



Makhteshim Agan Industries Ltd.

**CHAPTER 'B' – REPORT OF THE BOARD OF DIRECTORS
ON THE AFFAIRS OF THE COMPANY FOR THE YEAR AND QUARTER
ENDED 31 DECEMBER 2007**

1. **Brief description of the Company and its business environment**

Makhteshim Agan Industries Ltd. engages in the primary field of activity involving the development, manufacture and marketing of crop protection products. In addition, the Company has activities in other markets, none of which, in a substantial scope for the Company. As at the date of the report, the Company is the world's leading manufacturer of branded off-patent products in the crop protection market and sells its products in more than 100 countries worldwide. The Company's success factors are, mainly, goodwill, know-how, high-level technological-chemical abilities, expertise in product licensing, observance of strict standards of environmental protection, stringent quality control and an international marketing and distribution structure. Investments in consistent and ongoing development facilitates the launching of new generic products at opportune timing

The Company's business strategy and goals in the crop protection products market focuses on: (1) strengthening and establishing its presence in markets in which it operates and expanding its market share in markets with a high growth potential; (2) continued growth, based on the composition of the Company's existing basket of products and the ability to launch new products; (3) continued improved of the Company's operating capabilities, allowing for efficient production, at competitive costs; and (4) growth through the acquisition of companies and products registrations, affording the Company access to new customers and markets.

In March 2007, the Board of directors approved an organizational restructuring plan, the main object being to create synergy in the operational processes between the different companies of Makhteshim Agan (the "Change and Efficiency Improvement Plan")

For further details regarding implementation of the organizational restructuring plan, see under Description of the Company's Business

In 2007, the Company continued a process of registering new products for purposes of increasing its competitive edge in the market. During the year, the Company obtained approx. 120 new registrations for active ingredients, formulations and compounds (compared with 166 registrations in 2006 and 134 registrations in 2005).

Conditions of the business environment

Brief overview of changes in the sector

The year of 2007, including the fourth quarter thereof, was affected by the following trends in the crop protection market and in the Company:

1. The rise in the standard of living worldwide and the global increase in demand for oil alternatives products, produced mainly from sugar cane and corn, led to a surge in the prices of agricultural outputs which in turn caused an increase in the derivative demand for the Company's products.
2. Relatively favorable weather conditions, in most geographical regions in which the Company operates, led to extensive demand for crop protection products and contributed to market recovery, which had been affected by difficult weather conditions in 2006.
3. The sharp increase in oil prices in 2007, resulted in price increases of raw materials (which are remote oil by-products) and a rise in energy costs, which slightly eroded the gross profitability.
4. The Company reports its results in US Dollars (in this report: "dollars"), and therefore, the strengthening of the currencies (primarily the Euro) versus the US Dollar, positively affected an increase in the Company's revenues, as opposed to the strengthening of the Shekel, which increased local expenses in Israel.

According to Phillips McDougal, in 2007, the crop protection products market showed a nominal growth of approx. 10% and reached a level of around \$34 billion, following a decrease in the market in 2006, by approx. 3.7% in comparison with 2005, reaching sales of approx. \$30 billion. The year 2006 was adversely affected, mainly due to extreme weather conditions in the northern hemisphere and difficult economic conditions in Brazil, which caused a decrease in demand for crop protection products and price erosion.

2. **RESULTS OF OPERATIONS – SUMMARY OF PROFIT AND LOSS STATEMENTS**

A. Annual Profit and Loss Statements

	2007	2006	Change	%
Revenues	2081.2	1,778.8	302.5	17.0%
Gross profit	697.4	606.7	90.6	14.9%
	33.5%	34.1%		
R&D and SG&A expenses	409.7	402.9	6.8	1.7%
	19.7%	22.7%		
Operating profit	287.6	203.8	83.8	41.1%
	13.8%	11.5%		
Financing expenses	49.3	44.2	5.1	11.5%
	2.4%	2.5%		
Pre-tax profit	219.8	84.9	134.9	158.8%
	10.6%	4.8%		
Net profit	178.2	83.9	94.3	112.4%
	8.6%	4.7%		
EBITDA	354.5	229.7	124.8	54.3%
	17.0%	12.9%		

	2006	2005	Change	%
Income	1,778.8	1,740.7	38	2.2%
Gross Profit	606.7	681	-74.3	-
	34.1%	39.1%		
R&D and SG&A Expenses	402.9	350.6	52.3	14.9%
	22.7%	20.1%		
Operating Profit	203.8	330.4	-126.6	-
	11.5%	19.0%		
Financing Expenses	44.2	34.6	9.7	28.0%
	2.5%	2.0%		
Pre-tax Profit	84.9	251.6	-166.7	-
	4.8%	14.5%		
Net profit (after accumulated affect)	83.9	204.8	-120.9	-
	4.70%	11.80%		
EBITDA	229.7	376.9	-147.2	-
	12.90%	21.60%		

B. Profit and Loss Statements for Fourth Quarter

	10/12/2007	10/12/2006	Change	%
Revenues	475.8	419	56.8	13.6%
Gross profit	146.6	131.7	14.9	11.3%
	30.8%	31.4%		
R&D and SG&A expenses	110	121.8	-11.8	-
	23.1%	29.1%		
Operating profit	36.6	9.9	26.7	270.2%
	7.7%	2.4%		
Financing expenses	10.9	11.4	-0.5	-
	2.3%	2.7%		
Pre-tax profit	17.3	-57.9	75.2	-
	3.6%	-13.8%		
Net profit	20.2	-38.5	58.7	-
	4.2%	-9.2%		
EBITDA	50.7	-6.4	57.1	-
	10.7%	-1.5%		

	10/12/2006	10/12/2005	Change	%
Revenues	419	405.1	14	3.4%
Gross profit	131.7	156.9	-25.1	-
	31.4%	38.7%		
R&D and SG&A expenses	121.8	90.7	31.1	34.3%
	29.1%	22.4%		
Operating profit	9.9	66.2	-56.3	-
	2.4%	16.3%		
Financing expenses	11.4	8	3.4	43.3%
	2.7%	2.0%		
Pre-tax profit	-57.9	49.9	-107.8	-
	-13.8%	12.3%		
Net profit	-38.5	47	-85.4	-
	-9.2%	11.6%		
EBITDA	-6.4	80.8	-87.1	-
	-1.5%	19.9%		

