based, in part, on an evaluation of credit risk using available information regarding the financial position of the debtors, the extent of their activities and evaluation of collateral received from them. Credit failures expected because of customers that were sold as part of the securitization transaction are considered for the purpose of evaluating the deferred note.

J. Sale of financial assets

The sale of financial assets is recognized as a sale only when the two, principal cumulative conditions listed below exist:

1. Control of the asset is completely transferred to an independent third party.
2. All of the risks and benefits of the asset are transferred to an independent third party.

K. Inventories

Inventories are valued at cost or market value, whichever is lower, with cost being determined as follows:

- Raw materials, packing materials, purchased products, spare parts and maintenance materials on the basis of a "moving average."
- Finished products and work in progress on the basis of average production cost including materials, labour and manufacturing overhead expenses.

The cost of the inventories includes all costs for purchasing, costs for currency conversion and other costs that incurred for bringing the inventory to its current position and condition.

See also Note 2AA1, below regarding initial implementation of the Accounting Standard No. 26 regarding inventories.

L. Investments in investee companies

1. Investments in investee companies are stated in the Company's balance sheet according to the equity method. In determining the net asset value of the investments in these companies, the amounts taken into account are based on the financial statements of these companies, after making the adjustments thereto required by the application of generally accepted accounting principles.
2. Goodwill amortization - see Note 2D4, above.

Notes to the Financial Statements as at December 31, 2007**NOTE 2 - REPORTING PRINCIPLES AND ACCOUNTING POLICY (CONTD.)****M. Fixed assets**

1. Fixed assets are presented at cost after deduction of accumulated depreciation and deduction of losses from reductions in value, if any.
2. The cost of assets includes financing expenses related to the financing of their construction during the pre-operation period. The financing expenses were capitalized, when the financing utilized non-specific credit, by using a rate representing the weighted average cost rate of the credit sources, the cost of which was not otherwise specifically capitalized.
3. The cost of the self-constructed assets includes materials, labour costs and interest during the pre-operation period.
4. The cost of assets with respect to which an investment grant was received is presented after deduction of the investment grant received with respect thereto.
5. Improvements and enhancements are credited to the cost of the assets, whereas expenses for maintenance and repairs are debited in the statement of income with their capitalization.
6. When an item is initially recognized as a fixed asset, the Company estimates and includes, if necessary, as part of its cost, the costs that will be created with respect to the obligation to dismantle and relocate the item and restore its location, at current values. Changes in the said obligation, other than changes derived from the passage of time, are added to or deducted from the cost of the asset during the period in which they occurred. The amount deducted from the cost of the asset shall not exceed its book value. Excess reductions on obligations for the book value of the asset will be immediately recognized in the statement of income.
7. Depreciation is computed by the straight-line method over the estimated useful lives of the assets. Annual rates of depreciation are:

Leasehold rights and buildings	2 - 4	
Plant and equipment	4.5	
Motor vehicles	15 - 20	
Office furniture and equipment	6 - 15	(mainly 7%)
Computer and auxiliary equipment	20 - 33	

See also Note 2AA3, below, regarding below regarding initial implementation of the Accounting Standard No. 27 regarding fixed assets.

N. Other assets

Other assets and deferred expenses are amortized by the straight-line method over the expected benefit period as follows:

- Product registration – mainly eight years. The amortization is recorded under sales and marketing expenses.
- Goodwill arising on the acquisition of subsidiaries – see Note 2D4, above.
- Intangible assets in purchase of products and companies – mainly twenty years. The amortization is recorded under sales and marketing expenses and under other expenses, net.
- Marketing rights – five years to ten years. The amortization is recorded under sales and marketing expenses.
- Debenture issuance expenses – Until December 31, 2005, the costs were amortized by the straight-line method over the life of the liability. Since January 1, 2006, with the commencement of Accounting Standard No. 22 regarding “Financial Instrument: Disclosure and Presentation,” the costs are

Notes to the Financial Statements as at December 31, 2007

NOTE 2 - REPORTING PRINCIPLES AND ACCOUNTING POLICY (CONTD.)

amortized according to the effective interest method. The costs are recorded under the cost of financing.

- Non-competition and confidentiality agreement – five years. The amortization is recorded under other expenses, net.

The amortization periods are re-examined, considering the estimated expected benefit period of the assets.

Product registration costs incurred in respect of products that can be identified and isolated and that in the Group's estimation will produce future economic benefit, are capitalized in the "other long-term assets" category and amortized over the period of their expected economic benefit.

Cost for development of software for self-use, including the cost of development and infrastructure of internet sites, are capitalized after completion of the planning stage, when it is expected that the development would be completed and the software would be used as planned. Capitalization of costs, as stated, ceases when the software is substantially completed and ready for its intended use. The cost is amortized over the expected useful life of the software.

See also Note 2AA2 below, regarding below regarding initial implementation of the Accounting Standard No. 30 regarding intangible assets.

O. Convertible debentures

The debentures are convertible at the election of the holder thereof into a fixed number of the Company's ordinary shares.

Commencing January 1, 2006, upon adoption of Israeli Accounting Standard No. 22 regarding "Financial Instruments: Disclosure and Presentation", separate presentation is made of the liability component (within long-term liabilities) and the equity conversion component (in the shareholders' equity category) that are embedded in the convertible debentures. The fair value of the liability component is based on the interest rate prevailing on the issuance date for debentures having similar characteristics to those of the convertible debentures, which do not include a conversion option. The equity component is determined by means of subtracting the value of the liability component from the total proceeds from the convertible debentures. The costs of raising the money as well as other direct costs that can be attributed to the transaction are allocated to the components of the convertible debentures in proportion to their values. The portion allocated to the liability component is offset against the liabilities in respect of the convertible debentures and is taken into account for purposes of determining the effective interest rate of the component in respect thereof; the portion allocated to the equity component is deducted from the equity component recorded in the shareholders' equity section.

P. Company shares held by the Company and by a subsidiary

Company shares held by the Company and by a subsidiary are stated at cost, as a deduction from the Company's shareholders' equity.

Q. Revenue recognition

Revenues from sales of products are recognized upon shipment to the customer and transfer of the risks involved with ownership of the products sold (hereinafter, the "date of sale").

Sales for which the customer is given the right to return the products, the date of sale is recognized on the condition that the Company is able to reliably estimate future returns and recognize its obligations for returns on the basis of past experience and other relevant factors.

Current discounts to customers are included in the financial statements at the time they are granted and are included in the sales item.

Notes to the Financial Statements as at December 31, 2007

NOTE 2 - REPORTING PRINCIPLES AND ACCOUNTING POLICY (CONTD.)**Q. Revenue recognition (contd.)**

Discounts that customers are entitled to receive only after meeting certain targets, such as a minimum annual amount of purchases, are included in the financial statements proportionately on the basis of the volume of the customer's purchases in the reported period that advance it towards meeting the targets, but only if it is anticipated that the targets will be obtained and the amounts of the discounts can be reasonably estimated.

Revenues from transaction of sales on credit that include a financing transaction are recorded at their current value, so that the difference between the fair value of the transaction and the denominated value of the compensation is recognized according to the effective interest method.

R. Taxes on income and deferred taxes

The Company applies Israeli Accounting Standard No. 19 regarding "Taxes on Income" (hereinafter, "the Standard"), which applies to financial statements for periods beginning on January 1, 2005 and thereafter. Adoption of the Standard was effected by means of a cumulative effect of a change of accounting method. The transition to application of the Standard amounted to a one-time reduction of income for the year 2005 of \$2 million deriving, mainly, from an increase in deferred tax liabilities with respect of land.

The Group's companies record deferred taxes in respect of temporary differences. The temporary differences are differences in the value of assets and liabilities for tax purposes and for financial reporting purposes. Allocation of the taxes, as stated, is executed with respect to the differences applying to assets, the amortization of which is deductible for tax purposes.

The deferred tax balances (asset or liability) are calculated according to the liability approach, i.e., the tax rates expected to be in force when the deferred tax liability is utilized, or when the deferred tax asset is realized, based on the tax rates and tax law enacted or effectively enacted as of the balance sheet date.

In calculating deferred taxes, no account was taken of the taxes, which would apply in a case of sale of the investments in the investee companies, since it is the intention of the Company to hold these investments and not to sell them.

The Group may be subject to additional tax in a case of distribution of dividends between the Group companies. This additional tax was not provided for in the financial statements in cases where Group policy is not to distribute a dividend that involves additional tax to the Group.

Calculation of deferred taxes for inter-company transactions was done on the basis of the tax rate of the selling company.

S. Earnings per share

The Company applies Accounting Standard No. 21 of the Israel Accounting Standards Board, "Earnings per Share" (hereinafter, "the Standard"). Pursuant to the Standard, the Company calculates the amounts of the basic earnings per share with respect to income or loss, from continuing operations, which relate to the ordinary shareholders. The basic earnings per share are calculated by dividing 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 ordinary shareholders and the weighted-average number of ordinary shares outstanding with respect to 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.

Notes to the Financial Statements as at December 31, 2007

NOTE 2 - REPORTING PRINCIPLES AND ACCOUNTING POLICY (CONTD.)**T. Derivative financial instruments**

Results of derivative financial instruments held to hedge existing assets and liabilities are recognized concurrently with the results of the hedged assets and liabilities.

The results of derivative financial instruments held to hedge anticipated transactions are deferred, and are recognized in the same period in which the results from the hedged transactions are recognized.

Derivative financial instruments, which are not designated or qualified for hedging purposes, are presented in the balance sheet based on their fair value. Changes in fair value are recorded in the statement of income in the period in which they occur.

The fair value of derivative financial instruments is determined based on their market value.

U. Environmental costs

The ongoing cost of maintenance and operation of facilities for the prevention of environmental pollution and projected provisions for environment rehabilitation costs stemming from current or past activities, are charged in the statement of income. The cost of constructing facilities to prevent pollution, which increase the life expectancy of a facility or its efficiency, or decrease or prevent pollution, are added to the cost of fixed assets and are depreciated according to the usual depreciation rates used by the Group.

V. Impairment in value of assets

The Company applies Israeli Accounting Standard No. 15: Impairment in Value of Assets (hereinafter, "the Standard"). The Standard provides procedures which a company must apply in order to ensure that its assets in the consolidated balance sheet (to which the Standard applies), are not presented at an amount which is in excess of their recoverable value, which is the higher of the net selling price or the realization value (the present value of the estimated future cash flows expected to be derived from use and disposal of the asset).

The Standard applies to all the assets in the consolidated balance sheet, except for tax assets and monetary assets. In addition, the Standard provides rules for presentation and disclosure with respect to assets whose value has declined. Where the value of an asset in the balance sheet is greater than its recoverable value, the Group recognizes a loss from impairment in value in an amount equal to the difference between the book value of the asset and its recoverable value. The loss recognized, as stated, will be reversed only if there have been changes in the estimates used in determining the asset's recoverable value from the date on which the last loss from impairment in value was recognized.

W. Presentation of transaction between a corporation and controlling shareholders

Until December 31, 2006, transactions between the Company and its controlling shareholders were presented according to the Securities Regulations (Presentation of Transactions between a Corporation and a Controlling Shareholder Therein in Financial Statements), 1996. Pursuant to this Standard, the difference between remuneration received for sale of assets to a controlling shareholder and its book value of the assets on the Company's books was recorded to the Company's equity. Assets purchased from a controlling shareholder were recorded in the financial statements according to their book value on the books of the controlling shareholder at the time of their transfer to the Group and the difference between that amount and the amount paid for them after deduction the relative tax was recorded as equity.

Beginning on January 1, 2007, the Company implements Accounting Standard No. 23: Accounting Treatment of Transactions between an Entity and a Controlling Shareholder Therein in Financial Statements (hereinafter, "the Standard") for transactions between an entity and a controlling shareholder therein that were transacted after January 1, 2007 and for loans that were given to or received from a controlling shareholder before commencement of the Standard, from the date of its commencement. The Standard does not apply to transactions combining business under the same control. The Securities Authority decided that, commencing on January 1, 2007, the joining of

Notes to the Financial Statements as at December 31, 2007**NOTE 2 - REPORTING PRINCIPLES AND ACCOUNTING POLICY (CONTD.)****W. Presentation of transaction between a corporation and controlling shareholders (contd.)**

businesses of entities controlled by the same controlling shareholder will be treated similarly to pooling and not according to the fair value method.

See also Note 2AA4, below, regarding below regarding initial implementation of the Standard.

X. Linked balances and balances in foreign currency

Balances in or linked to foreign currency are included in the financial statements at the representative exchange rates on the balance sheet date. Balances linked to the Consumer Price Index are included on the basis of the index relevant to each linked asset or liability.

Data regarding the representative exchange rate of the U.S. dollar and the Consumer Price Index are as follows:

	Consumer Price Index (Points)	Exchange rate of the US dollar against the NIS	Exchange rate of the US dollar against the Brazilian real	Exchange rate of the US dollar against the Euro
December 31, 2007	106.4	3.846	1.774	0.680
December 31, 2006	102.9	4.225	2.136	0.759
<u>Changes during the year ended on:</u>				
December 31, 2007	3.4%	(8.97%)	(16.95%)	(10.50%)
December 31, 2006	(0.1%)	(8.21%)	(8.75%)	(10.17%)

Y. Segment reporting

Segment reporting is presented in accordance with Israeli Accounting Standard No. 11.

Z. Share-based payments

Commencing January 1, 2006, the Company applies Accounting Standard No. 24 of the Israel Accounting Standards Board, "Share Based Payments" (hereinafter, "the Standard"). 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.

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 that were made after March 15, 2005, even when the grants regarding which the changes were made were prior to this date. Regarding transactions, as stated, redeemed in cash, the Standard applies retroactively.

AA. Initial implementation of accounting standards

1. Commencing on January 1, 2007, the Company is implementing Accounting Standard No. 26, regarding Inventory (hereinafter, "the Standard") of the Israeli Accounting Standards Board. Pursuant to the transition instructions of the Standard, the provisions of the Standard are to be applied retroactively to comparative data relating to the prior periods.

The initial implementation of the new Standard did not have a material impact on the Company's results of operations and its financial position.

Notes to the Financial Statements as at December 31, 2007

NOTE 2 - REPORTING PRINCIPLES AND ACCOUNTING POLICY (CONTD.)**AA. Initial implementation of accounting standards (contd.)**

2. Commencing on January 1, 2007, the Company is implementing Accounting Standard No. 30 regarding intangible assets (hereinafter, "Standard") of the Israel Accounting Standards Board. The Standard explains the accounting treatment of intangible assets and defines how to measure the book value of these assets and the disclosure required in respect thereof.

The Standard discusses recognition of an intangible asset, including: separate acquisition, acquisition as part of combined transaction, acquisition using a government grants, exchange of assets and the creation of an internal, intangible asset. Regarding the last, the standard states that an intangible asset resulting from research is not to be recognized as an asset whereas an intangible asset resulting from development is to be recognized as an asset only if the entity can prove compliance with the following cumulative conditions: technical feasibility of its completion, so that it will be available for use or sale; the intention of the entity to complete it, use it or sell it and its ability to do so; proof of the manner in which it expect to derive future, financial benefit from it; existence of technical, financial and other resources that are available for completing development and use or sale of the intangible asset as well as the entity's ability to measure in a reliable manner the cost that can be attributed to the intangible asset during its development.

The Standard addresses if the useful life of an intangible asset is finite or indefinite, the amortization period, method of amortization and the residual value of an intangible asset with a finite useful life. Pursuant to the Standard, the amortization period and the method of amortization of an intangible asset with a finite useful life is to be reviewed at the end of each fiscal year, if not more often. Similarly, an intangible asset with an indefinite useful life shall not be amortized and the decrease in its value will be examined at least once each year, or earlier if there are events or circumstances that would indicate that there is a possibility that there has been a reduction in its value.

The Standard nullifies the instructions relating to intangible assets, other than goodwill, that result from the acquisition of an investee company included in Standard No. 20 (amended) regarding the accounting treatment of goodwill and intangible assets upon the purchase of an investee company.

Pursuant to the transition instructions of the Standard, the provisions of the Standard are to be applied retroactively, except as described below. Regarding business combinations, the Standard will be applied to business combinations were transacted on January 1, 2007 or thereafter, whereas regarding a research and development project in progress that was acquired in the context of a business combination that was transacted before January 1, 2007 and which met the criteria for an intangible asset on the sate of acquisition and was recorded as an expense on the date of acquisition, the company will recognize the research and development project in progress as an asset on January 1, 2007, while attributing taxes accordingly.

A research and development asset will be recognized according to the amount evaluated at the time of acquisition after deduction of amortization that would have accumulated if it had been amortized from the date of acquisition until December 31, 2006, according to the useful life of the asset after deduction of losses from accrued depreciation in value. The adjusted amount will be recorded at the retained earnings as of January 1, 2007.

Pursuant to the Standard, the Company reclassified software that is not an integral part of the related hardware at a amortized cost of the \$5.4 million as of December 31, 2006 from the "fixed assets" line to the "other assets" line.

Other than the aforementioned reclassification, the initial implementation of the Standard did not have a material impact on the Company's results of operations and its financial position.

3. Commencing on January 1, 2007, the Company is implementing Accounting Standard No. 27 regarding *Fixed Assets* (hereinafter, "Standard 27") of the Israel Accounting Standards Board. Standard 27 provides guidelines for the recognition, measurement and elimination of fixed-asset items and for the disclosure required in respect thereof.

Notes to the Financial Statements as at December 31, 2007

NOTE 2 - REPORTING PRINCIPLES AND ACCOUNTING POLICY (CONTD.)

3. (contd.)

The Standard 27 states that upon the initial recognition of a fixed-asset item, it shall be measured according to its cost at the time of its initial recognition. Standard 27 notes that the cost of a fixed-asset item includes the cost of its purchase (including import taxes and purchase taxes that are not refundable, with deduction of commercial discounts), cost that can be directly attributed to bringing the asset to the position in which it can function in that manner that the management intended and a preliminary estimate of the current value of the costs incurred for dismantling and removing the item and restoring the site on which it was located (when the entity is obligated to do this). The cost of a fixed-asset item is the sum equal in value to the cash price at the time of recognition. Accordingly, if payment for the asset is deferred beyond ordinary terms of credit, the difference between the sum equal in value to the cash price and the total payment is recognized as an interest expense for the length of the credit period.

After the initial recognition period, Standard 27 permits choosing between the cost method and the re-valuation method as an accounting policy. Despite this, the same policy must be applied to all fixed-asset items in a given group of items. According to the cost method, a fixed-asset item is presented at its cost after deduction of the accrued depreciation and after deduction of accrued loss in value. According to the re-valuation method, a fixed-asset item, for which the fair value can be reliability measured, is presented at an assessed value that is the new fair value at the time of re-valuation, after deduction of the accrued depreciation and after deduction of loss in value accrued since that time.

The Company has chosen the cost method at the accounting policy for measuring fixed assets (see Note 2M). The initial implementation of Standard 27 did not have a material impact on the Company's results of operations and its financial position.

4. Commencing on January 1, 2007, the Company is implementing Accounting Standard No. 23 regarding "The Accounting Treatment of Transactions between an Entity and the Controlling Interest Therein" (hereinafter, "the Standard"). The Standard supersedes Securities Regulations (Presentation of Transactions between a Company and a Controlling Interest Therein in the Financial Statements) 1996 and provides that assets and liabilities regarding 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 the compensation recorded in the transaction is to be recorded in shareholders' equity. A "debit balance" difference constitutes essentially a dividend and, therefore, it reduces the retained earnings. A "credit balance" difference constitutes essentially a shareholder's investment and, therefore, it is presented in a separate section in the shareholders' equity category entitled "capital reserve from transaction between an entity and the controlling interest therein."

The Standard addresses three issues involved with transactions between an entity and the controlling interest therein, as follows: transfer of an asset to the entity from the controlling interest or, alternatively, transfer of an asset from the entity to the controlling interest; 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 in favor of the entity of a debt due to the controlling interest from the entity, in whole or in part and loans given to the controlling interest or loans received from the controlling interest. In addition, the Standard provides the disclosure required to be made in the financial statements in connection with transactions between the entity and the controlling interest therein during the period.

