



## **Makhteshim Agan Industries Ltd.**

### **Management Discussion and Analysis for the period ended September 30, 2007**

#### **BRIEF PROFILE OF THE COMPANY AND ITS BUSINESS ENVIRONMENT**

Makhteshim Agan Industries Ltd. is the world's leading manufacturer of branded off-patent crop protection products. The Company has high level technological and chemical capabilities, broad product registrations, upholds strict environmental control and quality control standards, and markets its products internationally. Ongoing investment in research and development enables the Company to launch new products regularly upon expiration of patents.

The main business focus of the Company is in the crop protection market, which includes the manufacturing, marketing and distribution of crop protection products. The Company's operations in non-agro markets extend to a number of sub-areas, none of which are material for the Company and are grouped and defined as non-agro activities.

**New Registrations** – during this quarter, the Company received 27 new registrations for active ingredients and formulations.

#### **Summary of changes in the industry**

The positive trends of the agricultural market which were manifested in the first half of the year continued.

Key drivers were:

1. An increase in the prices of agricultural outputs caused an increase in derivative demand for the Company's products.
2. Relatively favorable weather conditions in most regions in which the Company operates gave rise to a larger than expected demand for crop protection products and contributed to a market recovery, which was affected by difficult weather conditions in 2006.
3. A significant increase in product sales in the southern hemisphere, particularly in Brazil, as a result of growth in planted areas and in demand for crop protection products.
4. The Company reports its results in US Dollars (in this Report: "dollars"), and therefore, the strengthening of currencies (particularly the Euro and the Real) versus the US Dollar influenced the

Company's revenues positively, as opposed to the strengthening of the Shekel which increased local expenses in Israel.

The reports published thus far this year by the leading companies in the industry show that sales turnover increased by approximately 15% in dollar terms in the third quarter.

## RESULTS OF OPERATIONS – CONDENSED PROFIT AND LOSS STATEMENTS

### Profit and Loss Statements for Third Quarter (\$ millions):

	7-9/2007	7-9/2006	Change	%
Revenues	496.2	407.6	88.6	21.7%
Gross profit	163.8 33.0%	137.2 33.7%	26.7	19.4%
R&D and SG&A expenses	101.2 20.4%	93.0 22.8%	8.2	8.8%
Operating income	62.6 12.6%	44.1 10.8%	18.5	41.8%
Financing expenses	15.0 3.0%	7.2 1.8%	7.8	109.1%
Pre-tax profit	49.0 9.9%	30.5 7.5%	18.6	61.0%
Net profit	39.2 7.9%	24.5 6.0%	14.7	60.3%
EBITDA	84.0 16.9%	59.6 14.6%	24.4	40.9%

### Profit and Loss Statements for first Nine Months (\$ millions):

	1-9/2007	1-9/2006	Change	%
Revenues	1,605.4	1,359.7	245.7	18.1%
Gross profit	550.7 34.3%	475.0 34.9%	75.7	15.9%
R&D and SG&A expenses	299.7 18.7%	281.1 20.7%	18.6	6.6%
Operating income	251.0 15.6%	193.9 14.3%	57.1	29.5%
Financing expenses	38.4 2.4%	32.8 2.4%	5.6	16.9%
Pre-tax profit	202.5 12.6%	142.8 10.5%	59.7	41.8%
Net profit	158.0 9.8%	122.4 9.0%	35.6	29.1%
EBITDA	303.8 18.9%	236.1 17.4%	67.7	28.7%

**Quarterly Profit and Loss Statements (\$ millions):**

	<b>7-9/2007</b>	<b>4-6/2007</b>	<b>1-3/2007</b>	<b>10-12/2006</b>	<b>7-9/2006</b>
Revenues	496.2	549.9	559.3	419.0	407.6
Gross profit	163.8 33.0%	188.7 34.3%	198.2 35.4%	131.7 31.4%	137.2 33.7%
R&D and SG&A expenses	101.2 20.4%	100.3 18.2%	98.2 17.6%	121.8 29.1%	93.0 22.8%
Operating income	62.6 12.6%	88.4 16.1%	100.0 17.9%	9.9 2.4%	44.1 10.8%
Financing expenses	15.0 3.0%	12.0 2.2%	11.4 2.0%	11.4 2.7%	7.2 1.8%
Pre-tax profit (loss)	49.0 9.9%	69.2 12.6%	84.2 15.1%	(57.9) (13.8%)	30.5 7.5%
Net profit (loss)	39.2 7.9%	52.3 9.5%	66.6 11.9%	(38.5) (9.2%)	24.5 6.0%
EBITDA*	84.0 16.9%	100.6 18.3%	119.2 21.3%	(6.4) (1.5%)	59.7 14.6%

