

Makhteshim-Agan Industries Ltd.

**Interim Consolidated
Financial Statements**

**As at June 30, 2008
(Unaudited)**

Financial Statements as at June 30, 2008 (Unaudited)

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The Board of Directors
Makhteshim–Agan Industries Ltd.

Dear Sirs,

Review of unaudited interim consolidated financial statements as at June 30, 2008

At your request, we have reviewed the condensed interim consolidated balance sheet of Makhteshim–Agan Industries Ltd. as at June 30, 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 six and three-month periods then ended.

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

We received interim reports of other auditors, regarding the review of condensed interim financial statements of subsidiaries, whose assets included in the consolidation constitute 7.6% of the total assets included in the condensed interim consolidated balance sheet as at June 30, 2008 and whose revenues included in the consolidation constitute 12.2% and 14.3% of the total revenues included in the condensed interim consolidated statement of income for the six and three month periods then ended, respectively.

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.)

August 6, 2008

Consolidated Balance Sheet as at

In US dollars

	June 30 2008	June 30 2007	December 31 2007
	(Unaudited)	(Unaudited)	(Audited)
	\$ thousands	\$ thousands	\$ thousands
Current assets			
Cash and cash equivalents	304,043	426,590	198,154
Short-term investments	4,686	45,192	95,859
Trade receivables	561,970	825,762	451,957
Subordinated capital note in respect of the sale of customer debts	86,733	-	124,185
Other receivables and debit balances	16,372	12,821	9,111
Financial assets, including derivatives	183,365	51,269	100,846
Advances less provision for income tax	19,146	15,640	12,704
Inventories	887,256	603,767	778,234
	2,063,571	1,981,041	1,771,050
Long-term investments, loans and receivables			
Financial investments and other receivables	139,191	55,654	69,130
Non-financial investments and other receivables	8,636	6,851	7,943
	147,827	62,505	77,073
Property, plant and equipment			
Cost	1,026,809	970,651	992,487
Less - accumulated depreciation	500,827	470,485	482,245
	525,982	500,166	510,242
Deferred tax assets			
	71,331	68,412	62,050
Intangible assets			
Cost	989,590	938,285	949,713
Less - accumulated amortization	419,181	372,404	391,933
	570,409	565,881	557,780
	1,315,549	1,196,964	1,207,145
	3,379,120	3,178,005	2,978,195

In US dollars

	June 30 2008	June 30 2007	December 31 2007
	(Unaudited)	(Unaudited)	(Audited)
	\$ thousands	\$ thousands	\$ thousands
Current liabilities			
Credit from banks and others	111,212	394,215	111,533
Trade payables	482,302	402,925	435,936
Other payables and credit balances	439,747	312,921	286,767
Provision for income tax less advances	46,641	23,307	18,631
Convertible debentures	-	4,930	-
Put options held by the minority interest	17,144	-	-
	1,097,046	1,138,298	852,867
Long-term liabilities			
Loans from banks	17,713	37,829	25,052
Debentures	734,493	552,675	624,555
Other long-term liabilities	16,416	14,275	10,796
Provision for tax	32,778	66,292	47,260
Employee benefits	68,395	50,587	56,768
Put options held by the minority interest	20,326	23,319	23,830
	890,121	744,977	788,261
Equity capital			
Share capital	125,542	124,504	125,274
Share premium	623,882	620,631	624,150
Reserves	26,226	6,395	11,575
Retained earnings	744,137	659,853	699,019
Treasury shares	(145,952)	(144,196)	(144,196)
Total equity capital attributed to the Company's equity holders	1,373,835	1,267,187	1,315,822
Minority interest	18,118	27,543	21,245
Total equity	1,391,953	1,294,730	1,337,067
	3,379,120	3,178,005	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: August 6, 2008

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

Consolidated Statement of Income for the

In US dollars

	Six month period ended June 30		Three month period ended June 30		Year ended December 31
	2008	2007	2008	2007	2007
	(Unaudited) \$ thousands	(Unaudited) \$ thousands	(Unaudited) \$ thousands	(Unaudited) \$ thousands	(Audited) \$ thousands
Statement of income					
Revenues	1,404,424	1,095,664	682,256	542,530	2,065,525
Cost of sales	904,955	714,562	442,964	353,726	1,376,649
Gross profit	499,469	381,102	239,292	188,804	688,876
Expenses					
Marketing and selling	195,822	163,406	97,490	81,997	332,860
General and administrative	44,571	39,569	22,594	18,256	81,408
Research and development	12,620	10,208	6,655	5,078	20,270
Other expenses (income)	(804)	-	(877)	84	(13,692)
	252,209	213,183	125,862	105,415	420,846
Operating income	247,260	167,919	113,430	83,389	268,030
Financing expenses	121,939	36,604	58,185	28,935	110,552
Financing income	(56,638)	(21,273)	(25,309)	(16,444)	(30,928)
Financing expenses	65,301	15,331	32,876	12,491	79,624
Income before income tax	181,959	152,588	80,554	70,898	188,406
Income tax expense	20,502	24,154	10,575	14,823	25,485
Income for the period	161,457	128,434	69,979	56,075	162,921
Attributable to:					
The Company's equity holders	159,721	124,765	68,796	53,636	155,598
Minority interest	1,736	3,669	1,183	2,439	7,323
Income for the period	161,457	128,434	69,979	56,075	162,921
Earnings per share					
Basic earnings per share	0.36	0.28	0.15	0.12	0.35
Fully diluted earnings per share	0.36	0.28	0.15	0.12	0.35

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

Statement of Recognized Income and Expenses for the
In US dollars

	Six month period ended June 30		Three month period ended June 30		Year ended December 31
	2008	2007	2008	2007	2007
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	\$ thousands	\$ thousands	\$ thousands	\$ thousands	\$ thousands
Foreign currency translation differences in respect of foreign activities	7,291	5,229	(33)	4,664	9,872
Capital reserves from cash flows hedges, net	7,715	-	6,133	-	-
Defined benefit plan actuarial gains (losses)	(1,113)	(1,821)	(1,113)	(515)	1,274
Total other income for the period net of tax	13,893	3,408	4,987	4,149	11,146
Income for the period	161,457	128,434	69,979	56,075	162,921
Total income for the period	175,350	131,842	74,966	60,224	174,067
Attributable to:					
The Company's equity holders	173,058	126,861	74,484	56,645	165,536
Minority interest	2,292	4,981	482	3,579	8,531
Total income for the period	175,350	131,842	74,966	60,224	174,067