Pursuant to the transition instruction of the Standard, the provisions of the Standard are to be applied to transactions between an entity and a controlling interest therein executed after January 1, 2007, and to a loan made to or received from the controlling interest prior to the effective date of this Standard, commencing from its effective date.

The initial implementation of the new Standard did not have a material impact on the Company's results of operations and its financial position.

Notes to the Financial Statements as at December 31, 2007**NOTE 2 - REPORTING PRINCIPLES AND ACCOUNTING POLICY (CONTD.)****AB. Disclosure of the impact of new accounting standards in the period prior to their 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 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.

Initial adoption of IFRS Standards is to be effected by means of application of the interpretations 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 of December 31, 2007, the balance-sheet data as of December 31, 2007 and the statement of income data for the year then ended, after the recognition, measurement and presentation rules of IFRS Standards have been applied to them (See Note 36).

The Company will implement the IFRS Accounting Standards beginning with the financial statements for the period commencing January 1, 2008.

NOTE 3 – SHORT TERM INVESTMENTS

	Consolidated		Company	
	December 31		December 31	
	2007	2006	2007	2006
	\$ thousands	\$ thousands	\$ thousands	\$ thousands
Composition:				
Deposits	8,857	1,706	134	-
State of Israel debentures	35,551	-	35,551	-
Concern debentures	47,945	-	47,945	-
Short-term loans	4,471	-	4,471	-
	96,824	1,706	88,101	-

Notes to the Financial Statements as at December 31, 2007**NOTE 4 – TRADE RECEIVABLES****Consolidated**

	<u>December 31</u>	<u>December 31</u>
	<u>2007</u>	<u>2006</u>
	<u>\$ thousands</u>	<u>\$ thousands</u>
Open debts:		
Foreign	469,107	455,125
Domestic (Israel)	4,388	4,696
Post-dated checks received	4,053	4,976
Subordinated capital note and receivables related to sale of trade receivables in a securitization transaction, (see below)	124,185	64,913
	601,733	529,710
Net of allowance for doubtful debts	47,772	43,342
	553,961	486,368

Sale of trade receivables in a securitization transaction:

	<u>December 31</u>	<u>December 31</u>
	<u>2007</u>	<u>2006</u>
	<u>\$ thousands</u>	<u>\$ thousands</u>
Trade receivables included in the securitization transaction as at the balance sheet date	275,219	240,739
Less - proceeds in respect of such receivables, net (*)	149,657	182,346
Subordinated capital note	125,562	58,393
Trade receivables sold where the proceeds in respect thereof were received subsequent to the balance sheet date, net(*)	(1,377)	6,520
Subordinated capital note and receivables related to sale of trade receivables in a securitization transaction	124,185	64,913

(*) As of the balance date, cash proceeds in the amount of \$151 million were received in respect of the sale of trade receivables in a securitization transaction (December 31, 2006 – approximately \$175.8 million).

In September 2004, the Company and certain subsidiaries of Makhteshim Agan Industries signed an agreement with Bank of America regarding a securitization transaction for sale of customer receivables to a foreign company that was set up for this purpose (hereinafter, "the Acquiring Company") and which is neither owned nor controlled by the Makhteshim Agan Industries Group.

The trade receivables included in the securitization transaction are those that comply with a number of criteria, as stated in the agreement.

The maximum expected volume of the financial means available to the Acquiring Company for the purpose of purchasing the trade receivables of the consolidated subsidiaries, is between \$250 million and \$275 million, on a current basis, such that the amounts collected from customers whose debts were sold will be available to purchase new trade receivables.

Notes to the Financial Statements as at December 31, 2007

NOTE 4 – TRADE RECEIVABLES (CONTD.)

The period in which the Companies will sell their trade receivables to the Acquiring Company is one year from the date of the closing of the transaction. The period may be extended, with the consent of both parties, for additional one-year periods, up to a maximum of 4 extensions.

The price at which the trade receivables will be sold is the amount of the debt being sold less a discount calculated on the basis of the period anticipated to pass between the date the debt was sold and the expected repayment date.

On the date of purchasing the debt, the Acquiring Company will pay in cash the major part of the debt price. The balance of the debt price will be included in a subordinated capital note to be paid after the debt is collected. The rate of the cash payment will vary in accordance with the composition and quality of the client portfolio.

The Company bear in full, losses sustained by the Acquiring Company due to the non-payment of the trade receivables included in the securitization transaction, up to the amount of the total outstanding balance of the debt included in the subordinated capital note.

The Acquiring Company will not have a right of recourse to the Companies with respect to the amounts paid in cash, except in the case of debts in respect of which a commercial dispute arises between the Companies and their customers, namely, a dispute arising from an alleged failure to comply with an obligation of the seller in the supply agreement for the product, such as: failure to supply the correct product, defect in the product, non-compliance with the supply date, etc.

The Companies handle for the Acquiring Company collection of the sold trade receivables included as part of the securitization transaction.

The accounting treatment of the sale of trade receivables in a securitization transaction is recognition of the sale regarding that part of the debt when the control, risks and benefits thereof has been finally and absolutely transferred to the buyer. Accordingly, trade receivables that were sold, were deleted where the consideration in respect thereof had been received in cash and/or by a non-deferred liability. With respect of that part of the trade receivables included in the securitization transaction, which was not recognized as a sale, a subordinated capital note receivable was recorded in the amount of the difference between the amount of trade receivables included in the transaction and the amounts of consideration received, as above, and receivables were recorded in respect of the debts sold where the consideration in respect thereof was received subsequent to the balance sheet date.

The loss on sale of the trade receivables is recognized at the date of sale and is reflected in the item "other expenses".

As part of the agreement, the Company committed to maintain certain financial covenants, mainly, financial liabilities to equity and profitability ratios - see Note 22C.

Notes to the Financial Statements as at December 31, 2007

NOTE 5 – OTHER RECEIVABLES AND DEBIT BALANCES

	Consolidated		Company	
	December 31		December 31	
	2007	2006	2007	2006
	\$ thousands	\$ thousands	\$ thousands	\$ thousands
Claims from the government in respect of grants and tax refunds	51,975	42,600	-	-
Advance tax payments, net of provisions	12,704	11,647	348	-
Employees ⁽¹⁾	1,690	1,582	-	-
Deferred taxes (Note 19)	22,611	16,940	290	541
Current maturities of long-term receivables	1,210	49	-	-
Prepaid expenses and accrued income	15,481	14,679	16	65
Receivables in respect of hedging transactions	28,927	1,430	20,214	-
Others	10,201	17,445	24	-
	144,799	106,372	20,892	606
⁽¹⁾ Includes a non-linked bank deposit designated for the purpose of granting loans to employees and bearing annual interest at the rate of 2.15% - 4%	274	325	-	-

NOTE 6 – LOANS TO INVESTEE COMPANIES

Company

	December 31	
	2007	2006
	\$ thousands	\$ thousands
Short-term loans	-	25,000
Current accounts ⁽¹⁾	56,741	29,909
	56,741	54,909

(1) The accounts are mainly linked to the New Israeli Shekel and are non-interest bearing.

Notes to the Financial Statements as at December 31, 2007
NOTE 7 - INVENTORIES
Consolidated

	December 31	
	2007	2006
	\$ thousands	\$ thousands
Finished products	409,820	371,695
Work in progress	41,789	52,296
Raw materials	261,130	124,150
Packing materials	7,870	4,764
Spare parts and maintenance materials	12,196	12,065
	732,805	564,970
Purchased products for sale	37,786	42,358
	770,591	607,328

NOTE 8 – INVESTMENTS IN INVESTEE COMPANIES
Company
A. Composition

	December 31	
	2007	2006
	\$ thousands	\$ thousands
Subsidiaries -		
Cost of shares	419,782	419,782
Company's equity in retained earnings and capital reserves accumulated from date of acquisition, net	705,787	536,581
Adjustments deriving from translation of financial statements of investee companies	3,994	(1,250)
	1,129,563	955,113
Less - investment in Company shares held by subsidiary	(9,708)	(9,708)
	1,119,855	945,405
Loans - See Note 8C(1)	478,402	330,573
Capital reserves - See Note 8C(2)	157,266	143,159
	1,755,523	1,419,137

Notes to the Financial Statements as at December 31, 2007**NOTE 8 – INVESTMENTS IN INVESTEE COMPANIES (CONTD.)****B. Movement during the year**

	<u>Year</u>
	<u>2007</u>
	<u>\$ thousands</u>
Balance at beginning of year	1,419,137
Company's equity in net earnings of investee companies, net	169,206
Adjustments deriving from translation of financial statements of investee companies	5,244
Change in loans and capital reserves, net	<u>161,936</u>
Balance at end of year	<u><u>1,755,523</u></u>

A list of the investee companies is presented in the Appendix.

C. Terms of loans and capital notes

1. The dollar loans bear interest at the rate of a margin varying between 0% and LIBOR+1%. The NIS loans bear interest at the rate 2%.
2. NIS capital reserves are not linked to the CPI and do not bear interest.
3. The loans between the Company and subsidiaries in Israel are given at the same conditions as they were raised by the Company on the condition that the conditions of the loan are no lower than the minimal interest required by the Israel Tax Law. At the time the financial statements were prepared, the loans conditions met the said requirement.

D. Additional information

1. During 2007, the Company acquired through wholly-owned subsidiaries a marketing company at an aggregate cost of approximately \$7.9 million.

The excess cost created at the time of the acquisition amounted to approximately \$2 million.

The effect of the first time consolidation of the activities acquired that were consolidated commencing from the acquisition date on the consolidated statements of income is an increase in revenues of approximately \$32 million for the period ending December 31, 2007, and an increase in net income of \$0.5 million for the same period. The impact on the consolidated balance sheet as of December 31, 2007 is an increase of assets in the amount of approximately \$31 million.

During 2007, the Company sold a marketing company for approximately \$20 million. The capital profit created by the sale amounted to approximately \$10.3 million.

2. Acquisition of companies during 2006:

During 2006, the Company acquired through wholly-owned subsidiaries marketing companies and a production company at an aggregate cost of approximately \$35.4 million.

The excess cost created at the time of the acquisition amounted to approximately \$14 million, of which approximately \$2.8 million was attributed to assets and intangible assets and the balance, in the amount of approximately \$11.2 million, was attributed to goodwill.

Notes to the Financial Statements as at December 31, 2007

NOTE 8 – INVESTMENTS IN INVESTEE COMPANIES (CONTD.)**D. Additional information (cont'd)**

2. (contd.)

The effect of the first time consolidation of the activities acquired that were consolidated commencing from the acquisition date on the consolidated statements of income is an increase in revenues of approximately \$22.5 million for the period ending December 31, 2006, and an increase in net income of \$0.5 million for the same period. The impact on the consolidated balance sheet as of December 31, 2006 is an increase of assets in the amount of approximately \$55.5 million.

3. Acquisition of companies during 2005:

During 2005, the Company acquired through wholly owned subsidiaries marketing companies at an aggregate cost of approximately \$22.3 million.

The excess cost created at the time of the acquisition amounted to approximately \$14.7 million, of which approximately \$9 million was attributed to intangible assets, approximately \$0.5 million was attributed to inventory and the balance of approximately \$5.2 million was attributed to goodwill.

The statements of income and the statements of cash flows of the companies acquired were consolidated commencing from their acquisition date. The effect of the first time consolidation of the companies acquired on the consolidated statements of income is an increase in revenues of approximately \$52 million for the period ending December 31, 2005, and a decrease in net income (after amortization of goodwill) of approximately \$1.2 million for the same period. The impact on the consolidated balance sheet as of December 31, 2005 is an increase of assets in the amount of approximately \$49.3 million.

4. With respect to goodwill on acquisition of investee companies - see Note 11.

5. With respect to guarantees for investee companies - see Note 21E.

E. Employee options in investee companies

A subsidiary, Lycored Natural Products Industries Ltd. (hereinafter, "Lycored") has granted stock options to employees, which, if exercised, will dilute the Company's holding in Lycored from 98% to approximately 89.3%, based on the value of the options to the employees as of the balance sheet date.

Notes to the Financial Statements as at December 31, 2007

NOTE 9 – LONG-TERM INVESTMENTS, LOANS AND RECEIVABLES

A. Composition

	Consolidated		Company	
	December 31		December 31	
	2007	2006	2007	2006
	\$ thousands	\$ thousands	\$ thousands	\$ thousands
Long-term investments, loans and receivables [See Note 9B(1)]	53,596	25,411	-	-
Bank deposits [See Note 9B(2)]	288	327	10,888	10,927
	53,884	25,738	10,888	10,927
Less - current maturities	1,210	49	-	-
	52,674	25,689	10,888	10,927
Deferred taxes	12,004	19,996	-	-
Other investments	440	440	-	-
	65,118	46,125	10,888	10,927

Notes to the Financial Statements as at December 31, 2007**NOTE 9 – LONG-TERM INVESTMENTS, LOANS AND RECEIVABLES (CONTD.)****B. Additional information**

1. Long-term investments, loans and receivables

A. Linkage terms

	Consolidated	
	December 31	
	2007	2006
	\$ thousands	\$ thousands
In Israeli currency - unlinked	2,600	2,367
In dollars	3,477	1,688
In Brazilian reals	34,854	11,927
Other foreign currency	5,010	4,447
Non-monetary assets	7,943	5,309
	53,884	25,738

B. Maturities

The investments, loans, long term debts and bank deposits mature as follows:

	\$ thousands
First year (current maturities)	1,210
Second year	9,771
Third year	9,986
Fourth year	11,683
Fifth year and thereafter	2,779
With no defined repayment date	10,512
Non-monetary assets	7,943
	53,884

2. Bank deposits

	Interest rate as at balance sheet date	Company	
		December 31	
		2007	2006
	%	\$ thousands	\$ thousands
Dollar deposits	10.7%	10,888	10,927

The Company and its subsidiary made deposits in a Brazilian bank for a five-year period. Such deposits serve as the sole security for loans taken out by the subsidiary from the same bank and in the same amounts. The Company and the subsidiary are able to realize the deposit and make early repayment of the loan on certain dates as provided in the agreement.

In the consolidated balance sheet, the amounts of the deposits were set-off against the amounts of the loans taken out by the subsidiary (see Note 15A).

Notes to the Financial Statements as at December 31, 2007

NOTE 10 – FIXED ASSETS

A. Composition

Consolidated

	<u>Land and buildings</u>	<u>Plant and equipment</u>	<u>Motor vehicles</u>	<u>Office furniture, computers and equipment</u>	<u>Total</u>
	<u>\$ thousands</u>	<u>\$ thousands</u>	<u>\$ thousands</u>	<u>\$ thousands</u>	<u>\$ thousands</u>
Cost					
Balance at beginning of the year	162,847	770,472	5,587	13,126	952,032
Additions, net of grants	5,686	44,573	1,154	2,637	54,050
Newly consolidated companies	1,357	66	503	123	2,049
Disposals	(3,243)	(6,192)	(1,373)	(1,024)	(11,832)
Balance at end of year	<u>166,647</u>	<u>808,919</u>	<u>5,871</u>	<u>14,862</u>	<u>996,299</u>
Accumulated depreciation					
Balance at the beginning of the year	60,317	373,553	2,684	9,489	446,043
Additions	6,188	29,689	1,156	1,482	38,515
Newly consolidated companies	32	6	146	30	214
Disposals	(1,108)	(5,807)	(1,163)	(666)	(8,744)
Balance at end of year	<u>65,429</u>	<u>397,441</u>	<u>2,823</u>	<u>10,335</u>	<u>476,028</u>
Depreciated balance at December 31, 2007	<u>101,218</u>	<u>411,478</u>	<u>3,048</u>	<u>4,527</u>	<u>520,271</u>
Depreciated balance at December 31, 2006	<u>102,530</u>	<u>396,919</u>	<u>2,903</u>	<u>3,637</u>	<u>505,989</u>

<u>December 31</u>	<u>December 31</u>
<u>2007</u>	<u>2006</u>
<u>% dollars</u>	<u>% dollars</u>

Cost of assets includes:

Buildings and development on owned land	101,525	99,240
Buildings and development on leased land	65,122	63,607
Capitalized financing expenses	20,920	19,997
Fully depreciated equipment	169,341	160,193
Cost of assets is net of grants received	107,104	102,795

B. Additional information

- The Makhteshim facilities are located on an approximately 268 acre plot in Ramat Hovav leased for various periods expiring between the years 2023-2029 with an extension right and on an approximately 100.5 acre plot in Beer Sheva leased from the Israel Land Administration for periods expiring between the years 2018-2026 with an extension right.

The Agan facilities are located in Ashdod on an owned area of approximately 60 acres. In addition to the owned land, a subsidiary company of Agan rents an additional plot of approximately 1.7 acres adjacent to the plant.

The facilities of the companies outside Israel are located on land that they own.

- Regarding liens – see Note 22

Notes to the Financial Statements as at December 31, 2007

NOTE 11 – OTHER ASSETS

A. Composition:

Consolidated

	December 31, 2007		
	Cost	Accumulated amortization	Unamortized balance
	\$ thousands	\$ thousands	\$ thousands
Product registration and acquisition of know-how	353,921	195,680	158,241
Goodwill on acquisition of subsidiaries	179,032	49,988	129,044
Intangible assets on purchase of products	329,583	104,448	225,135
Software	24,723	18,940	5,783
Marketing rights	14,004	11,737	2,267
Non-competition and confidentiality agreement	2,576	2,525	51
Other*	28,928	10,471	18,457
	932,767	393,789**	538,978
	December 31, 2006		
	Cost	Accumulated amortization	Unamortized balance
	\$ thousands	\$ thousands	\$ thousands
Product registration and acquisition of know-how	321,284	181,523	139,761
Goodwill on acquisition of subsidiaries	173,056	48,335	124,721
Software	20,948	15,527	5,421
Intangible assets on purchase of products	329,583	81,358	248,225
Marketing rights	14,004	10,359	3,645
Debenture issuance expenses	375	322	53
Non-competition and confidentiality agreement	2,576	2,323	253
Other*	24,247	8,150	16,097
	886,073	347,897**	538,176

* Including primarily lists of customers and trade names.

** Including allocations for decreased value of registered products resulting from decreased value that is not of a temporary nature, totaling approximately \$19 million as of 31 December 2007 and approximately \$15 million as of 31 December 2006.

Notes to the Financial Statements as at December 31, 2007

NOTE 11 – OTHER ASSETS (CONTD.)

Company

	December 31, 2007		
	Cost	Accumulated amortization	Unamortized balance
	\$ thousands	\$ thousands	\$ thousands
Software	2,856	1,674	1,182
	December 31, 2006		
	Cost	Accumulated amortization	Unamortized balance
	\$ thousands	\$ thousands	\$ thousands
Software	1,731	1,233	498
Debenture issuance expenses	375	322	53
	2,106	1,555	551

B. Additional details

- In 2002, subsidiaries, wholly-controlled by the Company, signed a number of agreements with Bayer Crop Science AG for the acquisition of a number of products, licenses and distribution rights in the area of vegetation protection. The total consideration for such acquisition amounted to approximately \$185.3 million.

Approximately \$34.6 million of the consideration was allocated to acquisition of product registration, approximately \$144.1 million was allocated to acquisition of intangible assets on purchase of products which includes: intellectual rights, brand name, technological know-how, information on customers and suppliers of materials and approximately \$6.6 million was allocated to marketing and distribution rights.

- In 2001, subsidiaries, wholly-controlled by the Company, signed agreements with Aventis and Syngenta A.G. for the purchase of four new agrochemical products as well as the purchase of marketing and distribution rights of a product package in the Scandinavian countries. One of the products purchased is still protected by patents that were transferred to the purchasing company.

The total price paid for purchase of the four products totaled approximately \$105 million. Approximately \$20 million was attributed to product registration costs, approximately \$2.5 million was attributed to the purchase of agreements with third parties and approximately \$77.5 million was attributed to intangible assets on purchase of products which includes: intellectual rights, trade name, brand name, technological know-how, information on customers and suppliers of materials and \$5 million was allocated to the marketing and distribution rights.