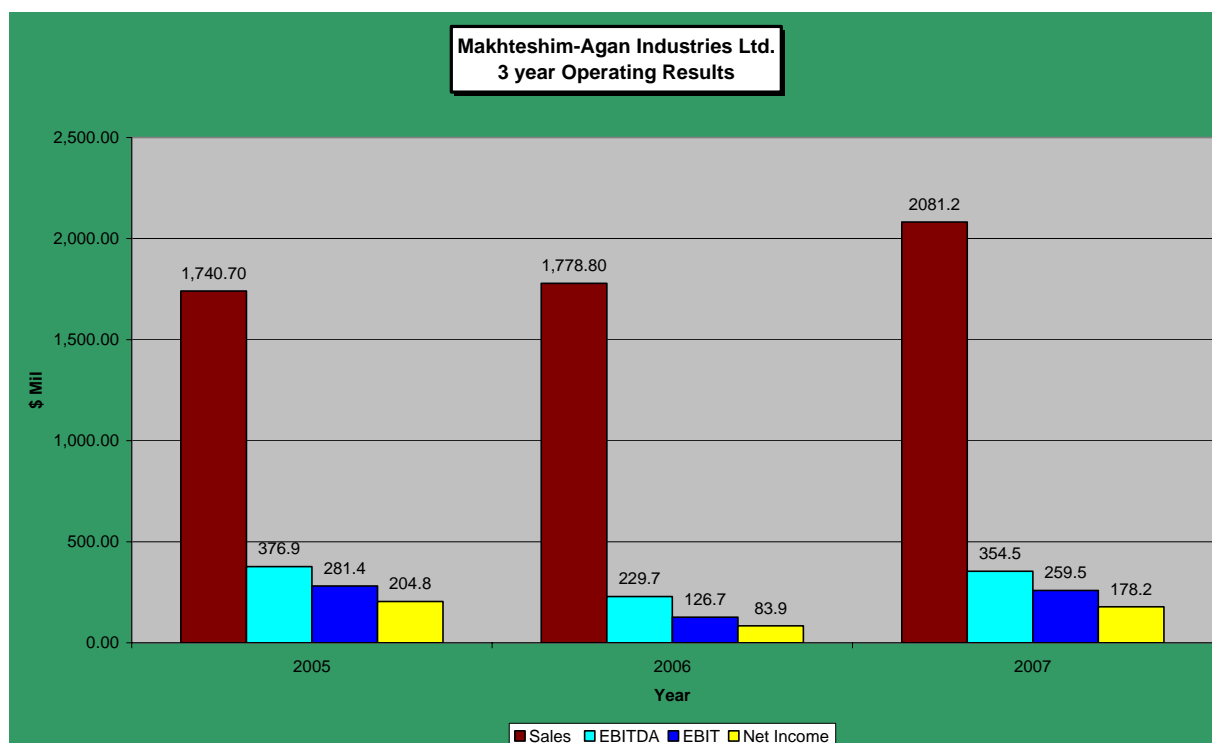
C. Summary of Profitability Financial Data (\$ millions)

Annual data:

	<u>2005</u>	<u>2006</u>	Change %	<u>2007</u>	Change %
Sales	1,740.7	1,778.8	2.2%	2081.2	17.0%
EBITDA	376.9	229.7	(39.0%)	535.4	54.3%
EBIT	281.4	126.7	(55.0%)	259.5	104.8%
Net Income	204.8	83.9	(59.0%)	178.2	112.4%

Quarterly data:

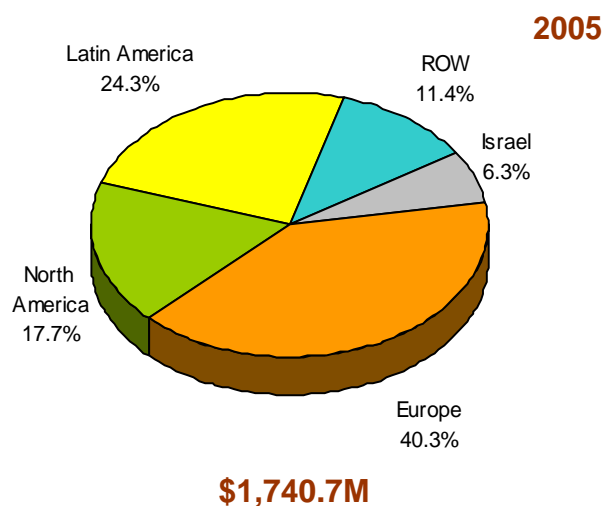
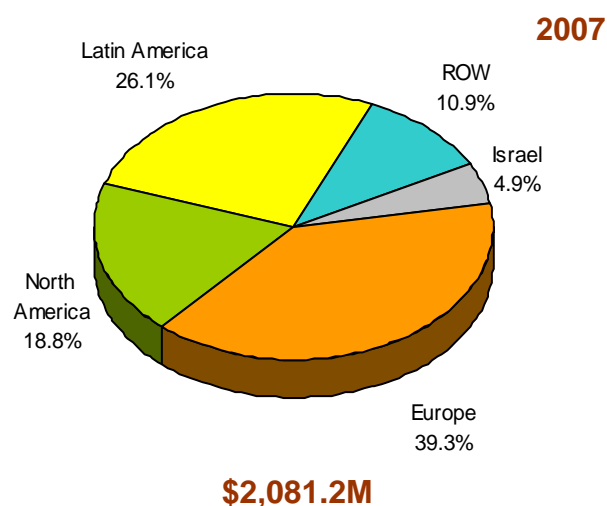
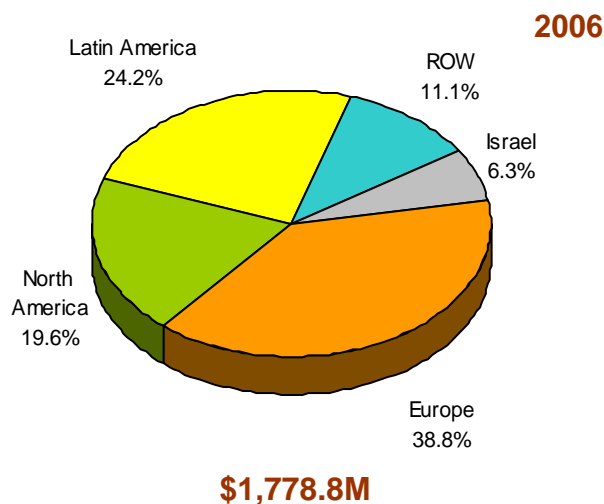
	<u>10-12/2005</u>	<u>10-12/2006</u>	<u>10-12/2007</u>	Change %
Sales	405.1	419.0	475.8	13.6%
EBITDA	80.8	(6.4)	50.7	
EBIT	57.6	(46.4)	27.7	
Net Income	47.0	(38.5)	20.2	



3. ANALYSIS OF RESULTS OF BUSINESS OPERATIONS

A. Segmentation of Revenues be Geographical Region

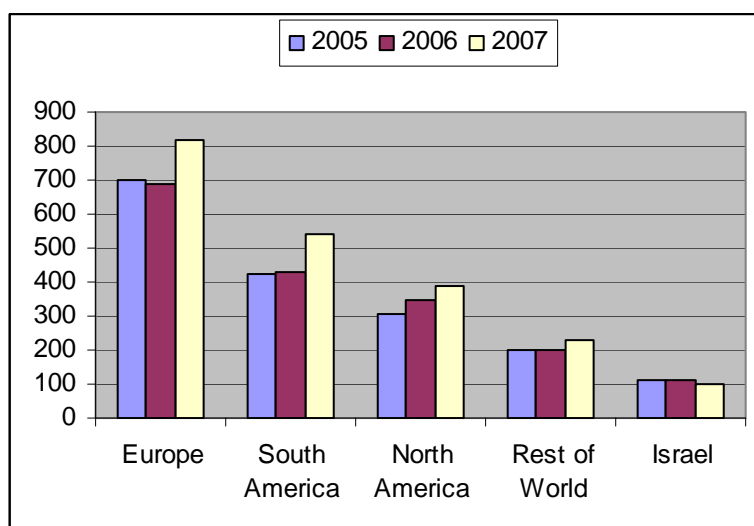
Breakdown of Annual Sales in %:



Breakdown of Annual Sales in \$ millions:

	2007	%	2006	%	Change	%
Israel	102.5	4.9%	111.6	6.3%	-9.1	-8.2%
North America	390.8	18.8%	349.4	19.6%	41.4	11.8%
South America	542.8	26.1%	430	24.2%	112.8	26.2%
Europe	817.7	39.3%	690	38.8%	127.8	18.5%
Rest of World	227.4	10.9%	197.8	11.1%	29.7	15.0%
Total	2,081.20	100%	1,778.80	100%	302.5	17.0%

	2006	%	2005	%	Change	%
Israel	111.6	6.3%	110.2	6.3%	1.4	1.3%
North America	349.4	19.6%	308.8	17.7%	40.6	13.1%
South America	430	24.2%	422.8	24.3%	7.3	1.7%
Europe	690	38.8%	700.9	40.3%	-10.9	-1.6%
Rest of World	197.8	11.1%	198	11.4%	-0.2	-0.1%
Total	1,778.80	100%	1,740.7	100%	38.10	2.2%



In 2007, the Company's sales increased by approx. 17% and amounted to \$2081.2 million, compared with \$1,778.8 million in 2006 and \$1,740.7 million in 2005.