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

Consolidated Statements of Cash Flows for the

In US dollars

	Six month period ended June 30		Three month period ended June 30		Year ended December 31
	2008	2007	2008	2007	2007
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	\$ thousands	\$ thousands	\$ thousands	\$ thousands	\$ thousands
Cash flows from operating activities					
Income for the period	161,457	128,434	69,979	56,075	162,921
Adjustments:					
Interest paid in cash	(32,046)	(30,772)	(25,766)	(23,455)	(65,715)
Interest received in cash	2,878	6,337	1,571	3,442	15,553
Taxes paid in cash	(30,414)	(17,923)	(16,855)	(10,796)	(35,793)
Depreciation and amortization	44,168	47,971	22,008	22,550	95,008
Decrease (increase) in value of long-term investments	(92)	-	203	-	(334)
Increase (decrease) in employee severance liabilities, net	11,038	(51)	6,205	103	7,252
Capital loss (gain) from sale of property, plant and equipment and other assets, net	(487)	425	(753)	164	(4,047)
Amortization of discount and issue costs	46	90	23	64	146
Expenses for employee options	5,561	5,712	2,623	2,354	10,969
Revaluation of call options	-	128	-	(27)	154
Revaluation of put options	701	470	350	249	981
Adjustment of long-term liabilities	110,784	(2,162)	56,831	(8,197)	69,066
SWAP revaluation	(47,061)	1,327	(24,645)	(1,380)	(16,884)
Capital gain from disposal of investment	-	-	-	-	(10,282)
Changes in asset and liability items					
Decrease (increase) in trade receivables, other receivables and debit balances	(167,155)	(140,597)	34,811	119,725	57,658
Interest paid in cash	32,046	30,772	25,766	23,455	65,715
Interest received in cash	(2,878)	(6,337)	(1,571)	(3,442)	(15,553)
Taxes paid in cash	30,414	17,923	16,855	10,796	35,793
Change in taxes and income tax prepayments, net	21,568	30	10,088	(3,864)	(3,384)
Decrease (increase) in inventories	(102,715)	15,057	(85,283)	(2,991)	(166,545)
Increase in trade payables, other payables and credit balances	209,483	71,323	85,926	5,562	109,149
Increase (decrease) in deferred taxes, net	(33,365)	5,718	(18,253)	7,408	(6,924)
Net cash provided by operating activities	213,931	133,875	160,113	197,795	304,904

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

Consolidated Statements of Cash Flows for the

In US dollars

	Six month period ended June 30		Three month period ended June 30		Year ended December 31
	2008	2007	2008	2007	2007
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	\$ thousands	\$ thousands	\$ thousands	\$ thousands	\$ thousands
Cash flows from investing activities					
Acquisition of property, plant and equipment	(39,903)	(31,228)	(21,399)	(9,653)	(60,747)
Investment grant received	-	3,922	-	1,607	4,309
Additions to intangible assets	(27,666)	(33,424)	(13,476)	(12,095)	(68,714)
Short-term investments, net	91,173	(44,267)	(2,695)	(44,267)	(94,970)
Proceeds from disposal of property, plant and equipment and other assets	1,430	49	1,183	15	4,980
Proceeds from realization of investments in subsidiaries (Appendix B)	-	-	-	-	18,074
Repayment of liability in respect of a subsidiary acquired in the past	-	(1,000)	-	-	(1,000)
Dividend from an affiliate	-	530	-	530	530
Payment for newly consolidated company	(2,520)	(8,047)	-	-	(8,047)
Cash increment resulting from 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	22,003	(114,401)	(36,387)	(63,863)	(206,521)
Cash flows from financing activities					
Receipt of long-term loans from banks	-	3,444	-	1,061	3,696
Repayment of long-term loans and liabilities from banks and others, net	(1,648)	(3,940)	(904)	(1,452)	(8,274)
Increase (decrease) in short-term liabilities to banks	(7,315)	83,700	(19,627)	20,313	(214,980)
Dividend to minority shareholders in subsidiaries	(275)	(450)	-	(93)	(5,033)
Buy-back of Company's shares	(1,756)	-	(1,756)	-	-
Dividend to shareholders	(119,051)	-	(119,051)	-	-
Net cash provided by (used in) financing activities	(130,045)	82,754	(141,338)	19,829	(224,591)
Increase (decrease) in cash and cash equivalents	105,889	102,228	(17,612)	153,761	(126,208)
Cash and cash equivalents at the beginning of the period	198,154	324,362	321,655	272,829	324,362
Cash and cash equivalents at the end of the period	304,043	426,590	304,043	426,590	198,154

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

Consolidated Statements of Cash Flows for the

In US dollars

	Six month period ended June 30		Three month period ended June 30		Year ended December 31
	2008	2007	2008	2007	2007
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	\$ thousands	\$ thousands	\$ thousands	\$ thousands	\$ thousands
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 company consolidated in the past					
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

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

Notes to the Financial Statements as at June 30, 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 an Israel-resident company whose securities are listed for trading on the Tel Aviv Stock Exchange. The Company is engaged, through its investees operating in Israel and abroad, in the development, manufacture and marketing of agrochemicals, intermediate materials for other industries, food additives and synthetic aromatic products, mainly for export. The Company is held by Koor Industries Ltd. (hereinafter, “Koor”).

As at June 30, 2008, Koor holds approximately 39.5% of the issued and paid shares (after neutralizing dormant shares and shares owned by a subsidiary of the Company) of Makhteshim-Agan Industries and approximately 39.9% of the voting rights therein (on December 31, 2007, Koor held approximately 38.6% of the Company’s issued and paid shares and approximately 39.0% of the voting rights therein).

2. Sales of agrochemical products are directly dependent on the agricultural seasons and the cyclical pattern of the growing seasons and, therefore, the Company’s income is 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 to 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 April through July. The Company’s worldwide operations act to balance out the aforementioned seasonal impacts, even though the Company’s sales are higher in the northern hemisphere.

Notes to the Financial Statements as at June 30, 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 Adoption 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. Additionally, these financial statements were prepared in accordance with the provisions of Chapter IV of the Securities Regulations (Periodic and Immediate Reports, 1970).

The effect 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 August 6, 2008.

B. Measurement basis

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 at the lower of book value or fair value, 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 June 30, 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 carrying values 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, inventories, intangible assets and capital and reserve amounts, which derive from cash inflows from shareholders.

The non-monetary asset amounts 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 carrying value reflects current or realizable values, as at 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 effected during the report year – 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 statement of income components relating to non-monetary balance sheet items have been translated according to the same exchange rate used to translate the related balance sheet items (changes in inventories, depreciation and amortization and capital gains).
3. The Company's equity in the operating results of investees and the minority interest in the results of 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 at the balance sheet date (or less 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 tax payments on account, from the payment date until the balance sheet date.

Notes to the Financial Statements as at June 30, 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 the condensed financial statements in conformance with IFRS, Company management is required to use judgment when making assessments, estimates and assumptions that affect the implementation of the policies and amounts of assets and liabilities, revenues and expenses. It is clarified that the actual results are likely to be different from these estimates.

When formulating the accounting estimates used in the preparation of the Company's financial statements, management is required to make assumptions regarding circumstances and events that involve significant uncertainty. The judgment in determining the estimates by the Company's management is based on past experience, various facts, outside factors and reasonable assumptions, based on the appropriate circumstances for each estimate.