- Regarding goodwill and other assets created in the framework of acquisition of companies during the period of the report, see Note 8D.
- In connection with a non-competition and confidentiality agreement with the former CEO of Milenia, see Note 32A3.

Notes to the Financial Statements as at December 31, 2007

NOTE 12 – CREDIT FROM BANKS

A. Composition

	Consolidated	
	December 31	December 31
	2007	2006
	\$ thousands	\$ thousands
Credit from banks		
Overdrafts	57,519	51,810
Short-term loans	28,394	46,072
	85,913	97,882
Current maturities of others	746	-
Current maturities of long-term loans from banks	2,692	1,968
	89,351	99,850

B. Linkage terms and interest rates

	Weighted Interest rate as at balance sheet date	Consolidated	
		December 31	
		2007	2006
		%	\$ thousands
Credit from banks			
<u>Overdrafts:</u>			
In Israeli currency - unlinked	4.3	147	1,456
In US dollars	5.2-7.7	13,519	28,209
In Euro	4.7-5.4	17,609	17,734
In Brazilian currency	11.5-12.3	25,861	1,247
In other currencies		383	3,164
		57,519	51,810
Short-term loans:			
In dollars	5.4-7.7	14,740	33,125
In euro	4.8	8,177	7,012
In other currencies	11.9	5,477	5,935
		28,394	46,072
		85,913	97,882

C. Regarding collaterals, see Note 22A.

Notes to the Financial Statements as at December 31, 2007**NOTE 13 – SUPPLIERS AND SERVICE PROVIDERS****Consolidated**

	Consolidated	
	December 31	
	2007	2006
	\$ thousands	\$ thousands
Accounts payables	434,595	368,609
Post-dated checks provided	1,341	965
	435,936	369,574

NOTE 14 – PAYABLES AND CREDIT BALANCES

	Consolidated		Company	
	December 31		December 31	
	2007	2006	2007	2006
	\$ thousands	\$ thousands	\$ thousands	\$ thousands
Liabilities to employees and for salaries and wages	47,102	48,600	4,633	8,933
Provision for taxes on income, net of advance tax deposits	18,631	20,958	-	-
Deferred taxes	757	-	-	-
Government agencies royalties	8,887	10,241	838	1,443
Subsidiaries - current account	-	-	-	1,074
Payables in respect of hedging transactions	26,430	11,438	-	-
Expenses payable	79,688	74,748	4,773	400
Payables in respect of acquisition of subsidiary	917	1,848	-	-
Others	86,784	103,580	781	6,433
	269,196	271,413	11,025	18,283

NOTE 15 – LONG-TERM LOANS FROM BANKS**A. Composition**

	Consolidated	
	December 31	
	2007	2006
	\$ thousands	\$ thousands
Loans from banks*	27,744	46,980
Less - current maturities	2,692	1,968
	25,052	45,012
	19,188	18,900

* After the deduction of an investment in bank deposits (see Note 9B(2)) in the amount of:

Notes to the Financial Statements as at December 31, 2007

NOTE 15 – LONG-TERM LOANS FROM BANKS (CONTD.)

B. Linkage terms and interest rates

	Weighted Interest rate as at balance sheet date	Consolidated	
		December 31	
		2007	2006
	%	\$ thousands	\$ thousands
In US dollars	6	20,758	34,339
In Euro	6-7	6,986	12,494
In other foreign currency		-	147
		27,744	46,980

C. Maturities

	Consolidated \$ thousands
First year (current maturities)	2,692
Second year	11,444
Third year	6,385
Fourth year	4,586
Fifth year	872
Sixth year and thereafter	1,765
	27,744

D. Regarding the commitment of the Company and certain subsidiaries to banks, to maintain certain financial covenants, mainly, debt-equity and profitability ratios - see Note 22C.

E. For collaterals, see Note 22A.

NOTE 16 - CONVERTIBLE DEBENTURES

A. Presented in current liabilities

	Consolidated		Company	
	December 31		December 31	
	2007	2006	2007	2006
	\$ thousands	\$ thousands	\$ thousands	\$ thousands
Debenture principal (1)(2)	-	12,201	-	12,201
Discount balance, net	-	(146)	-	(146)
	-	12,055	-	12,055

Notes to the Financial Statements as at December 31, 2007**NOTE 16 - CONVERTIBLE DEBENTURES (CONTD.)****B. Presented in long-term liabilities**

	Consolidated		Company	
	December 31		December 31	
	2007	2006	2007	2006
	\$ thousands	\$ thousands	\$ thousands	\$ thousands
Debenture principal (4)	-	675	-	675

1. In November 2001, convertible debentures and options were issued pursuant to a prospectus, as follows:

NIS 270,000,000 par value registered debentures (Series A) offered at 90% of the par value, were repayable in a lump-sum payment on November 20, 2007, bearing interest at the annual rate of 2.5% and linked (interest and principal) to the representative exchange rate of the dollar. On any trading day, commencing with the registration date of the debentures (Series A) for trading on the stock exchange and up to and including October 31, 2007, the debentures (Series A) were convertible into fully paid-up ordinary registered shares of NIS 1 par value each, based on a conversion rate of NIS 10.68 par value debentures (Series A) for one ordinary share of NIS 1 par value. As a result of dividend distributions, the conversion rate was updated accordingly.

There were 18,000,000 registered options (Series 1), exercisable for 18,000,000 ordinary shares of NIS 1 par value each of the Company. On November 20, 2005, the options that had yet to be realized expired.

2. In January 2002, the Company issued to investors, as part of a private placement, NIS 133,980 thousand par value convertible debentures (Series A), at a price of NIS 1.015 for NIS 1 par value of debentures (Series A), for an aggregate consideration of \$29.5 million. The terms of the convertible debentures (Series A) are identical to the terms of the convertible debentures (Series A), issued by the Company, as stated in section A above.
3. In 2004 and 2005, NIS 235,020 thousand par value of debentures (Series A) were converted into 23,269 thousand ordinary shares of NIS 1 par value. The total share capital issued as a result of the conversion is \$5,227 thousand, with a premium of \$45,337 thousand.

In 2006, NIS 59,738 thousand par value of debentures (Series A) were converted into approximately 6,536 thousand ordinary shares of NIS 1 par value at the average conversion rate of NIS 9.14 par value debentures for ordinary shares of NIS 1 par value. The total share capital issued as a result of the conversion is \$1,544 thousand, at a premium of \$12,333 thousand.

In 2007, NIS 48,998 thousand par value of debentures (Series A) were converted into approximately 5,384 thousand ordinary shares of NIS 1 par value at the average conversion rate of NIS 9.14 par value debentures for ordinary shares of NIS 1 par value. The total share capital issued as a result of the conversion is \$1,312 thousand, at a premium of \$10,153 thousand.

On November 20, 2007, the remaining debentures that had not been converted into shares were redeemed for \$606 thousand.

Notes to the Financial Statements as at December 31, 2007

NOTE 16 - CONVERTIBLE DEBENTURES (CONTD.)**B. Presented in long-term liabilities (Contd.)**

4. In March 2004, the Company issued, as part of a private issue to institutional investors (mainly overseas), non-marketable convertible debentures, in the amount of \$150 million par value in exchange for their par value. The period of the debentures was 7 years and they bear annual interest at the rate of 1.75%, which was paid once a year, in March. The debentures could be converted into ordinary registered shares of NIS 1 par value each, at a conversion rate of NIS 20.5 par value, based on a fixed rate of exchange of \$1=NIS 4.514. The ordinary shares to be issued as a result of conversion of the debentures were registered for trading on the Tel-Aviv Stock Exchange.

The Company committed to the debenture purchasers that it would refrain from creating additional liens on its property, the purpose of which is the guarantee of marketable securities or other securities that the Company intends to register for trading.

The total issuance expenses with respect to the institutional debentures amounted to \$2.5 million.

In 2005, \$135,650 thousand par value institutional debentures were converted into 29,869 thousand shares of NIS 1 par value. The total share capital issued as a result of the conversion is \$6,554 thousand at a premium of \$129,096 thousand.

In 2006, \$13,675 thousand par value institutional debentures were converted into 3,011 thousand shares of NIS 1 par value. The total share capital issued as a result of the conversion is \$646 thousand at a premium of \$13,109 thousand.

In 2007, the remaining \$675 thousand par value institutional debentures were converted into 149 thousand shares of NIS 1 par value. The total share capital issued as a result of the conversion is \$35 thousand at a premium of \$640 thousand.

As of the balance sheet date, all of the remaining debentures had been converted.

NOTE 17 – DEBENTURES

On December 4, 2006, the Company issued to institutional investors three series of debentures in the aggregate amount of NIS 2,350 million par value, broken down into three separate series, as follows:

1. Series B, in the amount of NIS 1,650 million par value, linked to the CPI and bearing base annual interest of 5.15%. The principal of the debentures is to be repaid in 17 equal payments during the years 2020-2036. The issuance expenses in respect of this series amounted to \$1,044 thousand.
2. Series C, in the amount of NIS 465 million par value, linked to the CPI and bearing base annual interest of 4.45%. The principal of the debentures is to be repaid in 4 equal payments during the years 2010-2013. The issuance expenses in respect of this series amounted to \$294 thousand.
3. Series D, in the amount of NIS 235 million par value, unlinked and bearing base annual interest of 6.5%. The principal of the debentures is to be repaid in 6 equal payments during the years 2011-2016. The issuance expenses in respect of this series amounted to \$149 thousand.

The Company notified the holders of the three series of debentures that in the future it intends to record the debentures on the Stock Exchange for trading, however it did not commit to doing so. Up to the registration date of the debentures for trading on the Stock Exchange, as stated above, the annual base interest paid on the outstanding balance of the debenture principal of each of the series will be subject to an annual addition of 0.25%.

Up to registration of the debentures for trading, if the Company's financial debt based on its financial statements exceeds above 200% of its shareholders' equity, the Company will not distribute dividends. As of the balance sheet date, the financial debt has not exceeded this amount.

Notes to the Financial Statements as at December 31, 2007**NOTE 18 – OTHER LONG-TERM LIABILITIES****Consolidated****Linkage terms**

	<u>December 31</u>	<u>December 31</u>
	<u>2007</u>	<u>2006</u>
	<u>\$ thousands</u>	<u>\$ thousands</u>
Liabilities linked primarily to the Brazilian real	<u>6,384</u>	<u>3,407</u>
	<u><u>6,384</u></u>	<u><u>3,407</u></u>

NOTE 19 – TAXES ON INCOME**A. Benefits under the Law for the Encouragement of Capital Investments, 1959**

The plants of subsidiaries in Israel have been granted “Approved Enterprise” or “Beneficiary Enterprise” status under the Israeli Law for the Encouragement of Capital Investments, 5719-1959. Part of the income deriving from the “Approved Enterprise” or “Beneficiary Enterprise” during the benefits’ period is subject to tax at the rate of 25% (the total benefits’ period is seven years and in certain circumstances ten years, but may not exceed either 14 years from the date of the Letter of Approval or 12 years from the date the “Approved Enterprise” commenced operations).

Other plants of subsidiaries in Israel are entitled to a tax exemption for periods of between two and six years and a reduced tax rate of 25% for the remainder of the benefit period. Should a dividend be distributed from the tax-exempt income, the subsidiaries will be liable for tax on the income from which the dividend was distributed at a rate of 25%.

The benefit period has ended for some of the plants of the subsidiaries and the benefit period for others will end during years up to 2014. In addition, subsidiaries have other investment programs in progress or for which the benefits’ period with respect thereto has not yet commenced.

The aforementioned benefits are conditional upon compliance with certain conditions specified in the Law, related Regulations and the Letters of Approval, in accordance with which the investments in the Approved Enterprises were made. Failure to meet these conditions may lead to cancellation of the benefits, in whole or in part, and to repayment of any benefits already received, together with interest. Management believes that the companies are in compliance with these conditions.

B. Benefits under the Law for the Encouragement of Industry (Taxes), 1969

Under the Israeli Law for the Encouragement of Industry (Taxes) 1969, the Company is an Industrial Holding Company and the subsidiaries in Israel are “Industrial Companies”. The main benefit under this law is the filing of consolidated income tax returns (The Company files a consolidated income tax return with Makhteshim) and higher depreciation for tax purposes.

C. Taxation under inflationary conditions

The Company and its subsidiaries in Israel are subject to the Israeli Income Tax Law (Inflationary Adjustments), 1985. Under this Law, the results for tax purposes are adjusted principally for the changes in the Consumer Price Index. The financial statements are presented in U.S. dollars.

On February 26, 2008, the Knesset passed the Income Tax Law (Adjustments for Inflation) (Amendment No. 20) (Limited Period of Applicability) 2008 (hereinafter, “the Amendment”).

Notes to the Financial Statements as at December 31, 2007**NOTE 19 – TAXES ON INCOME (CONTD.)**

Pursuant to the Amendment, the applicability of the Adjustments Law will end in 2007 and in 2008 the instructions of the law will no longer be applicable, other than the transition instructions given for the purpose of preventing distortions in the calculation of taxes.

Pursuant to the Amendment, from 2008 forward, the adjustment of income for inflation will no longer be calculated for purposes of taxation on a realistic basis. Furthermore, the linkage to the CPI of depreciation amounts for fixed assets and losses transferred for tax purposes will cease, so that these amounts will be adjusted for the CPI as of the end of 2007 and their linkage to the CPI will cease from that point forward.

D. Foreign subsidiaries

The Company's foreign subsidiaries are assessed according to the tax laws applicable in the respective countries where these subsidiaries operate.

E. Change in tax rate

On July 25, 2005, the Law for Amendment of the Income Tax Ordinance (No. 147 and Temporary Order), 5765-2005 was passed, pursuant to which the Companies Tax rate will be gradually reduced further in the following manner: in the 2007 tax year a tax rate of 29% will apply, in 2008 - 27%, in 2009 - 26%, and in 2010 and thereafter, a tax rate of 25% will apply. The current and deferred taxes as of December 31, 2007, were calculated in accordance with the new tax rates as determined in Amendment No. 147.

F. Deferred taxes

	Consolidated		Company	
	December 31		December 31	
	2007	2006	2007	2006
	\$ thousands	\$ thousands	\$ thousands	\$ thousands
(1). Movement				
Balance at beginning of year	25,211	43,879	(11,781)	(7,575)
Included in statement of income	1,056	(20,478)	5,133	(3,060)
Charged to capital	(1,744)	(1,146)	(1,744)	(1,146)
Transfer to payable and receivables of a consolidated company for tax purposes	-	-	6,803	-
Newly consolidated	(163)	2,956	-	-
Balance at end of year	<u>24,360</u>	<u>25,211</u>	<u>(1,589)</u>	<u>(11,781)</u>
Classified as:				
Other receivables	(22,611)	(16,940)	(290)	(541)
Long-term liabilities	58,218	62,147	-	-
Trade payables and credit balances	757	-	-	-
Long-term balances	<u>(12,004)</u>	<u>(19,996)</u>	<u>(1,299)</u>	<u>(11,240)</u>
	<u>24,360</u>	<u>25,211</u>	<u>(1,589)</u>	<u>(11,781)</u>
(2) Composition				
Deferred taxes in respect of:				
Depreciable assets	78,082	74,938	-	-
Carry forward tax losses	(16,698)	(23,784)	-	(9,810)
Inventories	(26,759)	(17,775)	-	-
Employee severance benefits, net	(15,148)	(13,403)	(1,299)	(1,430)
Other temporary differences	4,883	5,235	(290)	(541)
	<u>24,360</u>	<u>25,211</u>	<u>(1,589)</u>	<u>(11,781)</u>

In the consolidated balance sheet, deferred taxes are computed at rates ranging between approximately 25.5% and 40%.

Notes to the Financial Statements as at December 31, 2007

NOTE 19 – TAXES ON INCOME (CONTD.)

G. Composition of tax expense (benefit)

Consolidated

	For the year ended December 31		
	2007	2006	2005
	\$ thousands	\$ thousands	\$ thousands
Taxes in respect of the reported period:			
Current taxes	32,143	21,621	28,944
Deferred taxes	1,506	(20,478)	5,142
	33,199	1,143	34,086
Taxes in respect of prior years	(1,246)	(2,581)	5,866
	31,953	(1,438)	39,952

Company

	For the year ended December 31		
	2007	2006	2005
	\$ thousands	\$ thousands	\$ thousands
Deferred taxes	5,133	(3,060)	968
Taxes in respect of prior years	218	(1,543)	3,058
	5,351	(4,603)	4,026

H. Theoretical tax

Following is a reconciliation between the theoretical tax and the tax expense included in the statement of income:

Consolidated

Rate of statutory tax	For the year ended December 31		
	2007	2006	2005
	\$ thousands	\$ thousands	\$ thousands
Tax expense computed at regular tax rate	63,737	26,321	85,551
Tax benefit for approved enterprises	(1,448)	(3,562)	(8,469)
Difference between financial statement measurement of income and tax basis	(14,534)	(10,102)	207
Change in rate of deferred taxes	(24)	(67)	(4,793)
Income taxable at other tax rates	(22,412)	(17,879)	(32,630)
Taxes in respect of previous years	(1,246)	(2,581)	5,866
Tax losses during the period for which deferred taxes were not created (Utilization of tax losses for which deferred taxes were not created)	1,415	-	(3,048)
Non-deductible expenses and other differences	6,465	6,432	(2,732)
	31,953	(1,438)	39,952

Notes to the Financial Statements as at December 31, 2007

NOTE 19 – TAXES ON INCOME (CONTD.)

H. Theoretical tax (Contd.)

Company

Rate of statutory tax	For the year ended December 31		
	2007	2006	2005
	29%	31%	34%
	\$ thousands	\$ thousands	\$ thousands
Tax expense computed at regular tax rate	53,238	24,588	71,236
Difference between financial statement measurement of income and tax basis	(3,509)	(3,639)	3,026
Equity in earnings of investee companies, net	(49,070)	(23,994)	(73,903)
Taxes in respect of previous years	218	(1,543)	3,058
Non-deductible expenses and other differences	4,474	(15)	609
	<u>5,351</u>	<u>(4,603)</u>	<u>4,026</u>

I. Final assessments

Agan has received final tax assessments up to and including the 2005 tax year. Makhteshim and the Company have received final tax assessments up to and including the 2002 tax year. Lycored has received final tax assessments up to and including the 2001 tax year.

J. Losses and deductions available for carryforward to future years

As of the balance sheet date, the losses for tax purposes which are available for carryforward to future tax years, amount to approximately \$59 million.

The Company has recorded a deferred tax asset with respect to the accrued losses, in the amount of approximately \$16.7 million, based on management's estimation it is probable that such losses will be utilized in the upcoming years.

K. Additional Information

Regarding tax claims against Milenia - see Note 21D2.

Notes to the Financial Statements as at December 31, 2007

NOTE 20 – EMPLOYEE TERMINATION BENEFITS, NET

A. Composition

	Consolidated		Company	
	December 31		December 31	
	2007	2006	2007	2006
	\$ thousands	\$ thousands	\$ thousands	\$ thousands
Liabilities in respect of severance pay and retirement grants	31,155	31,024	4,809	5,295
Less - deposits in severance pay funds	17,357	17,884	-	-
	13,798	13,140	4,809	5,295
Early retirement pension	24,483	20,924	-	-
Provision for unutilized sick leave	5,859	4,067	-	-
	44,140	38,131	4,809	5,295

B. Severance pay and retirement grants

The Company and its subsidiaries in Israel make regular deposits with "Nativ" (the Pension Fund of the Workers and Employees of the Histadrut Ltd.) and insurance companies. These deposits are intended to provide employees with pension rights or severance pay upon reaching retirement age. Amounts deposited in the pension fund and insurance companies are not included in the balance sheet because they are not under the management or control of the companies.

Employees dismissed before reaching retirement age are eligible for severance benefits, computed on the basis of their most recent salary. Where the amounts accumulated in the pension fund are not sufficient to cover the computed severance benefits, the companies will cover the difference.