In Europe, sales in 2007 amounted to \$ 817.7 million, compared with \$690.0 in 2006, an increase of \$127.8 million, constituting growth of 18.5% in relation to 2006. The growth in 2007 stemmed, primarily, from: (1) steep demand for the Company's products, mainly due to prices increases of agricultural outputs and weather conditions conducive to the Company's operations; (2) the strengthening of the Euro, which increased the Dollar value of the sales; and (3) first time consolidation of new companies.

In 2006, the sales to Europe totaled \$690.0 million, compared with \$700.9 million in 2005, a decrease of approx. \$10.9 million. The reduction in 2006, compared with 2005 was due to a decrease in sales resulting from poor weather conditions and the weakening of the rate of the Euro during the first half of 2006. The reduction was partially off-set by first-time consolidation, of Kollant, which was acquired in 2006.

In North America sales in 2007 amounted to \$390.8 million, compared with \$349.4 million in 2006, an increase of \$41.4 million, constituting growth of 11.8%. The increase in sales resulted primarily from the increase in demand for the Company's products, which was partially offset by divesting the company, RiceCo LLC, during 2007.

In 2006, there was an increase in sales of \$40.6 million (approx. 13%) to a level of \$349.4 million, compared to \$308.8 million in 2005. The increase in sales stemmed largely from first-time consolidation, of CSI (due to increased holdings in the company from 45% to 67%) and H. Reisman, by the subsidiary, Lycored

In South America, sales in 2007 amounted to \$542.8 million, compared with \$430.0 million in 2006, a significant increase of \$112.8 million, constituting growth of 26.2%. The increase in sales resulted primarily from considerable demand for the Company's products in South America, in general and in Brazil, in particular.

In 2006, the sales amounted to \$430.0 million, compared with \$422.8 million in 2005, an increase of \$7.3 million.

In Israel, sales in 2007 amounted to \$102.5 million, compared with \$111.6 million in 2006, a reduction of \$9.1 million. The decrease stemmed from the divestment of Luxembourg Pharmaceuticals Ltd. during 2006 and Prizma Industries Ltd. during 2007, neither of which company is part of the Company's core business.

In 2006, sales amounted to \$111.6 million, compared with \$110.2 million in 2005, an increase of \$1.4 million compared with 2005, which resulted primarily from internal growth off-set by the divestment of Luxembourg Pharmaceuticals Ltd., as mentioned.

In the rest of the world, sales in 2007 totaled \$227.4 million, compared with \$197.8 million in 2006, an increase of \$29.7 million, constituting growth of 15.0%.

In 2006, sales totaled \$197.8 million, similar to 2005, in which the Company's sales totaled \$198.0 million.

B. Additional areas of activity

In 2007, sales from additional areas of activity totaled \$186.3 million, compared with \$197.4 million in 2006 and \$197.9 million in 2005. The reduction in 2007 was a result of the divestment of Luxembourg Pharmaceuticals Ltd. during 2006 and Prizma Industries Ltd. during the course of 2007, neither of which company is part of the Company's core business.

C. Gross profit

In 2007, the gross profit totaled \$697.4 million (33.5%), compared with \$606.7 million (34.1%) in 2006. The slight erosion in the gross profit stems mainly from the sharp increase in oil prices, resulting in an increase both in the prices of raw materials and in energy costs. The increase in prices of raw materials was partially offset by cost savings deriving from the Change and Efficiency Improvement Plan. Similarly, the increase in prices of raw materials and energy rates was partially offset by raising the sales prices which started to occur

during the fourth quarter of 2007.

In 2006, the gross profit totaled \$606.7 million, compared with \$681.0 million in 2005. The gross profit dropped to 34.1% in 2006, compared with 39.1% in 2005. The reduction in gross profit and in the rate thereof, in 2006, were as a result of difficult market conditions in Brazil and extreme weather conditions in Europe, causing a decline in demand for crop protection products and increasing competition in the market in Brazil, while leading to a price erosion. In addition, the gross profit was eroded because of a rise in the costs of raw materials.

D. Operating profit

The operating profit in 2007 amounted to approx. \$287.6 million (13.8% of sales), compared with approx. \$203.8 million in 2006 (11.5% of sales) and \$330.4 million (19.0% of sales) in 2005.

In 2007, operating expenses as a percentage of sales, dropped to 19.7%, compared to 22.7% in 2006. These expenses amounted, in 2007, to \$409.7 million, compared with \$402.9 million in 2006. The reduction in operating expenses as a percentage of sales stemmed from increased sales and savings deriving from Change and Efficiency Improvement Plan.

The operating expenses in 2006 totaled \$402.9 million (22.7% of sales), compared with 350.6 million in 2005 (20.1% of sales).

R&D expenses in 2007 totaled \$19.7 million, as in 2006, in which these expenses amounted to \$19.0 million. In 2005, these expenses totaled \$20.6 million.

The sales expenses in 2007 amounted to \$316.4 million, compared with \$303.2 million in 2006, an increase of \$13.2 million, primarily as a result of an increase in variable costs (such as transportation costs), as a result of the increased sales. Notwithstanding the increases in sales costs, the percentage of sales costs out of the turnover of sales in 2007, dropped to 15.2%, compared with 17.0% in 2006, as a result of continued efficiencies efforts.

In 2006, sales expenses rose to \$303.2 million (17.0% of sales), compared with \$267.9 million in 2005 (15.4% of sales). The increase in sales expenses is largely a result of: (1) increased ongoing expenditure for product registrations and related depreciation expenses (2) the growth in sales which increased the variable sales expenses (mainly, commissions and transportation) and (3) expansion of direct marketing, one of the causes of increased salary-related expenses.

Management and general expenses in 2007, totaled \$73.7 million (3.5% of sales), compared with \$80.8 million (4.5% of sales) in 2006, a reduction of \$7.1 million, resulting mainly from a decrease in provision for doubtful debts and the continued efficiencies efforts.

In 2006, these expenses totaled \$80.8 million (4.5% of sales), compared to \$62.1 million (3.6% of sales) in 2005. The increase was mainly a result of: (1) a significant rise in provision for doubtful debts; (2) an increase in salary-related expenses caused, among other things, by the appreciation of the shekel and (3) an increase in professional services.

E. Financing expenses:

Financing expenses in 2007 totaled \$49.3 million, compared with 44.2 million in 2006. The slight increase in financing expenses stems from a sharp rise in the Consumer Price Index in the third quarter of 2007, which was mostly offset by hedging against CPI exposure effected by the Company. It is noted that the sharp fluctuation in the exchange rate of the shekel did not have a material affect on the financing expenses in 2007, since the Company arranged for the hedging of the greater part of its exposure to this risk.

The financing expenses in 2006 totaled \$44.2 million, compared with \$34.6 million in 2005. The increase in financing expenses was mainly a result of the increased scope of credit utilized and the increased cost of Libor interest.

F. Other expenses and income

Other expenses totaled \$18.5 million in 2007, compared with \$74.6 million in 2006. After neutralizing the provisions made under this item in 2006, in the sum of \$48.9 million, these expenses totaled \$25.7 million in 2006.