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 in 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 Standards that will be in effect or may be adopted early in the annual financial statements for the year ended December 31, 2008 are subject to changes and the publication of an additional interpretation(s), and therefore, cannot be determined with certainty. Accordingly, the accounting principles 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 at December 31, 2008.

Preparation of the condensed, consolidated, interim financial statements in accordance with IAS 34, led to changes in the accounting policy from the last annual financial statements, which were prepared in accordance with generally accepted accounting principles in Israel ("Israeli GAAP"). The accounting policies 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 at January 1, 2007, for the purpose of the transition to IFRS, as required by IFRS 1. The effect of the transition from Israeli GAAP 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 June 30, 2008 (Unaudited)

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

Subsidiaries 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 subsidiaries 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 subsidiaries was changed as necessary for it to correspond with the accounting policy adopted by the Company.

2. Jointly-controlled entities accounted for by proportionate consolidation method

Jointly-controlled entities are entities for which the Group has joint control over their activities, which is obtained by means of a contractual arrangement requiring joint consent with other investors in connection with strategic, financial and operational decisions. Jointly-controlled entities are accounted for by the proportionate consolidation method from the date on which the joint control is obtained until 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 holding percentages in those companies, after the adjustments necessary in order to conform their accounting policies to those of the Group.

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 exchange rates prevailing on the balance sheet date. Income and expenses of foreign activities were translated into dollars according to the exchange rates that were in effect at the time of the transaction.

Exchange rate differences resulting from the translation are recorded directly to equity, as at January 1, 2007, the transition date to IFRS. In accordance with 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 statement of income.

Notes to the Financial Statements as at June 30, 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 and credit received and trade and other payables.

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

A financial instrument is recognized when the Group assumes the contractual conditions of the instrument. Financial assets are deducted when the Group's contractual rights to the cash flows deriving from the financial assets expire, or when the Group transfers the financial assets to others without retaining control 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 settled 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 income

A financial instrument is classified as measured according to fair value through the statement of income if it is held for trading or if it was designated as such at the time of the initial recognition. Financial instruments are designated as measurable according to fair value through gain 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 the Company documented the risk management or investment strategy. At the time of initial recognition, the attributable transaction costs are recorded in the statement of income as incurred. These financial instruments are then measured according to fair value and the changes therein are recorded to gain and loss.

Other

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

Securitization of trade receivables

In July 2007, a company unrelated to the Group ("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 deduction 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 from the trade receivables sold in the securitization transaction. In addition, the insurance premium is fixed. Therefore, the risks and rewards in connection with the trade receivables sold in the securitization transaction have been transferred in full to the acquiring company.

Notes to the Financial Statements as at June 30, 2008 (Unaudited)

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

The Group executes transactions in derivative financial instruments for the purpose of hedging against foreign currency risks, inflation risks and interest risks. The hedge is a cash flow hedge.

Derivatives are initially recognized according to fair value; the attributable transaction costs are charged to the statement of income 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 equity. For the non-effective portion, the changes in fair value are recorded in the statement of income. If the hedged instrument no longer meets the criteria for hedge accounting or it has expired or been sold, cancelled or realized, the accounting treatment of the hedge ceases. The gain or loss 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, when recognized. In other cases, the amount recorded in equity is transferred to income and loss in the period that hedged item affects income and loss.

A 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 income and loss.

3. CPI-linked assets and liabilities not measured at fair value

The value of CPI-linked financial assets and liabilities that are not measured according to fair value are revalued in every period, according to the rate of increase in the CPI.

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. Property, plant and equipment1. Recognition and measurement

Property, plant and equipment items are measured at cost less accumulated depreciation and impairment losses.

The cost includes expenditures 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 necessary for it to function as management intended, as well as costs to dismantle and remove the item and to restore its location. The cost of purchased software, which is an integral 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.

Notes to the Financial Statements as at June 30, 2008 (Unaudited)

Note 3 - Significant Accounting Policies (cont'd)**D. Property, plant and equipment (cont'd)**2. Subsequent costs

The cost of replacing part of a fixed asset item is recognized as part of the book value of that item if it is expected that the future financial benefit embodied in the items will flow to the Group and that its cost can be measured reliably. The book value of the part that was replaced is deducted. Routine maintenance costs are expensed when incurred.

3. Depreciation

Depreciation is charged to the statement of income by the straight-line method over the estimated useful life of each part of the fixed asset items. Leased assets are depreciated over the shorter of the lease period or the useful life of the asset. Real estate is 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	
• Computers and auxiliary equipment	3-5 years	

The estimates regarding the depreciation method, the useful life and the residual value are reevaluated at least at the end of every reporting year.

E. Intangible Assets1. Goodwill

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

Acquisitions before January 1, 2007:

In the context of the transition to IFRS reporting, the Group elected to restate according to IFRS only business combinations, acquisitions of affiliated companies, jointly-controlled companies and acquisition of minority rights occurring after the transition date 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 Israeli GAAP. 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 since January 1, 2007, goodwill reflects the excess cost of acquisition over the Group's rights in the net fair value of the identified assets, liabilities and contingent liabilities of the acquired entity.

Acquisition of minority rights

Any difference between the amount paid and the carrying value of the minority rights acquired is recognized as goodwill.

Subsequent measurements

Goodwill is measured according to cost after deduction of accrued impairment losses.

Notes to the Financial Statements as at June 30, 2008 (Unaudited)

Note 3 - Significant Accounting Policies (cont'd)**E. Intangible Assets**2. Research and development

Expenditures related to research activities undertaken for the purpose of acquiring know-how and new scientific or technical understandings are expensed as incurred.

Development activities are directly related to the production of new products or processes or significant improvement of products. Expenditures for development activities are recognized as an asset only if: it is possible to reliably measure the development costs; 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 recognized as intangible assets include the cost of materials, direct salaries and overhead expenses that can be directly attributed to preparing the asset for its intended use. Other costs for development activities are expensed as incurred.

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

3. Other intangible assets

Other intangible assets purchased by the Group, with a specified useful life, are measured according to cost less amortization and accrued impairment losses.

4. Subsequent costs

Subsequent costs are recognized as an intangible asset only when they increase the future economic benefit embodied in the assets for which they were incurred. All other costs are expensed as incurred.

5. Amortization

Amortization is recorded in the statement of income by the straight-line method over the estimated useful economic life of the intangible assets, other than goodwill and intangible assets with an indeterminate 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 twenty 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.

Notes to the Financial Statements as at June 30, 2008 (Unaudited)

Note 3 - Significant Accounting Policies (cont'd)**E. Intangible Assets (cont'd)**5. Amortization (cont'd)

The estimates of the amortization method and useful lifespan are reevaluated at least at the end of every reporting year.

