

Makhteshim-Agan Industries Ltd.

**Interim Consolidated
Financial Statements**

**As of March 31, 2008
(Unaudited)**

Financial Statements as of March 31, 2008 (Unaudited)

CONTENTS

	PAGE
Auditors' Review Report	2
Interim Consolidated Balance Sheets	3
Interim Consolidated Statements of Income	4
Interim Consolidated Statements of Recognized Revenues and Expenses	5
Interim Consolidated Statements of Cash Flows	6
Notes to the Financial Statements	8



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

972 3 684 8000
Fax 972 3 684 8444
Internet www.kpmg.co.il

The Board of Directors
Makhteshim–Agan Industries Ltd.

Dear Sirs,

Review of unaudited interim consolidated financial statements as at March 31, 2008

At your request, we have reviewed the condensed interim consolidated balance sheet of Makhteshim–Agan Industries Ltd. as at March 31, 2008, and the condensed interim consolidated statement of income, the condensed interim consolidated statement of recognized income and expenses and the condensed interim consolidated statement of cash flows for the three-month period then ended.

Our review was conducted in accordance with procedures prescribed by the Institute of Certified Public Accountants in Israel and included, inter alia, reading the said financial statements, reading the minutes of shareholders' meetings and of meetings of the Board of Directors and its committees, as well as making inquiries of persons responsible for financial and accounting matters.

We received interim reports of other auditors, regarding the review of condensed interim financial statements of subsidiaries, whose assets included in the consolidation constitute 7.3% of the total assets included in the condensed interim consolidated balance sheet as at March 31, 2008 and whose revenues included in the consolidation constitute 10.2% of the total revenues included in the condensed interim consolidated statement of income for the three-month period then ended.

Since the review performed is limited in scope and does not constitute an audit in accordance with generally accepted auditing standards, we do not express an opinion on the said condensed interim consolidated financial statements.

In the course of our review, including reading the review reports of other auditors, as stated above, nothing came to our attention which would indicate the necessity of making material modifications to the said statements, in order for them to be in conformity with IAS 34, Interim Financial Reporting and in accordance with Section D of the Securities Regulations (Periodic and Immediate Reports) – 1970.

We draw to that attention to that stated in Note 6(G) of the financial statements regarding a claim and a request for recognition thereof as a class action, which was filed against a subsidiary, alleging air pollution.

Somekh Chaikin
Certified Public Accountants (Isr.)

May 13, 2008

Consolidated Balance Sheet as of**In US dollars**

	March 31 2008	March 31 2007	December 31 2007
	(Unaudited)	(Unaudited)	(Audited)
	\$ thousands	\$ thousands	\$ thousands
Current assets			
Cash and cash equivalents	321,655	272,829	198,154
Short-term investments	1,991	865	95,859
Trade receivables	612,117	932,003	451,957
Subordinated capital note in respect of the sale of customer debts	173,487	-	124,185
Other receivables and debit balances	105,820	76,692	109,957
Advances less provision for income tax	14,665	10,046	12,704
Inventories	802,312	599,020	778,234
	2,032,047	1,891,455	1,771,050
Long-term investments, loans and receivables			
Other investments and receivables	101,674	59,855	77,073
	101,674	59,855	77,073
Property, plant and equipment			
Cost	1,008,617	958,597	992,487
Less - accumulated depreciation	492,510	460,804	482,245
	516,107	497,793	510,242
Deferred tax assets	74,756	67,476	62,050
Intangible assets			
Cost	977,663	926,347	949,713
Less - accumulated amortization	406,927	359,181	391,933
	570,736	567,166	557,780
	1,263,273	1,192,290	1,207,145
	3,295,320	3,083,745	2,978,195

In US dollars

	March 31 2008	March 31 2007	December 31 2007
	(Unaudited)	(Unaudited)	(Audited)
	\$ thousands	\$ thousands	\$ thousands
Current liabilities			
Credit from banks and others	128,655	367,944	111,533
Trade payables	490,089	399,445	435,936
Other payables and credit balances	360,388	307,241	286,767
Provision for income tax less advances	31,015	23,251	18,631
Dividend proposed for payment	119,053	-	-
Convertible debentures	-	7,632	-
	1,129,200	1,105,513	852,867
Long-term liabilities			
Loans from banks	20,823	41,600	25,052
Debentures	677,873	565,110	624,555
Other long-term liabilities	12,855	11,367	10,796
Deferred tax liabilities	43,071	58,933	47,260
Employee severance benefits, net	60,231	50,322	56,768
Put options held by the minority interest	35,318	23,070	23,830
	850,171	750,402	788,261
Equity capital			
Share capital	125,329	124,067	125,274
Share premium	624,095	617,659	624,150
Reserves	19,280	1,939	11,575
Retained earnings	673,820	604,422	699,019
Treasury shares	(144,196)	(144,196)	(144,196)
Total equity capital attributed to the Company's equity holders	1,298,328	1,203,891	1,315,822
Minority interest	17,621	23,939	21,245
Total equity	1,315,949	1,227,830	1,337,067
	3,295,320	3,083,745	2,978,195

Avraham Bigger
Chief Executive Officer and
Chairman of the Board of Directors

Raanan Cohen
Director

Ran Midan
Chief Financial Officer

Date the financial statements were approved: May 13, 2008

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

Consolidated Statement of Income for the**In US dollars**

	Three month-period ended		Year ended
	March 31		December 31
	2008	2007	2007
	(Unaudited)	(Unaudited)	(Audited)
	\$ thousands	\$ thousands	\$ thousands
Statement of income			
Revenues	722,168	553,134	2,065,525
Cost of sales	461,991	360,836	1,376,649
Gross profit	260,177	192,298	688,876
Expenses			
Marketing and selling	98,332	81,409	332,860
General and administrative	21,977	21,313	81,408
Research and development, net	5,965	5,130	20,270
Other expenses (income)	73	(84)	(13,692)
	126,347	107,768	420,846
Operating income	133,830	84,530	268,030
Financing expenses	35,286	15,718	110,552
Financing income	(2,861)	(12,878)	(30,928)
Net financing costs	32,425	2,840	79,624
Net profit before income tax	101,405	81,690	188,406
Income tax expense	9,927	9,331	25,485
Income for the period	91,478	72,359	162,921
Attributable to:			
The Company's equity holders	90,925	71,129	155,598
Minority interest	553	1,230	7,323
Profit for the period	91,478	72,359	162,921
Earnings per share			
Basic earnings per share	0.20	0.16	0.35
Fully diluted earnings per share	0.20	0.16	0.35

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

Statement of Recognized Income and Expenses for the**In US dollars**

	Three month-period ended		Year ended
	March 31		December 31
	2008	2007	2007
	(Unaudited)	(Unaudited)	(Audited)
	\$ thousands	\$ thousands	\$ thousands
Foreign currency translation differences in respect of foreign activities	7,324	565	9,872
Capital reserves from changes in fair value of financial instruments	1,582	-	-
Defined benefit plan actuarial gains (losses)	-	(1,306)	1,274
Total other income for the period net of tax	8,906	(741)	11,146
Income for the period	91,478	72,359	162,921
Total income for the period	100,384	71,618	174,067
Attributable to:			
The Company's equity holders	98,574	70,216	165,536
Minority interest	1,810	1,402	8,531
Total income for the period	100,384	71,618	174,067

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

Consolidated Statements of Cash Flows for the**In US dollars**

	Three month-period ended		Year ended
	March 31		December 31
	2008	2007	2007
	(Unaudited)	(Unaudited)	(Audited)
	\$ thousands	\$ thousands	\$ thousands
Cash flows from operating activities			
Income for the period	91,478	72,359	162,921
Adjustments:			
Interest paid in cash, net	(4,973)	(4,422)	(50,162)
Taxes paid in cash	(13,559)	(7,127)	(35,793)
Depreciation and amortization	22,160	25,421	95,008
Appreciation of long-term investments	(295)	-	(334)
Increase (decrease) in employee severance liabilities, net	4,833	(154)	7,252
Capital loss (gain) from sale of property, plant and equipment and other assets, net	266	261	(4,047)
Amortization of discount and issue expenses	23	26	146
Expenses for employee options	2,938	3,358	10,969
Revaluation of call options	-	155	154
Revaluation of put options	351	221	981
Adjustment of long-term liabilities	53,953	6,035	69,066
SWAP revaluation	(22,416)	2,707	(16,884)
Capital gain from disposal of investment	-	-	(10,282)
Changes in items of assets and liabilities			
Decrease (increase) in trade receivables and debit balance	(201,966)	(260,322)	57,658
Interest paid in cash	4,973	4,422	50,162
Taxes paid in cash	13,559	7,127	35,793
Change in taxes and tax prepayments, net	11,480	3,894	(3,384)
Decrease (increase) in inventories	(17,432)	18,048	(166,545)
Increase in trade payables and other payables and credit balances	123,557	65,761	109,149
Decrease in deferred taxes, net	(15,112)	(1,690)	(6,924)
Net cash provided by (used in) operating activities	53,818	(63,920)	304,904
Cash flows from investing activities			
Acquisition of property, plant and equipment	(18,504)	(21,575)	(60,747)
Investment grant received	-	2,315	4,309
Additions to intangible assets	(14,190)	(21,329)	(68,714)
Short-term investments, net	93,868	-	(94,970)
Proceeds from disposal of property, plant and equipment and other assets	247	34	4,980
Proceeds from disposal of investments in subsidiaries (Appendix B)	-	-	18,074
Repayment of liability in respect of a consolidated company acquired in the past	-	(1,000)	(1,000)
Dividend from an affiliate	-	-	530
Payment for companies consolidated for the first time	(2,520)	(8,047)	(8,047)
Cash accrued as a result of a first time consolidation (Appendix A)	-	169	169
Acquisition of minority interest	(511)	(1,105)	(1,105)
Net cash provided by (used in) investment activities	58,390	(50,538)	(206,521)