Other expenses include mainly amortization of intangible assets of products and expenses related to the customer portfolio securitization plan. The reduction in other expenses in 2007, compared with 2006, was as a result of capital gains from the divestment of RiceCo during 2007, 50% of which was owned by PROFICOL ANDINA N.V., in which the Company holds 57% .

In 2006, other expenses totaled \$74.6 million, compared with \$44.2 million in 2005. An increase of \$30.4 million resulted entirely from different provisions made by the Company under this item, in the sum of \$48.9 million, including: (1) \$19.1 million on account of legal claims; (2) \$15.0 million on account of the Company's estimation regarding reduction in the fair value of intangible rights in various of its products; (3) \$14.3 million in respect of employees and primarily, a revision of provisions made for employees retirement reserve funds, as a result of the anticipated retirement process involving several dozens of the Company's employees in Israel and abroad, as part of the rationalization program. Without the execution of such provisions, the other expenses would have totaled \$25.7 million in 2006, compared with \$44.2 million in 2005.

G. Taxes on income

In 2007, tax expenses amounted to \$32.0 million (constituting 14.5% of the profit before tax), compared to a tax benefit of \$1.4 million recorded by the

Company in 2006. The principal increase in tax expenses is due to an increase in the profit before tax in 2007.

In 2006, the Company recorded a tax benefit of \$1.4 million, compared with tax expenses in the sum of \$40 million in 2005. The change in tax expenses in 2006 is as a result of: (1) a decline in the Company's profit before tax; (2) appreciation of the Dollar, which increased the Company's tax assets; (3) benefits in respect of approved enterprises; (4) income taxable at different tax rates, lower than the tax rates in Israel; (5) various provisions made by the Company in the fourth quarter.

H. Net profit

The net profit in 2007 totaled \$178.2 million (8.6% of sales), compared with \$83.9 million (4.7% of sales) in 2006. Before the influence of the provisions made by the Company in the fourth quarter of 2006, the net profit amounted to \$139.2 million (7.8% of sales). The increase in the net profit, less the provisions made by the Company in 2006, is mainly the result of: (1) an increase in sales; (2) a decrease in the percentage of operating costs compared to sales, as a result of increased sales and streamlining efforts.

The net profit in 2006 totaled \$83.9 million (4.7% of sales), compared with \$204.8 million (11.8% of sales) in 2005. The reduction in net profit and in the rate thereof, resulted mainly from erosion of the gross profit, as specified above, an increase in the operating costs and the affect of the provisions made by the Company.

The net profit per share in 2007, amounted to 40 cents per share, compared with 19 cents per share in 2006 and 49 cents per share in 2005.

I. EBITDA

In 2007, EBITDA totaled \$354.5 million (17.0% of sales), compared with \$229.7 million (12.9% of sales) in 2006 and 376.9 million (21.6% of sales) in 2005.

4. Financial situation and liquidity

Cash flow (in \$ millions)

	2007	2006	2005
Cash flow from current operations	134.7	127.9	183.2
Cash flow from investment activities			
Acquisition of fixed assets, net	-56.4	-70.1	-49.2
Sale (acquisition) of companies and minority share	8.1	-27.1	-9.9
Acquisition of new products and investments in licensing	-68.7	-42.9	-38.3
Short-term investments	-95.1		0.2
Others	5.5	0.7	0.3
Total investment activities	-206.7	-139.4	-96.8
Free cash flow	-72.0	-11.5	86.4
Free cash flow less short-term investments	23.1	-11.5	86.2

A. Cash flow from ongoing operations:

In 2007, the cash flow from ongoing operations totaled a sum of \$134.7 million, compared with \$127.9 million in 2006 and \$183.2 in 2005. The improvement in cash flow in 2007 was achieved despite the significant growth in sales.

B. Cash flows for the investment activity:

In 2007, the investments, offset by the long-term investments, totaled \$111.6 million, compared with \$139.4 million in 2006 and \$96.8 million in 2005. The investments mostly included investments in product registrations, intangible assets and investments in fixed assets. Investments in fixed assets in 2007, included investments in plant and equipment, including installations for upgrade and improvement environmental protection standards.

See details in the above table.

C. Free cash flow:

In 2007, the free cash flow (cash flow from ongoing activity, less the cash flow from investment activity), counteracted by long-term investments, totaled \$ 23.1 million, compared with a negative cash flow in the sum of \$11.5 million in 2006 and a positive cash flow of \$86.2 million in 2005.

D. Current assets:

The total current assets as at 31 December 2007, amounted to \$1,764.3 million, compared with a sum of \$1,526 million in 2006 and \$1,108.6 million as at 31 December 2005.

E. Investments in fixed assets:

See under Cash Flow above.

F. Cash, current liabilities and long-term loans:

The Company's credit (bank credit and bonds) amounted, on 31 December 2007, to \$709.5 million, \$89.4 for short-term credit, compared with \$712.2 million as at 31 December 2006 (\$11.9 of which being short-term credit).

The short-term cash balances and investments as at 31 December 2007 amounted to \$295.0 million, compared with \$326.1 million as at 31 December 2006.

The Company's net debt (banks loans and bonds, less cash and short-term investments), as at 31 December 2007, amounted to \$414.5 million, compared with \$386.2 million Dollars as at 31 December 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.

G. Equity:

As at 31 December 2007, equity amounted to \$1,334.5 million, compared to \$1,131.7 million as at 31 December 2006 and \$1,134.2 million as at 31 December 2005. In 2007, the percentage of equity out of the total balance sheet amounted, to 46.2%, compared with 43.2% in 2006 and 52.8% in 2005.

The Company's issued and paid-up capital as at 31 December 2007 is 473,716,452 ordinary shares of par value NIS 1 and 478,932,695 ordinary shares of par value NIS 1, fully diluted

Buy-back of shares:

In November 2005, the Company gave notice of adoption of a policy to buyback its shares, at up to \$150 million (this sum complied, at the time, with the requirement for permitted distributions under the Companies Law). In August 2006, the Board of directors of the Company approved conclusion of the plan. As at 31 December 2007, the Company owns 24,875,703 shares, constituting approx. 5.25% of its issued share capital, which were purchased in accordance with the above resolution. Likewise,

a subsidiary of the Company holds 4,415,569 shares, constituting approx. 0.93% of its issued and paid-up share capital, that were purchased already prior to adoption of the plan.

On 11 March 2007, subsequent to the date of the balance sheet, the Board of directors of the Company approved a new buy-back plan of up to \$100 million.

Dividend

See events subsequent to the date of the balance sheet.

H. Convertible bonds:

The bonds of the convertible bonds series issued in November 2001 and January 2002, were convertible up until 31 October 2007. As at the date of publishing the report, the balance of bonds not exercised for shares of the Company has expired.

I. Financial ratios:

As at 31 December for years:	<u>2007</u>	<u>2006</u>	<u>2005</u>
Ratio of current assets to current liabilities (current ratio)	2.22	2.03	1.38
Ratio of current assets, excluding inventory, to current liabilities (acid-test ratio)	1.25	1.22	0.68
Rate of financial liabilities out of total balance sheet	24.6%	27.2%	15.1%
Rate of financial liabilities to equity	53.2%	62.9%	28.6%

J. Sources of financing:

The Company finances its business operations from its equity, credit from non-banking sources (mainly bonds), bank credit (long-term and short-term), customer securitization and supplier credit.

5. Exposure to market risks and methods of managing such risks

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

The Board of directors of the Company approved a policy of using financial derivative to reduce the exposure to changes in exchange rates and CPI increases. The Company's 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 Risk Management Officer is the CFO, Ran Maidan.