In addition to their above mentioned pension rights, employees are entitled to receive retirement grants at the rate of 2.33% of their salary at retirement age. The accrual in the balance sheet covers the companies' obligations with regard to these retirement grants, as well as their liability to pay severance benefits to some of their employees for the period prior to the date on which these employees joined the pension plan, during which period no deposits had been made in the fund in the name of the employee.

C. Designated deposits with severance pay fund and retirement grants

The designated deposits in the severance pay funds include accrued linkage differences and interest and are made in severance pay funds with banks and insurance companies. Withdrawal of the amounts on deposit is contingent upon the fulfillment of the provisions set forth in the Severance Pay Law.

D. Compensation for unutilized sick leave

The financial statements include an accrual for compensation in respect of unutilized sick leave for employees who are 55 and older. No accrual is made in respect of employees under the age of 55 as it is uncertain whether they will receive such compensation.

Notes to the Financial Statements as at December 31, 2007

NOTE 20 – EMPLOYEE TERMINATION BENEFITS, NET (CONTD.)**E. Early retirement pension**

The financial statements include a provision for payment of pension benefits to a number of employees whose work was terminated before they reached retirement age. The provision was calculated by reference to the period from the time their work was terminated until the date stipulated in the agreement, on the basis of the present value of the pension payments (the interest rate used in the present value calculation was 3.6% *per annum*).

NOTE 21 – COMMITMENTS AND CONTINGENT LIABILITIES**A. Commitments**

1. Liability of directors and officers (including officers who might be considered controlling shareholders) of the Company and its subsidiaries is covered by an insurance policy. The limit of the insured responsibility is \$100 million. The policy is renewed annually according to the framework agreement approved by the General Assembly of the Company on October 6, 2005, for a period that will not exceed five consecutive years, meaning until December 1, 2010.
2. On October 8, 2007, the General Assembly of the Company approved giving a commitment for advance indemnification to officers by granting indemnity notes to officers (including officers who might be considered controlling shareholders). At the same time, the General Assembly of the Company approved an amendment to the sections of the Articles of Association dealing with exemption, insurance and indemnity of officers in the Company.
3. Regarding undertakings of the Company and its subsidiaries as part of a securitization transaction - see Note 4
4. Regarding undertakings with interested parties - see Note 32
5. In July 2006, Agan entered an agreement with Ashdod Energy Ltd. (hereinafter – “Ashdod Energy”), pursuant to which it will rent to Ashdod Energy, as a subtenant, an area measuring approximately 2.6 acres where Ashdod Energy will construct a power plant for production of electricity and steam. Furthermore, according to the agreement, Ashdod Energy will supply electricity and steam to Agan for a period of 20 years from the power plant’s operation date or a period of 24 years and 11 months from the signing date of the sublet agreement, whichever occurs first. When the power plant begins commercial production, the discount embedded in the tariffs for electricity and steam will serve as full payment of the rent, which comes to \$80,000 for each year of rental. The construction works and the establishment of the power plant are the responsibility of and at the expense of Ashdod Energy, which is also responsible for obtaining the necessary permits and licenses required by law.
6. In May 2007, Makhteshim entered an agreement with Ramat Hanegev Energy Ltd. (hereinafter – “Negev Energy”), pursuant to which it will rent to Negev Energy, as a subtenant (conditional on the approval of the Israel Lands Authority which had not yet been given on the date of the report), land where Negev Energy will construct a power plant for production of electricity and steam within four years from the signing of the agreement. Furthermore, according to the agreement, Negev Energy will supply electricity, steam, soft water, distilled water and compressed air to Makhteshim’s facilities in Ramat Hovav for a period of 24 years and 11 months from the signing date of the aforementioned sublet agreement. After that period, the power plant will be transferred to Makhteshim’s ownership. Establishment of the power plant is conditional on receiving approvals and the financial support for its construction. To the best of the Company’s knowledge, as of the statement date, all of the approvals required for constructing the power plant were yet to be received and not all of the financing needed for its construction had been obtained. The construction works and the establishment of the power plant are the responsibility of and at the expense of Negev Energy, which is also responsible for obtaining the necessary permits and licenses required by law.

Notes to the Financial Statements as at December 31, 2007

NOTE 21 – COMMITMENTS AND CONTINGENT LIABILITIES (CONTD.)**B. Contingent liabilities**

1. In accordance with the Israeli Law for the Encouragement of Capital Investments, 5719-1959, Company subsidiaries received grants from the State of Israel in respect of investments in fixed assets made as part of plant expansion plans approved by the Investments Centre. Receipt of the grants is conditional upon fulfilment of the terms of the Letter of Approval that include, among others, exports at certain rates. If the companies do not comply with the required terms, they will be required to refund the grants amounts, together with interest from the date of their receipt. Management of the subsidiaries believes that they are in compliance with the conditions of the approval.
2. In accordance with the Israeli Law for the Encouragement of Research and Development in Industry, 5744-1984, subsidiaries received grants from the State of Israel in respect of their research and development expenses incurred on projects approved by the Israeli Industrial Research and Development Administration. Receipt of the grants is conditional upon compliance with the terms of the letter of approval which include, among other things, the payment of royalties to the State of Israel at rates of between 2%-3.5% of the sales of products, up to the amount of the State's participation.

The balance of the State's participation in the companies' research and development expenses (net of royalties paid in respect thereof), after deduction of participations in expenses of unsuccessful research projects that were abandoned, amounts to approximately \$4.8 million.

3. A subsidiary has an agreement pursuant to which it will pay royalties at the rate of 4% of sales, with certain reductions stated in the agreement, with respect to a product whose development rights were acquired by the subsidiary, for a period of 10 years beginning from the year 2000, the date on which external sales of the product reached the level of sales stipulated in the agreement. Under certain conditions, the royalties may be reduced but not to a rate of less than 2%.

C. Environmental quality

1. The manufacturing processes of the Company, and the products that it produces and markets entail environmental risks and have influence on the environment. The Company invests substantial resources in order to comply with the applicable environmental laws and attempts to prevent or minimize the environmental risks that are liable to occur as the result of its activities. To the best of the company's knowledge, as of the balance sheet date, none of its applicable permits and licenses with respect to environmental issues has been revoked. The Company has insurance coverage for sudden, unexpected environmental contamination in Israel and abroad. The Company estimates, based on the opinion of its insurance consultants, that the extent of its insurance coverage for said events is reasonable.

As of the balance date, the company has only limited, low insurance coverage for ongoing environmental contamination. Such insurance is difficult to obtain and, when it can be obtained, the cost of the premium and the conditions of the coverage do not justify, in the Company's opinion, its purchase.

2. In April 2006, Agan Chemical Manufacturers, Ltd. reached an agreement with the City of Ashdod for a period of 24 years, with an option for extension for an additional 19 years, pursuant to which Agan will be permitted to use real estate measuring approximately 5 acres, for purposes of constructing a waste purification facility, in return for Agan's self-investment in constructing the facility, at an expected estimated, overall cost of NIS 100 million.

Notes to the Financial Statements as at December 31, 2007

NOTE 21 – COMMITMENTS AND CONTINGENT LIABILITIES (CONTD.)

C. Environmental quality (Contd.)

3. One of Makhteshim's plants was constructed in Ramat Hovav, which was selected by the Government of Israel as a centre for chemical industries because, *inter alia*, of the assumption that the layers of the soil in that area were absolutely sealed against penetration by liquid discharges or contamination. A report submitted to the Ministry of Environmental Protection and the Ramat Hovav Industrial Local Council in December 1997, at their request, by researchers from academic institutions included data regarding subterranean contamination in Ramat Hovav. The conclusions of research that was completed in early 2004 were that there has been some improvement in the quality of the upper ground water and there is no need to treat the subterranean contamination, which will remedy itself in a period of 70 years in the future, if no additional contaminants reach it. The Council concluded an agreement with the researchers who have been monitoring the ground water for the last five years and who are continuing to monitor it. In the last two years, the results of the monitoring clearly indicate that there has been an improvement in the quality of the subterranean water in most of the Ramat Hovav area. In the estimation of the Company's management no material impact on the financial statements are expected as the result of this monitoring.
4. In 2004, the Ministry of Environmental Protection decided to add addition of terms to the business licenses of Makhteshim and other factories in the Ramat Hovav area, regarding with the treatment of industrial waste. Pursuant to this decision and the unreasonable nature of the Ministry of Environmental Protection's requirements, the Israeli Union of Industrialists and factories in Ramat Hovav filed an administrative petition (339/04) against the Ministry of Environmental Protection–Southern District and the Ramat Hovav Local Council in Be'er Sheva District Court. The petition was referred to a mediation process which was concluded with the signing of an agreement that was given the force of a court judgment on December 28, 2006. As part of implementation of this agreement, Makhteshim took upon itself to make significant monetary investments in treating waste water and preventing environmental hazards.

D. Claims against subsidiaries

1. Administrative proceedings and fiscal claims are pending against Milenia, all of which deal with demands for payment of various taxes, totalling sum US\$20 million (including interest and linkage differences as of the balance sheet date). On the basis of the opinion of its legal advisors, Milenia estimates that its chances of prevailing in all the proceedings and fiscal claims pending against it are good.
2. In 2002, an action was filed against Milenia by a private environmental protection organization, claiming that Milenia's plant in Londrina pollutes the environment and causes damage to its vicinity and residents. The plaintiff demands that Milenia prepare an environmental impact study, provide examinations for Milenia's employees and neighbours, and cessation of the production activity at the plant. The lower court instructed that an environmental impact study be conducted but the court of appeals decided that Milenia is not obligated to prepare an environmental impact study and/or conducted examinations for Milenia's employees and neighbours until a final ruling is given obligating Melina to make these remedies. Milenia's legal advisors estimate that Milenia has good defences against the claim and, therefore, no provisions were included in the books in respect of this action.
3. In 2004, six identical actions were filed against a subsidiary in the United States and six other agrochemical companies in the State of Illinois, USA, by a local water supplier (hereinafter – "the Plaintiff"). In these actions, the Plaintiff seeks to represent all the water suppliers in the State of Illinois. The water supplier claims that the product Atrazine, which is sold by the defendant companies, pollutes its water source and that water contaminated with Atrazine is a health hazard. The Plaintiff does not indicate the concentration of Atrazine in the water or that the quantity of Atrazine in its water exceeds the amount permitted by the Federal Water Standard but claims that Atrazine is a health hazard even at concentrations below the Federal Water Standard.

Notes to the Financial Statements as at December 31, 2007

NOTE 21 – COMMITMENTS AND CONTINGENT LIABILITIES (CONTD.)

D. Claims against subsidiaries (Contd.)

3. (Contd.)

One of the principal contentions in the claim is that the subsidiary (as well as the other defendants) is aware of the danger of Atrazine to human beings but is concealing this information from the authorities and the public. The subsidiary contends that it received its license for Atrazine pursuant to United States law by means of referring to studies submitted by the original license holder without it having been permitted to review the said studies. In addition, the subsidiary contends that it did not conduct its own independent studies and it is not aware of studies indicating that Atrazine at the concentration permitted by the Federal Water Standard is hazardous to human health.

In light of that stated above the subsidiary estimates, based on the opinion of its legal advisors, the chances that it will be found responsible for concealing information are remote.

Additional causes of action claimed by the Plaintiff are encroachment, nuisance, negligence and violation of the environmental protection and water pollution laws.

Among the remedies the Plaintiff is requesting are: obligating the defendants to prepare and implement a plan for cleaning the Plaintiff's water, compensation of the Plaintiff for decline in value of its properties as a result of the presence of atrazine in the water and damage to its reputation. As is customary for claims of this type in the United States, the claim does not state the amount of the damages sought or the compensation requested.

The claim is in the very preliminary stages, the stage of certification of the claim as a class action has not yet started nor has the document disclosure stage begun.

The cumulative share of the subsidiary in sales of atrazine in Illinois is low in comparison to the other defendants.

Taking into account the fact that the Plaintiff does not state that the concentration of atrazine in the water exceeds that permitted by the Federal Water Standard, and the fact that the chances are remote that the subsidiary will be found responsible for concealing information (as described above), the subsidiary estimates, based on the opinion of its legal advisors, that the chances that the claim will be rejected are higher than the chances it will prevail. The financial statements include provision for legal expenses in respect of this suit.

4. In 2003, a private criminal complaint was filed against Makhteshim and one of its directors by *Adam, Teva VeDin* (Israel Union for Environmental Defence). In the complaint Makhteshim is accused that on several occasions during the years 1999 through 2003, emissions of materials at prohibited concentrations were measured in the chimneys of its Ramat Hovav plant, creating severe pollution.

Makhteshim does not admit these charges.

Makhteshim and its legal advisors estimate that the results of the complaint cannot be assessed. However, judging by the current levels of penalties imposed in similar cases, it is highly likely that even in the event of conviction, the penalty will not have a materially adverse effect on the Company and hence no provision was included in the financial statements.

5. In March 2007, two suits were filed in Be'er Sheva District Court against the Ramat Hovav Industrial Local Council and the State of Israel. One of the suits was filed by 54 Bedouin dwelling in the northern Negev and the others was filed by nine residents of Omer and Be'er Sheva (hereinafter, jointly for the purposes of this section, "the Plaintiffs"). The Plaintiffs claim that they have suffered various illnesses and deformations and that there is a causal relationship between their illnesses and poisonous substances that were emitted by or seeped from the Ramat Hovav Industrial area.

Notes to the Financial Statements as at December 31, 2007

NOTE 21 – COMMITMENTS AND CONTINGENT LIABILITIES (CONTD.)

D. Claims against subsidiaries (Contd.)

5. (Contd.)

According to the Plaintiffs' claims, two primary focal points of contamination have been identified: the waster purification plants and the evaporation pools (that are owned and operated by the Ramat Hovav Industrial Local Council) and the factories that are located in the Ramat Hovav Industrial Area, including the Company's factories, which the Plaintiffs claim significantly exceed the permitted amount of contamination.

Furthermore, the Plaintiffs' claim that the Ramat Hovav Industrial Local Council and the State of Israel were negligent, *inter alia*, in their supervision, enforcement and initiative to prevent the Plaintiffs' exposure to contamination originating in the Ramat Hovav Industrial Area. The Plaintiffs estimate the sum of their claims at approximately NIS 184 million. The Company, like the other factories in the Ramat Hovav Industrial Area, is not a party to the suit. A request to add it to the proceedings was rejected and an appeal of this rejection was also rejected by the Supreme Court.

6. Several other claims were filed against Agan, totalling approximately \$2.5 million due to damages incurred, according to the plaintiffs, as a result of use of Agan's products, breach of a product marketing agreement, supply of a defective product and for other claims. Agan estimates, on the basis of its legal advisors' opinion, that the defence prospects concerning some of these claims are good or that the provisions included in the books are sufficient.

Several other claims were filed against Makhteshim, the total amount of which is approximately \$3.5 million due to damages incurred, according to the plaintiffs, *inter alia*, as a result of the use of its products, and due to an alleged debt to a supplier that carried out the design and construction of a plant in Ramat Hovav. Makhteshim estimates, on the basis of its legal advisors' opinion, that the defence prospects concerning some of these claims are good or that the provisions included in the books are sufficient.

With respect to other Group companies, various claims of insignificant amounts were filed in respect of damages sustained, according to the plaintiffs, due to use of their products, supply of defective products, etc.

7. In October 2007, a monetary suit against Makhteshim, with a request to be recognized as a class action suit according to the Class Action Suits Law of 5766-2006, was filed in Be'er Sheva District Court, by three residents of the village Wadi El-Naim claiming that damage to their health has apparently been caused by the Makhteshim factories in the Ramat Hovav Industrial Area, for various reasons related to air pollution. If the claim is recognized as a class action suit, the plaintiffs estimate that the amount claimed from Makhteshim is NIS 1 billion. As of the statement date, after the Company's legal counsel examined the claims made by the plaintiffs as they are expressed in the suit, the request for recognition as a class action suit that was submitted and the substance of the suit and considering the preliminary stage of the proceedings, the data in the Company's possession and giving due attention to the fact that there are no precedents, in this type of class action suit, for giving a judgment on the substance of the case regarding for damage of the type claimed in the class action suit, as well as the absence of precedents for the level of compensation awarded in this type of class action suit, it is, in the opinion of the Company's legal counsel, very difficult to estimate the chances that the request for recognition as a class action suit will be granted and it is also very difficult to estimate the risk or chances of the suit, specifically, if it is approved.

E. Guarantees

1. The Company has guaranteed the liabilities to banks of subsidiaries without any limitation as to amount.
As of the balance sheet date, the outstanding liabilities of the subsidiaries to banks totaled \$9.3 million (on December 31, 2006, approximately \$14.4 million).

Notes to the Financial Statements as at December 31, 2007

NOTE 21 – COMMITMENTS AND CONTINGENT LIABILITIES (CONTD.)**E. Guarantees (Contd.)**

2. The Company has guaranteed the liabilities to banks and suppliers of subsidiaries, the amount of which as of the balance sheet date totalled approximately \$13.4 million (on December 31, 2006, approximately \$10 million).
3. Makhteshim and Agan have guaranteed the liabilities to banks of subsidiaries in the amount of approximately \$9.6 million (on December 31, 2006, approximately, \$27 million).
4. Foreign suppliers and banks have provided credit lines in the approximate amount of \$180 million (on December 31, 2006, approximately \$202 million) to foreign subsidiaries and to subsidiaries in Israel relying upon, among other things, the commitments of Makhteshim and Agan as to their proper fiscal management and the policies of Makhteshim and Agan to take steps that will enable those companies to meet their obligations. The amount of the credit lines utilized as of balance date amounted to approximately \$27.5 million (on December 31, 2006, approximately \$38 million).
5. The Company and Millennia committed to indemnify financial institutions, upon the existence of certain conditions, in respect of credit received by Millennia's customers from those financial institutions, which were used for repayment of the debts of such customers to Millennia in respect of its sales to those customers.

The amount of the commitment for indemnification, as of the balance sheet date, was approximately \$81 million, including a \$22.6 million commitment for indemnification of Milenia and approximately \$58.4 million was a commitment for indemnification of Milenia and the Company, (on December 31, 2006, approximately \$65 million, of which approximately \$50.6 million was a commitment for indemnification of Milenia and \$14.4 million was a commitment for indemnification of the Company and Milenia).

6. Subsidiaries have undertaken to indemnify the bank in the framework of the transaction for sale of trade receivables in certain cases that are defined in the agreements, if debts sold are not paid.

NOTE 22 – LIENS AND COLLATERALS**A. Following are details of collateralized liabilities to banks:**

- The Company and its Israeli subsidiaries have made commitments to banks not to register attachments on their assets in favour of other parties, except specific liens for acquisition of an asset for the benefit of the party financing the acquisition on certain terms and subject to the notifying the bank, and except for creation of liens related to receipt of investment grants, as stated in section B, below.

In addition, the Company committed not to transfer or sell any one of its assets (except for sales in the Company's ordinary course of business and at customary market terms, including sale of trade receivables), without obtaining the bank's written consent in advance, except for the following:

- a. Transfer to a subsidiary which did not create and will not create general liens and which commits not to pledge or sell the pledged assets without obtaining the bank's consent in advance.
- b. Sale or transfer of assets, the value of the Company's interest in which does not exceed \$20 million for any particular year and provided that the cumulative value of the total assets to be transferred or sold will not exceed \$60 million.

Notes to the Financial Statements as at December 31, 2007

- As security for a long term liability in the amount of \$13.8 million, a subsidiary has registered a mortgage on land and buildings, and other subsidiaries have registered a first-degree attachment on assets including machinery and equipment, share capital and intangible assets.
 - Regarding bank deposits which serve as the sole security for repayment of loans taken by a subsidiary from that bank - see Note 9B2.
- B.** As collateral for the fulfillment of the requirements in respect of investment grants received (see Note 19A), the Company and its subsidiaries have registered floating charges in unlimited amounts on all of their assets and have provided an unlimited guarantee in favor of the State of Israel.
- C.** The Company and its subsidiary have committed to banks to maintain financial covenants, the main ones of which are as follows:
- * The ratio of the interest-bearing financial liabilities to shareholders' equity shall not exceed 1.5.
 - * The ratio of the interest-bearing financial liabilities to income before financing expenses, taxes, depreciation and amortization (EBITDA) shall not exceed 3.3 (in subsidiary - 4).
 - * The shareholders' equity will not be less than \$720 million.
- As of the balance sheet date the Company and its subsidiary are in compliance with the aforementioned financial ratios.
- D.** When issuing the debentures described in Note 17, the Company made a commitment that before the date that the debentures are registered for trading, if its financial debt based on its financial statements exceeds above 200% of its equity, the Company will not distribute dividends. As of the balance sheet date, the financial debt has not exceeded this rate.