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

Consolidated Statements of Cash Flows for the**In US dollars**

	Three month-period ended		Year ended
	March 31		December 31
	2008	2007	2007
	(Unaudited)	(Unaudited)	(Audited)
	\$ thousands	\$ thousands	\$ thousands
Cash flows from financing activities			
Receipt of long-term loans from banks	-	2,383	3,696
Repayment of long-term loans and liabilities from banks and others, net	(744)	-	(7,001)
Increase (decrease) in short-term liabilities to banks	12,312	63,387	(214,980)
Repayment of convertible debentures	-	(2,488)	(1,273)
Dividend to minority shareholders in subsidiaries	(275)	(357)	(5,033)
Net cash provided by (used in) financing activities	11,293	62,925	(224,591)
Increase (decrease) in cash and cash equivalents	123,501	(51,533)	(126,208)
Cash and cash equivalents at the beginning of the period	198,154	324,362	324,362
Cash and cash equivalents at the end of the period	321,655	272,829	198,154
A. Investments in newly consolidated companies			
Working capital (excluding cash and cash equivalents)	208	(4,593)	(4,593)
Property, plant and equipment, net	(22)	(1,857)	(1,857)
Other assets, net	(8,836)	(4,559)	(4,559)
Surplus cost created on acquisition	-	(2,032)	(2,032)
Long-term liabilities	-	3,000	3,000
Investment in an affiliated company	-	2,163	2,163
Consideration paid in cash	2,520	8,047	8,047
Put options granted to the minority interest	6,130	-	-
	-	169	169
B. Proceeds from disposal of investments in subsidiaries			
Working capital (excluding cash and cash equivalents)	-	-	4,345
Property, plant and equipment, net	-	-	196
Other assets, net	-	-	11,140
Long-term liabilities	-	-	(2,586)
Capital gain	-	-	10,282
Minority interest	-	-	(5,303)
	-	-	18,074
C. Non-cash activities			
Acquisition of other assets	-	4,716	5,936

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

Notes to the Financial Statements as at March 31, 2008 (Unaudited)

Note 1 - General**A. Definitions**

In these financial statements

1. The Company – Makhteshim-Agan Industries Ltd.
2. The Group – Makhteshim-Agan Industries Ltd. and its investees.
3. Subsidiaries – Companies, including partnerships, whose financial statements are fully consolidated, directly or indirectly, with the financial statements of the Company.
4. Proportionately consolidated companies – Companies, including partnerships, whose financial statements are proportionally consolidated, directly or indirectly, with those of the Company.
5. Investee companies – Subsidiaries and proportionately consolidated companies.
6. CPI – The Consumer Price Index as published by the Israeli Central Bureau of Statistics.
7. Dollar – The United States dollar.

B. Description of the Company and its activities

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

As of March 31, 2008, Koor holds approximately 37.5% of the Company's issued and paid shares (that is, after neutralizing dormant shares and shares owned by a subsidiary company of the Company) of Makhteshim-Agan Industries and approximately 39.9% of the voting rights therein. (On December 31, 2007, Koor held approximately 36.8% of the Company's issued and paid shares and approximately 39.0% of the voting rights therein).

Notes to the Financial Statements as at March 31, 2008 (Unaudited)

Note 1 - General (cont'd)**C. Description of the Company and its activities (cont'd)**

2. Sales of crop protection products are directly related to the agricultural seasons and the cyclical pattern of the growing seasons and, therefore, the Company's income are not spread evenly throughout the year. Countries located in the northern hemisphere are characterized by the same timing of the agricultural seasons and, as a result, sales made in these countries are usually highest in the first half of the year. In the southern hemisphere, the seasonal trends are the opposite and most of the local sales are made in the second half of the year, except for Australia where most of the sales are made in the months April through July. The Company's worldwide operations act to balance out the aforementioned seasonal impacts, notwithstanding the fact that most of the Company's sales are made in the northern hemisphere.
3. On March 12, 2007, the Company's Board of Directors approved implementation of a reorganization plan for the Company (hereinafter, "the Plan" or "the Reorganization"). The Plan was formulated on the basis of recommendations made by an internal teams of the Company with the assistance of the McKenzie research and consulting company, which was engaged by the Company in order to study the existing organizational structure and to formulate a plan including recommendations for execution of changes in the Makhteshim-Agan Group's structure and manner of operations.

The Plan aims to achieve two main targets:

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

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

Notes to the Financial Statements as at March 31, 2008 (Unaudited)

Note 2 - Basis of Preparation of the Financial Statements**A. Declaration of compliance with International Financial Reporting Standards (IFRS)**

The condensed, consolidated, interim financial statements were prepared in accordance with International Financial Reporting Standards (IFRS). These are the first condensed, consolidated, interim financial statements the Group has prepared for part of the period included in the first annual financial statements prepared according to IFRS, and in which IFRS 1, "First-Time Application of IFRS Standards" was applied.

The condensed, consolidated, interim financial statements were prepared in accordance with IAS 34, "Interim Financial Reporting" and do not include all of the information required in complete, annual financial statements. These statements should be read together with the financial statements for the year ended December 31, 2007.

The impact of the transition to IFRS on the Company's financial position, results of operations and cash flows is described in the notes.

The condensed, consolidated, interim financial statements were approved for publication by the Company's Board of Directors on May 13, 2008.

B. Basis for measurement

The statements were prepared on the basis of historical cost, with the exception of assets and liabilities related to derivative financial instruments, which are presented according to fair value.

Non-current assets are presented according to either the book value or the fair value, whichever is lower, after deducting selling costs.

C. Functional currency and presentation currencyGeneral

The dollar is the currency representing the main economic environment in which the Company operates and, accordingly, the dollar constitutes the functional and presentation currency in these financial statements.

Notes to the Financial Statements as at March 31, 2008 (Unaudited)

Note 2 - Basis of Preparation of the Financial Statements (cont'd)**C. Functional currency and presentation currency (cont'd)**Balance sheet

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

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

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

Statement of Income

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

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

Notes to the Financial Statements as at March 31, 2008 (Unaudited)

Note 2 - Basis of Preparation of the Financial Statements (cont'd)**C. Functional currency and presentation currency (cont'd)**Transactions in foreign currency

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

D. Use of estimates and judgment

When preparing financial statements in conformance with IFRS, Company management is required to use judgment when making estimates and assumptions that affect implementation of the policies and the amounts of assets, liabilities, income and expenses. It is hereby clarified that the actual results are likely to be different from these estimates.

The estimates and the assumptions used for preparing the financial statements are reviewed continuously. Changes in accounting estimates are recognized in the period during which the estimate was revised and all affected future periods.

Note 3 - Significant Accounting Policies

The condensed, consolidated, interim financial statements were prepared on the basis of International Financial Reporting Standards (hereinafter, "IFRS"), which have been published and are valid or can be implemented early prior to the date of the Group's first annual report in accordance with IFRS, December 31, 2008, and according to which the Company has set its accounting policy.

IFRS that will be valid or that may be adopted early for annual financial statements for the year ending December 31, 2008 are subject to changes and publication of additional clarification(s) and therefore, they can not be determined with certainty. Accordingly, the accounting standards for this year, which are relevant to this interim information, will be determined conclusively only when the first annual statements are prepared according to IFRS, as of December 31, 2008.

Preparation of the condensed, consolidated, interim financial statements in accordance with IAS 34, led to changes in the accounting policy, in comparison with the last annual financial statements, which were prepared in accordance with generally accepted accounting principles in Israel. The accounting standards described below were applied consistently to all of the periods presented in these condensed, consolidated, interim financial statements. They were also applied when preparing the opening balance sheet as of January 1, 2007, for the purpose of the transition to IFRS, as required by IFRS 1. The impact of the transition from generally accepted accounting principles in Israel to IFRS is described in Note 7,

The accounting policies according to IFRS are applied consistently in the Group's companies.

Notes to the Financial Statements as at March 31, 2008 (Unaudited)

Note 3 - Significant Accounting Policies (cont'd)**A. Basis for Consolidation**1. Subsidiary companies

Subsidiary companies are entities that are controlled by the Group. Control exists when the Group has the ability to determine the financial and operational policy of the entity in order to derive benefit from its activity. When examining control, potential voting rights that can be exercised are taken into account. The financial statements of the subsidiary companies are included in the consolidated financial statements from the date control was acquired until the date control ceases to exist. The accounting policy of the subsidiary companies was changed as necessary for it to correspond with the accounting policy adopted by the Company.

2. Jointly controlled entities treated in accordance with the proportionate consolidation method

Jointly controlled entities are entities with respect to which the Group has joint control over their activities, which is obtained by means of a contractual arrangement requiring the joint consent of the other investors in connection with strategic, financial and operational decisions. Jointly controlled entities are treated in accordance with the proportionate consolidation method from the date on which the joint control obtains and up to the time such joint control no longer exists. The consolidated financial statements include the Group's proportionate share in the assets, liabilities, revenues and expenses of the proportionately consolidated companies based on the rates of the holdings in those companies, after the adjustments necessary in order to conform their accounting policies to those of the Company.

3. Transactions eliminated in the consolidation

Intercompany balances within the Group and unrealized income and expenses deriving from intercompany transactions are eliminated in preparation of the condensed, consolidated financial statements.

B. Foreign Activity

The assets and liabilities of foreign activities, including goodwill and adjustments for goodwill created upon acquisition, were translated into dollars according to the rates of exchange that were in effect on balance sheet date. Income and expenses of foreign activities were translated into dollars according to the rates of exchange that were in effect at the time of the transaction.

Exchange rate differences resulting from the translation are recorded directly to equity, as of January 1, 2007, the date of transition to IFRS. According to the provisions of IFRS 1, the group chose to zero out the accumulated translation differences for all of its foreign activities, on the transition date to IFRS.

When a foreign activity is realized, in part or in whole, the appropriate amount in the translation reserve is transferred to the income statement.

Notes to the Financial Statements as at March 31, 2008 (Unaudited)

Note 3 - Significant Accounting Policies (cont'd)**C. Financial Instruments**1. Non-derivative financial instruments

Non-derivative financial instruments include investments in shares and debt instruments, trade and other receivables, cash and cash equivalents, loans, credit received and trade and other payables.

The initial recognition of non-derivative financial instruments is according to fair value. For instruments that are not presented at fair value through the statement of profit and loss, all of the attributable direct transaction costs are added. After the recognition, non-derivative financial instruments are measured as described below.

A financial instrument is recognized when the Group accepts the contractual conditions of the instrument. Financial assets are eliminated when the contractual rights of the Group to the cash flows deriving from the financial assets expire, or when the Group transfers the financial assets to others without leaving control in its hands or effectively transfers all of the risks and rewards deriving from the asset. The financial liabilities are deducted when the Group's obligation, as described in the contract, expires or when it is paid or cancelled.

Cash and cash equivalents

Cash and cash equivalents include cash balances or deposits that are available for immediate withdrawal.

Investments presented according to fair value through the statement of profit and loss. A financial instrument is classified as measured according to fair value through the statement of profit and loss if it is held for trading or if it was intended for trading at the time of the initial recognition. Financial instruments are designated as measurable according to fair value through profit and loss if the Group manages investments of this type and makes decisions regarding their purchase and sale on the basis of fair value, according to the way Company documented the risk management or investment strategy. At the time of the initial recognition, the attributable transaction costs are recorded on the statement of profit and loss as incurred. These financial instruments are then measured according to fair value and the changes therein are recorded to profit and loss.