For details of his education, qualifications and business experience, see in the fourth chapter of this report – Further Particulars of the Company.

The following are exchange rate data for the principal trade currencies used by the Group and data pertaining to Libor interest:

	31 December			Annual average			Q4 Average		
	2007	2006	Change	2007	2006	Change	2007	2006	Change
Euro	1.471	1.317	11.7%	1.37	1.255	9.2%	1.45	1.289	12.5%
Brazilian Real	1.7741	2.136	-16.9%	1.9516	2.18	-10.5%	1.7875	2.155	-17.1%
Shekel	3.846	4.225	-9.0%	4.11	4.468	-8.0%	3.95	4.265	-7.4%
LIBOR interest for 3 months	4.70%	5.36%	-12.3%	5.30%	5.19%	2.1%	5.03%	5.37%	-6.3%

Description of market risks

The Company's policy regarding the management of market risks

The Company's policy is to maintain the highest possible correlation between the currency in which it sells its products and the currency in which it purchases the raw materials. The Company continuously examines its accounting and economic exposure, 12 months ahead, in accordance with the Company's projected revenues and expenses. As at the date of this report, the Company has hedged against most of the accounting exposure and some of the economic exposure, in the principal currencies in which the Company deals. For details of the Company's policies for each type of risk, see details of the risks below:

Currency risks:

The Group's most substantial exposure is to the Euro, the NIS, and the Brazilian Real. In addition, there is smaller exposure to other currencies, such as: the British Pound, the Polish Zloty, the Australian Dollar and the 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 foreign currencies. It is the Company's policy to use derivative financial instruments (options and forward contracts) to hedge against such exposure only when the net exposure to a certain currency is material.

Sales of crop protection products are directly dependent on the agricultural seasons and the cyclical nature of crop cultivation. The Company's revenues are thus not equally distributed over the year. Countries located in the northern

hemisphere, are characterized by similar timing of the agricultural season and thus the sales to these countries are normally highest in the first half of the year. During this period, the Company has substantial exposure to the Euro, the Polish Zloty and the UK Pound. In the southern hemisphere, the seasonality is opposite, and most of the local sales (with the exception of Australia), are made in the months of August to November. During these months, the Company is mostly exposed to the Brazilian Real. The Company has more sales in markets in the northern hemisphere and consequently, the Company's volume of sales in the first half of the year is higher than in the second half of the year.

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 CPI and therefore a rise in the CPI, as well as changes in the Shekel exchange rate, may result in significant exposure vis-à-vis the Company's currency of operations - the Dollar.

During the period, the Company hedged against most of its exposure to the Euro, the Real and the Shekel, in respect of the bonds, as mentioned above.

For details regarding tables of linkage balances and derivative positions tables as at 31.12.2007 see the Company's filings.

Exposure 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 CPI and therefore an increase in the CPI may result in 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 materials prices (in source currency):

Approx. 70% of the Company's sale costs stem from raw materials costs. Most of the Company's raw materials are distant derivatives of oil prices. Hence, an increase in oil prices can cause an increase in the price of raw materials.

In order to reduce exposure to fluctuations in the prices of raw materials, the Company typically enters into long-term purchase agreements for the purchase of principal raw materials, wherever possible. Equally, the Company tries to adjust the selling prices, as far as possible, in order to reflect changes in the prices of raw materials.

During the period of the report, 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 rate on the US Dollar, since its long-term and short-term liabilities are in that currency and bear a variable LIBOR rate. The Company prepares a quarterly summary of the exposure to

fluctuations in the LIBOR rate. As at the date of publications this report, such exposure is not substantial and the Company does not hedge this exposure.

Any change in the financial environment in which the Company operates, whether originating in external events or initiated by the Company, within the framework of the investment and financing policy approved by the Company's management, falls under the responsibility of the Company's Risk Management Officer. Any irregular change deviating from the approved policy, is reported to the CEO of the Company. The CEO of the Company examines the reason for the exposure and decides on the continued handling of the matter. The Company's management from time to time examines the need to revise the above policy, having regard for developments in the Company's operations and in the scope of its exposure.

Means of supervision and market risk management policy implementation

The Company keeps internal documentation regarding the designation of financial instruments for exposures which link between the instruments and the exposure. The Board of directors and the Finance Committee discuss, the Company's exposure to the market risks and actions of management of the Company in respect thereof, at least once every quarter. The Company's management reviews, on an ongoing basis, the control procedures and updates them in accordance with the scopes of activity and risk arising from the operations.

Discussion of analysis of sensitivity to changes to risk factors

The following is a description of the models for examining the sensitivity of the fair values of various financial instruments:

1. B&S formula options – the known standard deviation curve and the rates of the relevant base asset.
2. Forward transactions – the rate of the relevant base asset, and the interest points derived from the interest rates.
3. Debentures and bank loans – the known interest curve and the exercise price of the debenture.
4. Various interest rates::

Cross	Bid	Ask	Yatzig
EUR.USD	1.4715	1.4715	1.4715
GBP.USD	2.0048	2.0048	2.0048
BRL.USD	1.7800	1.7800	1.7800
AUD.USD	0.8752	0.8752	0.8752
ZAR.USD	6.8249	6.8249	6.8249
ILS.USD	3.8460	3.8460	3.8460
USD.PLN	2.4695	2.4695	2.4695

Interest rates of up to one year

Currency	Interest rate - Ask						Interest rate - Bid					
	1M	2M	3M	6M	9M	1Y	1M	2M	3M	6M	9M	1Y
USD	3.10	3.20	3.30	3.50	3.50	3.80	3.15	3.25	3.35	3.60	3.60	3.90
GBP	5.89	5.78	5.83	5.75	5.70	5.54	6.01	5.90	5.95	5.90	5.82	5.61
EUR	4.18	4.29	4.48	4.53	4.61	4.67	4.24	4.41	4.60	4.63	4.67	4.87
ILS	4.45	4.43	4.70	4.95	4.98	5.25	4.50	4.65	4.75	4.98	5.10	5.35
AUD	6.50	6.80	7.00	7.30	7.48	7.65	6.70	7.00	7.20	7.45	7.63	7.80
ZAR	11.10	11.35	11.55	11.80	11.79	12.00	11.40	11.65	11.85	12.10	12.19	12.30
PLN	5.22	5.30	5.45	5.65	5.75	5.85	5.52	5.62	5.70	5.94	6.05	6.15

Interest rates of over one year

	2 Y	5 Y	10 Y
ILS	5.41	5.80	6.30
ILS CPI	2.50	3.40	3.40
USD	3.85	4.00	4.15
EURO	4.60	4.50	
BRL	13.00		

For sensitivity and volatility tables relating to the Company's operating currencies the Company's filings

6. Directors with accounting and finance skills

Pursuant to a resolution of the Board of directors of 8.3.2004, the minimum number of directors who have accounting and financial skills, is to be two.

As at the date of publication of this report, the Company has six directors who fulfill the required conditions: Avraham Bigger, Nochi Dankner, Ra'anan Cohen, Isaac Manor, Oren Lieder, Prof. Dov Pekelman, who, by their education and professional experience, fulfill the required conditions. In addition, Mr. Gideon Chitayat serves on the Board of directors, as an external director with accounting and financial skills.

For details of the education, qualifications and professional experience of the said directors, see the chapter Additional Particulars of the Company.

6. The internal auditor

a. Identity of the internal auditor

Mr. Joshua Hazenfratz, CPA, was appointed as internal auditor of the Company and commenced work at the Company on 6 November 2007.