**Condensed profitability data (\$ millions)**

**Annual Data:**

	<b>2004</b>	<b>% Chg</b>	<b>2005(*)</b>	<b>% Chg</b>	<b>2006</b>	<b>% Chg</b>
<b>Sales</b>	1,539.7	30.8%	1,740.7	13.1%	1,778.8	2.2%
<b>EBITDA*</b>	323.7	32.7%	376.9	16.3%	229.7	(39.0%)
<b>EBIT**</b>	245.2	41.4%	281.4	14.8%	126.7	(55.0%)
<b>Net Income</b>	165.3	60.8%	204.8	23.9%	83.9	(59.0%)

(\*) Reclassified

**Quarterly Data (\$ millions):**

	<b>7-9/2005</b>	<b>7-9/2006</b>	<b>7-9/2007</b>	<b>Change % 2007v2006</b>
<b>Sales</b>	402.1	407.6	496.2	21.7%
<b>EBITDA*</b>	83.5	59.6	84.0	40.9%
<b>EBIT**</b>	58.1	37.9	59.8	57.8%
<b>Net Income</b>	46.8	24.5	39.2	60.3%

**Nine month data (\$ millions):**

	<b>1-9/2005</b>	<b>1-9/2006</b>	<b>1-9/2007</b>	<b>Change % 2007V200 6</b>
<b>Sales</b>	1,335.6	1,359.7	1,605.4	18.1%
<b>EBITDA*</b>	296.1	236.1	303.8	28.7%
<b>EBIT**</b>	223.8	173.1	231.8	33.9%
<b>Net Income</b>	157.9	122.4	158.0	29.1%

\* EBITDA is made up of EBIT (see below) plus depreciation and amortization which are detailed in the statement of cash flow.

\*\* EBIT includes net profit plus tax expenses and financing expenses.

All of the data comprising these metrics (including tax expenses, depreciation expenses and financing expenses) have been reviewed or audited, as applicable.

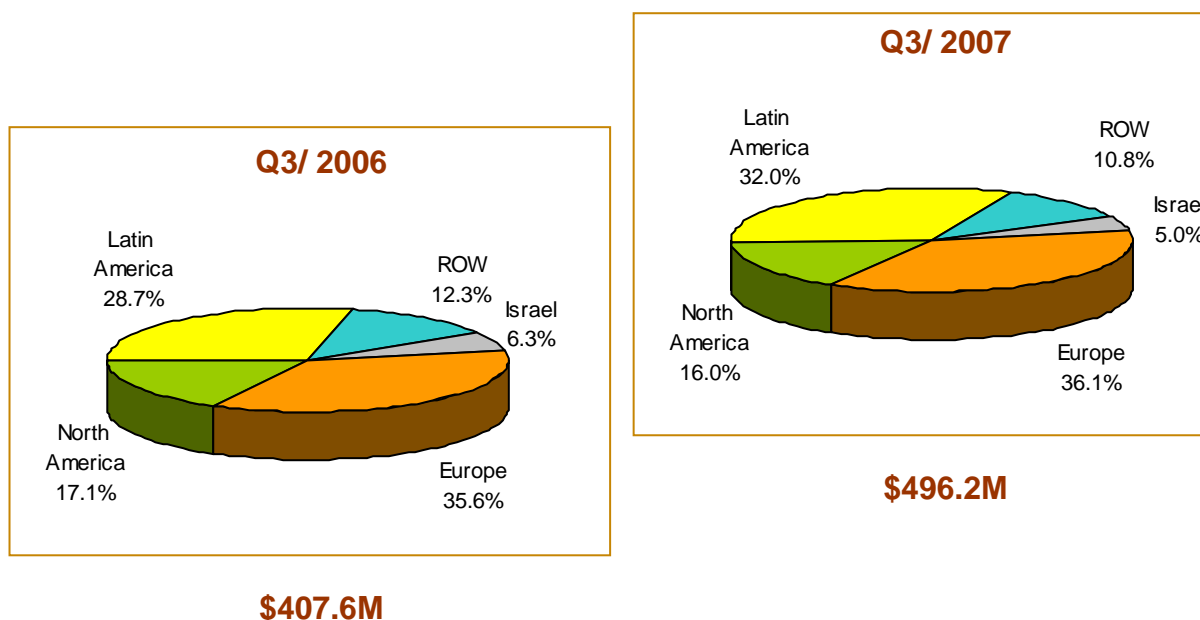
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### 3. ANALYSIS OF RESULTS:

#### A. Revenues by Geographical Region

There was significant growth during the third quarter of 2007, and the Company's sales amounted to \$496.2 million, compared with \$407.6 million in the corresponding quarter last year, an increase of 21.7%.

#### Percentage of Quarterly Revenues by Region:



#### Quarterly Revenues by Region (\$ millions)

	7-9/2007	%	7-9/2006	%	Change	% Change
Israel	25.0	5.0%	25.7	6.3%	(0.7)	-2.7%
North America	79.3	16.0%	69.5	17.1%	9.8	14.1%
South America	159.0	32.0%	117.0	28.7%	42.0	35.9%
Europe	179.4	36.1%	145.1	35.6%	34.3	23.6%
Rest of the world	53.5	10.8%	50.3	12.3%	3.2	6.4%
<b>Total</b>	<b>496.2</b>	<b>100%</b>	<b>407.6</b>	<b>100%</b>	<b>88.6</b>	<b>21.7%</b>

#### First Nine Month Revenues by Region (\$ millions)

	1-9/2007	%	1-9/2006	%	Change	% Change
Israel	80.9	5.0%	89.2	6.6%	(8.3)	-9.3%
North America	313.0	19.5%	275.5	20.3%	37.5	13.6%
South America	364.5	22.7%	279.8	20.6%	84.7	30.3%
Europe	670.0	41.7%	555.3	40.8%	114.7	20.6%
Rest of the world	177.0	11.0%	159.8	11.7%	17.2	10.8%
<b>Total</b>	<b>1,605.4</b>	<b>100.0%</b>	<b>1,359.7</b>	<b>100%</b>	<b>245.7</b>	<b>18.1%</b>

In Europe, sales in the quarter amounted to \$179.4 million compared with \$145.1 million in the corresponding quarter of the previous year, an increase of \$34.3 million, constituting growth of 23.6%. The increase in sales stemmed mainly from high demand for the Company's products; strengthening of the Euro, which increased the dollar value of sales; and first time consolidation of new companies. During the first nine months of the year, sales to Europe amounted to \$670.0 million compared with \$555.3 million during the corresponding period last year; an increase of \$114.7 million, amounting to growth of 20.6%.

In South America, sales in the quarter amounted to \$159.0 million compared with \$117.0 million in the corresponding quarter in the previous year, an increase of \$42.0 million, constituting growth of 35.9%. The increase in sales stemmed mainly from a significant increase in demand for crop protection products for the Company's products; and strengthening of the Real, which increased the dollar value of sales. During the first nine months of the year, sales to South America amounted to \$364.5 million compared with \$279.8 million during the corresponding period last year; an increase of \$84.7 million, amounting to growth of 30.3%.

In North America, sales in the quarter amounted to \$79.3 million compared with \$69.5 million in the corresponding quarter of the previous year, an increase of \$9.8 million, constituting growth of 14.1%. During the first nine months of the year, sales to North America amounted to \$313.0 million compared with \$275.5 million during the corresponding period last year; an increase of \$37.5 million, amounting to growth of 13.6%. The increase in sales stemmed from increased demand for the Company's products.

In the rest of the world, sales in the quarter amounted to \$53.5 million compared with \$50.3 million in the corresponding quarter of the previous year, an increase of approximately \$3.2 million, constituting growth of 6.4%. During the first nine months of the year, sales to the rest of the world amounted to \$177.0 million compared with \$159.8 million during the corresponding period last year; an increase of \$17.2 million, amounting to growth of 10.8%.