Others

Other non-derivative financial instruments are measured according to amortized cost using the effective interest method, net of losses from declines value.

Securitization of trade receivables

In July 2007, the acquiring company acquired an insurance policy from an insurance company to insure the trade receivables sold as part of the securitization transaction. As a result of the said policy, commencing from this date the securitization transaction meets the requirements for elimination of financial assets.

Pursuant to the insurance policy, the insurance company will indemnify the acquiring company (which is the beneficiary of the policy) for the entire amount of the initial loss. Based on past experience, this amount is much higher than the Company's actual losses in respect of trade receivables sold in the securitization transaction. In addition, the premium for the insurance is a fixed premium. Therefore, the risks and rewards in connection with the trade receivables sold in the securitization transaction have been transferred in full to the insurance company.

Notes to the Financial Statements as at March 31, 2008 (Unaudited)

Note 3 - Significant Accounting Policies (cont'd)**C. Financial Instruments (cont'd)****2. Derivative financial instruments**

The Group holds derivative financial instruments for the purpose of hedging against foreign currency risks and interest risks. The hedging is a cash flow hedging.

Derivatives are initially recognized according to fair value; the attributable transaction costs are charged to profit and loss as incurred.

After the initial recognition, changes in the fair value of derivatives used for hedging cash flows, for the effective portion of the hedge, are recorded directly in the shareholders' equity. For the non-effective portion, the changes in fair value are recorded in profit and loss. If the hedged instrument no longer complies with the criteria for hedge accounting or it has expired or been sold, cancelled or realized, the accounting treatment of the hedge ceases. The profit or loss that previously accumulated in equity remains in equity until the expected transaction occurs. When the hedged item is a non-financial asset, the amount recorded in equity is transferred to the book value of the asset, at the time it is recognized. In other cases, the amount recorded in equity is transferred to profit and loss in the period when the hedged item impacts the profit and loss.

Hedge that does not meet the definition of an accounting hedge.

The changes in the fair value of derivatives that do not meet the definition of an accounting hedge transaction are recorded in profit and loss, as part of foreign currency profits and losses.

3. CPI-linked assets and liabilities measured at fair value

The Group maintains balances of financial instrument linked to the CPI. In the opinion of the Company's management, based on the position paper published by the Israel Accounting Standards Board, there are several possible alternatives for the accounting treatment of CPI-linked financial instruments. For the purpose of preparing these statements, the Company adopted the accounting treatment by which the value of the instrument on the books and the payments derived from it are revalued during each period according to the actual increase in the CPI. The issue of measuring CPI-linked financial instruments according to international standards is under examination and the Professional Committee of the Israel Accounting Standards Board has contacted the International Financial Reporting Interpretations Committee (IFRIC) for its opinion regarding the accounting treatment of CPI-linked obligations and assets according to the international standards.

In light of the above, it is possible that the said accounting treatment will not be possible pursuant to the provisions of the international standards and another accounting treatment, in which it is necessary to consider the inflationary expectations in the measurement of the financial instrument, will be preferred. If it is ultimately so decided, the Company will need to examine the impact of the said decision, including the transitional rules, if any, on the financial statements and accompanying notes, as they are published or will be published, up to the time the decision concerning the international standards is received.

Notes to the Financial Statements as at March 31, 2008 (Unaudited)

Note 3 - Significant Accounting Policies (cont'd)**C. Financial Instruments (cont'd)**4. Share capital

Ordinary shares

The additional costs that are directly attributed to the issuance of ordinary shares and stock options are presented as a reduction of the equity capital.

D. Fixed Assets1. Recognition and measurement

Property, plant and equipment items are measured at cost less accumulated depreciation and losses from declines in value.

The cost includes expenses that can be directly attributed to the purchase of the asset. The cost of assets that were constructed independently includes the cost of the materials and direct salary costs, as well as additional costs that are directly attributable to bringing the asset to the position and condition where it is able to function as the management intended, as well as costs to dismantle and remove the items and to restore its location. The cost of purchased software, which is an inseparable part of operating the related equipment, is recognized as part of the cost of said equipment.

When significant parts of a fixed asset (including costs of major periodic inspections) have different life expectancies, they are treated as separate items (significant components) of the fixed assets.

2. Subsequent costs

The cost of replacing part of a fixed asset item is recognized as part of the book value of the item if it is expected that the future financial benefit inherent in the items will flow to the Group and that its cost can be measured in a reliable manner. The book value of the part that was replaced is eliminated. Routine maintenance costs are charged to profit and loss upon their creation.

3. Depreciation

Depreciation is charged to the income statement according to the straight-line method over the estimated useful life of each part of the fixed asset items. Leased assets are depreciated over either the lease period or the useful life of the asset, whichever is shorter, unless there is a reasonable probability that the Group will obtain control of the asset at the end of the lease period. Real estate assets are not depreciated.

The estimated useful life for the current period and comparative periods is as follows:

Buildings	25-50 years	
Plant and equipment	22 years	
Furniture, equipment and accessories	7-17 years	mainly 14 years
Motor vehicles	5-7 years	
Computer and auxiliary equipment	3-5 years	

The estimates regarding the depreciation method, the useful life and the scrap value are re-evaluated at least at the end of every reporting year.

Notes to the Financial Statements as at March 31, 2008 (Unaudited)

Note 3 - Significant Accounting Policies (cont'd)**E. Intangible Assets**1. Goodwill

Goodwill is created by the acquisition of subsidiaries (including minority acquisitions).

Acquisitions before January 1, 2007

In the context of the transition to reporting according to IFRS, the Group chose to present according to IFRS only business combination transactions occurring after the date of transition to IFRS, January 1, 2007. Regarding acquisitions that occurred before January 1, 2007, the goodwill reflects the amount recognized by the Group, in accordance with the accounting principles that were generally accepted in Israel. For these acquisitions, the classification and accounting treatment were not adjusted to IFRS for purposes of preparation of the Group's opening balance sheet.

Acquisitions after January 1, 2007

Regarding acquisitions from January 1, 2007, the goodwill reflects the surplus acquisition cost beyond the Group's rights in the net fair value of the identified assets, liabilities and contingent liabilities of the acquired entity.

Acquisition of the minority interest

Goodwill that is created upon acquisition of the minority interest in a subsidiary reflects the excess cost of the additional investment over the book value of the net assets acquired on the acquisition date.

Subsequent measurements

Goodwill is measured according to cost after deduction of accrued losses from declines in value.

2. Research and development

Costs related to research activities undertaken for the purpose of acquiring knowledge and new scientific or technological understandings are charged to profit and loss as incurred.

Development activities directly related to the production of products or new processes or significant improvement of products. Costs of development activities are recognized as an asset only if it possible to reliably measure the costs of development; it is technically and commercially possible to implement the product or process; future economic benefit is expected from the product and the Group has intentions and sufficient resources to complete development of the asset and then use or sell it. The costs that were capitalized include the cost of materials, direct costs of labor and overhead expenses that can be directly attributed to preparing the asset for its intended use. Other costs for development activities are charged to profit and loss as incurred.

Development costs that were recognized as an asset are measured according to cost after the deduction of the amortization and losses from accrued declines in value.

3. Other intangible assets

Other intangible assets purchased by the Group, with a defined useful life, are measured according to cost less amortization and accrued losses from declines in value.

Notes to the Financial Statements as at March 31, 2008 (Unaudited)

Note 3 - Significant Accounting Policies (cont'd)**E. Intangible Assets (cont'd)**4. Subsequent costs

Subsequent costs are recognized as an asset only when they increase the future economic benefit inherent in the assets for which they were incurred. All other costs are charged to profit and loss as incurred.

5. Amortization

Amortization is recorded on the income statement according to the straight-line method over the estimated useful economic life of the intangible assets, other than goodwill and intangible assets with an undefined lifespan, commencing from the date they are available for use.

The estimated useful life for the current period and comparative periods is as follows:

- Product licensing – mainly eight years.
- Intangible assets upon purchase of products – mainly 20 years.
- Marketing rights – five to ten years.
- Non-competition and confidentiality agreement – five years.

Licensing costs incurred for products that can be identified and separated, and from which the company expects to derive future economic benefit, are recognized as an asset in the “intangible assets” category and are amortized over the period of economic benefit they are expected to provide.

The estimates regarding the amortization method and useful lifespan are re-evaluated at least at the end of every reporting year.

The Group periodically examines the estimated useful life of an intangible asset that is not amortized in order to determine if events and circumstances continue to support the determination that the intangible asset has an undefined lifespan.

F. Leased Assets

Leasing of land from the Israel Lands Administration (“ILA”) constitutes an operating lease. Leasing fees paid in advance to the ILA are presented in the balance and are charged to profit and loss over the lease period.

The Group applies the provisions of IFRIC 4 “Determining Whether an Arrangement Contains a Lease”, which defines criteria for determining, at the beginning of an arrangement, if the right to make use of an asset is indeed a leasing arrangement. In addition, it defines when, after that time, the arrangement must be re-examined. The Group applies the relief provision provided in IFRS 1, according to which the examination of whether an arrangement contains a lease was made on the basis of the facts and circumstances existing on January 1, 2007 (the transition date to IFRS).

Notes to the Financial Statements as at March 31, 2008 (Unaudited)

Note 3 - Significant Accounting Policies (cont'd)**G. Inventories**

Inventory is measured by cost or net realization value, whichever is lower. The cost of the inventory of raw materials, packaging materials, spare parts, maintenance material and purchased materials is determined according to the "moving average" method that includes the costs of purchasing the inventory and bringing it to its current location and condition. The cost of finished products and of products in process is determined on the basis of the average production costs, including materials, work and factory expenses. The cost includes the allocable part of the production overhead, based on normal capacity. Net realization value is the estimated selling price during the ordinary course business, after deduction of the estimated cost of completion and the estimated costs required for effecting the sale.

H. Capitalization of the Credit Costs

The costs of specific credit and non-specific credit were capitalized to qualifying assets, as defined in International Accounting Standard 23 "Credit Costs", during the period required for completion and establishment until the time when they are ready for their intended use. Non-specific credit costs were capitalized in the same manner to the investment in qualifying assets or to the part thereof that was not financed by specific credit using an interest rate that is the weighted-average of the cost rates in respect of those credit sources that were not capitalized specifically. Other credit costs are charged to profit and loss upon their creation.

I. Impairment in value**1. Financial assets**

A decline in value of a financial asset is examined when there is objective evidence that one or more events have occurred that may have had a negative influence on the estimate of the future cash flows of the asset.

The loss from impairment in the value of a financial asset measured according to depreciated cost is calculated as the difference between the book value of the asset and the present value of the estimated future cash flows, discounted using the original effective interest rate.