Mr. Joshua Hazenfratz, a partner in the accounting firm of Sheif,

Hazenfratz & Co., replaced Mr. Doron Ronen, CPA, who retired from the above accounting firm.

b. Compliance of internal auditor with the statutory requirements

To the best knowledge of the Company's management, the internal auditor is in compliance with the provisions of section 146(b) of the Companies Law and with the provisions of section 8 of the Internal Audit Law.

c. Holding of securities of the Company or of an affiliated entity:

As at the date of this report, the internal auditor does not hold any securities of the Company or of any affiliated entity.

d. Relationship between the internal auditor and the Company or an affiliated entity:

To the best knowledge of the Company's management, the internal auditor serves as the internal auditor of Clal Biotechnologies Ltd. and Nesher Israel Cement Factories Ltd. Aside from the above, the internal auditor has no substantial business relations or other relations with the Company which might constitute a conflict of interest with his position as internal auditor of the Company.

e. Additional functions of the internal auditor at the Company

The internal auditor is an external service provider of the Company on behalf of the accounting firm of Shief, Hazenfratz & Co. With the exception of his function as internal auditor of the Company, the internal auditor is not employed by the Company or nor does he provide it with any other external services.

f. Other functions of the internal auditor outside of the Company

Mr. Joshua Hazenfratz is a partner in the accounting firm of Shief, Hazenfratz & Co.

g. Method of appointment of the internal auditor

Mr. Joshua Hazenfratz was appointed to act as internal auditor of the Company, on the recommendation of the Company's Audit committee of 1.11.2007 and upon a resolution of the Board of directors of 6.11.2007. In the discussion of the Audit committee and the Board of directors, Mr. Joshua Hazenfratz was appointed as internal auditor of the Company, following thorough examination of his education and extensive experience. Mr. Hazenfratz was found suitable to serve as the Company's internal auditor, *inter alia*, taking into account the scale of operations and complexity of the Company's operations.

h. Termination of Mr. Doron Ronen's service

Mr. Doron Ronen completed his term of service as internal auditor of the Company on 16 July 2007, following his request to retire from his position and his retirement from the accounting firm of Shief, Hazenfratz & Co.

i. Identity of internal auditor's supervisor

The internal auditor's organizational supervisor is the CEO of the Company and/or the Chairman of the Board of directors.

j. Audit plans

The internal auditor's audit plan is an annual audit plan, based on a long-term audit plan.

The work plans are devised by the internal auditor, in coordination with the Board of directors and with its approval, under the supervision of the CEO and with the approval of the Company's Audit Committee. The guiding considerations in setting up the plan are based on matters seen as requiring in-depth examination, according to their level of risk, in reliance, *inter alia*, on a preliminary risk analysis study performed by *Deloitte Breitman, Almagor*, with the aim of finding defects, streamlining the systems, ensuring protection of the Company's assets and of ensuring performance of the Company's procedures and compliance with the laws of the countries in which it operates.

The annual work plan also includes follow-up audits of implementation of the recommendations of the internal auditor and the Audit Committee, by Company management. The audits are conducted based on the plan, supervised by the internal auditor and are adjusted on the basis of developments and findings that become apparent during the course the audit.

k. Substantial transactions

The internal auditor receives an invitation, including background material, to meetings of the Audit committee and attends meetings of the committee at which transactions are considered and approved, as provided in section 270 of the Companies Law, 5759-1999. Similarly, the internal auditor is given, on his request, minutes of meetings of the Board of directors at which such transactions were approved.

l. Overseas audit and audit of subsidiaries

The internal auditor of Makhteshim Co., the internal auditor of Agan Co., and other professionals report to the Company's internal auditor. The audit work of the overseas subsidiaries is done mainly by Deloitte & Touche. The international audit work is supervised by Deloitte & Touche,

in Brussels.

With respect to audits of substantially held subsidiaries, the Company's long-term audit plan aims to cover the entire gambit of audit-related issues once every few years, for each subsidiary.

m. Employment of internal auditor

The internal auditor's employment conditions are determined by the Audit committee in accordance with the audit plan that it approves. In 2007, the internal auditor conducted audits of the Company and its subsidiaries, working approximately 5,181 hours, according to the breakdown presented in the table below. The scope of the position was determined based on the needs of the audit plan and is not limited by the party being audited.

	Work Hours
Internal audit at Company and at subsidiaries	5,181
Internal audit at the Company's subsidiaries	4,489
Internal audit of Company's operations in Israel	42,621
Internal audit of Company's operations outside of Israel	2,560

The grounds for setting the work hours set out above are as follows: the number of work hours for the audit work at the Company and at the subsidiaries is determined based on the audit plan presented by the internal auditor, in cooperation with management and is approved by the audit committees of the different boards of directors.

In 2007, employment of the internal auditor was slightly reduced in scope relative to 2006 due to replacement of the former internal auditor during the year.

n. Guiding professional standards in conducting an audit

The internal auditor and the team of employees that report to him perform their audit work in strict compliance with the criteria necessary to conducting professional, reliable audits that are independent of the party being audited. The audit reports rely on the findings of the audit and the facts documented in the audit are performed in accordance with generally accepted accounting practices, pursuant to section 4(b) of the Internal Audit Law, according to the professional standards of the IIA (standards 1000 and 2000 series), based on the professional directives of the Israel Institute of Internal Auditors.

o. Independence of the internal auditor:

The internal auditor of the Company has free access to the documents, information and data systems of the Company and of the subsidiaries, including financial data, and has an independent status.

p. Evaluation of internal auditor's work by the Board of directors of the Company

In the opinion of the Board of directors of the Company, the scope, nature and continuity of the operations of the internal auditor and his work plan are reasonable under the circumstances of the matter and will serve to realize the objects of the Company's internal audit.

q. Remuneration of internal auditor

The remuneration of the internal auditor is on an hourly basis, in accordance with the work plan approved by the audit committee. In the beginning of each year, the auditor submits a proposed annual audit plan which includes a planned framework of hours. The audit committee decides on the audit plan and the quota of hours. The auditor will not exceed the quota of hours without the audit committee's approval. In the event of further assignments being imposed on the auditor during the audit year – the audit committee determines the quota of hours for the additional assignments.

The internal auditors of the subsidiaries, Agan and Makhteshim, are salaried employees of the Company and are remunerated accordingly. In the Company's estimation, this remuneration does not affect the internal auditor's exercise of professional discretion.

r. Meetings of the audit committee during the year 2007:

Due to replacement of the internal auditor, no report was submitted in 2007 of the internal auditor's findings and no meetings of the audit committee were held at which the internal auditor's findings were discussed.

8. Donations:

The Company has a deep-seated commitment to the betterment and advancement of the community in Israel. The Company has formulated a general policy sets out a clear system under which the Company makes donations. The community-orientated activity is carried out with the involvement of employees, while instilling values of social responsibility and environment protection.

The Company's communal involvement is an expression of values that are fundamental to the Company's operations:

- Corporate responsibility
- Commitment to border settlements in the North and South of the country.
- Sensitivity and large-scale involvement in the local communities in which the Company operates.
- Commitment to environmental protection.
- Investment in future generations.
- Excellence in industry and education.

The Group directs its financial and human resources to regions that are close in proximity to its subsidiaries (Ashdod and Beer Sheba), emphasizing sensitive involvement in local needs and generating employee pride and involvement.

These donations are concentrated into two main areas:

- a. Areas of interest relating to the Group's operations: environmental protection, chemistry, agriculture.
- b. Important social issues on the public agenda: the needy, education, sports, children and youth in distress and at risk, family violence, health issues, etc.

Employees of the Group are also involved in providing assistance to the community, contributing their personal wealth and private time in volunteering on behalf of the community. During the summer vacation, the Company employs hundreds of the employees' children in performing service work for the community, in cooperation with the local authorities in Beer Sheba and Ashdod.