NOTE 23 – SHAREHOLDERS' EQUITY**A. Share capital**

	<u>December 31</u> <u>2007</u>	<u>December 31</u> <u>2006</u>	<u>December 31</u> <u>2007</u>	<u>December 31</u> <u>2006</u>
	No. of registered shares	No. of registered shares	No. of issued and paid up shares	No. of issued and paid up shares
Ordinary shares of NIS 1 par value	750,000,000	750,000,000	473,716,452	465,352,365

All of the shares are registered for trading on the Tel Aviv Stock Exchange.

B. Employee stock options

1. On April 23, 2001 (hereinafter, "the determining date"), the Company's Board of Directors decided to grant options to employees of the Company and to employees of its subsidiaries (hereinafter, "Plan 2001"). In accordance with this plan, the said employees were allotted 17,400,000 option warrants which are exercisable for up to 17,400,000 ordinary shares of a par value of NIS 1 each, of the Company, at an exercise price of \$1.596 as of the balance sheet date after adjustments made to all options due to a dividend distribution (the market value of a share as of April 22, 2001 was NIS 8.12).

All options warrants were to be issued to a trustee pursuant to the Plan. The options were issued in accordance with Section 102 of the Israeli Income Tax Ordinance and the shares to be issued on the exercise thereof will be held by the trustee for a period of at least two years from the date of issuance of the options.

Notes to the Financial Statements as at December 31, 2007

NOTE 23 – SHAREHOLDERS' EQUITY (CONTD.)**B. Employee stock options (Contd.)**

1. (Contd.)

Eligibility to receive the option warrants, subject to the terms of the plan, is in three increments, as follows: One third on the determining date, an additional third one year after the determining date and the balance two years after the determining date.

The options of each portion can be exercised one year after the date of entitlement, and they expire after five years from the date of the beginning of the exercise period of each increment.

Pursuant to options plan, at the time of exercise of the options the Company will issue shares in a number that reflects the amount of the monetary benefit inherent in the option, that is, the difference between the regular price of a Company share on the exercise date and the exercise price of the option.

Under Plan 2001, the previous CEO of the Company was allotted 1,400,000 option warrants exercisable into 1,400,000 ordinary shares of a par value of NIS 1 each of the Company, which constitute 8% of the total amount of options to be granted under the plan.

In 2005, 2,531,914 options were exercised by Company employees for 1,736,805 of the Company's ordinary shares of NIS 1 par value each.

In 2006, 1,627,552 options were exercised by Company employees for 1,137,674 of the Company's ordinary shares of NIS 1 par value each.

In 2007, 1,233,666 options were exercised by Company employees for 938,675 of the Company's ordinary shares of NIS 1 par value each.

After the balance date but prior to signing the financial statements, approximately 13,153 options were exercised by Company employees for approximately 11,035 of the Company's ordinary shares of NIS 1 par value each.

2. On April 14, 2003 (hereinafter, "the determining date"), the Company's Board of Directors decided to adopt an employee compensation plan for the employees of the Company and its subsidiaries and for their directors (hereinafter, "Plan 2003"), pursuant to which 17,000,000 options would be issued to the employees, which are exercisable for up to 17,000,000 of the Company's ordinary shares of NIS 1 par value each, at an exercise price of NIS 6.44 as of the balance sheet date after adjustments made due to a dividend distribution (the closing share price of the Company's shares on the stock exchange on the determining date, was NIS 9.13 per share).

All of the options will be issued under Section 102 of the Income Tax Ordinance. The options issued and the shares issued upon the exercise thereof will be held by a trustee for a period of at least two years from the end of the year in which the options are issued.

In accordance with Plan 2003, at the time of exercise of the options, the Company will issue shares in an amount that reflects the amount of the monetary benefit implicit in the options, that is, the difference between the price of an ordinary share of the Company on the exercise date and the exercise price of the option.

The right to exercise the options is in three increments, as follows: one-third at the end of one year from the determining date, an additional one-third at the end of two years from the determining date and the balance at the end of three years from the determining date. The expiration date of the options is five years from the beginning of the exercise period of each increment.

Furthermore, in the framework of Plan 2003, the Company's CEO was issued 1,600,000 options which are exercisable for up to 1,600,000 of the Company's ordinary shares of NIS 1 par value each.

Notes to the Financial Statements as at December 31, 2007

NOTE 23 – SHAREHOLDERS' EQUITY (CONTD.)**B. Employee stock options (Contd.)**

2. (Contd.)

In addition, in the framework of the Plan, the Company's directors were issued a total of 1,800,000 options.

On March 8, 2004, the Company's Board of Directors decided to make an additional issuance under Plan 2003 of 1,420,000 options to the directors (who were not serving at the time of prior issuance to the directors) and to Company employee. The options were distributed during 2004.

In 2005, Company employees exercised 219,996 options for 156,868 of the Company's ordinary shares of NIS 1 par value.

In 2006, Company employees exercised 2,444,997 options for 1,749,062 of the Company's ordinary shares of NIS 1 par value.

In 2007, Company employees exercised 1,698,336 options for 1,300,239 of the Company's ordinary shares of NIS 1 par value.

After the balance date but prior to signing the financial statements, approximately 10,000 options were exercised by Company employees for approximately 8,186 of the Company's ordinary shares of NIS 1 par value each.

3. On March 13, 2005, the Company's Board of Directors decided to adopt a new stock option plan for the officers and employees of the Company and its subsidiaries (hereinafter, "Plan 2005"). Pursuant to Plan 2005, on March 14, 2005, 14,900,000 options exercisable into up to 14,900,000 of the Company's ordinary shares of NIS 1 par value each were issued, of which 800,000 options were issued to the previous Company's CEO, 11,600,000 were issued to employees of the Company and subsidiaries in Israel and overseas and the balance of 2,500,000 were issued to a trustee for purposes of future issuances.

The exercise price of the options is as follows:

Regarding the options issued to the Company's previous CEO and seven additional employees (hereinafter, "Group A") the exercise price will be equal to the opening price of the Company's shares on April 15, 2006, and if there is no trading on that date, on the first trading day thereafter.

Regarding the options issued to the other offerees (hereinafter, "Group B") the exercise price will be equal to NIS 25.10 (subject to adjustments in respect of dividend distributions), which is equal to the opening price of the Company's share on the stock exchange when the decision was made by the Company's Board of Directors (March 13, 2005).

On August 8, 2005, the Company's Board of Directors decided to revise the exercise price of the options issued to Group A so that the exercise price of these options will be equal to the exercise price determined for options issued to Group B. As of the balance sheet date, the exercise price after adjustments, as stated above, is NIS 23.94.

The cost of the benefit inherent in the said revision of the exercise price, based on fair value at the time of the revision was based on a total sum of \$566 thousand. This amount is amortized to the statement of income over the vesting period.

The options under Plan 2005 will be issued to the offerees pursuant to the provisions of Section 102 of the Income Tax Ordinance under the capital track.

Regarding offerees who will be issued options in the future, as stated above, (hereinafter, "Group C") the exercise price will be equal to the closing price of the Company's shares on the eve of the decision to issue options to them.

Notes to the Financial Statements as at December 31, 2007

NOTE 23 – SHAREHOLDERS' EQUITY (CONTD.)**B. Employee stock options (Contd.)**

3. (Contd.)

The right to exercise the options subject to the terms of Plan 2005 is in three increments, as follows: one-third at the end of two years from the determining date, an additional third at the end of three years from the determining date and the balance at the end of four years from the determining date.

The expiration date of each increment is 5 years from the beginning of its exercise period.

The determining date for Group A was fixed as April 14, 2006 (which is the end of the third and final vesting period of the employee options' plan from 2003) and for Group B and Group C, the determining date is March 13, 2005 (the approval date of the plan).

On March 8, 2006, the Company's Board of Directors decided to issue the balance of 2,500,000 of the aforementioned options to the employees. As of the balance date, the exercise price, after adjustments is NIS 22.99. The cost of the benefit inherent in the options, based on the fair value of the capital instruments granted is \$3.7 million as of the grant date. This amount is amortized to the statement of income over the vesting period of each increment. The total expense recorded in 2006 amounted to \$1,814 thousand. The total expense recorded in 2007 amounted to \$1301 thousand.

In 2007, Company employees exercised 1,609,968 options for 492,341 of the Company's ordinary shares of NIS 1 par value.

After the balance date but prior to signing the financial statements, approximately 250,000 options were exercised by Company employees for approximately 89,207 of the Company's ordinary shares of NIS 1 par value each.

4. On November 26, 2006, the Company's Board of Directors decided to issue 2,700,000 options to Mr. Avraham Bigger. The exercise premium of the options is NIS 21.61 (based on the closing rate of the Company's shares on the stock exchange on the eve of the Board of Directors' decision on the issue).

The cost of the benefit embedded in the options issued as stated, based on the fair value as of their issuance date amounted to a total of \$3,957 thousand. This amount is amortized to the statement of income over the vesting period of each increment. The total expense recorded in 2006 amounted to \$202 thousand. The total expense recorded in 2007 amounted to \$2,308 thousand.

The options will vest in three equal increments, where a third of the quantity may be exercised one year after the determining date, the second third of the quantity may be exercised two years after the determining date, and the final third three years after the determining date. The options from each increment referred to above are exercisable commencing from the vesting date, as stated, of such increment and during a period of two years from such date. The other conditions of the options will be in accordance with the conditions of the options granted to the directors approved by the Company in 2003.

5. On December 4, 2006, the Company's Board of Directors decided to issue 51,500 options to an external director. The exercise premium of the options is NIS 22.58 (based on the closing rate of the Company's shares on the stock exchange on the eve of the Board of Directors' issuance decision).

The cost of the benefit embedded in the options issued as stated, based on the fair value as of their issuance date amounted to a total of \$93 thousand. This amount is amortized to the statement of income over the vesting period of each increment. The total expense recorded in 2006 amounted to \$5 thousand. The total expense recorded in 2007 amounted to \$54 thousand.

Notes to the Financial Statements as at December 31, 2007

NOTE 23 – SHAREHOLDERS' EQUITY (CONTD.)

B. Employee stock options (Contd.)

5. (Contd.)

The determining date for issuance of the said options is July 25, 2006. The options will vest in three equal increments, where a third of the quantity may be exercised one year after the determining date, the second third of the quantity may be exercised two years after the determining date, and the final third three years after the determining date. The options from each increment referred to above are exercisable commencing from the vesting date, as stated, of such increment and during a period of five years from such date.

The other conditions of the options will be in accordance with the conditions of the options granted to the directors approved by the Company in 2003.

6. On December 27, 2006, the Company's Board of Directors decided to issue 800,000 options to Company officer who is not interested parties in the Company and will not become interested parties as a result of the issuance.

The exercise premium of the options is NIS 22.49, which is the average price of a Company share in the 30 trading days preceding the date the Company's Board of Directors approved issuance of the said options. The determining date for issuance of the said options is September 10, 2006.

The cost of the benefit embedded in the options issued as stated, based on the fair value as of their issuance date amounted to a total of \$1,363 thousand. This amount is amortized to the statement of income over the vesting period of each increment. The total expense recorded in 2006 amounted to \$208 thousand. The total expense recorded in 2007 amounted to \$719 thousand.

The options will vest in three equal increments, where one-third of the quantity may be exercised one year after the determining date, the second third of the quantity may be exercised two years after the determining date, and the final third three years after the determining date. The options from each increment referred to above are exercisable commencing from the vesting date, as stated, of such increment and during a period of two years from such date.

In 2007, 266,667 options were exercised for 99,842 shares of the Company's ordinary shares of NIS 1 par value.

The other conditions of the options will be in accordance with the conditions of the options granted to the directors approved by the Company in 2005.

7. On August 28, 2007, the Company's Board of Directors decided to issue 3,130,000 options to officers and employees of the Company and its subsidiaries. The exercise premium of the options is linked to the CPI on the determining date. The determining date for the said options is 28 August 2007.

The cost of the benefit embedded in the options issued as stated, based on the fair value as of their issuance date amounted to a total of \$5,690 thousand. This amount is amortized to the statement of income over the vesting period of each increment. The total expense recorded in 2007 amounted to approximately \$843 thousand.

The options will vest in two increments, where the first increment equaling two-thirds of the quantity may be exercised two years after the determining date and the second increment equally one-third three years after the determining date. The options from each increment referred to above are exercisable commencing from the vesting date, as stated, of such increment and during a period of six months from such date. (The exercisable period was extended to 18 months on January 8, 2008, see Note 37 of the financial statement, below).

The options under this plan were issued to the offerees pursuant to the provisions of Section 102 of the Income Tax Ordinance under the capital track.

Notes to the Financial Statements as at December 31, 2007**NOTE 23 – SHAREHOLDERS' EQUITY (CONTD.)****B. Employee stock options (Contd.)**

8. The following table shows the movement of options during 2006 and 2007.

	<u>Plan 2001</u>	<u>Plan 2003</u>	<u>Plan 2005</u>	<u>Plan 2006</u>	<u>Total</u>
Balance at					
January 1, 2006	2,986,372	4,494,341	12,040,000	-	19,520,713
Granted during the year	-	-	2,500,000	3,551,500	6,051,500
Forfeited during the year	(6,667)	-	-	-	(6,667)
Exercised during the year	<u>(1,627,552)</u>	<u>(2,444,997)</u>	-	-	<u>(4,072,549)</u>
Total options outstanding as at					
December 31, 2006	<u>1,352,153</u>	<u>2,049,344</u>	<u>14,540,000</u>	<u>3,551,500</u>	<u>21,492,997</u>

The weighted-average of the balance of the contract life of the outstanding options as of December 31, 2006, is 5.5 years.

	<u>Plan 2001</u>	<u>Plan 2003</u>	<u>Plan 2005</u>	<u>Plan 2006</u>	<u>Plan 2007</u>	<u>Total</u>
Balance at						
January 1, 2007	1,352,153	2,049,344	14,540,000	3,551,500	-	21,492,997
Granted during the year	-	-	-	-	3,130,000	3,130,000
Forfeited during the year	(30,000)	(36,667)	(2,888,334)	-	-	(2,955,001)
Exercised during the year	<u>(1,233,666)</u>	<u>(1,698,336)</u>	<u>(1,609,968)</u>	<u>(266,667)</u>	-	<u>(4,808,637)</u>
Total options outstanding as at						
December 31, 2007	<u>88,487</u>	<u>314,341</u>	<u>10,041,698</u>	<u>3,284,833</u>	<u>3,130,000</u>	<u>16,859,359</u>

The weighted-average of the balance of the contract life of the outstanding options as of December 31, 2007, is 4.6 years.

9. The fair value of the options granted, as stated, was estimated through use of the Black and Scholes Model for pricing options. The parameters used in application of the model are as follows:

	<u>1st issue</u>	<u>2nd issue</u>	<u>3rd issue</u>	<u>4th issue</u>	<u>5th issue</u>
Share price (NIS)	23.52	21.61	22.0	24.18	31.90
Exercise premium (NIS)	22.99	21.61	22.58	22.49	30.07*
Anticipated fluctuations	25.83%	25.17%	27.24%	25.29%	25.38%
Life of the option (in years)	4.5	4	6.6	3.7	3
Riskless interest rate	6.13%	5.62%	5.59%	5.4%	3.28%
Fair value (NIS thousands)	17,661	17,040	391	5,718	23,470

* Linked to the CPI.

The anticipated fluctuations were determined based on the historical fluctuations in prices of the Company's shares.

The lifespan of the options was determined based on management's estimate with respect to the holding period by the employees of the options taking into account their positions with the Company and the Company's past experience regarding the employee turnover rate.

The risk-free interest rate was determined based on the yield to redemption on government shekel debentures, where the balance of their period is equal over the anticipated lifespan of the options.

Notes to the Financial Statements as at December 31, 2007**NOTE 23 – SHAREHOLDERS' EQUITY (CONTD.)****C. Buy-Back of Shares**

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

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

As of the balance sheet date, the Company holds 24,875,703 par value of its own shares, constituting approximately 5.3% of its total issued and paid-up share capital in the amount of \$134 million.

In August 2006, the Company's Board of Directors approved the conclusion of the buy back plan with respect to the shares, due to its completion.

D. Dividend distribution policy

On March 8, 2006, the Company's Board of Directors decided to make a change regarding the dividend distribution policy, such that commencing with the fourth quarter of 2005, a dividend will be distributed at the rate of up to 50% of the net earnings for the period.

On March 12, 2007, the Company's Board of Directors decided to cancel the policy of distributing dividends at a fixed rate of the income as stated above. From time to time, the Board of Directors will examine the possibility of making dividend distributions and the amount thereof in accordance with the investment policy and the Company's needs as they will be from time to time, in addition to the existence of sufficient distributable earnings.

NOTE 24 – LINKAGE TERMS OF MONETARY BALANCES**Consolidated****December 31, 2007**

	In or linked to US dollars	In Euro	In or linked to another currency	In Brazilian reals	In Israel currency	Total
	\$ thousands	\$ thousands	\$ thousands	\$ thousands	\$ thousands	\$ thousands
Assets:						
Cash and cash equivalents	113,544	46,564	21,537	8,204	8,305	198,154
Short-term investments	6,209	-	1,549	-	89,066	96,824
Trade and other receivables	300,376	153,001	89,288	100,409	23,829	666,903
Long-term investments, loans and other receivables	3,374	2,078	1,825	34,854	2,600	44,731
	<u>423,503</u>	<u>201,643</u>	<u>114,199</u>	<u>143,467</u>	<u>123,800</u>	<u>1,006,612</u>
Liabilities:						
Credit from banks (not including current maturities)	28,259	25,786	5,860	25,861	147	85,913
Trade and other payables	370,699	142,632	55,892	40,629	94,907	704,759
Loans from banks (including current maturities) and other long-term liabilities	20,758	6,986	1,491	5,639	-	34,874
Employee severance benefits, net	228	2,341	303	1,276	39,992	44,140
Debentures	667	-	-	-	594,493	595,160
	<u>420,611</u>	<u>177,745</u>	<u>63,546</u>	<u>73,405</u>	<u>729,539</u>	<u>1,464,846</u>

Notes to the Financial Statements as at December 31, 2007

NOTE 24 – LINKAGE TERMS OF MONETARY BALANCES (CONTD.)

Consolidated (Contd.)

December 31, 2006

	In or linked to US dollars	In Euro	In or linked to another currency	In Brazilian reals	In Israel currency	Total
	\$ thousands	\$ thousands	\$ thousands	\$ thousands	\$ thousands	\$ thousands
Assets:						
Cash and cash equivalents	61,771	15,276	7,849	23,262	216,204	324,362
Short-term investments	889	-	-	-	817	1,706
Trade and other receivables	253,697	111,498	127,030	52,044	21,887	566,156
Long-term investments, loans and other receivables	1,688	2,832	11,927	1,566	2,367	20,380
	<u>318,045</u>	<u>129,606</u>	<u>146,806</u>	<u>76,872</u>	<u>241,275</u>	<u>912,604</u>
Liabilities:						
Credit from banks (not including current maturities)	61,334	24,746	1,247	9,099	1,456	97,882
Trade and other payables	250,467	128,629	83,781	58,370	115,733	636,980
Loans from banks (including current maturities) and other long-term liabilities	34,418	12,850	2,794	404	-	50,466
Employee severance benefits, net	166	2,075	-	1,266	34,624	38,131
Debentures	-	-	-	-	554,728	554,728
Convertible debentures	12,730	-	-	-	-	12,730
	<u>359,115</u>	<u>168,300</u>	<u>87,822</u>	<u>69,139</u>	<u>706,541</u>	<u>1,390,917</u>

With respect to futures transactions in foreign currency, see Note 34.