For material financial assets, the need to reduce the value of the asset is examined for each asset individually. For other financial assets, the need to reduce the value of the asset is examined collectively, for groups having similar credit risks.

All losses from declines in value are recorded to profit and loss.

The loss from impairment in value is cancelled when such recovery is objectively attributable to an event that occurred after recognition of the loss from impairment in value. Cancellation of a loss from impairment in value of financial assets measured according to depreciated cost is recorded to profit and loss.

Notes to the Financial Statements as at March 31, 2008 (Unaudited)

Note 3 - Significant Accounting Policies (cont'd)**I. Impairment in value (cont'd)**2. Non-financial assets

The book value of non-financial assets of the Group, which are neither inventory nor deferred tax assets, is examined for each reporting period in order to determine if there are signs indicating an impairment in value. If such signs exist, the estimated recoverable amount of the asset is calculated. On January 1, 2007, the transition date to IFRS, the Group conducted an examination of declines in value of goodwill, intangible assets with an undefined useful life and investments in affiliated companies for which goodwill was recognized in the investment account. In subsequent periods, the company conducts an annual examination of the recoverable amount for goodwill and intangible assets with an undefined lifespan.

The recoverable amount of an asset or a cash-producing unit is either its use value or the net selling price (fair value minus selling costs), whichever is higher. When determining the use value the Group capitalized the anticipated future cash flows according to the rate of capitalization before taxes that reflects market evaluations regarding the time value of the money and the specific risks attributed to the asset. For the purpose of testing impairment in value, the assets are grouped together into the smallest group of assets that yields cash flows from continuing use, which are essentially independent of the other assets and other groups ("cash-producing unit"). Goodwill purchased in the context of business combinations is allocated for the purpose of examining impairment in value to cash-producing units that are expected to yield benefits from the synergy of the combination.

Losses from impairment of value are recognized when the book value of the assets or of the cash-producing unit to which the asset belongs exceeds the recoverable value and are recorded to profit and loss. Losses from impairment of value that were recognized for cash-producing units are first allocated to reducing the book value of the goodwill attributed to these units and afterwards to reducing the book value of other assets in the cash-producing unit, proportionately.

A loss from impairment in value of goodwill is not cancelled. Regarding other assets, losses from impairments of value that were recognized in previous periods are re-examined in each reporting period in order to determine if there are signs that indicate that the losses have decreased or no longer exist. A loss from impairment of value is cancelled if there is a change in the estimates that were used to determine the recoverable value, only if the book value of the asset, after cancellation of the loss from impairment of value, does not exceed the book value, after deduction of depreciation or amortization, that would have been determined if the loss from impairment of value had not been recognized.

Notes to the Financial Statements as at March 31, 2008 (Unaudited)

Note 3 - Significant Accounting Policies (cont'd)**J. Employee Benefits**

The Group has several post-employment benefit plans. The plans are primarily funded by deposits with insurance companies or funds managed by a trustee, and they are classified as defined contribution plans and as defined benefit plans.

1. Defined contribution plans

The Group's obligation to make deposits in a defined contribution plan is recorded as an expense to profit and loss at the time the obligation to make the deposit is created.

2. Defined benefit plans

The Group's net obligation, regarding defined benefit plans for post-employment benefits, is calculated for each plan separately by estimating the future amount of the benefit to which an employee will be entitled as compensation for his services during the current and past periods. The benefit is presented according to present value after deducting the fair value of the plan assets. The discount rate is determined according to the yield of government bonds, where their currency and maturity date are similar to the conditions obligating the Group, as at the reporting date. The calculations are performed by a licensed actuary using the "predicted eligibility unit" method.

Regarding use of a discount rate deriving from government bonds, to the best of the Company's knowledge, the issue of the discount interest rate for the actuarial calculations is being examined and it is possible that it will ultimately be decided that in Israel the proper discount interest rate is that based on corporate bonds. In that case, the amounts included in these statements will change, the actuarial liability will be decreased and the expenses for current funding of the liability will increase.

When on the basis of the calculations an asset is created for the Group, the asset is recognized up to the net present value of the available economic benefits in the form of return from the plan or by a reduction in future deposits to the plan. An economic benefit in the form of return from the plan or a reduction in future deposits will be considered available when it can be realized in the lifetime of the plan, after settlement of the obligation.

The Group records immediately, directly to retained earnings, all actuarial profits and losses deriving a defined benefit plan.

Insurance policies in regard of the termination of employer-employee relationships, which were issued by a related party, do not constitute plan assets and are presented as a separate asset.

Notes to the Financial Statements as at March 31, 2008 (Unaudited)

Note 3 - Significant Accounting Policies (cont'd)**J. Employee Benefits (contd.)**3. Other long-term employee benefits

The Group's net obligation for the long-term employee benefits, which are not attributable to post-employment plans, is for the amount of the future benefit to which employees are entitled for services that were provided during the current and past periods. The amount of these benefits is discounted to its present value and the fair value of the assets related to this obligation is deducted therefrom. The discount rate is determined according to the yield on government bonds, where their currency and maturity date are similar to the conditions that obligate the Group, as at the reporting date. The calculations are performed by using the "predicted eligibility unit" method. Actuarial profits and losses are recorded to profit and loss in the period in which they arose.

Regarding use of a discount rate deriving from government bonds, to the best of the Company's knowledge the issue of the discount interest rate for the actuarial calculations is being examined and it is possible that it will ultimately be decided that in Israel the proper discount interest rate is that based on corporate bonds. In that case, the amounts included in these statements will change, the actuarial liability will be decreased and the expenses for current funding of the liability will increase.

4. Severance pay

Severance pay is charged as expense when the Group is clearly obligated to pay it, without any reasonable chance of cancellation, in respect of termination of employees before they reach the customary age of retirement according to a formal, detailed plan. The benefits given to employees upon voluntary resignation are charged when the Group proposes a plan to the employees encouraging voluntary resignation, it is expected that the proposal will be accepted and it is possible to reliably estimate the number of employees that will accept the proposal.

5. Short term benefits

Obligations for short-term employee benefits are measured on a non-discounted basis, and the expense is recorded at the time the said service is provided.

Provisions for short-term employee benefits for cash bonuses or a profit-sharing plan are recognized when the Group has a current legal or implied obligation to pay the said amount for services provided by the employee in the past and it is possible to reliably estimate the amount.

Notes to the Financial Statements as at March 31, 2008 (Unaudited)

Note 3 - Significant Accounting Policies (cont'd)**J. Employee Benefits (contd.)**6. Share-based payment transactions

The fair value at the time options are granted to employees is charged as a salary expense, with a corresponding increase in the balance of retained earnings as part of the shareholders' equity, over the period in which the employees' eligibility for the options vests. The amount recorded as an expense is adjusted in order to reflect the number of options that have vested.

The fair value of the amount to which employees are entitled for an increase in the value of the shares, settled in cash, is recorded as an expense, against a corresponding increase in liabilities, during the period in which the employees' eligibility for the payment obtains. The liability is re-measured in each reporting period and at the time of settlement. Any change in the fair value of the liability is recorded as an expense to profit and loss.

K. Provisions

Provisions are recognized when the Group has a present, legal or implied obligation as the result of an event that occurred in the past, when it can be reliably estimated and when it is expected that a flow of economic benefits will be required in order to settle the obligation. The provisions are determined by discounting of future cash flows at the pre-tax discount rate, reflecting the current market estimates of the time value of the money and specific risks to the obligation.

L. Revenues1. Sale of merchandise

Revenue for the sale of merchandise is measured according to fair value of the payment received or to be received, after deducting returns, discounts, commercial discounts and quantity discounts. In the event that the credit period is short and constitutes the accepted credit period given in the sector, the future payment is not discounted. The Group recognizes the revenue when the significant risks and rewards from ownership of the merchandise are transferred to the buyer, receipt of the payment is expected, it is reliably possible to estimate the chance that the merchandise will be returned and the costs that were incurred or will be incurred for the transaction can be reliably estimated, when the management has no on-going involvement in the merchandise and the revenue can be reliably estimated.

2. Government grants

Grants received from the Chief Scientist for research and development projects are treated as forgivable loans, in accordance with the provisions of IAS 20. Accordingly, grants received from the Chief Scientist are recognized as liabilities according to their fair value on the date the grants were received unless it was reasonably certain on that date that the amount received would not be returned. The amount of the obligation is re-examined in each period any changes in the present value of the cash flows discounted at the original interest of the grant, are recorded in the statement of income.

Notes to the Financial Statements as at March 31, 2008 (Unaudited)

Note 3 - Significant Accounting Policies (cont'd)**M. Financing Income and Expenses**

Financing income includes income from interest on amounts invested, income from dividends, changes in the fair value of financial assets presented at fair value through profit and loss, profits from foreign currencies and profits from hedging instruments recognized in profit and loss. Interest income is recognized as accrued, using the effective interest method. Dividend income is recognized when the Group is entitled to receive the payment.

Financing expenses include interest on loans received, changes in the time value of provisions, changes in the fair value of financial assets presented at fair value through profit and loss, losses from impairment of value of financial assets and losses from hedging instruments recognized in profit and loss. Credit costs, which are not capitalized, are charged to the income statement using the effective interest method.

Profits and losses from exchange rate differences are reported on a net basis.

N. Tax Expenses on Income

Tax expenses on income include current and deferred taxes. Tax expenses on income are reported in the income statement unless the taxes originated in a transaction or event that are directly recognized in shareholders' equity. In these cases, the tax expenses on income are charged to shareholders' equity.

The current tax is the amount of tax that is expected to be paid on taxable income for the year, which is calculated according to the tax rates that apply according to the law that was finally legislated or effectively legislated as at the balance sheet date, and includes changes in tax payments attributed to previous years.

Recognition of deferred taxes is according to the equity method, relating to temporary differences between the book values of the assets and liabilities for purposes of financial reporting and their value for tax purposes. The Company does not recognize deferred taxes for the following temporary differences: initial recognition of goodwill, initial recognition of assets and liabilities for transactions that do not constitute a business combination and do not impact that the accounting profit and the profit for tax purposes, as well as differences deriving from investments in subsidiary and affiliated companies, if it is not expected that they will reverse in the foreseeable future. The deferred taxes are measured according to the tax rates that are expected to apply to the temporary differences at the time they are realized, on the basis of the law that was finally legislated or effectively legislated as at the balance sheet date. The Company offsets deferred tax assets and liabilities if there is an enforceable legal right to offset current tax assets and liabilities and they are attributed to the same taxable income are taxed by the same tax authority for the same assessed company or different companies that intend to settle current tax assets and liabilities on a net basis or if the tax assets and liabilities are settled concurrently.