The Group examines the estimated useful life of an intangible asset that is not amortized during every period, in order to determine if events and circumstances continue to support the determination that the intangible asset has an indeterminate 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 sheet and are expensed over the lease period.

The Group applies the provisions of IFRIC 4 “Determining Whether an Arrangement Contains a Lease”, which prescribes criteria for determining, at the beginning of an arrangement, if the right to use an asset is indeed a leasing arrangement. In addition, it defines when the arrangement must be reexamined. 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).

G. Inventories

Inventories are measured at the lower of cost or net realizable value. The cost of raw materials, packaging materials, spare parts, maintenance material and purchased materials inventories 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 average production costs, including materials, labor 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 of business, after deduction of the estimated cost to completion and the estimated costs required for effecting the sale.

H. Capitalization of Credit Costs

The costs of specific credit and of non-specific credit were capitalized to qualified assets, as defined in International Accounting Standard 23 “Credit Costs”, during the period required for completion and construction, until they are ready for their intended use. Non-specific credit costs were capitalized in the same manner to the investment in qualified assets or to the part that was not financed by specific credit, using an interest rate that is the weighted-average of the cost rates for those credit sources that were not capitalized specifically. Other credit costs are expensed as incurred.

Notes to the Financial Statements as at June 30, 2008 (Unaudited)

Note 3 - Significant Accounting Policies (cont'd)**I. Impairment**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 impairment loss 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 for impairment is examined collectively, for groups having similar credit risks.

All impairment losses are recorded to income and loss.

The impairment loss is reversed when such recovery is objectively attributable to an event that occurred after recognition of the loss from impairment. Reversal of an impairment loss of financial assets measured according to depreciated cost is recorded to income and loss.

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 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 examined for declines in the value of goodwill and investments in affiliated companies for which goodwill was recognized in the investment account. In subsequent periods, the Group conducts an annual examination of the recoverable amount for goodwill and intangible assets with an indefinite lifespan, or more frequently if there are signs of impairment.

The recoverable amount of an asset or a cash-producing unit is either its usage value or net selling price (fair value minus selling expenses), whichever is higher. When determining the usage value, the Group capitalized the anticipated future cash flows according to the pre-tax discount rate that reflects market assessments of 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 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.

Notes to the Financial Statements as at June 30, 2008 (Unaudited)

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

Impairment losses 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 income and loss. Impairment losses 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.

An impairment loss of goodwill is not reversed. Regarding other assets, impairment losses that were recognized in previous periods are reexamined in each reporting period, in order to determine if there are signs indicating that the losses have decreased or no longer exist. An impairment loss is reversed 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 reversal of the impairment loss, does not exceed the book value, after deduction of depreciation or amortization, that would have been determined if the impairment loss had not been recognized.

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-termination benefits, is calculated separately for each plan 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 on government bonds, whose 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 may ultimately be decided that the proper discount interest rate in Israel is based on corporate bonds. In that case, the amounts included in the financial statements will change, the actuarial liability will decrease and the expenses for current funding of the liability will increase.

Notes to the Financial Statements as at June 30, 2008 (Unaudited)

Note 3 - Significant Accounting Policies (cont'd)**J. Employee Benefits (cont'd)**2. Defined benefit plans

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 a refund from the plan or by a reduction in future deposits to the plan. An economic benefit in the form of refunds from the plan or a reduction in future deposits will be considered available when it can be realized in the life of the plan, after settlement of the obligation.

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

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

3. Other long-term employee benefits

The Group's net obligation for 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 prior 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, whose currency and maturity date are similar to the conditions that obligate the Group, as at the reporting date. The calculations use the "predicted eligibility unit" method. Actuarial gains and losses are recorded to income 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 may ultimately be decided that the proper discount interest rate in Israel is based on corporate bonds. In that case, the amounts included in these statements will change, the actuarial liability will decrease and the expenses for current funding of the liability will increase.

4. Severance pay

Severance pay is recognized as an 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 retirement age according to a formal, detailed plan. The benefits given to employees upon voluntary retirement are charged when the Group proposes a plan to the employees encouraging voluntary retirement, it is expected that the proposal will be accepted and the number of employees that will accept the proposal can be reliably estimated.

5. Short term benefits

Obligations for short-term employee benefits are measured on a non-discounted basis, and the expense is recorded when the related 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 the amount may be reliably estimated.

Notes to the Financial Statements as at June 30, 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 equity, over the period in which the employees' options vest. The amount recorded as an expense is adjusted in order to reflect the number of options that are expected to vest.

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, over the period in which the employees' eligibility for the payment is obtained. The liability is re-measured in each reporting period and on the settlement date. Any change in the fair value of the liability is recorded as salary expense to income and loss.

Share-based payments granted before November 7, 2002 or that vested by January 1, 2007, are not treated retroactively in accordance with the IFRS 2 and as is possible in accordance with the exception in IFRS 1.

K. Provisions

Provisions are recognized when the Group has a present, legal or constructive obligation as the result of an event that occurred in the past, which may 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 future cash flows at the pre-tax discount rate reflecting the current market estimates of the time value of the money and specific risks of the obligation.

The provision for lawsuits is recognized when the Group has a current legal obligation or constructive obligation resulting from an event that occurred in the past, and it is more likely than not that the Group will require financial resources to settle the obligation, and it may be reliably estimated. When the effect of the time value of money is material, the provision is measured at present value.

L. Revenues

Revenue from the sale of merchandise is measured according to the fair value of the proceeds that were or will 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 proceeds is expected, it is possible to reliably 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 ongoing involvement in the merchandise and the revenue may be reliably estimated.

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, gains from foreign currencies and from hedging instruments recognized in income and loss. Interest income is recognized as accrued, using the effective interest method. Dividend income is recognized when the Group is given the right to receive the payment.

Notes to the Financial Statements as at June 30, 2008 (Unaudited)

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

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 income and loss, impairment losses of financial assets and losses from hedging instruments recognized in income and loss. Credit costs, which are not capitalized, are charged to the statement of income using the effective interest method.

Gains 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 statement of income unless the taxes originated in a transaction or event that is directly recognized in equity. In these cases, the tax expenses on income are charged to equity.

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

Deferred taxes are recognized according to the balance sheet approach, relating to temporary differences between the book values of the assets and liabilities for financial reporting purposes 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 in transactions that do not constitute a business combination and do not impact the accounting income and the income for tax purposes, as well as differences deriving from investments in subsidiaries 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 laws that were 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 and 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 simultaneously.

When calculating deferred taxes, taxes that would apply in the event that investments in investee companies are 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. This additional tax is not included in the financial statements since the Group's policy is not to cause a dividend distribution involving additional tax for the Group.

A deferred tax asset is recognized 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 the related tax benefits are not expected to be realized, they are reduced.