NOTE 25 – REVENUES

Consolidated

	For the year ended December 31		
	2007	2006	2005
	\$ thousands	\$ thousands	\$ thousands
Foreign sales -			
As part of industrial operations	<u>1,744,090</u>	1,502,392	1,465,333
As part of commercial operations	<u>235,402</u>	165,205	165,221
	<u>1,979,492</u>	<u>1,667,597</u>	<u>1,630,554</u>
Domestic sales -			
As part of industrial operations	<u>62,339</u>	56,835	48,678
As part of commercial operations	<u>39,415</u>	54,324	61,485
	<u>101,754</u>	<u>111,159</u>	<u>110,163</u>
	<u>2,081,246</u>	<u>1,778,756</u>	<u>1,740,717</u>

Notes to the Financial Statements as at December 31, 2007**NOTE 26 – COST OF SALES****Consolidated**

	For the year ended December 31		
	2007	2006	2005
	\$ thousands	\$ thousands	\$ thousands
As part of industrial operations:			
Materials	937,548	807,846	766,681
Work	94,350	82,794	76,147
External work	24,714	21,953	26,251
Other production expenses	115,931	103,670	98,885
Depreciation	33,554	30,768	29,269
	1,206,097	1,047,031	997,233
Change in finished products and goods in process inventory	(29,596)	(32,893)	(96,162)
	1,176,501	1,014,138	901,071
As part of commercial operations:			
Cost of merchandise sold	207,379	157,879	158,644
	1,383,880	1,172,017	1,059,715

NOTE 27 – NET RESEARCH AND DEVELOPMENT EXPENSES**Consolidated**

	For the year ended December 31		
	2007	2006	2005
	\$ thousands	\$ thousands	\$ thousands
Salaries and related expenses	12,662	11,093	11,627
Materials	279	205	351
Other expenses	7,478	8,522	9,093
	20,419	19,820	21,071
Less -			
Government participation in R&D expenses	(735)	(819)	(443)
	19,684	19,001	20,628

Notes to the Financial Statements as at December 31, 2007**NOTE 28 – SALES AND MARKETING EXPENSES****Consolidated**

	For the year ended December 31		
	2007	2006	2005
	\$ thousands	\$ thousands	\$ thousands
Salaries and related expenses	85,418	77,376	66,927
Commissions and delivery costs	86,618	78,483	75,121
Advertising	21,581	24,399	20,933
Depreciation and amortization	41,208	39,858	32,936
Registration	25,252	27,096	21,753
Professional services	8,568	7,234	7,035
Insurance and taxes	9,826	8,786	7,929
Royalties to the Chief Scientist	3,120	2,148	3,894
Other	34,764	37,797	31,390
	316,355	303,177	267,918

NOTE 29 – GENERAL AND ADMINISTRATIVE EXPENSES**Consolidated**

	For the year ended December 31		
	2007	2006	2005
	\$ thousands	\$ thousands	\$ thousands
Salaries and related expenses	35,398	30,666	24,992
Administrative services and directors' fees to Koor and the IDB Group	128	2,031	2,548
Depreciation and amortization	4,119	4,506	4,563
Bad and doubtful debts	3,666	16,482	5,909
Professional services	11,828	11,882	8,550
Insurance	2,873	2,534	2,903
Other	15,685	12,666	12,586
	73,697	80,767	62,051

Company

	For the year ended December 31		
	2007	2006	2005
	\$ thousands	\$ thousands	\$ thousands
Salaries and related expenses	13,227	10,638	5,333
Administrative services and directors' fees to Koor and the IDB Group	128	2,031	2,548
Depreciation and amortization	583	367	226
Professional services	3,429	3,255	2,109
Other	4,119	3,208	2,774
	21,486	19,499	12,990

Notes to the Financial Statements as at December 31, 2007

NOTE 30 – NET FINANCING EXPENSES (INCOME)

Consolidated

	For the year ended December 31		
	2007	2006	2005
	\$ thousands	\$ thousands	\$ thousands
In respect of long-term liabilities, net	59,029	13,115	6,646
In respect of short-term liabilities and credit, net	2,431	31,129	27,927
In respect of short-term investments	(12,144)	-	-
Financing expenses, net	<u>49,316</u>	<u>44,244</u>	<u>34,573</u>

Company

	For the year ended December 31		
	2007	2006	2005
	\$ thousands	\$ thousands	\$ thousands
Expenses –			
In respect of long-term liabilities	55,056	4,924	11,607
In respect of short-term liabilities and credit	-	3,080	245
	55,056	8,004	11,852
Less–			
Financing revenues	(74,342)	(19,817)	(2,797)
Financing expenses (revenues), net	<u>(19,286)</u>	<u>(11,813)</u>	<u>9,055</u>

Notes to the Financial Statements as at December 31, 2007**NOTE 31 – OTHER NET EXPENSES****Consolidated**

	For the year ended December 31		
	2007	2006	2005
	\$ thousands	\$ thousands	\$ thousands
Expenses in respect of early retirement of employees and payment of early pension benefits ⁽¹⁾	9,562	18,325	5,936
Expenses relating to sale of trade receivables as part of securitization transaction	15,135	13,345	8,989
Loss on sale of fixed assets and other, net	(25)	299	1,665
Provision for loss with respect to options granted to employees of subsidiaries	-	-	55
Amortization of goodwill in investee companies	-	-	9,870
Amortization of intangible assets on purchase of products	11,444	11,334	11,533
Provision for legal claims	(9,427)	19,729	6,000
Earnings from sale of subsidiaries and others	(13,682)	-	-
Amortization of other assets	5,289	14,986	7,054
Other income, net	235	(3,377)	(6,891)
	18,531	74,641	44,211

- (1) In 2006, the Company recorded expenses in respect of early retirement and pension of employees due to streamlining plans in the Company's plants in Israel and Brazil. In 2007, the Company recorded additional expenses in respect of early retirement and pension of employees at its factories in Israel.

NOTE 32 – TRANSACTIONS AND BALANCES WITH RELATED AND INTERESTED PARTIES**A. Transactions with interested parties**

In July 2006, Discount Services of the I.D.B. Group acquired shares of Koor Industries Ltd. from the prior shareholders.

- On April 1, 2000, the Company signed an agreement with Koor according to which the Company will pay Koor \$2.5 million per year for consulting and management services to be rendered by Koor to the Company. The agreement ended in May 2006.

In addition, the Company pays directors' fees to Koor Industries Ltd. and the I. D. B. Group in amounts identical to those paid to public directors, see section B, below.

- The Company has an agreement covering management fees with Agan and Makhteshim according to which Agan and Makhteshim pay management fees at the rate of 1.8% of the annual revenues. In 2007, Makhteshim and Agan paid management fees to the Company amounting to approximately \$16.8 million (in 2006, to approximately \$14 million and in 2005, to approximately \$14.2 million).
- The Company entered in an agreement with the former CEO of Millennia (who was a director of the Company), covering non-competition and confidentiality, pursuant to which on 30 April 2002 (shortly after the termination of his service as Millennia's CEO), he received 1,000,000 of the Company's shares in consideration for his agreement not to compete with the Company and to protect all the Company's confidential information.

The agreement is valid for a period up to July 2007 or the end of three years from the date on which he ceases to serve as CEO, director or other position in one of the Group companies, whichever is later.

Notes to the Financial Statements as at December 31, 2007**NOTE 32 – TRANSACTIONS AND BALANCES WITH RELATED AND INTERESTED PARTIES (CONTD.)****A. Transactions with interested parties (Contd.)**

4. On February 17, 2008, the Company's General Assembly resolved to again appoint Mr. Avraham Bigger as Chairman of the Company's Board of Directors for a period of another three years from the date of the General Assembly's decision, in addition to his position as the Company's CEO, after the General Assembly of the Company had, on 10 January 2007, appointed Mr. Bigger as CEO of the Company for one year, in addition to being Chairman of the Company's Board of Directors.
5. The Company's Audit Committee, at its meeting on 26 December 2007, the Board of Directors, at its meeting on 9 January 2008 and the General Assembly of the Company, which met on 17 February 2008, approved the Company's relationship, in accordance with the amendment to the management services agreement between the Company and the company that provides it with management services, including the services of the Chairman of the Board of Directors and/or CEO of the Company through Mr. Avraham Bigger, and in that context the relationship with the company controlled by Mr. Bigger was reorganized, as well as the annual bonus that will be paid to it, if the predetermined goals are met.
6. Regarding insurance and indemnification of interested parties, see Note 21(A)(1) and (2). The insurance was purchased from Clal Insurance Company, Ltd., which is controlled by I. D. B. Development Company, Ltd.
7. Regarding options granted to interested parties, see Note 23B and Note 36.

Please find below details of the transactions:

Consolidated

	For the year ended December 31		
	2007	2006	2005
	\$ thousands	\$ thousands	\$ thousands
Management services to Koor	-	2,031	2,500
Other related parties:			
Revenues -	4,286	6,834	6,368
Expenses -	13,142	4,340	1,303

Notes to the Financial Statements as at December 31, 2007

NOTE 32 – TRANSACTIONS AND BALANCES WITH RELATED AND INTERESTED PARTIES (CONTD.)

B. Benefits to interested parties

Consolidated

	For the year ended December 31		
	2007	2006	2005
	\$ thousands	\$ thousands	\$ thousands
Fees to interested parties employed by the Group****	2,667	1,693	1,152
Number of interested parties	1	1	1
Fees to directors appointed by Koor and IDB	128	71	47
Number of directors	8***	9**	5*
Fees to other directors	69	59	77
Number of directors	4	6	6
Expenses in respect of options to directors	54	5	-
Number of directors	1	1	-

(*) In July 2005, two out of the five ceased to be interested parties.

(**) During 2006, a number of directors were replaced, including external directors.

(***) During 2007, a number of directors were replaced, including external directors.

(****) Does not include benefits based on shares to which Accounting Standard No. 24 does not apply and for which no expense was recorded in the financial statements.

Not including the annual grant that will be paid to the company controlled by the CEO and Chairman of the Board of Directors for 2007, according to the set criteria that were first approved by the General Assembly on February 17, 2008, in the amount of NIS 2,907 thousand.

Including expenses for options to which Accounting Standard No. 24 applies, for a total of \$2,308 thousand.

Notes to the Financial Statements as at December 31, 2007**NOTE 32 – TRANSACTIONS AND BALANCES WITH RELATED AND INTERESTED PARTIES (CONTD.)****C. Balances with related and interested parties****Consolidated**

	<u>December 31</u> <u>2007</u> <u>\$ thousands</u>	<u>December 31</u> <u>2006</u> <u>\$ thousands</u>
Trade receivables (1) - Related parties	<u>1,198</u>	<u>2,145</u>
Trade payables - Related parties	<u>2,402</u>	<u>4,017</u>
Other payables and credit balances	<u>-</u>	<u>1,118</u>
Severance pay fund administered by related companies	<u>2,222</u>	<u>2,706</u>
(1) Highest balance during the year - trade receivables	<u>2,067</u>	<u>4,082</u>

NOTE 33 – EARNINGS PER SHARE**Basic earnings per share**

Calculation of the earnings per share for the year ending December 31, 2007, is based on the earnings allocated to the holders of the ordinary shares in the amount of \$178,230 thousand (in 2006, \$83,919; in 2005, \$204,828 thousand), divided by the weighted-average number of ordinary shares outstanding of 441,025 thousand shares (in 2006, 431,806 thousand shares; in 2005, 421,577 thousand shares), calculated as follows:

	<u>For the year ended December 31</u>		
	<u>2007</u>	<u>2006</u>	<u>2005</u>
	<u>Continued operations</u>		
	<u>\$ thousands</u>	<u>\$ thousands</u>	<u>\$ thousands</u>
Earnings attributed to the shareholders	<u>178,230</u>	<u>83,919</u>	<u>204,828</u>
	<u>For the year ended December 31</u>		
	<u>2007</u>	<u>2006</u>	<u>2005</u>
	<u>thousand shares</u>		
Weighted average of the number of ordinary shares			
Balance as at January 1	<u>465,352</u>	<u>452,919</u>	<u>402,088</u>
Less shares of the Company held by the Company and subsidiaries	<u>(29,291)</u>	<u>(26,472)</u>	<u>(6,563)</u>
With the addition of convertible securities that were exercised into shares	<u>4,964</u>	<u>5,359</u>	<u>26,052</u>
Weighted average of the number of ordinary shares used in the computation of basic earnings per share	<u>441,025</u>	<u>431,806</u>	<u>421,577</u>

Notes to the Financial Statements as at December 31, 2007**NOTE 33 – EARNINGS PER SHARE (CONTD.)****Fully diluted earning per share**

Calculation of diluted earnings per share for the year ending December 31, 2007, is based on the earnings allocated to the holders of the ordinary shares in the amount of \$177,984 thousand (in 2006, \$84,299 thousand; in 2005, \$206,187 thousand), divided by the weighted-average number of ordinary shares outstanding of 447,522 thousand shares (in 2006, 447,190 thousand shares; in 2005, 463,345 thousand shares), calculated as follows:

	For the year ended December 31		
	2007	2006	2005
	Continued operations		
	thousand dollars		
Earnings used in computation of basic earnings per share	178,230	83,919	204,828
Adjustments in respect of convertible securities in subsidiary	(246)	(342)	(414)
Interest expenses on convertible debentures net of tax	-	722	1,773
Earning attributed to the shareholders (fully diluted)	177,984	84,299	206,187
	For the year ended December 31		
	2007	2006	2005
	thousand shares		
Weighted average of the number of ordinary shares:			
Weighted average of the number of ordinary shares used in the computation of basic earnings per share	441,025	431,806	421,577
Effect of convertible debentures	2,241	11,563	29,138
Effect of options to shares	4,256	3,821	12,630
Weighted average of the number of ordinary shares used in the computation of diluted earnings per share	447,522	447,190	463,345

NOTE 34 – FINANCIAL INSTRUMENTS AND RISK MANAGEMENT**A. General**

The Group has extensive international operations, and, therefore, it is exposed to risks that derive from exchange rate fluctuations and to changes in interest rates, in respect of credit received. In order to reduce the overall exposure to those risks, the Group uses financial instruments, including forward transactions and options (hereinafter, "the Derivatives"). The Group does not trade in financial instruments.

Transactions in derivatives are undertaken with major financial institutions in Israel and abroad and, therefore, in the opinion of Group Management the credit risk in respect thereof is low.

B. Exchange rate risk management

The Group uses foreign currency derivatives – forward transactions and currency options – in order to hedge the risk that the dollar cash flows, which derive from existing assets and liabilities and anticipated sales and costs, may be affected by exchange rate fluctuations.

As of December 31, 2007, the Company and its subsidiaries had open forward exchange contracts, which are intended to hedge exposure with respect to assets and liabilities in foreign currency, as described below:

Notes to the Financial Statements as at December 31, 2007

OTE 34 – FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTD.)

B. Exchange rate risk management (Contd.)

	<u>Currency receivable</u>	<u>Currency payable</u>	<u>Average expiration date</u>	<u>Amount receivable</u>	<u>Amount payable</u>	<u>Fair value</u>	<u>Accounting fair value</u>	<u>Economic fair value</u>
				\$ thousand	\$ thousand	\$ thousand	\$ thousand	\$ thousand
Forward transaction								
	USD	GBP	17/03/2008	5,839	5,854	10	10	-
	ILS	USD	06/02/2008	283,692	265,000	18,710	18,710	-
	USD	PLN	21/02/2008	11,746	11,892	(505)	(505)	-
	USD	AUD	03/01/2008	8,000	7,997	(144)	(144)	-
	USD	ZAR	10/02/2008	16,045	16,199	(863)	(711)	(152)
	<u>Currency receivable</u>	<u>Currency payable</u>	<u>Average expiration date</u>	<u>Amount receivable</u>	<u>Amount payable</u>	<u>Fair value</u>	<u>Accounting fair value</u>	<u>Economic fair value</u>
				\$ thousand	\$ thousand	\$ thousand	\$ thousand	\$ thousand
Options acquired								
	USD	EUR	05/03/2008	369,605	345,383	1,020	193	827
	EUR	USD	28/08/2008	46,785	46,826	61	-	61
	USD	GBP	14/05/2008	50,314	49,323	738	311	427
	GBP	USD	04/09/2008	14,609	14,118	13	-	13
	ILS	USD	25/04/2008	53,000	56,503	3,452	-	3,452
	USD	PLN	07/03/2008	92,123	80,591	178	58	120
	PLN	USD	10/03/2008	1,569	1,640	90	-	90
	USD	AUD	08/04/2008	18,697	17,315	143	126	17
	AUD	USD	08/06/2008	6,423	6,231	16	7	9
	USD	BRL	12/01/2008	104,425	100,000	241	241	-
	ZAR	USD	22/05/2008	3,902	4,243	236	160	76
	<u>Currency receivable</u>	<u>Currency payable</u>	<u>Average expiration date</u>	<u>Amount receivable</u>	<u>Amount payable</u>	<u>Fair value</u>	<u>Accounting fair value</u>	<u>Economic fair value</u>
				\$ thousand	\$ thousand	\$ thousand	\$ thousand	\$ thousand
Options written								
	USD	EUR	12/05/2008	330,176	338,955	(12,679)	(1,774)	(10,905)
	USD	GBP	17/05/2008	50,328	48,894	(477)	(157)	(321)
	ILS	USD	22/04/2008	60,590	53,000	(9)	-	(9)
	USD	PLN	03/03/2008	69,732	74,012	(4,390)	(1,120)	(3,270)
	PLN	USD	10/03/2008	1,640	1,379	-	-	-
	USD	AUD	11/04/2008	17,105	16,985	(385)	(105)	(280)
	AUD	USD	18/08/2008	1,686	1,888	(15)	-	(15)
	USD	BRL	04/02/2008	40,000	40,674	(1,134)	(1,134)	-
	USD	ZAR	25/08/2008	4,093	4,096	(20)	-	(20)
	ZAR	USD	19/05/2008	4,536	3,576	(38)	-	(38)

The accounting transactions were recorded numerically according to fair value. The economic transactions were not recorded parallel to the non-recording of hedged assets and obligations.

Notes to the Financial Statements as at December 31, 2007

NOTE 34 – FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTD.)**C. Credit risks**General

The Group's revenues are derived from a large number of widely dispersed customers in many different countries. Customers include multi-national companies and manufacturing companies, as well as distributors, agriculturists and agents of plant protection chemicals manufacturers who purchase the products either as finished goods or as intermediate products for their own requirements.