When calculating deferred taxes, taxes that would apply in the event that an investment in an investee company is realized were not take into account since it is the Company's intention to hold these investments and not realize them.

The Group may be subject to additional tax in a case of distribution of dividends for Group companies. No provision was made for such additional tax in the financial statements since the Group's policy is not to distribute a dividend for which the Group will be liable to additional taxes.

Notes to the Financial Statements as at March 31, 2008 (Unaudited)

Note 3 - Significant Accounting Policies (cont'd)**N. Tax Expenses on Income**

A deferred tax asset is recognized on the books when it is expected that in the future there will be taxable income against which the temporary differences can be utilized. Deferred tax assets are examined at each balance sheet date and, if it is not expected that the related tax benefits will be realized, they are reduced.

Deferred taxes in respect of intercompany transactions in the consolidated financial statements are recorded based on the tax rate of the acquiring company.

O. Earnings per share

The Group presents basic and diluted earnings per share data for its ordinary share capital. The basic earnings per share are calculated by dividing income or loss allocable to the Group's ordinary equity holders by the weighted-average number of ordinary shares outstanding during the period. The diluted earnings per share is determined by adjusting the income or loss allocable to ordinary equity holders and the weighted-average number of ordinary shares outstanding for the effect of all potentially dilutive ordinary shares including notes that can be converted into shares, share options and options for shares granted to employees.

P. Segment Information

A segment is a distinguishable component of the Group, which is engaged in provision of products or services that are likely to be interrelated (business segment) or provision of products or services in a defined economic environment (geographical segment), and which is exposed to risks and rewards that are different from those of the other segments. The Group's format for segment reporting is based on business segments and is determined on the basis of the Group's structure and its internal reporting.

The inter-segment pricing is determined on the basis of transaction prices in the ordinary course of business.

Results, assets and liabilities of the segment include items that are directly attributable to the segment and items that can reasonably be attributed to it. Items that were not allocated consist primarily of investments and the income attributed to them; loans and credit and the related expenses; corporate assets (especially the Company's headquarters), administrative and general costs, as well as obligations for taxes on income and tax expenses.

Capital expenses of the segment are the total costs that were incurred during the period for purchasing fixed and intangible assets other than goodwill.

Notes to the Financial Statements as at March 31, 2008 (Unaudited)

Note 3 - Significant Accounting Policies (cont'd)**Q. Environmental costs**

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

R. New Standards and Interpretations not yet adopted

- IFRS 3 Business Combinations and IAS 27 Consolidated and Separate Financial Statements, amended, (hereinafter, “the standards”). The main changes in the new standards are: inclusion of business combinations transferring only mutual entities or enacted only by contract, a certain change in the definitions of a business and a business combination, a change in the way of measuring items transferred in a business combination, providing two alternatives for measuring rights that do not provide control, a change in the treatment of transaction costs, treatment of an acquisition in stages, allocation of the overall revenue among all the shareholders, treatment as capital transactions for acquisitions or sales of rights while maintaining control, treatment according to the full fair values in transactions leading to loss of control or acquisition of control, so that the holdings remaining after the loss of control will be appraised in light of profit and loss while the initial investment in gaining control is also valued according to fair value through profit and loss, and expansion of the disclosure requirements.

The new standards will apply to annual periods beginning January 1, 2009 and thereafter. It is possible to apply them in advance (only both together). IFRS 3 will apply to business combinations that are executed after its commencement date. IAS 27 will apply retroactively, except for the allocation of the overall revenue among the shareholders, treatment of changes in rights in a subsidiary after acquiring control, and treatment of the loss of control in a subsidiary – which will be applicable from its commencement.

- IFRS 2 Share-Based Payments (amended) (hereinafter, “the standard”). The standard states that the vesting conditions are the conditions that determine if a company receives the services that entitle the other party to a share-based payment and they are limited to service and execution conditions. Conditions that are not vesting conditions will be reflected in the fair value of the grant on the grant date while after the grant date the company will not update the fair values for those conditions. Similarly, the standard sets forth the treatment of non-compliance with conditions that are not vesting conditions. The standard will be applied retroactively for annual periods after January 1, 2009. Advance application is permitted along with disclosure thereof.

Notes to the Financial Statements as at March 31, 2008 (Unaudited)

Note 4 - Equity Capital

	Share capital (Unaudited) \$ thousands	Premium on shares (Unaudited) \$ thousands	Capital reserves (Unaudited) \$ thousands	Retained earnings (Unaudited) \$ thousands	Company shares held by the Company and by a subsidiary (Unaudited) \$ thousands	Total equity attributed to Company's equity holders (Unaudited) \$ thousands	Minority interest (Unaudited) \$ thousands	Total shareholders' equity (Unaudited) \$ thousands
For the three-month period ended March 31, 2008								
Balance at December 31, 2007	125,274	624,150	11,575	699,019	(144,196)	1,315,822	21,245	1,337,067
Total income for the period	-	-	7,649	90,925	-	98,574	1,810	100,384
Exercise of options granted to employees	55	(55)	-	-	-	-	-	-
Expenses in respect of options to employees	-	-	-	2,927	-	2,927	-	2,927
Dividend to shareholders	-	-	-	(119,051)	-	(119,051)	-	(119,051)
Tax benefit in respect of employee options	-	-	56	-	-	56	-	56
Acquisition of minority interest in a subsidiary	-	-	-	-	-	-	(476)	(476)
Issuance of capital to the minority interest	-	-	-	-	-	-	11	11
Dividend to the minority interest	-	-	-	-	-	-	(1,405)	(1,405)
Put options issued to the minority interest	-	-	-	-	-	-	(3,564)	(3,564)
Balance at March 31, 2008	<u>125,329</u>	<u>624,095</u>	<u>19,280</u>	<u>673,820</u>	<u>(144,196)</u>	<u>1,298,328</u>	<u>17,621</u>	<u>1,315,949</u>
For the three-month period ended March 31, 2007								
Balance at December 31, 2006	123,232	614,052	1,167	531,490	(144,196)	1,125,745	22,656	1,148,401
Total income for the period	-	-	393	69,823	-	70,216	1,402	71,618
Dividend to the minority interest	-	-	-	-	-	-	(368)	(368)
Exercise of options granted to employees	332	(332)	-	-	-	-	-	-
Tax benefit in respect of employee options	-	-	379	-	-	379	-	379
Conversion of convertible debentures into shares	503	3,939	-	-	-	4,442	-	4,442
Issuance of capital to the minority interest	-	-	-	-	-	-	249	249
Expenses in respect of options to employees	-	-	-	3,109	-	3,109	-	3,109
Balance at March 31, 2007	<u>124,067</u>	<u>617,659</u>	<u>1,939</u>	<u>604,422</u>	<u>(144,196)</u>	<u>1,203,891</u>	<u>23,939</u>	<u>1,227,830</u>

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

Notes to the Financial Statements as at March 31, 2008 (Unaudited)

Note 4 - Equity Capital (cont'd)

	Share capital (Audited) \$ thousands	Premium on shares (Audited) \$ thousands	Capital reserves (Audited) \$ thousands	Retained earnings (Audited) \$ thousands	Company shares held by the Company and by a subsidiary (Audited) \$ thousands	Total equity attributed to Company's equity holders (Audited) \$ thousands	Minority interest (Audited) \$ thousands	Total shareholders' equity (Audited) \$ thousands
For the year ended December 31, 2007								
Balance as of December 31, 2006	123,232	614,052	1,167	531,490	(144,196)	1,125,745	22,656	1,148,401
Exercise of options granted to employees	695	(695)	-	-	-	-	-	-
Conversion of convertible debentures into shares	1,347	10,793	-	-	-	12,140	-	12,140
Expenses in respect of options to employees	-	-	-	10,657	-	10,657	-	10,657
Tax benefit in respect of employee options	-	-	1,744	-	-	1,744	-	1,744
Sale of investments in a subsidiary	-	-	-	-	-	-	(5,303)	(5,303)
Dividend to the minority interest	-	-	-	-	-	-	(4,951)	(4,951)
Issuance capital to the minority interest	-	-	-	-	-	-	312	312
Total income for 2007	-	-	8,664	156,872	-	165,536	8,531	174,067
Balance at December 31, 2007	125,274	624,150	11,575	699,019	(144,196)	1,315,822	21,245	1,337,067

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

Notes to the Financial Statements as at March 31, 2008 (Unaudited)**Note 5 - Information on Business Segments****A. Products and services:**

The Company presents its segment information according to a primary format, which is based on a breakdown by business segments, and a secondary format, which is based on a breakdown by geographical segments.

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

The Company operates in the following areas:

Activity in the plant protection market (Agro) products

The main area of the Company's operation includes the manufacture and marketing of conventional plant protection products.

Non-Agro products

This field of activity includes a large number of sub-fields, including: Lykolan (an oxidization retardant), aromatic products, and other chemicals. It combines all the Company's activities not included in the agro-products segment.

	<u>Agro</u> <u>\$ thousands</u>	<u>Non-Agro</u> <u>\$ thousands</u>	<u>Adjustments</u> <u>\$ thousands</u>	<u>Consolidated</u> <u>\$ thousands</u>
Three-month period ended				
March 31, 2008				
Segment income	673,056	50,606	(1,494)	722,168
Segment results	126,321	7,509	-	133,830
Three-month period ended				
March 31, 2007				
Segment income	504,993	48,987	(846)	553,134
Segment results	78,290	6,240	-	84,530
Year ended December 31, 2007				
Segment income	1,879,435	191,320	(5,230)	2,065,525
Segment results	247,757	20,273	-	268,030

B. Sales distribution by geographic regions

	<u>Three-month period ended</u>		<u>Year ended</u>
	<u>March 31</u>	<u>March 31</u>	<u>December 31</u>
	<u>2008</u>	<u>2007</u>	<u>2007</u>
	<u>(Unaudited)</u>	<u>(Unaudited)</u>	<u>(Audited)</u>
	<u>\$ thousands</u>	<u>\$ thousands</u>	<u>\$ thousands</u>
Israel	25,405	25,387	102,460
Latin America	147,362	100,013	527,118
Europe	339,964	267,424	817,717
North America	110,749	102,292	390,781
Others	98,688	58,018	227,449
	<u>722,168</u>	<u>553,134</u>	<u>2,065,525</u>

Notes to the Financial Statements as at March 31, 2008 (Unaudited)

Note 6 - Additional Information

- A.** In March 2008, the Company's Board of Directors decided to distribute a dividend of \$120 million. The amount of the dividend, after deducting the dividend for shares held by a subsidiary, is \$119 million.

Subsequent to the balance sheet date, on April 10, 2008 the Company distributed the aforementioned dividend.