In Israel, sales in the quarter amounted to \$25.0 million, compared with \$25.7 million in the corresponding quarter of the previous year. This was a decrease of \$0.7 million. During the first nine months of the year, sales in Israel amounted to \$80.9 million compared with \$89.2 million during the corresponding period last year; a decrease of \$8.3 million. The decrease stemmed from the divestment of Luxembourg Pharmaceuticals during the course of 2006, and Prizma Industries this quarter, neither of which company is part of the Company's core business.

### **Non-Agro**

In the third quarter of 2007, Non-agro sales amounted to approximately \$44.6 million, compared with \$47.7 million in the previous year, a decrease of 6.5%. In the first nine months of the year, non-agro sales amounted to \$144.1 million, compared with \$157.3 million in the corresponding period of the previous year, a decrease of 8.4%. The decrease stemmed from the divestment of Luxembourg Pharmaceuticals during the course of 2006, and Prizma Industries this quarter, neither of which company is part of the Company's core business.

## **Gross Profit**

Gross profit for the quarter amounted to \$163.8 million compared with \$137.2 million dollars in the corresponding quarter of the previous year, an increase of 19.4%. During the first nine months of the year, gross profit amounted to \$550.7 million, compared with \$475.0 million in the corresponding period of the previous year, an increase of 15.9%. Gross profitability in this quarter amounted to 33.0% compared with 33.7% in the previous year. The erosion of profitability stemmed mainly from a high level of price erosion during the second half of 2006, which stabilized in most regions during 2007.

## **Operating Profit**

Operating profit during the quarter increased by 41.8% to \$62.6 million (12.6% of sales) compared with \$44.1 million (10.8% of sales) during the corresponding quarter in the previous year. In the first nine months of the year, operating profit increased by 29.5%, amounting to \$251.0 million (15.6% of sales) compared with \$193.9 million (14.3% of sales) during the corresponding period in the previous year.

Overheads during the quarter increased by \$8.2 million and amounted to \$101.2 million compared with \$93.0 million last year, however, the percentage of overhead expenses during the quarter, compared to sales, dropped to 20.4% compared with 22.8% during the corresponding quarter last year, as a result of an increase in sales and continued rationalization efforts. During the first nine months of the year, overhead expenses increased by \$18.6 million and amounted to \$299.7 million (18.7% of sales) compared with \$281.1 million last year (20.7% of sales).

R&D expenses during the quarter amounted to \$4.7 million, which was similar to R&D expenses during the corresponding quarter last year. During the first nine months of the year, R&D expenses amounted to \$14.4 million, similar to last year. Sales expenses during the quarter amounted to \$77.5 million (15.6% of sales) compared with \$68.8 million last year (16.9% of sales), an increase of \$8.7 million, stemming mainly from variable expenses such as transportation and fees as a result of increased sales. Notwithstanding the increase in sales expenses, these expenses as a percentage of sales dropped to 15.6% this quarter, compared with 16.9% last year, as a result of increased sales and continued rationalization efforts to in order to reduce costs.

Sales expenses during the first nine months of the year amounted to \$231.4 million (14.4% of sales) compared with \$216.7 million (15.9% of sales) during the corresponding period last year.

General and administrative expenses during the quarter amounted to approximately \$19.0 million (3.8% of sales) compared with \$19.5 million (4.8% of sales) last year, a decrease of approximately \$0.5 million.

## **Financing Expenses**

Financing expenses in the quarter amounted to \$15.0 million, compared with \$7.2 million in the corresponding quarter last year. During the first nine months of the year, financing expenses amounted to \$38.4 million compared with \$32.8 million during the corresponding period last year. The increase in financing expenses in this quarter stemmed mainly from a sharp increase of 2.5% in the consumer price

index which during the quarter significantly increased CPI-linked liabilities by the same rate. The main CPI-linked liabilities include the debentures raised by the Company in November 2006. The effect of the increase of the CPI was mostly offset by CPI hedging transactions effected by the Company.