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

O. 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 will not be repaid. The obligation amount is reexamined in each period and 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 June 30, 2008 (Unaudited)

Note 3 - Significant Accounting Policies (cont'd)**P. 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 attributable to the Group's ordinary equity holders by the weighted-average number of ordinary shares outstanding during the period. The diluted earnings per share are determined by adjusting the income or loss attributable to ordinary equity holders and the weighted-average number of ordinary shares outstanding for the effect of all potentially dilutive ordinary shares, including notes convertible into shares, share options and share options granted to employees.

Q. Segment Reporting

A segment is a distinguishable component of the Group, which is engaged in provision of products or services that could 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 internal reporting.

Inter-segment pricing is based on transaction prices in the ordinary course of business.

The segment's results, assets and liabilities 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 tax assets and liabilities and expenses for taxes on income.

The segment's capital expenditures are the total costs incurred during the period for purchasing property, plant and equipment and intangible assets other than goodwill.

R. Environmental costs

The ongoing costs for operation and maintenance of facilities for the prevention of environmental pollution and projected provisions for environmental 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.

S. 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 involving only mutual entities or executed 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 confer control, a change in the treatment of transaction costs, treatment of an acquisition in stages, allocation of total income among all the shareholders, treatment as capital transactions for purchases or sales of rights while maintaining control, treatment according to full fair value 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 income and loss, and expansion of the disclosure requirements.

Notes to the Financial Statements as at June 30, 2008 (Unaudited)

Note 3 - Significant Accounting Policies (cont'd)

S. New Standards and Interpretations not yet adopted

The new standards will apply to annual periods beginning on or after July 1, 2009. It is possible to apply them in advance (only both together). IFRS 3 will apply to business combinations that are executed after its effective date. IAS 27 will apply retroactively, except for the allocation of total income 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 applied from its effective date.

- IFRS 2 Share-Based Payments Amended, (hereinafter, “the standard”). The standard prescribes that the vesting conditions are those 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 performance 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 commencing after January 1, 2009. Advance application is permitted, while providing disclosure.
- IAS 27, Consolidated and Separate Financial Statements and IFRS 1 – First-time Adoption of International Financial Reporting Standards, Amended, (hereinafter, “the standards”). Pursuant to the standards after their amendment, a company that elected the cost method in the measurement of its investments in subsidiaries, jointly-controlled companies and affiliated companies, within the framework of separate financial statements (solo statements) may measure the said investments on the transition date to IFRS according to fair value, pursuant to IAS 39 or according to their book value pursuant to previous accepted accounting principles. Likewise, a dividend received from subsidiaries, jointly-controlled companies and affiliated companies will be recognized as income in the separate statements of the holding company. It was further prescribed that the receipt of a dividend constitutes, in certain cases, an indication of impairment in the held investment.

The new standards will apply to annual periods commencing on or after January 1, 2009. Early application is possible, separately for each standard, while providing disclosure. The changes attributable to IAS 27 were applied prospectively.

- Within the scope of the project for amending the international standards, Improvements to IFRS, the IASB published and approved, in May 2008, 35 different international standards in a wide range of accounting issues. The amendments are divided in two: (1) amendments on presentation, recognition and measurement, which have accounting implications; and (2) amendments relating to the terms and preparation of the international standards, which are expected to have minimal effect, if any, on the accounting aspect. Most of the amendments will apply to periods commencing on or after January 1, 2009, with the possibility of early adoption, subject to the conditions provided for each amendment and subject to the transitional provisions related to the first-time adoption of IFRS.
- Items Qualified for Hedging, Amendment to IAS 39, Financial Instruments: Recognition and Measurement (“the Amendment”). The Amendment clarifies that it is possible to designate as a hedged item changes in cash flows or changes in the fair value of a one-sided risk – in other words, a risk that will be designated as the risk of exposure to fluctuations above or below a certain specified price or variable. The Amendment further clarifies an inflationary element may be designated as a separate risk, provided that it is contractually specified in the cash flows of a CPI-linked debenture, so that it may be reliably identified and measured, and if the remaining cash flows of the instrument are not affected by the inflationary element.

Notes to the Financial Statements as at June 30, 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 six-month period ended June 30, 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	-	-	14,450	158,608	-	173,058	2,292	175,350
Exercise of options granted to employees	268	(268)	-	-	-	-	-	-
Buy-back of Company's shares	-	-	-	-	(1,756)	(1,756)	-	(1,756)
Expenses in respect of options to employees	-	-	-	5,561	-	5,561	-	5,561
Dividend to equity holders	-	-	-	(119,051)	-	(119,051)	-	(119,051)
Tax benefit in respect of employee options	-	-	201	-	-	201	-	201
Acquisition of minority interest in a subsidiary	-	-	-	-	-	-	(476)	(476)
Issuance of capital to the minority interest	-	-	-	-	-	-	26	26
Dividends to the minority interest	-	-	-	-	-	-	(1,405)	(1,405)
Put options issued to the minority interest	-	-	-	-	-	-	(3,564)	(3,564)
Balance at June 30, 2008	<u>125,542</u>	<u>623,882</u>	<u>26,226</u>	<u>744,137</u>	<u>(145,952)</u>	<u>1,373,835</u>	<u>18,118</u>	<u>1,391,953</u>
For the six-month period ended June 30, 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	-	-	3,917	122,944	-	126,861	4,981	131,842
Dividend to the minority interest	-	-	-	-	-	-	(368)	(368)
Exercise of options granted to employees	434	(434)	-	-	-	-	-	-
Tax benefit in respect of employee options	-	-	1,311	-	-	1,311	-	1,311
Conversion of convertible debentures into shares	838	7,013	-	-	-	7,851	-	7,851
Issuance of capital to the minority interest	-	-	-	-	-	-	274	274
Expenses in respect of options to employees	-	-	-	5,419	-	5,419	-	5,419
Balance at June 30, 2007	<u>124,504</u>	<u>620,631</u>	<u>6,395</u>	<u>659,853</u>	<u>(144,196)</u>	<u>1,267,187</u>	<u>27,543</u>	<u>1,294,730</u>

Notes to the Financial Statements as at June 30, 2008 (Unaudited)

Note 4 - Equity Capital (cont'd)