- B.** On January 9, 2008, the Company's Board of Directors decided to issue 900,000 options to the Chairman and CEO of the Company. The exercise premium of the options is NIS 34.43 per option. The options can be realized for up to 900,000 of the Company's ordinary shares of NIS 1 par value each.

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

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

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

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

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

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

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

Notes to the Financial Statements as at March 31, 2008 (Unaudited)**Note 6 - Additional Information (cont'd)****B.** (Cont'd)

The fair value of the options granted as described above was estimated using the Black and Scholes model for pricing options. The parameters that were used for applying the model are as follows:

	<u>Allocation to Chairman and CEO</u>	<u>Allocation to outside director</u>
Share price (NIS)	36.27	36.27
Exercise premium (NIS)	34.43	36.27
Exercise premium after effect of dividend (NIS)	33.49	35.33
Expected fluctuation	25.66%	25.66%
Option warrants life cycle (in years)	4.0	3.3
Riskless interest rates	5.35%	5.35%
Economic value (NIS thousands)	10,300	487
Economic value (\$ thousands)	2,711	128

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

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

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

- D.** The Audit Committee of the Company, at its meeting on December 26, 2007, the Board of Directors of the Company at its meeting on January 9, 2008 and the General Meeting of the Company at its meeting on February 17, 2008 approved the Company's amended agreement for management services between the Company and the company that provides management services to the Company, including provision of the services of Chairman of the Board of Directors and/or CEO to the Company through Mr. Avraham Bigger, in the framework of which the terms of the undertaking to a company controlled by Mr. Bigger were arranged, as well as the annual bonus that will be paid to it if it meets the predetermined goals.
- E.** In March 2008, the Company's Board of Directors decided to make a new self-purchase of the Company's shares in an amount not in excess of \$100 million. As at the report date, the said self-purchase had not yet been implemented.

Notes to the Financial Statements as at March 31, 2008 (Unaudited)

Note 6 - Additional Information (cont'd)

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

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

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

The Ramat Hovav Industrial Local Council and the State of Israel have given notice that they intend to issue to the Company and the other factories, third party notices for the purpose of joining them as a parties to the proceedings.

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

Notes to the Financial Statements as at March 31, 2008 (Unaudited)

Note 7 - Explanation Regarding the Impact of the Transition to IFRS**A. General**

As stated above in Note 2A, these are the first condensed, interim, consolidated, financial statements prepared by the Group for a period included in the first annual financial statements according to IFRS.

The accounting policies described in Note 3 were applied in preparation of the condensed, interim consolidated, financial statements for the three-month period ended March 31, 2008, the comparative data for the three-month period ended March 31, 2008 and for the year ended December 31, 2007, as well as the opening balance according to IFRS as of January 1, 2007 ("transition date").

This Note was prepared on the basis of the IFRS standards that are presently known, have been published or are possible to adopt early in the Group's first annual financial statements according to IFRS as at December 31, 2008. The accounting policy of the Company was set on this basis. The IFRS Standards that will be valid or that can be adopted for annual financial statements for the year ending December 31, 2008 are subject to changes and the publication of additional clarifications and therefore, they cannot be determined with certainty. Accordingly, the accounting standards that are being implemented for the period presented will be determined conclusively only when the first annual statement according to IFRS is prepared as at December 31, 2008.

An explanation of the impact of the transition from the generally accepted accounting principles accepted in Israel (Israeli GAAP) to IFRS on the Group's financial position, financial performance and cash flows, is presented in the tables and notes below.

B. Details of the Relief Provisions Chosen

The following relief provisions were chosen by the Company as allowed by IFRS 1, and regarding which the Company is not applying the transition to reporting according to IFRS retroactively:

1. Business combinations

The Group is applying IFRS 3 only to business combinations that occurred after January 1, 2007. Therefore, goodwill and excess costs that arose before this date for the acquisition of subsidiary, affiliated and proportionately consolidated companies and for minority acquisitions, were not treated according to IFRS 3 but, rather, are presented as they were treated in accordance with Israeli GAAP.

2. Cumulative translation differences

The Group charged the cumulative capital reserve from translation differences in respect of foreign activities, as at the date of transition to IFRS, to the retained earnings' balance.

3. Compound financial instruments

The Group chose not to separate compound financial instruments into an equity component and a liability component, in those cases for which the liability did not exist on the transition date.

4. Share-based payment transactions

Share-based payments granted before November 7, 2002 or that vested before January 1, 2007 are not treated retroactively according to the provisions of IFRS 2. Furthermore, in the absence of specific instructions in IFRS, the Company chose to credit the increase in equity due to expenses recorded in respect of recording of share-based payments to the retained earnings' item.

Notes to the Financial Statements as at March 31, 2008 (Unaudited)

Note 7 - Explanation Regarding the Impact of the Transition to IFRS (cont'd)

C. Impacts Expressed as part of Adoption of New Accounting Standards in Israel in 2007

Note*	Israeli GAAP	Effect of the transition	IFRS	Israeli GAAP	Effect of the transition	IFRS	Israeli GAAP	Effect of the transition	IFRS
	January 1, 2007			December 31, 2007			March 31, 2007		
	\$ thousands			\$ thousands			\$ thousands		
Current assets									
Cash and cash equivalents	324,362	-	324,362	198,154	-	198,154	272,829	-	272,829
Short-term investments	1,706	(817)	889	96,824	(965)	95,859	1,716	(851)	865
Trade receivables	(14)(5) 421,455	260,441	681,896	429,776	22,181	451,957	543,306	388,697	932,003
Subordinated capital note in respect of sale of customer debts	(5) 64,913	(64,913)	-	124,185	-	124,185	137,286	(137,286)	-
Other receivables and debit balances	(4)(6) 94,725	(16,716)	78,009	132,095	(22,138)	109,957	95,536	(18,844)	76,692
Advances less provision for income tax	11,647	-	11,647	12,704	-	12,704	10,046	-	10,046
Inventories	607,328	2,461	609,789	770,591	7,643	778,234	595,990	3,030	599,020
Total current assets	1,526,136	180,456	1,706,592	1,764,329	6,721	1,771,050	1,656,709	234,746	1,891,455
Investments									
Affiliates	2,496	-	2,496	-	-	-	-	-	-
Other investments and receivables	(2)(11)(6) 46,125	(12,531)	33,594	65,118	11,955	77,073	71,002	(11,147)	59,855
Property, plant and equipment	(2) 505,989	(10,158)	495,831	520,271	(10,029)	510,242	507,933	(10,140)	497,793
Intangible assets	(10) 538,176	16,699	554,875	538,978	18,802	557,780	550,048	17,118	567,166
Deferred tax assets	(2)(4)(12)(3)(8) -	59,681	59,681	-	62,050	62,050	-	67,476	67,476
Total non-current assets	1,092,786	53,691	1,146,477	1,124,367	82,778	1,207,145	1,128,983	63,307	1,192,290
Total assets	2,618,922	234,147	2,853,069	2,888,696	89,499	2,978,195	2,785,692	298,053	3,083,745

* References to the main notes.

Notes to the Financial Statements as at March 31, 2008 (Unaudited)

Note 7 - Explanation Regarding the Impact of the Transition to IFRS (cont'd)

C. Impacts Expressed as part of Adoption of New Accounting Standards in Israel in 2007 (cont'd)

Note*	January 1, 2007			December 31, 2007			March 31, 2007			
	Israeli GAAP	Effect of the transition	IFRS	Israeli GAAP	Effect of the transition	IFRS	Israeli GAAP	Effect of the transition	IFRS	
	\$ thousands			\$ thousands			\$ thousands			
Current liabilities										
Credit from banks and others	(14)(5)	99,850	195,528	295,378	89,351	22,182	111,533	116,532	251,412	367,944
Trade payables		369,574	-	369,574	435,936	-	435,936	399,445	-	399,445
Other payables and credit balances	(3)(4)(6)	250,455	21,462	271,917	250,565	36,202	286,767	280,777	26,464	307,241
Provision for income tax less advances		20,958	-	20,958	18,631	-	18,631	23,251	-	23,251
Convertible debentures		12,055	-	12,055	-	-	-	7,632	-	7,632
Total current liabilities		752,892	216,990	969,882	794,483	58,384	852,867	827,637	277,876	1,105,513
Long term liabilities										
Loans from banks		45,012	-	45,012	25,052	-	25,052	41,600	-	41,600
Convertible debentures		675	-	675	-	-	-	675	-	675
Debentures	(6)	554,728	-	554,728	595,160	29,395	624,555	561,965	3,145	565,110
Other long-term liabilities		3,407	-	3,407	6,384	-	6,384	6,519	-	6,519
Deferred tax, net	(4)(6)(11)	62,147	(9,025)	53,122	58,218	(10,958)	47,260	67,898	(8,965)	58,933
Employee severance benefits, net	(3)	38,131	11,576	49,707	44,140	12,628	56,768	42,397	7,925	50,322
Liabilities to the Chief Scientist	(8)	-	4,361	4,361	-	4,412	4,412	-	4,173	4,173
Put options to minority shareholders	(10)	-	23,774	23,774	-	23,830	23,830	-	23,070	23,070
Total non-current liabilities		704,100	30,686	734,786	728,954	59,307	788,261	721,054	29,348	750,402
Total liabilities		1,456,992	247,676	1,704,668	1,523,437	117,691	1,641,128	1,548,691	307,224	1,855,915
Equity capital										
Share capital		123,232	-	123,232	125,274	-	125,274	124,067	-	124,067
Share premium		614,052	-	614,052	624,150	-	624,150	617,659	-	617,659
Reserves		2,719	(1,552)	1,167	15,118	(3,543)	11,575	5,320	(3,381)	1,939
Proposed dividend subsequent to balance sheet date	(13)	-	-	-	120,000	(120,000)	-	-	-	-
Retained earnings	(3)(12)	535,911	(4,421)	531,490	594,141	104,878	699,019	602,503	1,919	604,422
Treasury shares		(144,196)	-	(144,196)	(144,196)	-	(144,196)	(144,196)	-	(144,196)
Total capital attributable to the Company's equity holders		1,131,718	(5,973)	1,125,745	1,334,487	(18,665)	1,315,822	1,205,353	(1,462)	1,203,891
Minority interest	(17)(10)	30,212	(7,556)	22,656	30,772	(9,527)	21,245	31,648	(7,709)	23,939
Total equity capital		1,161,930	(13,529)	1,148,401	1,365,259	(28,192)	1,337,067	1,237,001	(9,171)	1,227,830

* References to the main notes.