### **Other Income and Expenses**

Other expenses amounted to \$1.4 million this quarter, compared with \$6.5 million last year. Other expenses include mainly amortization of intangible assets of products, and expenses related to the customer portfolio securitization plan. The decrease in other expenses compared with the corresponding quarter last year stems from a capital gain from the sale of a 50% stake in RiceCo LLC held by Proficol Andina NV, 57% of the shares of which are held by the Company. During the first nine months of the year, other expenses amounted to \$10.2 million compared with \$18.3 million last year. The increase in the minority's share of the profits stems from the sale of RiceCo LLC, as set out above.

### **Taxes on Income**

Tax expenses during the quarter amounted to \$5.6 million (constituting 11.5% of pre-tax profits) compared with \$6.3 million last year (20.6% of pre-tax profits). During the first nine months of the year, tax expenses amounted to \$35.4 million (constituting 17.5% of pre-tax profits) compared with \$17.9 million (constituting 12.5% of pre-tax profits). The increase in tax expenses stems mainly from an increase in pre-tax profits; and a decrease in taxable revenues in jurisdictions with lower tax rates.

### **Net Profit**

The net profit this quarter increased by 60.3% to \$39.2 million (7.9% of sales) compared with \$24.5 million (6.0% of sales) last year. During the first nine months of the year, net profit increased by 29.1%, amounting to \$158.0 million (9.8% of sales) compared with \$122.4 million last year (9.0% of sales). The increase in net profit stems from an increase in sales and a decrease in percentage overheads to sales as a result of continued rationalization efforts.

### **EBITDA**

EBITDA increased by 40.9% this quarter to \$84.0 million (16.9% of sales) compared with \$59.6 million (14.6% of sales) last year. The increase in EBITDA stems from an increase in operating profit. During the first nine months of the year, EBITDA increased by 28.7%, amounting to \$303.8 million (18.9% of sales) compared with \$236.1 million last year (17.4% of sales).

## **FINANCIAL CONDITION AND LIQUIDITY**

### **Operating cash flow**

Operating cash flow in the third quarter is usually characterized by a negative current cash flow, and was negative in this quarter in the sum of \$74.3 million compared with negative cash flow of \$58.9 million in the corresponding quarter last year. The management of the Company decided to reduce the use of securitization and sale of customers' receivables following the positive cash flow in 2007, and the increase in interest rates around the world. Neutralizing these effects, the Company generated positive cash flow in the amount of \$7.4 million (an increase of \$81.7 million) compared with a negative cash flow of \$40.9

million (an increase of \$18.0 million) in the corresponding quarter last year. In the first nine months of the year, operating cash flow amounted to \$142.7 million compared with \$136.6 million last year. Neutralizing the use of securitization and sale of customers' receivables, cash flow amounted to \$137.8 million compared with a negative cash flow of \$54.9 million in the corresponding period last year.

#### **Cash flows used in investment activities**

Investments in fixed assets amounted to \$15.2 million this quarter, compared with \$14.7 million in the corresponding quarter last year. Most of the investments in property, plant and equipment during the quarter and in the year so far included investment in plant and equipment for upgrade and improvement of environmental protection standards. Investment in product registrations and marketing rights amounted, in this quarter, to \$17.5 million, compared with \$7.6 million last year. Short-term investments in negotiable securities amounted to \$54.0 million compared with \$0.8 million last year.

In the first nine months of the year, investments amounted to \$179.1 million (including short term investments in negotiable securities, in the sum of \$98.3 million) compared with \$111.5 million last year. Investments in product registrations and marketing rights amounted to \$50.9 million, compared with \$33.6 million last year. The increase in investments in production registrations and marketing rights stems from continued efforts to broaden the Company's product portfolio.

#### **Free Cash Flow**

Free cash flow (operating cash flow less cash flow from investment operations) less short term investments in the quarter was negative at approximately \$85.0 million, compared with a negative cash flow of \$80.9 million last year. Neutralizing the use of securitization and sale of customers' receivables, free cash flow in the quarter would increase by \$81.7 in accordance with the increase of operating cash flow. In the first nine months of the year, the free cash flow less short term investments amounted to \$61.8 million compared with \$25.2 million last year. The increase in the free cash flow was attained despite the significant growth in the first nine months of the year.

#### **Current Assets**

Total current assets as at September 30, 2007 amounted to \$1,756.1 million, compared with \$1,246.8 million on September 30, 2006 and \$1,526.1 million on December 31, 2006.