The Company and the Society for the Protection of Nature in Israel, have joined forces to promote the project :Quality of Life and Environment – From Slogan to Way of Life", which actively expresses their commitment to issues of environmental protection, education and the community.

The aims of this project are to raise environmental awareness, to direct and motivate environmental action for the good of the community, to reinforce the connection and pride in the city and its neighborhoods and to deepen familiarity with the heritage of the city and its environs, to develop social leadership and to take personal and group responsibility for the totality: society – environment.

The program has been very successful in a number of ways which integrate the formal education system and the community: personal commitment, green council, community events and the like. The plan is based mainly on: hands-on nature and environment experiences for pupils, deepening of the connection to community and close environment, providing an experience of successful achievement, resulting in the reinforcement of their personal abilities.

Similarly, the Company awards scholarships to hundreds of students residing in of border town, who study at tens of academic institutions throughout Israel, in order to relieve them of financial difficulties.

In 2007, the Company donated a total sum of approx. \$1.7 million, compared with \$1.1 thousand in 2006 and \$0.7 million in 2005.

9. Critical accounting estimates

The preparation of financial statements based on accepted accounting principles requires management of the Company to make assessments and estimates which affect the reported values for assets, liabilities, income and expenses, and disclosure regarding contingent assets and liabilities.

Management bases its assessments and estimates on past experience and on other factors which it views as relevant, taking into account the circumstances of the case. Actual results might be different from these estimates, under other presumptions or conditions. The Company has identified the most critical assessments and estimates which require the most substantial discretion when preparing the consolidated financial statements. These estimates and assessments are critical because any change in the assessments and presumptions could substantially affect the financial statements.

1. Estimated Life of Intangible Assets:

Intangible assets are amortized over their useful life, in a methodical manner. The amortization period reflects the best estimate of the period in which future economic benefits can be expected to derive to the Company. Employing other presumptions might bring about a different estimate of the period in which future economic benefits are expected to be received. The Company methodically examines the possibility of a reduction of the value of assets in accordance with accounting standard no. 15. (For more on this, see Notes 2 and 11 to the financial statements).

2. Allotment of surplus cost of purchase of acquired companies to various asset items:

Based on accounting standard no. 20 (amended), the Company is required to allocate the surplus cost generated upon purchasing companies to its various asset items, where possible. The surplus cost that cannot be allocated is ascribed to goodwill. The surplus cost ascribed to the various asset items is reduced according to the rate of amortization of the relevant asset. Ascription of the surplus cost to the various asset items might bring about a different amortization period.

3. Trade Receivables:

Trade receivables are represented on the Company's balance sheet less provisions for doubtful debts. The provision for doubtful debts is examined by management on an ongoing basis, and is prescribed based on knowledge of the customer, the customer's nature, the size of sureties provided by the customer, and credit insurance. These assessments and estimates are critical due to the large number of trade receivables on the

Company's balance sheet, and the long credit periods used in South America.

4. Contingent liabilities

From time to time, companies of the Group are party to legal claims involving different matters, including environmental protection and other contingent liabilities in respect of which the Company does not always make provision or have insurance coverage, as described in Note 21 of the financial statements. Some of the claims are in the framework of motions for approval as class actions. The outcome of these claims might have a material affect on the Company's financial situation. The Company periodically examines and evaluates, in reliance on the opinion of its legal advisors and estimates of the Company management, the liabilities inherent therein, if any. Accordingly, the Company makes provision for the settlement of these claims in its financial statements. These evaluations are based on the best professional judgment of the legal advisors and the Company's management, taking into consideration the procedural stages of the legal proceedings, the uniqueness of the claim and the accrued legal experience. Since the courts decided on the outcome of these legal claims, the results may be at variance with the provision recorded, either positively or negatively.

5. Taxes

The Company and the companies in the Group are assessed, for income tax purposes, in a large number of jurisdictions and management is thus required to exercise considerable discretion in determining the aggregate provision for taxes and the attribution of income. Deferred taxes are calculated according to the anticipated tax rates on the date of their realization, in accordance with evaluations of the Company's management of their reasonable possibility. As a rule, the tax benefit is included in the Company's financial statements if, according to the business plan, realization of the tax benefit is foreseen. The business results in practice may be at variance with the projection or business plan and affect realization of the tax benefit in the future.

10. IFRS

In July 2006, the Israel Accounting Standards Institute published Accounting Standard No. 29 - "Adoption of International Financial Reporting Standards (IFRS)" (hereinafter: the "**Standard**"). The Standard provides that entities subject to the Securities Law, 5728 – 1968 and which are required to submit reports in accordance with the regulations promulgated under that Law, are to draw up their financial statements in accordance with the IFRS standards, for periods commencing 1 January 2008. Initial adoption of IFRS standards is to be implemented for the first time on 1 January 2007 (hereinafter: the "**Transitional Period**"). For purposes of the transition, the Company is to implement the provisions of IFRS Standard 1.

In accordance with the provisions of the Standard and clarification of the Securities Authority (FAQ6), the Company is to present in its financial statements as at 31 March 2008, an opening balance sheet as at 1 January 2007, a balance sheet as at 31 December 2007 and a profit and loss statement for the year ended on that day, drawn up in accordance with the IFRS standards. In addition, the Company is to present adjustments between reporting in accordance with GAAP in Israel and reporting in accordance with the IFRS, as at the Transitional Date, as at 31 December 2007 and for the year ended on that date. The IFRS1 Standard provides that implementation of the IFRS standards in the opening balance sheet as at the Transitional Date, is to be done retroactively (always) (subject to exceptions).

In the opinion of management, since the Company is an industrial company, the affects of implementing the IFRS standards on its results and in particular, on the balance sheet and profit and loss statement for the year 2007, are not significant.

In Note 36 of the financial statements, disclosure was made of the balance sheet figures as at 31.12.2007 and profit and loss figures for the year ended on that date, prepared in accordance with the IFRS standards. Likewise, an explanation was provided regarding the affects of the transition from GAAP in Israel to IFRS, on the Company's financial situation and the results of its operations.

Thus, for example, in accordance with the said Note 36, the affect of the transition to IFRS standards on the item pertaining to the Company's equity as at 31 December 2007, is approx. 1%. In the opinion of management and in accordance with clarification of the Securities Authority (FAQ1), the main items in the Company's balance sheet, as at 31 December 2007, which are to be affected by the transition to the IFRS standards, are as follows:

1. Liabilities for termination of employer-employee relations

In accordance with the accounting rules in Israel, liabilities for termination of employer-employee relations are calculated on the basis of the presumption that employees will reach retirement age and be entitled to full severance pay, without taking into account capitalization rates, rate of future salary increases and future resignations.

Similarly, liabilities for annual leave and sick leave were calculated based on estimations of the leave taken or redeemed, respectively. On the Transitional Date, all net liabilities are measured in respect of employee benefits following retirement and other long-term benefit schemes, in accordance with the provisions of IAS 19 pertaining to employee benefits. Post-retirement benefits in respect of defined benefit schemes are measured based on actuarial estimates and capitalized sums. The difference in measurement as at 1 January 2007, which totaled a sum of approx. \$22.0 million, was attributed to a surplus balance (net of tax). The affect of the transition to IFRS was expressed in an increase in liabilities for employee benefits, in a sum of approx. \$29.2 million and in a sum of \$37.4 million, as at 1 January 2007 and 31 December 2007, respectively, an increase in salary-related expenses for the year ended 31

December 2007, in a sum of \$0.3 million and an increase in financing expenses for that period, in the sum of approx. \$9.9 million.