Notes to the Financial Statements as at March 31, 2008 (Unaudited)

Note 7 - Explanation Regarding the Impact of the Transition to IFRS (cont'd)

C. Impacts Expressed as part of Adoption of New Accounting Standards in Israel in 2007 (cont'd)

Note	Israeli GAAP	Effect of the transition	IFRS	Israeli GAAP	Effect of the transition	IFRS	
	\$ thousands	\$ thousands	\$ thousands	\$ thousands	\$ thousands	\$ thousands	
	2007			Three-month period ended March 31, 2007			
Continuing operations							
Revenues	(16)	2,081,246	(15,721)	2,065,525	559,339	(6,205)	553,134
Cost of sales	(7)(16)	1,383,880	(7,231)	1,376,649	361,094	(258)	360,836
Gross profit		697,366	(8,490)	688,876	198,245	(5,947)	192,298
Marketing and selling expenses	(7)	316,355	16,505	332,860	75,744	5,665	81,409
General and administrative expenses	(7)	73,697	7,711	81,408	17,435	3,878	21,313
Research and development expenses, net		19,684	586	20,270	5,033	97	5,130
Other expenses (income)	(7)	18,531	(32,223)	(13,692)	4,372	(4,456)	(84)
Operating income		269,099	(1,069)	268,030	95,661	(11,131)	84,530
Financing expenses	(18)(16)	49,316	61,236	110,552	13,640	2,078	15,718
Financing income	(18)(16)(7)(3)	-	(30,928)	(30,928)	(2,203)	(10,675)	(12,878)
Net financing costs		49,316	30,308	79,624	11,437	(8,597)	2,840
Income before income tax		219,783	(31,377)	188,406	84,224	(2,534)	81,690
Income tax expenses		31,953	(6,468)	25,485	15,883	(6,552)	9,331
Net income for the period		187,830	(24,909)	162,921	68,341	4,018	72,359
Attributable to:							
The Company's equity holders		178,230	(22,632)	155,598	66,592	4,537	71,129
Minority interest		9,600	(2,277)	7,323	1,749	(519)	1,230
Profit for the period		187,830	(24,909)	162,921	68,341	4,018	72,359

* References to the main notes.

Note 7 - Explanation Regarding the Impact of the Transition to IFRS (cont'd)**C. Impacts Expressed as part of Adoption of New Accounting Standards in Israel in 2007 (cont'd)**

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

Other impacts

2. According to Israeli GAAP, land leased from the Israel Land Administration is classified as a fixed asset and is not depreciated. In accordance with IFRS, in cases in which these lands are not considered to be owned by the Company, the lease payments are classified as deferred payments and are amortized over the lease period, including options to extend the lease period, if at the time the lease began there was a reasonable certainty that the option would be exercised. As result, on January 1, 2007, there was an increase in long-term investments of approximately \$3.7 million, a decrease in fixed assets of approximately \$10.2 million, an increase in the balance of deferred taxes of approximately \$1.7 million and a decrease in retained earnings of approximately \$4.7. On December 31, 2007, there was an increase in long-term investments of approximately \$3.6 million, a decrease in fixed assets of approximately \$10.2 million, an increase in the balance of deferred taxes of approximately \$1.7 million and a decrease in retained earnings of approximately \$4.8 million. On March 31, 2007, there was an increase in long-term investments of approximately \$3.7, a decrease in fixed assets of approximately \$10.2 million, an increase in the balance of deferred taxes of approximately \$1.7 million and a decrease in retained earnings of approximately \$4.7 million. The depreciation of the lease payments was expressed by an increase in depreciation expenses of approximately \$0.1 million for the year ended December 31, 2007.
3. According to Israeli GAAP, liabilities incurred as the result of termination of an employer-employee relationship are recognized on the basis of the assumption that employees will reach retirement age and will be entitled to full compensation without taking into account capitalization rates, the rate of future salary increases and the rate of future employee attrition. Similarly, the liability for vacation and sick leave were calculated on the basis of the estimated usage and redemption, respectively. Upon transition to IFRS, all obligations are measured net in respect of post-retirement benefits for employees and other long-term benefit programs, pursuant to the provisions of IAS 19 regarding "Employee Benefits". Benefits after retirement stemming from defined benefit programs are measured on the basis of actuarial estimates and capitalized amounts, while the liabilities are measured at capitalized values based on the yields on government bonds, since the Company estimates that there is no sufficiently deep market for high-quality corporate bonds in Israel. The measurement difference as of January 1, 2007, which totaled approximately \$22.0 million, was recorded to the retained earnings balance (net of tax). The impact of the transition to IFRS was expressed as in increase in liabilities to employees of approximately \$29.2 million, approximately \$32.1 and approximately \$37.4 million as at January 1, 2007, March 31, 2007 and December 31, 2007, respectively, an increase in salary costs for three-month period ended March 31, 2007 and the year ended December 31, 2007 totaling approximately \$0.6 million and approximately \$0.3 million, respectively, and an increase in the financing expenses for the same periods of approximately \$0.6 million and approximately \$9.9 million.

Note 7 - Explanation Regarding the Impact of the Transition to IFRS (cont'd)**C. Impacts Expressed in the Context of Adopting New Accounting Standards in Israel in 2007 (contd.)**

3. (cont'd)

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

The Company has chosen to charge actuarial profits and losses to retained earnings, in accordance with the alternatives set forth in IAS 19.

The Company recognized actuarial profits of approximately \$1.3 million in directly retained earnings in the year ended December 31, 2007 and actuarial losses in the amount of approximately \$ 1.3 million in the three-month period ended March 31, 2007.

The Company chose to apply the alternative according to which actuarial profits or losses are charged to retained earnings item since, according to this alternative, the balance reflects the reasonable fair value of the net liabilities to employees, on the balance sheet date. Also, according to this alternative the income statement provides a more reasonable reflection of the results of the Company's activities, thereby preventing fluctuations in respect of actuarial profits and losses.

4. According to Israeli GAAP, deferred tax assets were classified as current or non-current assets, according to the classification of the asset with respect to which they were created. According to IFRS, deferred tax assets are classified as non-current assets, even if the expected date of realization is short-term. Therefore, upon the transition to IFRS, short-term deferred tax assets as of January 1, 2007, March 31, 2007 and December 31, 2007 totaling approximately \$38.2 million, approximately \$37.6 million and approximately \$34.6 million, respectively, were reclassified from the "other receivables and debit balances" item under current assets and the "other payables and credit balances" item under current liabilities, to the "deferred taxes, assets" item under non-current assets, and "deferred tax liabilities" item under non-current liabilities.
5. In 2004, the Company and certain Group subsidiaries signed a securitization agreement whereby the companies will sell part of their customer debts to a foreign company that was set up for this purpose and that is not owned or controlled by the Group (hereinafter, "the Acquiring Company"). The Acquiring Company finances the purchase of debts with a loan received from a financial institution, unrelated to the Company, that finances the loan from the proceeds of marketable securities that it issues on commercial stock exchanges in the United States.

Note 7 - Explanation Regarding the Impact of the Transition to IFRS (cont'd)**C. Impacts Expressed in the Context of Adopting New Accounting Standards in Israel in 2007 (contd.)**

5. (cont'd)

According to Israeli GAAP, which are based on the American Standard FAS 140, the said securitization transaction met the definition of a sale and therefore the customers with respect to which the securitization was executed were eliminated from the consolidated financial statements. Under IFRS, until July 2007, the securitization transaction transacted by the Company did not meet the criteria for elimination of financial assets since not all of the risks and rewards deriving from the receivables were transferred. Therefore, upon the transition to IFRS, the receivables included in the securitization transaction were restored to the consolidated balance sheet and the proceeds from the Acquiring Company that were received as part of the securitization transaction were recorded as a financial liability. Accordingly, as of January 1, 2007 and March 31, 2007, there was an increase in trade receivables of approximately \$175.9 million and approximately \$234.7 million, respectively, and equal increase in financial liabilities. During the third quarter of 2007, the Acquiring Company contracted with an insurance company for an insurance policy to insure the trade receivables that were sold as part of the securitization transaction and as a result, from that date, the securitization transaction meets the criteria for elimination of financial assets according to IFRS.

According to the insurance policy, the insurance company will compensate the Acquiring Company (which is the beneficiary of the policy) for the entire initial loss. Based on past experience, this loss amount is significantly higher than the Company's actual damages with respect to the customer receivables sold. Furthermore, the premium for the policy is fixed. Therefore, the risks inherent in the consolidated trade receivables have been fully transferred to the insurance company.

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

Notes to the Financial Statements as at March 31, 2008 (Unaudited)

said financial instruments are measured according to fair value and changes in the fair value are immediately recorded to profit and loss.

Notes to the Financial Statements as at March 31, 2008 (Unaudited)**Note 7 - Explanation Regarding the Impact of the Transition to IFRS (cont'd)****C. Impacts Expressed in the Context of Adopting New Accounting Standards in Israel in 2007 (contd.)**

6. (contd)

The impact as at January 1, 2007, March 31, 2007 and December 31, 2007 is expressed in an increase in payables net of receivables in respect of financial derivatives totaling approximately \$3.7 million, approximately \$1.8 million and approximately \$10.6 million and, in addition, there was an increase in long-term investments of approximately \$0.4 million, approximately \$16.9 million, and an increase in debentures of approximately and \$3.1 million and approximately \$29.4 million, as of March 31, 2007 and December 31, 2007, respectively. Furthermore, as at January 1, 2007, March 31, 2007 and December 31, 2007 there was a decrease in the provision for deferred taxes of approximately \$0.6 million, approximately \$1.1 million, and approximately \$4.9 million, and a decrease in retained earnings of approximately \$3.0 million, approximately \$3.4 million and approximately \$18.3 million, respectively. In addition, there was an increase in the financing expenses totaling approximately \$0.8 million and approximately \$19.4 million in the period ended March 31, 2007 and the year ended December 31, 2007, respectively.

7. According to the accepted practice in Israel, amortization expenses in respect of rights to purchase products, reductions for a decrease in value of intangible assets, expenses for securitization of customer receivables and expenses with respect to an efficiency plan were presented as part of the item other income/expenses in the consolidated statement of income. Under IFRS, these items are included as part of the operating income or as part of financing expenses. The impact of the transition to IFRS on the statement of income for the period ended March 31, 2007 and the year ended December 31, 2007 is expressed as an increase in the cost of sales totaling approximately \$3.9 million and approximately \$5.4 million, an increase in selling expenses totaling approximately \$5.9 million and approximately \$17.4 million, an increase in administrative and general expenses totaling approximately \$1.7 million and approximately \$2.4 million, a decrease in financing expenses of approximately \$7.0 million for the period ended March 31, 2007, an increase in the financing expenses totaling approximately \$7.0 million for the year ended December 31, 2007, and a decrease in other expenses, net, totaling approximately \$4.5 million and approximately \$32.2 million.