Trade receivables – receivable balances as at September 30, 2007 amounted to \$632.3 million, compared with \$448.2 million on September 30, 2006. The increase in receivable balances stemmed from: (1) a decrease in use of securitization and sale of customers' receivables; (2) a sharp increase in sales; (3) revaluation of currencies (mainly the Euro and the Real) as against the dollar, which increased customers' receivables dollar balances; and (4) first time consolidation of new companies.

#### **Investments in Fixed Assets**

See Cash Flow chapter above.

### **Cash, Current Liabilities and Long-Term Loans**

The Company's credit (bank credit, bonds and convertible bonds) amounted, as at September, 2007, to \$724.2 million, of which 16.9% is short term, compared with \$476.3 million as at September 30, 2006 (of which 85.8% was short term) and \$712.2 million as at December 31, 2006 (of which 15.7% was short term). Cash and short-term investment balances as at September 30, 2007 amounted to \$365.4 million compared with \$118.4 million as at September 30 last year, and \$326.1 million as at December 31, 2006.

The increase in debt balances, and the increase in cash balances stems from the bond placement in November 2006, which increased debt balances and cash balances accordingly.

The Company's net debt (loans to banks and debentures less cash and short-term investments) amounted, as at September 30, 2007, to \$358.8 million, compared with \$358.0 million on September 30, 2006 and \$386.2 million on December 31, 2006.

The Company has undertaken to certain banks to meet certain covenants. As at the balance sheet date, the Company is in fulfillment of these covenants.

### **Shareholders' Equity:**

Shareholders' equity as at September 30, 2007, amounted to approximately \$1,308.8 million, compared with \$1,154.2 million in the corresponding period last year.

### **Convertible Debentures**

Of a series of convertible debentures issued in November 2001 and January 2002, the total sum of \$88.5 million has been converted into shares as at the date of the financial statements. The balance of the debentures on the balance sheet as at September 30, 2007, amounts to \$3.2 million.

## Financial Ratios

	As at		
	As at September 30,		December
	<u>2007</u>	<u>2006</u>	<u>2006</u>
Ratio of current assets to current liabilities (current ratio)	2.17	1.29	2.03
Ratio of current assets excluding inventory, to current liabilities (acid-test ratio)	1.41	0.69	1.22
Fixed assets (net) out of total balance sheet	17.9%	21.1%	19.3%
Financial liabilities out of total balance sheet	25.2%	20.5%	27.2%
Shareholders' equity out of total balance sheet	45.6%	49.6%	43.2%
Ratio of financial liabilities to shareholders' equity	55.3%	41.3%	62.9%

## Sources of Financing

The Company finances its operations using independent means, debentures and bonds, bank credit (short-term and long-term) and credit from suppliers. There have been no changes made to the financing agreements with banks.

## EXPOSURE TO MARKET RISKS AND METHODS OF MANAGING SUCH RISKS

The Company conducts its business in a number of different currencies. Due to its activities, the Company is exposed to market risks, which mainly involve exchange rate fluctuations, partial adjustment of the prices of products to reflect changes in the cost of raw materials, changes in the rates of increase of the CPI and changes in interest rates.

The Board of Directors of the Company approved a policy of using financial derivatives to reduce the exposure to changes in exchange rates and CPI increases. The Company only effects such transactions via banking corporations and stock exchanges, which are obligated to meet capital adequacy requirements or to maintain a scenario-based level of collateral.

## Risk Management Officer

The Company's Market Risk Manager is the CFO, Ran Maidan. For details of his education, qualifications and experience, see under Further Particulars, under Section 26A of the periodic report published by the Company on March 12, 2007.