	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 June 30, 2008								
Balance at March 31, 2008	125,329	624,095	19,280	673,820	(144,196)	1,298,328	17,621	1,315,949
Total income for the period	-	-	6,801	67,683	-	74,484	482	74,966
Exercise of options granted to employees	213	(213)	-	-	-	-	-	-
Buy-back of Company's shares	-	-	-	-	(1,756)	(1,756)	-	(1,756)
Expenses in respect of options to employees	-	-	-	2,634	-	2,634	-	2,634
Tax benefit in respect of employee options	-	-	145	-	-	145	-	145
Issuance of capital to the minority interest	-	-	-	-	-	-	15	15
Balance at June 30, 2008	<u>125,542</u>	<u>623,882</u>	<u>26,226</u>	<u>744,137</u>	<u>(145,952)</u>	<u>1,373,835</u>	<u>18,118</u>	<u>1,391,953</u>
For the three-month period ended June 30, 2007								
Balance at March 31, 2007	124,067	617,659	1,939	604,422	(144,196)	1,203,891	23,939	1,227,830
Total income for the period	-	-	3,524	53,121	-	56,645	3,579	60,224
Exercise of options granted to employees	102	(102)	-	-	-	-	-	-
Tax benefit in respect of employee options	-	-	932	-	-	932	-	932
Conversion of convertible debentures into shares	335	3,074	-	-	-	3,409	-	3,409
Issuance of capital to the minority interest	-	-	-	-	-	-	25	25
Expenses in respect of options to employees	-	-	-	2,310	-	2,310	-	2,310
Balance at June 30, 2007	<u>124,504</u>	<u>620,631</u>	<u>6,395</u>	<u>659,853</u>	<u>(144,196)</u>	<u>1,267,187</u>	<u>27,543</u>	<u>1,294,730</u>

Notes to the Financial Statements as at June 30, 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 of 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

Notes to the Financial Statements as at June 30, 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 determining segment reporting, 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 of activity:

Activity in the agrochemicals (Agro) market

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

Non-Agro activity

This area of activity includes a large number of sub-fields, including: Lycopan (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>Non-Agro</u>	<u>Adjustments</u>	<u>Consolidated</u>
	<u>\$ thousands</u>	<u>\$ thousands</u>	<u>\$ thousands</u>	<u>\$ thousands</u>
Six-month period ended				
June 30, 2008				
Segment income	1,303,054	104,986	(3,616)	1,404,424
Segment results	233,581	13,679	-	247,260
Six-month period ended				
June 30, 2007				
Segment income	996,195	100,982	(1,513)	1,095,664
Segment results	156,633	11,286	-	167,919
Three-month period ended				
June 30, 2008				
Segment income	629,998	54,380	(2,122)	682,256
Segment results	107,260	6,170	-	113,430
Three-month period ended				
June 30, 2007				
Segment income	491,202	51,995	(667)	542,530
Segment results	78,343	5,046	-	83,389
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

Notes to the Financial Statements as at June 30, 2008 (Unaudited)**Note 5 - Information on Business Segments (cont'd)****B. Sales distribution by geographic regions**

	Six month period ended June 30		Three month period ended June 30		Year ended December 31
	2008 (Unaudited) \$ thousands	2007 (Unaudited) \$ thousands	2008 (Unaudited) \$ thousands	2007 (Unaudited) \$ thousands	2007 (Audited) \$ thousands
Israel	57,592	55,922	32,187	30,535	102,460
Latin America	290,995	196,046	143,633	96,033	527,118
Europe	619,869	486,505	279,906	219,082	817,717
North America	251,405	233,667	140,655	131,375	390,781
Others	184,563	123,524	85,875	65,505	227,449
	1,404,424	1,095,664	682,256	542,530	2,065,525

Note 6 - Additional Information

A. In March 2008, the Company's Board of Directors resolved 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. On April 10, 2008 the Company distributed the aforementioned dividend.

B. On January 9, 2008, the Company's Board of Directors resolved to allot 900,000 options to the Chairman and CEO of the Company. The exercise premium of the options is NIS 34.43 per option. The options can be exercised for up to 900,000 ordinary shares of the Company, 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 financial benefit embedded in the options, i.e. 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 allotted to the Chairman and CEO of the Company will vest in three equal installments, where one-third of the options may be exercised one year after the record date, the second third of the options may be exercised two years after the record date, and the final third, three years after the record date. The options from each of these installments are exercisable commencing from the vesting date of each installment and during a period of two years from such date.

The cost of the benefit embedded in the allotted options, based on the fair value on their grant date totaled \$2.7 million. This amount is recognized as an expense in the statement of income over the vesting period of each increment.

Furthermore, it was resolved to allot 51,500 options to an outside director of the Company. The exercise premium of the options is NIS 36.27 per option. The options may be realized for up to 51,500 ordinary shares of the Company, NIS 1 par value each.

The options that were allotted to the outside director will vest in two installments, where two-thirds of the options may be exercised one year after the record date, and one-third of the options may be exercised two years after the record date. The options from each installment are exercisable commencing from the vesting date of such installment, and during a period of two years from such date.

Notes to the Financial Statements as at June 30, 2008 (Unaudited)**Note 6 - Additional Information (cont'd)****B.** (Cont'd)

The cost of the benefit embedded in the allotted options, based on the fair value on their grant date, totaled \$0.1 million. This amount is recognized as an expense in the statement of income over the vesting period of each installment.

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

On May 13, 2008, the Company's Board of Directors resolved to allot 800,000 options to an officer of the Company.

The exercise premium is NIS 31.104 per option. The options may be exercised for up to 800,000 ordinary shares, NIS 1 par value each of the Company.

The exercise premium is linked to the CPI on the record date. The record date for the allotment is January 1, 2008. The cost of the benefit embedded in the allotted options, based on the fair value on the grant date, totaled \$1.6 million. This amount is recognized as an expense in the statement of income over the vesting period of each installment.

The options will vest in two installments, as follows: The first installment will contain 2/3 of the number of options allotted to the offeree, and will be exercisable two years after the record date. The second installment, which will include one-third of the number of options, will be exercisable three years after from the record date. The options included in the above installments will be exercisable from the vesting date of each installment, for a period of eighteen months from that date.

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

	<u>Allotment to Chairman and CEO</u>	<u>Allotment to outside director</u>	<u>Allotment to officer</u>
Share price (NIS)	36.27	36.27	32.30
Exercise premium (NIS)	34.43	36.27	* 31.104
Exercise premium after effect of dividend (NIS)	33.49	35.33	* 31.104
Expected fluctuation	25.66%	25.66%	28.3%
Option warrants life cycle (in years)	4.0	3.3	3.8
Riskless interest rates	5.35%	5.35%	1.9%
Economic value (NIS thousands)	10,300	487	6,337
Economic value (\$ thousands)	2,711	128	1,648

* Linked to the increase in the CPI.

C. On January 8, 2008, the Company's Board of Directors approved changes in the terms of the options allotted to the three officers and seven employees of the Company, which were allotted under the options plan in August 2007, so that the options vesting under the terms of the plan, will be exercisable for a period of 18 months, beginning on their vesting date, and not for a period of only six months, as stipulated in the plan.

The cost of the benefit embedded in the options allotted, based on the fair value on the date the change was made, totaled approximately \$1.0 million. This amount is recognized as an expense in the statement of income over the vesting period of each installment.