8. According to Israeli GAAP, grants from the Chief Scientist for research and development were recorded as income at the time received and were presented as an offset from the related research and development expenses. The expectation that the grant would be returned was not considered on a regular basis and when the grant was returned the expense recorded as a cost of sales, as part of royalties paid to the Chief Scientist.

Under IFRS, the said grants are treated as forgivable loans, in accordance with IAS 20. Accordingly, grants received from the Chief Scientist are recognized as a liability according to their fair value on the date the grant was received unless it was reasonably certain on that date that the amount received would not be returned. The amount of the liability is re-examined each period and any changes in the anticipated cash flows discounted at the original interest rate are recorded in the statement of income. The impact as of January 1, 2007, March 31, 2007 and December 31, 2007 is expressed in an increase of liability to the Chief Scientist of approximately \$4.4 million, approximately \$4.3 million and approximately \$4.4 million, an increase in deferred tax assets of approximately \$1.1 million, approximately \$1.1 million, and approximately \$1.2 million and a decrease in retained earnings of approximately \$3.2 million, approximately \$3.2 million and approximately \$3.3 million, respectively.

Note 7 - Explanation Regarding the Impact of the Transition to IFRS (cont'd)**C. Impacts Expressed in the Context of Adopting New Accounting Standards in Israel in 2007 (contd.)**

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

In light of the above, it is possible that the said accounting treatment will not be possible pursuant to the provisions of the international standards and another accounting treatment, whereby it is necessary to consider the anticipated level of inflation in the country of the financial instrument, will be preferred, according to the directives of AG7 and AG8 of International Standard 39. If it is ultimately so decided, the Company will need to examine the impact of the said decision, including the transitional rules, if any, on the financial statements and accompanying notes, as they are published or will be published up to the time the decision concerning the international standards is received.

10. According to Israeli GAAP, put options issued by the Group to the minority interest are not reflected in the financial statements. According to IFRS, when the minority interest holds put options, their share in the net assets of the subsidiary will be reclassified from the minority interest to financial liabilities in the consolidated balance sheet. This financial liability will be measured according the present value of the exercise price of the options. Revaluation of the financial liability in respect of the time factor is expressed in the financing expenses and the Company includes the full profit of the subsidiary in its profits (without allocating to the minority interest its share in the subsidiary's profits, except in a case of distribution of a dividend to the minority interest) whereas other changes in the liability are recorded against the balance of goodwill in the subsidiary. The impact as of January 1, 2007, March 31, 2007 and December 31, 2007 is expressed in an increase of intangible assets of approximately \$16.2 million, \$15.7 million and \$15.7 million, an increase in liabilities in respect of put options held by the minority interest of approximately \$23.8 million, approximately \$23.1 million and approximately \$23.8 million and a decrease in the minority interest of approximately \$7.6 million, approximately \$7.2 million and approximately \$9.5 million, respectively. In addition, there was an increase in financing expenses of approximately \$ 0.2 million and approximately \$1.0 million for the period ended March 31, 2007 and for the year ended December 31, 2007, respectively.

Note 7 - Explanation Regarding the Impact of the Transition to IFRS (cont'd)**C. Impacts Expressed in the Context of Adopting New Accounting Standards in Israel in 2007 (contd.)**

11. According to Israeli GAAP, investments in put options for an investment in an investee company are not expressed as a separate financial asset. According to IFRS, when a group holds put options such options are recorded in the balance sheet according to their fair value. Changes in the fair value are recognized in the statement of income. The impact as of January 1, 2007, March 31, 2007 and December 31, 2007 was expressed in an increase in long-term investments of approximately \$3.7 million, approximately \$3.1 million and approximately \$3.4 million, respectively, an increase in deferred taxes of approximately \$0.9 million, approximately \$0.8 million and approximately \$0.9 million and an increase in retained earnings of approximately \$2.8 million, approximately \$2.7 million and approximately \$2.9, respectively.
12. According to Israeli GAAP, intercompany transactions are eliminated in the consolidated statements and deferred tax is recorded according to the tax rate of the selling company with respect to timing differences regarding the recognition date of the income in the financial statements and in the tax reports. According to IFRS, deferred tax for intercompany transactions is recorded in the consolidated statements according to the tax rate of the purchaser. As a result the balance of the retained earnings as of January 1, 2007, March 31, 2007 and December 31, 2007 increased by approximately \$20.9 million, \$26.9 million and approximately \$23.1, respectively.
13. According to Israeli GAAP, a dividend declared subsequent to the balance date but before the approval date of the financial statements is to be presented as part of the equity section as a separate item called, "dividend proposed or declared after the balance sheet date," against a decrease in the balance of the retained earnings. Under IFRS, the dividend is only to be disclosed and no classification is made in the equity section. Accordingly, on December 31, 2007 the balance of the retained earnings increased and the dividend declared after the balance date that was presented in the equity section decreased by a total of approximately \$120 million.
14. According to Israeli GAAP, balances of trade receivables that were sold where the control thereof was transferred, however not all of the risks and rewards were transferred, were nonetheless eliminated. According to IFRS, these transactions are treated as financing transactions since not all of the risks and rewards were transferred. Accordingly, as at January 1, 2007, March 31, 2007 and December 31, 2007 there was an increase in the trade receivables in the amount of approximately \$19.6 million, approximately \$16.7 million and approximately \$22.2 million, respectively, and an increase in the same amounts in a financial liability.
15. The functional currency of a subsidiary that according to Israeli GAAP was defined as an integrated company (and therefore its functional currency was determined to be the U.S. dollar) is changed to the Company's local currency according to IFRS.
16. Revaluation of monetary balances in a currency other than the dollar was reclassified from the sales and cost of sales items to the financing expenses item. In addition, the

Notes to the Financial Statements as at March 31, 2008 (Unaudited)

business results of derivative financial instruments were reclassified from the sales and cost of sales items to the financing expenses item.

Note 7 - Explanation Regarding the Impact of the Transition to IFRS (cont'd)**C. Impacts Expressed in the Context of Adopting New Accounting Standards in Israel in 2007 (contd.)**

17. Minority rights – measurement and presentation

According to Israeli GAAP, attribution of the cost of purchasing assets, intangible assets and liabilities of subsidiaries, was based on their fair values on the purchase date and according to the size of the holdings purchased, the remainder of the excess was charged to goodwill. The minority interest was calculated according to the minority's share in the book value of the assets and liabilities of the subsidiary at that time. According to the international standards, the assets and liabilities of subsidiaries are presented in the consolidated balance at the time of the acquisition, at their full fair values. The minority interest on the acquisition date are calculated according to the minority's share in the full fair value of the assets and liabilities of the subsidiary on that date, whereas the goodwill is the same as the goodwill calculated according to Israeli GAAP.

According to Israeli GAAP, the minority interest is presented in the Company's balance sheet after the liability categories and before the capital category and in the consolidated income statement as an expense for purposes of determining the Group's consolidated net income. According to IFRS, the Company presents the minority interest in the consolidated balance sheet as part of the equity section, and the Group's income for the period is not reduced by the minority's share thereof.

18. Financing expenses and income

According to Israeli GAAP, financing expenses and income are presented, net, in the income statement. According to IFRS, the financing expenses and financing income are presented separately in the income statement.

19. Provisions for lawsuits

According to Israeli GAAP, the Company recognized provisions for lawsuits if it was probable that the Company's financial resources would be used for purposes of settling the obligation. Furthermore, the provision was measured based on the full, expected amount at which the suit will be settled.

According to IFRS, the Company recognized provisions for such lawsuits where it is more likely than not that the Company will need to use its financial resources in order to settle the obligation. Furthermore, when the impact of the time value is significant, the provision is measured according to its present value.

Notes to the Financial Statements as at March 31, 2008 (Unaudited)**Note 7 - Explanation Regarding the Impact of the Transition to IFRS (cont'd)****C. Impacts Expressed in the Context of Adopting New Accounting Standards in Israel in 2007 (contd.)**

20. The aforementioned changes, increased (or decreased) the liabilities for deferred taxes as presented below, based on a tax rate of 27%:

	January 1 2007	December 31 2007	March 31 2007
	<u>\$ thousands</u>	<u>\$ thousands</u>	<u>\$ thousands</u>
Deferred taxes			
Classification of deferred taxes from short-term	38,161	34,620	37,623
Intercompany transactions	20,907	23,066	26,915
Financial derivatives	606	4,880	1,064
Call options	(935)	(860)	(783)
Liabilities in respect of grants from the			
Chief Scientist	1,147	1,171	1,131
Employee benefits	7,117	10,108	8,782
Amortization of land development rights	1,703	1,669	1,709
Change of functional currency	-	(1,646)	-
	<u>68,706</u>	<u>73,008</u>	<u>76,441</u>

The impact of the transition to IFRS on the income statement for the period ended March 31, 2007 and the year ended December 31, 2007, was a decrease in the tax expenses previously reported for the period, in the amounts of \$6,552 thousand and \$6,468 thousand, respectively.

21. Impact of the aforementioned adjustments on the retained earnings:

	January 1 2007	December 31 2007	March 31 2007
	<u>\$ thousands</u>	<u>\$ thousands</u>	<u>\$ thousands</u>
Retained earnings			
Amortization of land development rights	(4,719)	(4,783)	(4,748)
Employee benefits	(21,982)	(28,235)	(24,235)
Taxes in respect of intercompany transactions	20,907	23,066	26,915
Change in functional currency	2,634	4,641	4,065
Credit of capital reserve to surplus	2,141	7,552	3,535
Call options	2,807	2,922	2,691
Put options	-	(1,001)	(240)
Liabilities in respect of grants from the Chief Scientist	(3,226)	(3,254)	(3,199)
Financial derivatives	(2,983)	(18,279)	(3,384)
Minority interest in profit	-	2,249	519
Dividend declared after the balance			

Notes to the Financial Statements as at March 31, 2008 (Unaudited)

sheet date	-	120,000	-
	<u>(4,421)</u>	<u>104,878</u>	<u>1,919</u>

Note 7 - Explanation Regarding the Impact of the Transition to IFRS (cont'd)

D. Explanations of Significant Adjustments to the Statement of Cash Flows for the Three-Month Period ended March 31, 2007 and the year ending December 31, 2007

Securitization of the Trade Receivables

According to Israeli GAAP, the securitization was always treated as a sale of financial assets.

According to IFRS, up to July 2007, the transaction was treated as a financing transaction, while commencing from July 2007 the transaction is treated as a sale of financial assets.

The cash flows in respect of the securitization transaction up to July 2007 were classified as financing activities whereas the cash flows from collection of the trade receivables were classified as operating activities.

Commencing from July 2007, all the cash flows are classified as operating activities.