The following are exchange rate data for the principal trade currencies used by the Company, in comparison with the dollar, as well as LIBOR interest data:

	30/9			Quarterly Average			Average First Nine Months		
	2007	2006	Change	2007	2006	Change	2007	2006	Change
Euro	1.418	1.268	11.8%	1.374	1.275	7.8%	1.343	1.246	7.8%
Brazilian Real	1.839	2.174	15.4%	1.897	2.171	12.6%	1.996	2.183	8.6%
Shekel	4.013	4.302	(6.7%)	4.196	4.404	(4.7%)	4.170	4.536	(8.1%)
LIBOR interest for 3 months	5.23%	5.37%		5.44%	5.43%		5.39%	5.13%	

## Description of Market Risks

### Currency Risks

The Group's most substantial exposure is to the Euro, the Shekel and the Brazilian Real. In addition, there are lesser exposures to the UK Pound, Polish Zloty, Australian Dollar and South African Rand. Currency exposure deriving from foreign currency exchange rate fluctuations is constantly checked against the assets (including inventory of finished products in countries of sale), liabilities and cash flows denominated in non-US Dollar currencies. It is the Company's policy to use financial derivatives (options, swaps and forward contracts) to hedge against such exposure only when the net exposure to a certain currency is material. During the quarter, the Company hedged most of its exposure to the Euro, the Real and the Shekel.

In November 2006, the Company completed a bond issue in the sum of NIS 2.35 billion. The bonds are denominated in Shekels, whilst the Company's operating currency is Dollars. Changes in the exchange rate of the Shekel against the Dollar might significantly increase the Company's financing expenses. As at the date of this report, the Company has hedged most of its risk in this regard by way of swap transactions and forward contracts.

### Exposure to CPI Linkage

As stated above, in November 2006, the Company completed a bond issue in the sum of NIS 2.35 billion. The main portion of the bonds is linked to the consumer price index, and therefore, an increase in the consumer price index may bring about a significant increase in the Company's financing expenses. The Company hedges most of its exposure to this risk on an ongoing basis in CPI hedging transactions.

### Risks in raw material prices (in source currency)

Approximately 70% of the Company's sales costs stem from raw material costs. Most of the Company's raw materials are derivatives of oil prices. An increase in oil prices can cause an increase in raw material prices. In order to reduce exposure to fluctuations in the prices of raw materials, the Company customarily enters into long-term purchase contracts for principal materials wherever possible. In long-term production contracts, the Company tries to adjust the selling prices of its products, as far as possible, in order to reflect changes in the prices of raw materials. The Company has not entered into any transactions to hedge against oil or the prices of raw materials.

**Interest rate risks**

The Company is exposed to changes in the LIBOR interest rate on the US Dollar, since most of its short- and long-term liabilities are in that currency and bear a variable LIBOR rate. The Company prepares a quarterly summary of its exposure to changes in the LIBOR rate. As at the date of publication of this report, the Company does not hedge this exposure.

**Company's Policy regarding currency risk management**

The Company's policy is to maintain as high as possible correspondence between the currency in which it sells its products and the currency in which it purchases its raw materials. The Company is continually examining its accounting and economic exposures on a 12 month in advance rolling basis, in accordance with its revenue and expenditure forecasts. As at the date of this report, the Company has hedged most of its accounting exposure and some of its economic exposure in respect of the principal currencies in which it operates. For details of the Company's policies for each type of risk, see details of the risks above.

**Means of supervision and market risk policy implementation**

The Company keeps internal documentation regarding the designation of financial instruments for exposures which indicate the link between the instruments and the exposure. The Board of Directors and the Finance Committee discuss the Company's exposure to market risks and actions of management of the Company in respect thereof, at least once every quarter.

There have been no substantial changes this quarter with respect to exposure to market risks, nor to the methods of managing such.

**Internal Auditor**

Pursuant to a resolution of the Audit Committee of the Company of November 1, 2007, and a resolution of the Board of Directors of the Company of November 6, 2007, Mr. Yehoshua Hasenfratz, founding partner of the accounting firm of Schiff Hasenfratz & Co. was nominated to act as internal auditor of the Company.

**Summary of other events in the company during the period**

As a part of its reorganization, the Company moved its offices from the Azrieli Center in Tel Aviv to Golan Street at Airport City bringing together about 140 of the group's senior and middle management.

On August 13, 2007, a fault occurred in one of the reactors at Makhteshim Chemical Works Ltd. ("Makhteshim"), a wholly owned subsidiary of the Company, which caused emission of a substance called Suprathion. Makhteshim appointed an internal committee to investigate the event, and the Board of Directors of the Company appointed a Committee to oversee the investigation. The Company published an immediate report on the matter on August 14, 2007 (reference no. 2007-01-357871), the information contained in which is referred to herein by reference.