To the best of the Company's knowledge, the issue of capitalization interest is under examination and a decision might ultimately be taken that in Israel, the proper capitalization interest is that based on the bonds of the concern. In this case, the data contained in Note 36 of the Company's financial statements will be adjusted, the actuarial liability will be reduced and the current financing expenses in respect of the liabilities will increase. The Company has chosen to attribute the actuarial profits or losses to equity, in accordance with the existing alternatives under IAS 19 and in accordance with the concession of IFRS 1, the Company has nullified the said affect as at the Transitional Date.

2. Financial instruments

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. 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.

The impact of January 1, 2007 and December 31, 2007 is expressed in an increase in credits (after deducting debts) in respect of financial derivatives totalling approximately \$3.7 million and approximately \$10.6 million, in a decrease of reserves for future taxes of approximately \$0.7 million and approximately \$4.8 million and a decrease in excess of approximately \$3.0 million Note 36 – Explanation regarding the impact

of the transition to IFRS (Contd.) 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 costs totaling approximately \$19.4 million in the year ending December 31, 2007.

3. CPI-linked financial instruments

The Company has balances of CPI-linked financial instruments. In the opinion of management, in reliance on the (draft) position paper published by the Institute of Standards, there are a number of possible alternatives for the accounting handling of CPI-linked financial instruments. For purposes of making this note, the Company has adopted accounting treatment according to which the value of the instrument on the books and payments deriving therefrom, are revalued in each period, in accordance with the rate of the actual rise in the CPI and there is thus no need for any adjustment between the value of the instruments in accordance with Israeli standard and their value in accordance with the international standard. The issue of the evaluation of CPI-linked financial instruments in accordance with the International standard is in the process of being examined and in this framework, the professional committee of the Israel Accounting Standards Institute will appeal to the International Financial Reporting Interpretation Committee (IFRIC), in order to receive its standpoint regarding the accounting treatment of CPI-linked liabilities and assets, in accordance with the International standards.

In light of the above, it might possibly be ruled that the said accounting treatment is not possible under the provisions of the International standards and that other accounting treatment, according to which projected inflation should be taken into account in the country of the financial instrument, will be more appropriate (in this regard, see provisions AG7 and AG8 of International Standard No. 39). If this is indeed decided, the Company will be required to examine the implications of the said decision, including transitional provisions, if and to the extent prescribed, on its financial statements and their accompanying notes, as have been and will be published until the date of taking the decision, in accordance with the International Standards.

4. Inter-corporate transactions

In accordance with GAAP in Israel, inter-corporate transactions are to be cancelled out in consolidated statements and deferred tax is recorded according to the tax rate that applies to the selling company, for the timing differences on the date of income recognition between the financial statements and the tax basis. In accordance with the IFRS, deferred tax in respect of inter-corporate transactions in the consolidated statements, is to be reported in accordance with the tax rate applying to the purchasing company. As a result, there was an increase in the surplus

balance as at 1 January 2007 and as at 31 December 2007 in the sum of approx. \$20.9 million and \$ 23.1 million, respectively.

11. Auditor's fees

In 2007, expenses for audit services (KPMG) in Israel and worldwide audit-related services and tax services to the Company, amounted to approx. \$ 3.0 million (for about 32 thousand work hours). In 2006, such fees amounted to approx. \$2.5 million (for approx. 29.7 thousand work hours).

12. Material events in the Company during the period

See under Description of the Company's business.

13. Events after the balance sheet date

On 9 January 2008, following the receipt of prior approval of the audit committee, the board of directors of the Company resolved:

- a. to revise and clarify the terms of some of the option warrants that were given to directors, officers and employees of the Company. For details, see the Immediate Report in this respect of 9 January 2008 (reference no. 2008-01-010239), the information contained in which is referred herein by way of reference.
- b. to approve the renewal of directors' and officers' liability insurance policies, including directors who might be regarded as controlling shareholders of the Company. For details see the Immediate Report in this respect of 9 January 2008 (reference no. 2008-01-010245), the information contained in which is referred herein by way of reference.

On 17 February 2008, following the receipt of prior approval of the audit committee and the board of directors of the Company, the general meeting of the Company approved:

- a. to approve amendment of the terms of the management services agreement between the Company and the company which provides management services to the Company, including services in the position of chairman of the board of directors and/or CEO to the Company, through Mr. Avraham Bigger.
- b. to approve amendment of the terms of the option allotment agreement between the Company and the chairman of the board of directors and CEO of the Company, Mr. Avraham Bigger.
- c. to approve amendment of the terms of the option allotment agreement between the Company and an external director of the Company, Mr. Gideon Chitayat.

- d. to approve execution of the allotment of 900,000 options, respectively convertible into one ordinary share of par value NIS 1 of the Company, to the chairman of the board of directors and CEO of the Company, Mr. Avraham Bigger.
- e. to approve execution of the allotment of 51,500 options, respectively convertible into one ordinary share of par value NIS 1 of the Company, to an external director of the Company, Prof. Ilan Chet.

For details see the Immediate Report regarding the calling of an extraordinary general meeting of 9 January 2008, reference no. 2008-01-010269, the information contained in which is referred herein by way of reference.

On 4 February 2008, the employees of Makhteshim Chemicals Ltd. declared a labor dispute. As at the date of the report, the employees declared cessation of the dispute.

For details, see the Immediate Report regarding notice of a labor dispute of 4 February, 2008, reference no. 2008-01-035742, the information contained in which is referred herein by way of reference.

On 11 March 2008, the board of directors of the Company approved a plan to buy-back shares in a scope not exceeding a sum of 100 million Dollars.

On 11 March 2008, the board of directors approved the distribution of a dividend in the sum of \$120 million, to the Company's shareholders, in reliance on the fact that according to the Company's financial statements for the period ended 31 December 2007, the Company was in compliance with the profit criterion stipulated in section 302 of the Companies Law, 5759-1999 and that, following a discussion of the matter, to the best knowledge of the members of the board of directors, in light of the Company's needs and the projected cash flow, there is no reasonable apprehension that distribution of the dividend will preclude the Company from meeting its existing and anticipated liabilities, on the date of their satisfaction. In light of the above, the amount of the dividend per share, on the date of the said resolution, amounted to \$0.267 per share and will be adjusted on the X day.

14. 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 the overall control 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 from 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. All the committee members have accounting and financial qualifications.

The members of the committee and members of the board of directors receive the draft financial statements a few days before convening 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. Dan 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 questions addressed to 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.

15. Authorized signatories

As at the date of this report, the Company does not have exclusive authorized signatories, as defined in the directives of the Securities Authority of 3 January 2008.

16. Survey of colleagues

The Company has given its consent to furnishing the material necessary for performing a sample relating to a survey of colleagues initiated by the Institute of Certified Public Accountants in Israel, subject to safeguarding confidentiality of the data and ensuring that a conflict of interests of the parties conducting the survey will be avoided.

17. Changes in the board of directors

In August 2007, Mr. Jonathan Kolber resigned from the board of directors. In January 2007, Messrs. Oren Lieder and Isaac Manor were appointed to the board of directors. In February 2007, Mr. Avraham Fisher was appointed to the board of directors. In the same month, the general meeting of the Company appointed Mr. Ilan Chet as an external director of the Company, for a period of three years.

The Company's board of directors and management express their infinite appreciation to the officers of the Company, the management of the different companies in the

Group and their employees for their invaluable contribution to the Group's achievements in 2007.

Avraham Bigger
CEO and Chairman of
the Board of Directors

Ra'anan Cohen
Director

Ran Maidan
CFO

March 11, 2008