The financial statements contain specific provisions for doubtful debts, which properly reflect in management's estimate, the loss inherent in debts, for which collection is in doubt. Up to June 2004, the Company insured its trade receivables by means of credit insurance in a joint policy with the entire Makhteshim-Agan Group. Pursuant to the policy, the aggregate amount of credit insurance for the entire Group was an annual cumulative amount of \$25 million. The terms of the insurance policy require the implementation of a credit control system for the entire Group in accordance with procedures stipulated in the insurance policy. In July 2004, the Company discontinued the said insurance due to its not being worthwhile. In April 2005, the Company renewed the said policy after changing the insurance amount to approximately \$30 million and increasing the deductible to \$7.5 million. The said policy was effective up to April 2006. In April 2006, the Company signed a new agreement with an international insurance company. The cumulative amount of the insurance coverage was changed to \$65 million cumulative per year and the deductible was reduced. The indemnification from the insurer is full indemnification up to a sum of \$10 million for securitized customers. For sums exceeding \$10 million up to \$65 million the indemnification is 80% of the debt of securitized customers and for remaining customers, indemnification is limited to 90%. Of the debt for the event

Notes to the Financial Statements as at December 31, 2007**NOTE 34 – FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTD.)****D. Interest risks**

The following table presents the book values of the Group's financial instruments that are exposed to fair value and/or cash flow risks in respect of interest rates, based the repayment dates or the price re-determining dates, whichever is earlier:

	<u>Note</u>	<u>Average effective interest rate</u>	<u>Total</u>	<u>Up to 1 year</u>	<u>1-2 years</u>	<u>2-3 years</u>	<u>3-4 years</u>	<u>5 years and above</u>
	<u>\$ thousands</u>	<u>\$ thousands</u>	<u>\$ thousands</u>	<u>\$ thousands</u>	<u>\$ thousands</u>	<u>\$ thousands</u>	<u>\$ thousands</u>	<u>\$ thousands</u>
Financial assets								
Cash and cash equivalents		4%	198,154	198,154				
Investments, loans and long-term debits	9	6.5%	45,941	1,210	9,771	9,986	11,683	13,291
			244,095	199,364	9,771	9,986	11,683	13,291
Financial liabilities								
Short-term credit from banks	12	6-14%	85,913	85,913				
Long-term credit from banks	15	6-7%	27,744	2,692	11,444	6,385	4,586	2,637
Debentures	17	5.15-6.5%	595,160	-	-	-	-	595,160
			708,817	88,605	11,444	6,385	4,586	597,797

Notes to the Financial Statements as at December 31, 2007**NOTE 34 – FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTD.)****E. Currency risks**

As of December 31, 2007, monetary assets in excess of monetary liabilities in Brazilian reals amounted to approximately \$76 million, monetary liabilities in Israeli shekels in excess of monetary assets in new Israel shekels amounted to approximately \$596 million and monetary liabilities in excess of monetary assets in Euro amounted to approximately \$24 million.

The Group has taken measures to reduce the exposure in respect to this excess as described in Note B. above.

Regarding the linked balance sheet covering monetary balances, see Note 24.

F. Fair value of financial instruments

The following table details the book and fair values of the Group's financial instruments, which are not presented in the financial statements based on their fair values:

	December 31, 2007	
	Carrying value	Fair value
	\$ thousand	\$ thousand
Financial assets		
Investments, loans and long-term debits (1)	45,941	40,869
Financial liabilities		
Short-term credit from banks	85,913	85,955
Long-term credit (2)	27,744	30,008
Debentures (3)	595,160	607,713

- (1) The fair value of the long-term loans granted is based on calculation of the present value of the cash flows in accordance with the customary rate for similar loans having comparable characteristics.
- (2) The fair value of the long-term loans received is based on calculation of the present value of the cash flows in accordance with the customary rate for similar loans having comparable characteristics.
- (3) The fair value of the debentures is calculated based on the proceeds on the issuance date.

The book value of the cash and cash equivalents, short-term investments, and receivables and other debits, trade payables and other payables and credits equal or approximate their fair values.

G. Sensitivity analysis

As part of management of the interest and currency risks, the Group strives to reduce the impact of short-term fluctuations on its revenues. On the other hand, in the long run, changes in the foreign currency and interest rates have an effect on the Group's earnings.

As of December 31, 2007, the Group estimates that an increase of 1% in the interest rate will give rise to a pre-tax increase in the fair value of its assets and liabilities in the amount of \$2,391 thousand for the year ending December 31, 2007. The calculation includes the impact of the Group's interest rate "swap" transactions.

Notes to the Financial Statements as at December 31, 2007

NOTE 34 – FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTD.)**G. Sensitivity analysis (Contd.)**

In addition, the Company estimates that an increase of 1% in the exchange rate of the Euro will give rise to a pre-tax decrease in the fair value of its assets and liabilities in the amount of \$622 thousand for the year ending December 31, 2007. The calculation includes the impact of the Group's financial derivatives.

In addition, the Company estimates that an increase of one percent in the exchange rate of the NIS will give rise to a pre-tax increase in the fair value of its assets and liabilities in the amount of \$898 thousand for the year ending December 31, 2007. The calculation includes the impact of the Group's financial derivatives.

NOTE 35 – 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 returns to which it is exposed. In formulation of the segments' report, the Company examined the risks and returns deriving from the various segments, along with the nature of the products, production processes, product consumers and methods used for product distribution.

The Company operates in the following areas:

- Activity in the products plant protection market (Agro)
This is the main area of the Company's operation and includes the manufacture and marketing of conventional plant protection products.
- Non-Agro activity
This field of activity includes a large number of sub-fields, including: Lykopan (an oxidization retardant), aromatic products, and other chemicals. It combines all the Company's activities not included in the agro-products segment.

Notes to the Financial Statements as at December 31, 2007

NOTE 35 – SEGMENT INFORMATION (CONTD.)

A. Products and services: (Contd.)

	For the year ended December 31, 2007			
	Agro activity	Non-Agro activity	Adjustments	Consolidated
	\$ thousands	\$ thousands	\$ thousands	\$ thousands
Information on Statement of Income				
Revenues				
External revenues	1,894,935	186,311	-	2,081,246
Inter-segment revenues	-	5,230	(5,230)	-
Total revenues	<u>1,894,935</u>	<u>191,541</u>	<u>(5,230)</u>	<u>2,081,246</u>
Results				
Sector results	267,745	19,885		287,630
Financing expenses				(49,316)
Other expenses				(18,531)
Taxes on income				(31,953)
Minority interest in earnings of subsidiaries				(9,600)
Net income				<u>178,230</u>
Additional Information				
Segment assets	2,170,723	213,078		2,383,801
Unallocated assets				504,895
Total consolidated assets				<u>2,888,696</u>
Segment liabilities	454,314	27,623		481,937
Unallocated liabilities				1,072,272
Total consolidated liabilities				<u>1,554,209</u>
Capital investments for the year	<u>119,086</u>	<u>6,066</u>		<u>125,152</u>
Depreciation and amortization for the year	<u>85,456</u>	<u>9,552</u>		<u>95,008</u>

Notes to the Financial Statements as at December 31, 2007

NOTE 35 – SEGMENT INFORMATION (CONTD.)

A. Products and services: (Contd.)

	For the year ended December 31, 2006			
	Agro activity	Non-Agro activity	Adjustments	Consolidated
	\$ thousands	\$ thousands	\$ thousands	\$ thousands
Information on Statement of Income				
Revenues				
External revenues	1,581,328	197,428	-	1,778,756
Inter-segment revenues	-	2,342	(2,342)	-
Total revenues	<u>1,581,328</u>	<u>199,770</u>	<u>(2,342)</u>	<u>1,778,756</u>
Results				
Sector results	192,900	10,894	-	203,794
Financing expenses, net				(44,244)
Other expenses, net				(74,641)
Taxes on income				1,438
Company's share in earnings of affiliates				254
Minority interest in earnings of subsidiaries				(2,682)
Net income				<u>83,919</u>
Additional Information				
Segment assets	1,924,248	213,613		2,137,861
Equity basis investments				2,496
Unallocated assets				478,565
Total consolidated assets				<u>2,618,922</u>
Segment liabilities	369,568	35,637		405,205
Unallocated liabilities				1,081,999
Total consolidated liabilities				<u>1,487,204</u>
Capital investments	<u>122,215</u>	<u>17,433</u>		<u>139,648</u>
Depreciation and amortization	<u>93,706</u>	<u>9,384</u>		<u>103,090</u>

Notes to the Financial Statements as at December 31, 2007

NOTE 35 – SEGMENT INFORMATION (CONTD.)

A. Products and services: (Contd.)

	For the year ended December 31, 2005			
	Agro activity	Non-Agro activity	Adjustments	Consolidated
	\$ thousands	\$ thousands	\$ thousands	\$ thousands
Information on Statement of Income				
Revenues				
External revenues	1,542,859	197,858	-	1,740,717
Inter-segment revenues	-	3,443	(3,443)	-
Total revenues	<u>1,542,859</u>	<u>201,301</u>	<u>(3,443)</u>	<u>1,740,717</u>
Results				
Sector results	305,743	24,662	-	330,405
Financing expenses, net				(34,573)
Other expenses, net				(44,211)
Taxes on income				(39,952)
Minority interest in earnings of subsidiaries				(4,816)
Earnings from continuing operations				<u>206,853</u>
Cumulative effect as at the beginning of the year in respect of the change in accounting method				(2,025)
Net income				<u>204,828</u>
Additional Information				
Segment assets	1,743,470	206,049		1,949,519
Unallocated assets				196,628
Total consolidated assets				<u>2,146,147</u>
Segment liabilities	332,603	34,009		366,612
Unallocated liabilities				645,348
Total consolidated liabilities				<u>1,011,960</u>
Capital investments	<u>84,813</u>	<u>12,713</u>		<u>97,526</u>
Depreciation and amortization	<u>86,740</u>	<u>9,224</u>		<u>95,964</u>

Notes to the Financial Statements as at December 31, 2007**NOTE 35 – SEGMENT INFORMATION (CONTD.)****B. Geographic**

Please find below the revenues from sales according to geographic segments based on the location of the customers (sales' targets):

	For the year ended December 31		
	2007	2006	2005
	\$ thousands	\$ thousands	\$ thousands
Israel	102,460	111,565	110,163
Latin America	542,839	430,042	422,777
Europe	817,717	689,965	700,912
North America	390,781	349,404	308,798
Rest of the world	227,449	197,780	198,067
	<u>2,081,246</u>	<u>1,778,756</u>	<u>1,740,717</u>

Assets according to geographic segments based on the location of the customers (customer balances):

	Total sector assets	
	2007	2006
	\$ thousands	\$ thousands
Israel	8,065	2,650
Latin America	276,682	285,367
Europe	167,526	104,403
North America	45,441	47,833
Rest of the world	56,247	46,115
	<u>553,961</u>	<u>486,368</u>

Notes to the Financial Statements as at December 31, 2007

NOTE 36 – EXPLANATION REGARDING THE IMPACT OF THE TRANSITION TO IFRS

Pursuant to the instructions of Accounting Standard No. 29, "Adoption of International Financial Reporting Standards (IFRS)" (hereinafter, "Standard 29"), commencing with financial statements for the first quarter of 2008, the Company is obligated to prepare its financial statements pursuant to standards for international statements (hereinafter, "the mandatory adoption date.")

Standard 29 states that a corporation, which prepares its first financial statements in accordance with the IFRS Standards on the mandatory adoption date, shall include in the notes of its financial statements for the year ending December 31, 2007, the balance-sheet data as of December 31, 2007 and the statement of income data for the year then ended, after they have undergone application of the recognition, measurement and presentation rules of IFRS Standards.

An explanation of the impact of the transition from the accounting standards accepted in Israel to IFRS on the financial position of the Group, the results of its activities are presented in the tables and notes below.

This note was prepared on the basis of the international accounting and financial reporting standards and the clarifications thereof (hereinafter, IFRS) standards, that are known today, have been published or are possible to adopt earlier than the Group's first annual statement according to IFRS, December 31, 2008. Accordingly, the management of the Group was guided by the guidelines regarding the accounting policies that are expected to be adopted when the first annual financial statements are prepared according to IFRS for the year ending December 31, 2008.

The IFRS Standards that will be valid or that can be adopted for annual financial statements for the year ending December 31, 2008 are subject to changes and the publication of additional clarifications and therefore, they can not be determined with certainty. Accordingly, the accounting standards that are being implemented for the period presented will be determined conclusively only when the first annual statement according to IFRS is prepared, as of December 31, 2008.

Notes to the Financial Statements as at December 31, 2007

NOTE 36 – EXPLANATION REGARDING THE IMPACT OF THE TRANSITION TO IFRS (CONTD.)

Note*	Accounting methods customary in Israel	Effect of the transition	IFRS	Accounting methods used in Israel	Effect of the transition	IFRS
	January 1, 2007			December 31, 2007		
	\$ thousands			\$ thousands		
Current assets						
Cash and cash equivalents	324,362	-	324,362	198,154	-	198,154
Long-term investments	1,706	(817)	889	96,824	(965)	95,859
Trade receivables	(F)(Q) 421,455	260,441	681,896	429,776	22,181	451,957
Deferred debt note with respect to sale of customer debts	(F) 64,913	(64,913)	-	124,185	-	124,185
Other receivables and debit balances	(E)(G) 94,725	(16,716)	78,009	132,095	(22,138)	109,957
Advances , net of provision for income tax	11,647	-	11,647	12,704	-	12,704
Inventory	607,328	2,461	609,789	770,591	7,643	778,234
Total current assets	1,526,136	180,456	1,706,592	1,764,329	6,721	1,771,050
Investments						
Investee companies	2,496	-	2,496	-	-	-
Investments, loans and long-term debit balances	(B)(L) 46,125	(12,531)	33,594	65,118	11,955	77,073
Plant, property and equipment	(B) 505,989	(10,158)	495,831	520,271	(10,029)	510,242
Intangible assets	(K) 538,176	16,699	554,875	538,978	18,802	557,780
Deferred tax assets	(B)(E)(M) -	59,681	59,681	-	62,050	62,050
Total non-current assets	1,092,786	53,691	1,146,477	1,124,367	82,778	1,207,145
Total assets	2,618,922	234,147	2,853,069	2,888,696	89,499	2,978,195

* References are to the principal explanations.

Notes to the Financial Statements as at December 31, 2007

NOTE 36 – EXPLANATION REGARDING THE IMPACT OF THE TRANSITION TO IFRS (CONTD.)

	Note	Accounting methods customary in Israel	Effect of the transition	IFRS	Accounting methods used in Israel	Effect of the transition	IFRS
		January 1, 2007			December 31, 2007		
		\$ thousands			\$ thousands		
Current liabilities							
Credit from banks and credit providers	(F)(Q)	99,850	195,528	295,378	89,351	22,182	111,533
Trade payables		369,574	-	369,574	435,936	-	435,936
Other payables and credit balances	(C)(E)(G)	250,455	21,462	271,917	250,565	36,202	286,767
Provision for income tax, net of advance payments		20,958	-	20,958	19,631	-	18,631
Convertible debentures		12,055	-	12,055	-	-	-
Total current liabilities		752,892	216,990	969,882	794,483	58,384	852,867
Long-term liabilities							
Loans from banks		45,012	-	45,012	25,052	-	25,052
Convertible debentures		675	-	675	-	-	-
Debentures	(G)	554,728	-	554,728	595,160	29,395	624,555
Other long-term liabilities		3,407	-	3,407	6,384	-	6,384
Deferred taxes, net	(C)(E)(G)(I) (L)	62,147	(9,025)	53,122	58,218	(10,958)	47,260
Employee severance liabilities, net	(C)	38,131	11,576	49,707	44,140	12,628	56,768
Liability to the Chief Scientist	(I)	-	4,361	4,361	-	4,412	4,412
Put option to minority shareholders	(K)	-	23,774	23,774	-	23,830	23,830
Total non-current liabilities		704,100	30,686	734,786	728,954	59,307	788,261
Total liabilities		1,456,992	247,676	1,704,668	1,523,437	117,691	1,641,128
Equity capital							
Equity capital		123,232	-	123,232	125,274	-	125,274
Premium on shares		614,052	-	614,052	624,150	-	624,150
Capital funds	(D)(N)	2,719	(1,552)	1,167	15,118	(3,543)	11,575
Dividend declared after the balance sheet date	(P)	-	-	-	120,000	(120,000)	-
Retained earnings	(C)(N)(P)	535,911	(4,421)	531,490	594,141	104,878	699,019
Treasury shares		(144,196)	-	(144,196)	(144,196)	-	(144,196)
Total equity related to the Company's equity holders		1,131,718	(5,973)	1,125,745	1,334,487	(18,665)	1,315,822
Minority rights	(K)	30,212	(7,556)	22,656	30,772	(9,527)	21,245
Total equity capital		1,161,930	(13,529)	1,148,401	1,365,259	(28,192)	1,337,067

* References are to the principal explanations.

Notes to the Financial Statements as at December 31, 2007

NOTE 36 – EXPLANATION REGARDING THE IMPACT OF THE TRANSITION TO IFRS (CONTD.)

		Accounting methods used in Israel	Effect of the transition	IFRS
	Note*	\$ thousands	\$ thousands	\$ thousands
Profit Adjustment				
Continued Operations				
Revenues	(S)	2,081,246	(15,721)	2,065,525
Cost of sale	(S)	1,383,880	(7,231)	1,376,649
Operating profit		697,366	(8,490)	688,876
Sale and marketing expenses		316,355	16,505	332,860
General and administrative expenses		73,697	2,465	76,162
Research and development expenses, net		19,684	586	20,270
Other expenses (revenues)	(H)	18,531	(32,223)	(13,692)
Operating profit and loss		269,099	4,177	273,276
Financing expenses	(S)	49,316	61,236	110,552
Financing revenues	(K)(S)(H)(C)	-	(30,928)	(30,928)
Financing costs		49,316	30,308	79,624
Profit before income tax		219,783	(26,131)	193,652
Income tax		31,953	(6,468)	25,485
Net profit		187,830	(19,663)	168,167
Attributed to:				
Company shareholders		178,230	(17,386)	160,844
Minority rights		9,600	(2,277)	7,323
Net profit		187,830	(19,663)	168,167

* References are to the principal explanations.

The impact of the adjustments stated below on deferred taxes are stated in Note T, below.

Notes to the Financial Statements as at December 31, 2007

NOTE 36 – EXPLANATION REGARDING THE IMPACT OF THE TRANSITION TO IFRS (CONTD.)**The impact that were expressed as part of the adoption of international accounting standards in Israel in 2007:**

- A. In accordance with IFRS, computer software and the costs of software development that were capitalized, which are not an inherent part of the hardware that relates to them, are treated as intangible assets. Therefore, with the transition to IFRS, the book balance of as January 1, 2007 of approximately \$5.3 million, which relates to software and the cost of software development that were capitalized, were reclassified from the item "fixed assets" to the item "intangible assets." This impact was expressed by adoption of Israeli Accounting Standard No. 30 regarding intangible assets, as of January 1, 2007

Other impacts

- B. According to the accounting standards accepted in Israel, land leased from the Israel Land Administration is classified as a fixed asset and is not depreciated. In accordance with the international standard, in cases in which these lands are not considered to be owned by the company, the lease payments are classified as deferred payments and depreciate during the duration of the lease period, including options for extending the lease period, if at the time the lease began there was a reasonable certainty that the option would be realized. As result, on January 1, 2007, an increase in long-term investments was recorded for approximately \$3.7 million, a decrease in fixed assets for approximately \$10.2 million, an increase in the balance of deferred taxes of approximately \$1.7 million and a decrease in retained of approximately \$4.7 million. On December 31, 2007, an increase in long-term investments was recorded for approximately \$3.6 million, a decrease in fixed assets of approximately \$10.2 million, an increase in the balance of deferred taxes of approximately \$1.7 million and a decrease in earnings of approximately \$4.8 million. The depreciation of the lease payments was expressed in the increase in depreciated expenses of approximately \$1.0 million for the year ending December 31, 2007.
- C. In accordance with the accounting standards accepted in Israel, obligations incurred as the result of terminating an employer-employee relationship are recognized on the basis of the assumption that employees will reach retirement age and will be entitled to full compensation without taking into account the rate of capitalization, the rate of future salary costs and future turn-over. Similarly, the obligations for vacations and sick-leave were calculated on the basis of the estimated usage and redemption, respectively. At the time of transition to IFRS, all obligations are measured net in respect of benefits for employees after retirement and other long-term benefit programs, pursuant to the instructions of IAS 19 regarding *employee benefits*. Benefits after retirement that are in accordance with defined benefit programs are measured on the basis of actuarial estimates and capitalized amounts. The obligations measured as capitalized values based on the results of government bonds, since the Company's estimate is that there is no deep market for high-quality corporate bonds in Israel. The measurement difference as of January 1, 2007, which totalled approximately \$22.0 million, was recorded to the retained earnings (net from tax). The impact of the transition to IFRS was expressed as increase in obligations to employees of approximately \$29.2 million and of approximately \$37.4 million for January 1, 2007 and December 31, 2007, respectively, an increase in salary costs for the year ending December 31, 2007 of approximately \$0.3 million and an increase in the financing expenses for the same period of approximately \$9.9 million.