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

Notes to the Financial Statements as at June 30, 2008 (Unaudited)

Note 6 - Additional Information (cont'd)

- D.** The Company's Audit Committee, at its meeting on December 26, 2007, the Company's Board of Directors at its meeting on January 9, 2008 and the General Meeting of the Company 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, under the terms of which 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 resolved to buy-back the Company's shares in an amount not in excess of \$100 million. As at the approval date of the financial statements, the Company had purchased 1,374,689 of its shares at a cost of \$12 million.
- F.** In March 2007, two suits were filed in the Beer Sheba District Court against the Ramat Hovav Industrial Local Council and the State of Israel. One of the suits was filed by 54 Bedouin residing in the northern Negev, and the other suit was filed by nine residents of Omer and Beer Sheba (hereinafter, jointly for the purposes of this section, "the Plaintiffs"). The Plaintiffs claim that they have suffered various illnesses and defects 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 sources of contamination have been identified: the wastewater purification plants and the evaporation pools (that are owned and operated by the Ramat Hovav Local Industrial 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 Local Industrial 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 stipulate amounts of approximately NIS 242 million. On June 1, 2008, third party notice was filed against Makhteshim Chemical Enterprises Lt. ("Makhteshim"), a wholly-owned subsidiary, and against thirty-five corporations and other people, for the purpose of joining them as parties to the proceedings, by the Ramat Hovav Industrial Council, within the scope of the above claims. In view of the early stage of the proceedings, the outcome of the claim cannot be estimated.
- G.** In October 2007, a monetary lawsuit against Makhteshim, with a request for recognition as a class action, under the Class Action Law, 2006, was filed in the Beer Sheba District Court, by three residents of the village Wadi El-Naim claiming that damage to their health that was allegedly caused by the Makhteshim factories in the Ramat Hovav Industrial Area, due to various causes of action related to air pollution. If the claim is recognized as a class action, the plaintiffs estimate that the amount claimed from Makhteshim is NIS 1 billion. On August 4, 2008, Makhteshim filed its statement of response to the motion for class action recognition. As at the report date, based on the opinion of its legal counsel, after an examination the plaintiffs' claims as expressed in the suit and in the motion filed for class action recognition and the substance of the suit, considering the preliminary stage of the claim, the information and data in the Company's possession and noting that there are no precedents for this type of class action, in which there is a ruling on damages of the type claimed in the class action suit, and due to the lack 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 claim, in particular, should it ultimately be approved.

Notes to the Financial Statements as at June 30, 2008 (Unaudited)

Note 7 - Explanation Regarding the Effect 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 that constitutes part of 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 six-month and three-month periods ended June 30, 2008, the comparative data for the six-month and three-month period ended June 30, 2008 and for the year ended December 31, 2007, as well as the opening balance according to IFRS as at January 1, 2007 ("the transition date").

For the adjustment note for the year ended December 31, 2007 and the balance sheet as at December 31, 2007 and the transition date, see the Company's financial statements for the first quarter of 2008.

This Note was prepared on the basis of the IFRS standards that are presently known, have been published or may be adopted early in the Group's first annual financial statements according to IFRS as at December 31, 2008, on the basis of which the Company's accounting policy was determined. The IFRS Standards that will be in effect or 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 principles applied for the presented periods will be determined conclusively only when the first annual statement according to IFRS is prepared as at December 31, 2008.

An explanation of the effect 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 from the acquisition of subsidiaries, affiliated and proportionately consolidated companies and for minority acquisitions were not treated according to IFRS 3 but, rather, are presented as they were accounted for under Israeli GAAP.

2. Cumulative translation differences

The Group charged the capital reserve from cumulative 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 vesting 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 elected to credit the increase in equity due to expenses recorded in respect of share-based payments to retained earnings.

Notes to the Financial Statements as at June 30, 2008 (Unaudited)

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

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

		Israeli GAAP	Effect of the transition June 30, 2007	IFRS
	Note*	\$ thousands		
Current assets				
Cash and cash equivalents		426,590	-	426,590
Short-term investments		46,004	(812)	45,192
Trade receivables	(14)(5)	508,841	316,921	825,762
Subordinated capital note in respect of sale of customer debts	(5)	38,336	(38,336)	-
Other receivables and debit balances	(4)(6)	12,821	-	12,821
Financial assets, including derivatives		70,589	(19,320)	51,269
Advances less provision for income tax		15,640	-	15,640
Inventories		598,313	5,454	603,767
Total current assets		1,717,134	263,907	1,981,041
Investments				
Investments, loans and long-term receivables	(2)(11)	75,826	(13,321)	62,505
Property, plant and equipment	(2)	510,422	(10,256)	500,166
Intangible assets	(10)	547,552	18,329	565,881
Deferred tax assets	(2)(4)(12) (3)(8)	-	68,412	68,412
Total non-current assets		1,133,800	63,164	1,196,964
Total assets		2,850,934	327,071	3,178,005

Notes to the Financial Statements as at June 30, 2008 (Unaudited)

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

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

		Israeli GAAP	Effect of the transition June 30, 2007	IFRS
	Note*	\$ thousands		
Current liabilities				
Credit from banks and others	(14)(5)	115,622	278,593	394,215
Trade payables		402,925	-	402,925
Other payables and credit balances	(3)(4)(6)	286,502	26,419	312,921
Provision for income tax less advances		23,307	-	23,307
Convertible debentures		4,930	-	4,930
Total current liabilities		833,286	305,012	1,138,298
Long term liabilities				
Loans from banks		37,829	-	37,829
Debentures	(6)	553,537	(862)	552,675
Other long-term liabilities	(6)	7,982	2,190	10,172
Deferred tax, net	(4)(6)(11)	75,699	(9,407)	66,292
Employee benefits	(3)	41,027	9,560	50,587
Liability to the Chief Scientist	(8)	-	4,103	4,103
Put options to minority shareholders	(10)	-	23,319	23,319
Total non-current liabilities		716,074	28,903	744,977
Total liabilities		1,549,360	333,915	1,883,275
Equity capital				
Share capital		124,504	-	124,504
Share premium		620,631	-	620,631
Reserves		9,924	(3,529)	6,395
Retained earnings	(3)(12)	654,753	5,100	659,853
Treasury shares		(144,196)	-	(144,196)
Total capital attributable to the Company's equity holders		1,265,616	1,571	1,267,187
Minority interest	(17)(10)	35,958	(8,415)	27,543
Total equity capital		1,301,574	(6,844)	1,294,730
		2,850,934	327,071	3,178,005

* References to the main notes.