**Events after the balance-sheet date**

On October 7, 2007, a claim was filed with the District Court at Beer Sheva (hereinafter: the “Claim”) (which was served on the Company on October 11, 2007), by M. Algergawi, Y. Gergawi and N. Algergawi (hereinafter: the “Plaintiffs”) against Makhteshim Chemical Works Ltd. – a wholly owned subsidiary of the Company (hereinafter: “Makhteshim”). The Claim and the application to approve it as a class action relates to allegations of air pollution with dangerous substances by Makhteshim at its plant at Ramat Hovav. The class alleged by the Plaintiffs is all of the residents of the various Bedouin communities, Beer Sheva, Revivim and Segev Shalom, for the period between January 1, 2001 and August 13, 2007. Under the Claim, the Plaintiffs seek compensation for themselves and for the members of the class, for alleged harm to the “autonomy” of the members of the class and for “medical care”. The total compensation claimed under the class action is estimated by the Plaintiffs in the sum of NIS 1,086,440,000 (approximately \$270 million) or alternatively to order that a remedy be awarded to the benefit of the public. The Plaintiffs also request that payment of fees and court costs be ruled upon. Makhteshim is required to file its response to the application to approve the claim as a class action by January 27, 2008. Makhteshim intends to deny all of the allegations in the Claim and the application to approve it as a class action. At this initial stage, management of the Company is unable to assess whether the Claim will be approved as a class action, and if so, what the chances of it are. The Company has not made any provisions with respect to this Claim.

On October 8, 2007, the general meeting of the Company resolved to amend the articles of association of the Company with respect to various matters including an amendment of the articles of association of the Company with respect to exemption, indemnity and insurance of officers. Pursuant to the amendment of the articles of association of the Company, the general meeting resolved to adopt a deed of undertaking to indemnify officers of the Company, including officers who are controlling shareholders of the Company.

The Company published an immediate report regarding the convening of the general meeting on August 26, 2007 (reference no. 2007-01-371416), the information contained in which is referred to herein by reference. The Company also published an immediate report regarding the outcome of the general meeting on October 9, 2007 (reference no. 2007-01-410578), the information contained in which is referred to herein by reference.

On October 15, 2007, the Company issued 3,130,000 warrants to a trustee for 3 officers of the Company and for 7 employees of the Company and its subsidiaries, pursuant to a resolution of the Board of Directors of the Company of August 28, 2007. The Company published a report of private placement on August 29, 2007 (reference no. 2007-01-375925), the information contained in which is referred to herein by reference.

### **Process of Approval of Financial Statements**

The Company has a Finance Committee which receives a detailed presentation each quarter of the financial results from the CFO. Each quarter, the Committee discusses the financial results before presenting them to the Board of Directors, and recommends that it approves the financial statements. The financial statements are approved by the Board of Directors, which is the organ responsible for overall review of the Company.

In addition to these regular quarterly discussions, the Finance Committee holds additional meetings at its discretion, at which it discusses various matters arising out of the Company's financial statements in greater detail and depth. The Company's Finance Committee is made up of 6 directors, of which one is an external director. Five of the members of the Committee have accounting and finance qualifications.

The members of the Committee and the members of the Board of Directors receive the draft financial statements a few days before the meetings.

Representatives of the Company's auditors are invited to meetings of the Finance Committee as well as to those meetings of the Board of Directors at which the financial statements are discussed and approved, and they refer to and respond to questions directed to them by members of the Board of Directors, relating to substantial issues deriving from the data presented in the relevant financial statements. When presenting the financial statements to the Board of Directors, the CEO of the Company, who is also the chairman of the Board of Directors, Mr. Avraham Bigger, sets out the main results of the Company's operations during the period under review, and refers to substantial events that may have taken place during the period.

Thereafter, Mr. Ran Maidan, CFO, gives a detailed presentation of the Company's financial results during the period under review, and compares it with previous periods, with the emphasis being placed on the substantial issues that arise from such. During the course of these reviews, management responds to the questions asked of it by members of the Board of Directors. At the end of the discussion by the Board of Directors, a vote is held during which the financial statements are approved.

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Avraham Bigger

Chairman of the Board of  
Directors and CEO

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Ra'anan Cohen

Director

November 6, 2007, Tel Aviv