To the best of the Company's knowledge, the subject of capitalization interest is under study and it is likely that it will be decided that in Israel the suitable capitalization interest is that based on the corporate bonds. In that event, the figures appearing in the note above will change, the actuarial obligation will decrease and the financing expenses for the current year these obligations will increase.

The Company has chosen to record actuarial profits and losses to equity, according to the options stated in IAS 19.

The Company recognized direct actuarial profits of approximately \$1.2 million in retained earnings for the year ending December 31, 2007.

Notes to the Financial Statements as at December 31, 2007

NOTE 36 – EXPLANATION REGARDING THE IMPACT OF THE TRANSITION TO IFRS (CONTD.)

The Company chose the alternative according to which actuarial gains or losses are allocated to retained earnings, since by using this alternative the balance sheet represents the adequate fair value of the net liability towards employees as of balance sheet date. Furthermore, the profit and loss report represents in more adequate way the financial results of the Company as volatility caused by actuarial gains or losses is excluded from the report.

- D. According to the concession allowed pursuant to the instructions of IFRS 1, the translation differences that were created before the transition to the IFRS in respect to foreign activities were recorded to retained earnings on the transition date to IFRS (in the amount of \$0.7 million).
- E. According to the accounting standards accepted in Israel, deferred tax assets were classified as current or non-current assets, according to the classification of the asset with respect to which they were created. According to IFRS, deferred tax assets are classified as non-current assets, even if the expected date of realization is short-term. Therefore, with the transition to IFRS, short-term deferred tax assets as of January 1, 2007 and December 31, 2007 totalling approximately \$38.2 million and approximately \$34.6 million, respectively, were reclassified from the item other receivables and debit balances under current assets to the item other payables and credit balances under current liabilities to the deferred taxes under non-current Assets and liabilities.
- F. The Company and subsidiaries in the Group signed a securitization agreement in 2004 in which framework the companies will sell part of its customer debts to a foreign company that was set up for this purpose (hereinafter, "the Acquiring Company"). The Acquiring Company financed the purchase of debts with a loan receded from a financial institution, unconnected to the Company, that finances the loan in return for commercial securities that it issues on commercial stock exchanges in the United States.

According to the accounting standards accepted in Israel, which are based on the American standard FAS 140, the said securitization transaction met the definition of a sale and therefore the customers with respect to whom the securitization was transacted were deducted from the consolidated financial statements. Under IFRS, until July 2007, the securitization transaction transacted by the Company did not meet the criteria for deduction from financial assets because not all of the risks and benefits created by the customers were transferred. Therefore, with the transition to IFRS, the customers that were included in the securitization transaction were re-recorded on the on the consolidated balance sheet and the receivables from the Acquiring Company that were received as part of the securitization transaction were recorded as a financial obligation. Accordingly, as of January 1, 2007, there was an increase in trade receivable balances of approximately \$175.9 million and equal increase in financial obligations.

During the third quarter of 2007, the conditions of the securitization agreement were changed so that the securitization transaction meets, from that date, the criteria for deducting financial assets, according to the IFRS.

- G. The Company makes use of financial instruments, including financial instruments derived from interest exchange transactions, in order to reduce its exposure to currency risks. According to the practice accepted in Israel, the conditions for implementing hedge accounting are based primarily on economic criteria. Similarly, in certain circumstances derivative financial instruments qualify for hedge accounting are not measured according to the fair value and, sometimes, are not even recognized in the balance sheet. Under IFRS, in order for a financial instruments transaction to be considered a hedged accounting transaction it is necessary to comply with several criteria, including criteria regarding the designation of the instrument, complying with strict documentation requirements and highly-effective hedging from the outset and during the hedge. The changes in derivative financial instruments intended for hedging of an asset or obligation are recorded to the statement of income and simultaneously changes in fair value of the hedged asset or obligation to which the hedge risks relates are recorded. Furthermore, under IFRS, changes in the fair value of derivative financial instruments that do not comply with the conditions for hedged accounting, are immediately recorded to the profit and loss of each period. The transactions that the company transacts with financial instruments to reduce exposure, as stated above, do not comply with the conditions for hedging that were set in the international standards and therefore, with the transition to IFRS, the said financial instruments are measured according to fair values and changes to fair value are immediately recorded to profit and loss.

Notes to the Financial Statements as at December 31, 2007**NOTE 36 – EXPLANATION REGARDING THE IMPACT OF THE TRANSITION TO IFRS (CONTD.)**

G. (contd.)

The impact of January 1, 2007 and December 31, 2007 is expressed in an increase in other payable (after deducting other receivable) in respect of financial derivatives totaling approximately \$3.7 million and approximately \$10.6 million, in a decrease of deferred taxes of approximately \$0.6 million and approximately \$4.9 million and a decrease in retained earnings of approximately \$3.0 million and approximately \$18.3 million, respectively. Furthermore, there was an increase in long-term investments of \$16.9 million and an increase in debentures of \$29.4 million as of December 31, 2007. In addition, there was an increase in financing expenses totaling approximately \$19.4 million in the year ending December 31, 2007.

H. According to the practice accepted in Israel, in a consolidated statement of income, expenses with respect of amortization of the intangible rights for the purchase of products, amortization for a decrease in value of intangible assets, expenses for securitization of customers and expenses with respect of streamlining plan were presented as part of the item other income/expenses. Under IFRS, these items are included as part of the operational profit or as part of financing expenses. The impact of the transition to IFRS on the statement of income for the year ending December 31, 2007 is expressed as an increase in the cost of sales totalling approximately \$5.4 million, an increase in the selling expenses totalling approximately \$17.4 million, an increase in administrative and general expenses totalling \$2.4 million, an increase in the financing expenses totalling approximately \$7.0 million and a decrease in other expenses totalling \$32.2 million, net.

I. According to the accounting standards accepted in Israel, grants from the Chief Scientist for research and development were recorded when they were received as income presented, after deduction of the expenses for the related research and development. The expectation that the grant would be returned was not considered on a regular basis and when the grant was returned the expense recorded as a cost of sales, as part of royalties paid to the Chief Scientist.

Under IFRS, the said grants are treated as forgivable loans, in accordance with Instruction of IAS 20. Accordingly, grants received from the Chief Scientist are recognized as an obligation according to their fair value on the day that the grant was received unless it was reasonably certain on that day that the amount received would not be returned. The amount of the obligation is re-examined for each period and changes, if any, in the fair value of the grant are recorded in the statement of income. The impact of the transition to IFRS as of January 1, 2007 and December 31, 2007 was expressed as an increase in the liability to scientist grants totalling approximately \$4.4 million, an increase in deferred taxes totalling approximately \$1.1 million and approximately \$1.2 million and a decrease in retained earnings totalling approximately \$3.2 million and approximately \$3.3 million, respectively.

J. The Company maintains balances of financial instrument linked to the CPI. In the opinion of the Company' management, based on the position paper published by the Israel Accounting Standards Board there are several possible alternative for the accounting treatment of CPI-linked financial instruments. For the purpose of this Note, the Company adopted the accounting treatment by which the value of the instrument on the books and the payments derived from it are assessed during each period according to the actual increase in the CPI and, therefore, there is no need to adjust the value of the instruments according to the Israeli standard, to the value according to the international standard. The issue of measuring CPI-linked financial instruments according to international standards is under examination and a professional committee of the Israel Accounting Standards Board has contacted the International Financial reporting Interpretations Committee (IFRIC) for its opinion regarding the accounting treatment of CPI-linked obligations and assets according to the international standards.

In light of the above, it is possible that the said accounting treatment will not be possible pursuant to the instructions of the international standards and another accounting treatment, in which it is necessary to consider the predicted level of inflation in the country of the financial instrument, will be preferred, according to instructions AG7 and AG8 of International Standard 39. If it is indeed decided thus, the Company will need to examine the impact of the said decision, including the transition instructions, if any are given, on the financial statements and accompanying notes, as are published or will be published, until the decision concerning the international standards is received.

Notes to the Financial Statements as at December 31, 2007

NOTE 36 – EXPLANATION REGARDING THE IMPACT OF THE TRANSITION TO IFRS (CONTD.)

- K. According to the accounting standards accepted in Israel, sales options issued by the Group to holders of minority rights are not expressed in the financial statements. According to IFRS, when holders of minority rights hold sales options, the net portion of the subsidiary will be restated on the consolidated balance from minority rights to financial obligations. This financial obligation will be measured according to the current value of the options exercise price. The assessment of the financial obligation with respect to the element of time is expressed as a financing expense and the Company includes the full profit of the subsidiary in its profits (not allocating the minority its share in the profits of consolidated company, except in a situation when dividends are distributed to minority and the dividend is recorded as a financing expense) whereas other changes in the obligation are recorded against the balance of goodwill in the subsidiary. The impact as of January 1, 2007 and December 31, 2007 is expressed in an increase of intangible assets of approximately \$16.2 million and \$15.7 million, an increase in obligations for minority rights of approximately \$23.8 million and a decrease in minority rights of approximately \$7.6 million and approximately \$9.5 million, respectively. In addition, there was an increase in financing expenses of approximately \$1.0 million in the year ended December 31, 2007.
- L. According to the accounting standards accepted in Israel, investments purchase options for investment investee companies are not expressed as a separate financial asset. According to IFRS, when a group holds purchase options this is recorded in the balance according to fair value. Changes in fair value are recognized in the statement of income. The impact as of January 1, 2007 and December 31, 2007 was expressed in an increase in long-term investments of approximately \$3.7 million and approximately \$3.4 million, respectively; an increase in deferred taxes liability of approximately \$0.9 million and an increase in retained earnings of \$2.8 million and approximately \$2.9, respectively.
- M. According to the accounting standards accepted in Israel, inter-company transactions are expressed in the consolidated statement and deferred tax is recorded according to the tax rate of the selling company with respect to timing discrepancies between the date financial statements and the date tax base, when the income is recognized. According to IFRS, deferred tax for inter-company transactions is recorded according to the tax rate of the purchaser. As a result the retained earnings as of January 1, 2007 and December 31, 2007 increased by approximately \$20.9 million and approximately \$23.1, respectively.
- N. Lacking specific instructions from IFRS, the company chose to credit the growth in equity for recording expenses for share-based payments to retained earnings. Accordingly, expenses for share-based payments as of January 1, 2007 and December 31, 2007 of approximately \$2.4 million and approximately \$7.8, respectively, were recorded on the statements according to the accounting standards accepted in Israel, against capital funds, that were classified as excesses.
- O. The Company chose the IFRS 1 concession with regard to business combinations, according to which the instructions of IFRS 3 will be implemented only with regard to the business combinations that occurred after January 1, 2007 (the IFRS transition date).
- P. According to the accounting standards accepted in Israel, a dividend that is declared after the balance sheet date but before approval of the financial statements is to be presented as part of the equity as a separate item called, "dividend that proposed or declared after the balance sheet date," against a decrease in the retained earnings balance. Under IFRS, the dividend is only to be disclosed and no statement is made in the equity. Accordingly, on December 31, 2007 the retained earnings increased and the dividend declared after the balance date that was presented as equity decreased by a total of approximately \$120 million.
- Q. According to the accounting standards in Israel, the balances of trade receivable who were deducted and control with respect to them transferred without all of the risks and benefits being transferred were decreased. According to IFRS, these transactions are treated as financing transaction because not all of the risks and benefits were transferred.

Notes to the Financial Statements as at December 31, 2007**NOTE 36 – EXPLANATION REGARDING THE IMPACT OF THE TRANSITION TO IFRS (CONTD.)**

- R. According to the accounting standards in Israel, the functional currency of the consolidated company was defined according to the long arm (and therefore the operating currency was determined to be the U.S. dollar) but according to IFRS it is the local currency.
- S. Assessment of monetary balances in a currency other than the dollar was restated from the sales and sales cost items to the financing expenses item. In addition, the business results of derivative financial instruments was restated from the sales and sales cost items to the financing expenses item.
- T. According to the accounting standards accepted in Israel, the Company recognized share-based payment transactions commencing on January 1, 2006, with regard to grants received after March 15, 2005 on the condition that they did not vest before January 1, 2006. According to IFRS share-based payment transactions received before November 7, 2002 and fully vested by January 1, 2007 were not handled retroactively, in accordance with the leniency possible under IFRS 1.
- U. The aforementioned changes, increased (or decreased) the obligations for deferred taxes as presented below, based on a tax rate of 27%:

	<u>January 1,</u> <u>2007</u>	<u>December 31,</u> <u>2007</u>
	<u>\$ thousands</u>	<u>\$ thousands</u>
Deferred taxes		
Sorting of short-term deferred taxes	38,161	34,620
Intra-Company transactions	20,907	23,066
Financial derivatives	606	4,880
Call options	(935)	(860)
Liability in respect of Chief Scientist grants	1,147	1,171
Employee benefits	7,117	10,108
Amortization of land development rights	1,703	1,669
Change of functional currency	-	(1,646)
	<u>68,706</u>	<u>73,008</u>

The influence of the transition to IFRS on the statement of income for the year ending December 31, 2007 was a decrease in tax expenses, which were previously reported for the period, totalling \$6,468 thousand.

Notes to the Financial Statements as at December 31, 2007**NOTE 36 – EXPLANATION REGARDING THE IMPACT OF THE TRANSITION TO IFRS (CONTD.)**

V. Impact of the aforementioned adjustments on the retained earning.

	<u>January 1,</u> <u>2007</u> <u>\$ thousands</u>	<u>December 31,</u> <u>2007</u> <u>\$ thousands</u>
Reserve		
Amortization of land development rights	(4,719)	(4,783)
Employee benefits	(21,982)	(28,235)
Taxes for intra-Company transactions	20,907	23,066
Change of functional currency	2,634	4,641
Charge of capital fund to reserve	2,141	7,552
Call options	2,807	2,922
Put options	-	(1,001)
Liability in respect of Chief Scientist grants	(3,226)	(3,254)
Financial derivatives	(2,983)	(18,279)
Minority share in income	-	2,249
Dividend announced subsequent to balance sheet date	-	120,000
	<u>(4,421)</u>	<u>104,878</u>

NOTE 37 – SUBSEQUENT EVENTS TO THE BALANCE SHEET

- A. After the balance date the Company's Board of Directors decided on distribution of dividends in the amount of \$120,000 thousand.
- B. On January 9, 2008, the Company's Board of Directors decided to allot 900,000 options to the Chairman and CEO of the Company. The exercise premium of the options is NIS 34.43 per option. The options can be realized for up to 900,000 shares of the Company's ordinary stock of NIS 1 par value.

According to the options plan, when the options are exercised, the Company will issue shares that reflect the amount of the monetary benefit inherent in the options, meaning the difference between the price of one of the Company's ordinary shares in the issue date and the price for exercising the option.

The options that were issued to the Chairman and CEO of the Company will vest in three equal increments, where a third of the option may be exercised one year after the determining date, the second third of the options may be exercised two years after the determining date, and the final third, three years after the determining date. The options from each increment referred to above are exercisable commencing from the vesting date, as stated, of such increment and during a period of two years from such date.

The cost of the benefit embedded in the options issued as stated, based on the fair value as of their issuance date amounted to a total of \$2.7 million. This amount will be amortized to the statement of income over the vesting period of each increment.

Furthermore, it was decided to allot 51,500 options to an external director of the Company. The exercise premium of the options is NIS 36.27 per option. The options can be realized for up to 51,500 shares of the Company's ordinary stock of NIS 1 par value.

Notes to the Financial Statements as at December 31, 2007

NOTE 37 – SUBSEQUENT EVENTS TO THE BALANCE SHEET (CONT'D)

The options that were issued to the external director will vest in two equal increments, where a two third of the option may be exercised one year after the determining date, the final third of the options may be exercised two years after the determining date. The options from each increment referred to above are exercisable commencing from the vesting date, as stated, of such increment and during a period of two years from such date.

The cost of the benefit embedded in the options issued as stated, based on the fair value as of their issuance date amounted to a total of \$0.1 million. This amount will be amortized to the statement of income over the vesting period of each increment.

On February 17, 2008, the General Assembly approved the aforementioned grants.

- C. On January 8, 2008, the Company's Board of Directors approved changes in the conditions of the options issued to the three officers and seven employees of the company, that were issued according to the option plans that were allotted in August 2007 so that it will be possible to exercise the options that vest, in accordance with the terms of the plan for a period of 18 months, beginning on the said date, and not for a period of only six months, as stated in the plan.

The cost of the benefit embedded in the options issued as stated, based on the fair value as of the change date amounted to a total of approximately \$1.0 million. This amount will be amortized to the statement of income over the vesting period of each increment.

Furthermore, regarding the options allotted to the directors and other officers of the Company according to the various options plans, it was decided that in case of certain events, such as liquidation, sale of the Company, or merger of the Company, the terms of the options will change so that it will be possible exercise them immediately and for a short period after the occurrence of the event.

- D. The Audit Committee of the Company, at its meeting on December 26, 2007, and the Board of Directors of the Company at its meeting on January 9, 2008 and the General Assembly of the Company at its meeting on February 17, 2008 approved the Company's amended agreement for management services between the Company and the company that provides management services to the Company, including provision of the services of Chairman of the Board of Directors and/or CEO Mr. Avraham Bigger, as well as the annual bonus that will be paid it if it meets the predetermined goals.
- E. Subsequent to balance date, the Company's Board of Directors decided on the self-purchase of the Company's shares in a an amount that will not exceed \$100 million.

Appendix – Schedule of Investee Companies**NOTE 37 – SUBSEQUENT EVENTS TO THE BALANCE SHEET (CONTD.)**

<u>Holding company</u>	<u>Investee company</u>	<u>Control and ownership of holding company</u> <u>%</u>
A. Domestic consolidated subsidiaries		
Makhteshim-Agan Industries Ltd.	Makhteshim Chemical Works Ltd. (Makhteshim)	100
	Agan Chemical Manufacturers Ltd. (Agan)	100
	Lycored - Natural Products Industries Ltd. (Lycored)	98
	Luxembourg Medicine Ltd.*	100
Makhteshim	Prisma Industries Ltd.**	100
	Negev Peroxide - Registered Partnership	100
Agan	Agan Aroma and Fine Chemicals Ltd.	100
	Agan Chemical Marketing Ltd.	100
Lycored	Lycored Bio Ltd.	100
	Dalidar Pharma Israel (1995) Ltd.	100
Luxembourg Medical Ltd.*	Isramedcom Ltd.	100
	Luxvision Ltd. (formerly Curex Ltd.)	100
B. Foreign consolidated subsidiaries		
Makhteshim	Celsius Property B.V. (Celsius)	100
Agan	Fahrenheit Holding B.V. (Fahrenheit)	100
Lycored Natural Products Industries Ltd.	Lycored Sarl	100
	ALB Holdings UK	100
	Lycored Corp. (USA)	100
ALB Holdings UK	Lycored Bio Ltd.	100
	Dalidar Pharma	100
	Lycored Ltd	100
Makhteshim and Agan in equal parts	Makhteshim Agan Holding B.V.	100
Celsius	Irvita Plant Protection N.V.	100
Irvita Plant Protection N.V.	White Rock Insurance Company PCC Limited/Macell	100
Fahrenheit	Quena Plant Protection N.V.	100
Fahrenheit and Celsius in equal parts	Magan HB B.V.	100
	Aragonesas Agro S.A.	100
	Magan Argentina S.A.	100
	MA Italy Holding	100
	Makhteshim Agan Hungaria k.f.t.	100
	Proficol Andina N.V.	57.5
	CFM B.V.	100.0
	Proficol S.A.	57.5
Magan HB B.V.	MAB Participacoes S/C Ltd.	100
Milenia Participacoes S.A.	Milenia Paraguay S.A.	100
	Emerald Agrochemical Company AVV	100
	Milenia Biotecnologia e Genetica Ltd.	55
	Milenia Agro Ciencias S.A.	100
	Defensa S.R.L.	100
MA Italy Holding	Kollant S.P.A.	60
MACEE k.f.t	Makhteshim Agan Hungaria K.F.T	100

* The shares of Luxembourg Medical Ltd. were sold during 2006.

** The shares in Prisma Industries, Ltd. were sold during 2007.

Appendix – Schedule of Investee Companies