Notes to the Financial Statements as at June 30, 2008 (Unaudited)

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

Adjustment of income for 2007

Note*	Israeli GAAP	Effect of the transition	IFRS	Israeli GAAP	Effect of the transition	IFRS	
	For the six months period ended June 30, 2007			For the three months period ended June 30, 2007			
	\$ thousands			\$ thousands			
Continuing operations							
Revenues	(16)	1,109,225	(13,561)	1,095,664	549,886	(7,356)	542,530
Cost of sales	(7)(16)	722,298	(7,736)	714,562	361,204	(7,478)	353,726
Gross profit		386,927	(5,825)	381,102	188,682	122	188,804
Marketing and selling expenses	(7)	153,885	9,521	163,406	78,141	3,856	81,997
General and administrative expenses	(7)	34,838	4,731	39,569	17,403	853	18,256
Research and development expenses, net		9,767	441	10,208	4,734	344	5,078
Other expenses (income)	(7)	11,550	(11,550)	-	7,178	(7,094)	84
Operating income		176,887	(8,968)	167,919	81,226	2,163	83,389
Financing expenses	(9)(16)	26,828	9,776	36,604	13,188	15,747	28,935
Financing income	(15)(16)(7)(3)	(3,403)	(17,870)	(21,273)	(1,200)	(15,244)	(16,444)
Financing expenses, net		23,425	(8,094)	15,331	11,988	503	12,491
Income before income tax		153,462	(874)	152,588	69,238	1,660	70,898
Income tax expenses		29,754	(5,600)	24,154	13,871	952	14,823
Net income		123,708	4,726	128,434	55,367	708	56,075
Attributable to:							
The Company's equity holders		118,842	5,923	124,765	52,250	1,386	53,636
Minority interest		4,866	(1,197)	3,669	3,117	(678)	2,439
Net income		123,708	4,726	128,434	55,367	708	56,075

* References to the main notes.

Note 7 - Explanation Regarding the Effect of the Transition to IFRS (cont'd)**C. Effects expressed as part of adoption of new accounting standards in Israel in 2007 (cont'd)**

1. In accordance with IFRS, computer software and capitalized software development costs, 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 "property, plant and equipment" to "intangible assets". This effect was expressed as part adoption of Israeli Accounting Standard No. 30 regarding "Intangible Assets", as from January 1, 2007.

Effects not expressed as part of adoption of new accounting standards in Israel in 2007

2. According to Israeli GAAP, land leased from the Israel Land Administration is classified as property, plant and equipment and is not depreciated. In accordance with IFRS, in cases in which these properties 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 reasonable certainty that the option would be exercised. As result, at June 30, 2007, there was an increase in long-term investments of approximately \$3.7 million, a decrease in property, plant and equipment of approximately \$10.2 million, an increase in the deferred taxes balance of approximately \$1.7 million and a decrease in retained earnings of approximately \$4.7 million.
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 discount 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 utilization and redemption, respectively. On the IFRS transition date, all obligations in respect of post-retirement benefits for employees and other long-term benefit programs are measured net, pursuant to the provisions of IAS 19 regarding "Employee Benefits". Post-retirement benefits deriving from defined benefit plans are measured on the basis of actuarial estimates and discounted amounts, while the liabilities are measured at discounted 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 effect of the transition to IFRS at June 30, 2007 was expressed as an increase in liabilities for employee benefits of approximately \$34, an increase in salary expenses for the period ended June 30, 2007 totaling approximately \$0.6 million and an increase in financing expenses of approximately \$0.9 million.

To the best of the Company's knowledge, the subject of the discount interest is under study and it could be decided that in Israel the proper discount 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 elected to charge actuarial gains and losses to retained earnings, in accordance with the alternatives set forth in IAS 19.

The Company recognized actuarial gains actuarial losses directly in retained earnings in the amount of approximately \$ 1.8 million and \$0.5 million in the six-month and three-month periods ended June 30, 2007.

Note 7 - Explanation Regarding the Effect of the Transition to IFRS (cont'd)**C. Effects not expressed as part of adoption of new accounting standards in Israel in 2007 (cont'd)**

3. (cont'd)

The Company elected to apply the alternative according to which actuarial gains or losses are charged to retained earnings, since, according to this alternative, the balance reflects the reasonable fair value of the net liabilities to employees as at the cut-off date. Also, according to this alternative, the statement of income provides a better reflection of the results of the Company's activities, thereby preventing fluctuations in respect of actuarial gains 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, short-term deferred tax assets as at June 30, 2007 totaling approximately \$40.0 million were reclassified from "other receivables and debit balances" under current assets and "other payables and credit balances" under current liabilities, to "deferred taxes, assets" under non-current assets, and "deferred tax liabilities" 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, which finances the loan from the proceeds of marketable securities that it issues on commercial stock exchanges in the United States.

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 trade receivables for 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 all of the risks and rewards deriving from the receivables were not 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 at June 30, 2007, there was an increase in trade receivables of approximately \$275.4 million, 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 acquiring company.

Note 7 - Explanation Regarding the Effect of the Transition to IFRS (cont'd)**C. Effects not expressed as part of adoption of new accounting standards in Israel in 2007 (cont'd)**

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, inflation 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-instrument transaction to be considered an accounting hedge, it must 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 in 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 gain 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 said financial instruments are measured according to fair value and changes in the fair value are immediately recorded to gain and loss.

The effect as at June 30, 2007 is expressed in an increase in payables net of receivables in respect of financial derivatives totaling approximately \$2.2 million and a decrease in debentures of approximately \$0.9 million and an increase in other liabilities of \$2.2 million as at June 30, 2007. Furthermore, as at June 30, 2007 there was a decrease in the provision for deferred taxes of approximately \$0.8 million, and a decrease in retained earnings of approximately \$2.8 million.

7. According to the accepted practice in Israel, amortization expenses in respect of rights to purchase products, write-downs for impairment of intangible assets, expenses for securitization of trade receivables and expenses with respect to an efficiency plan were presented as part of other income/expenses in the consolidated statement of income. Under IFRS, these items were included in operating income or in financing expenses. The effect of the transition to IFRS on the statement of income for the period ended June 30, 2007 is expressed as an increase in the cost of sales totaling approximately \$4.5 million, an increase in selling expenses totaling approximately \$9.6 million, an increase in general and administrative expenses totaling approximately \$1.5 million, a decrease in financing expenses of approximately \$3.6 million, and a decrease in other expenses, net, totaling approximately \$11.5 million.

Note 7 - Explanation Regarding the Effect of the Transition to IFRS (cont'd)**C. Effects not expressed as part of adoption of new accounting standards in Israel in 2007 (cont'd)**

8. According to Israeli GAAP, grants from the Chief Scientist for research and development projects were recorded as revenues when received and were presented as an offset from the related research and development expenses. The expectation that the grant would be repaid was not assessed on a regular basis and when the grant was repaid, the expense is 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 the date received that the amount received would not be repaid. 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 effect as at June 30, 2007 is expressed in an increase in the liability to the Chief Scientist of approximately \$4.2 million, an increase in deferred tax assets of approximately \$1.1 million, and a decrease in retained earnings of approximately \$3.0 million.

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

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 to the present value of the exercise price of the options. Revaluation of the financial liability in respect of the time factor is expressed in financing expenses and the Company includes all of the subsidiary's earnings in its income (without allocating to the minority interest its share in the subsidiary's earnings, except in the case of a dividend distribution to the minority interest, in which the dividend is recorded as financing expenses), whereas other changes in the liability will be recorded against the balance of goodwill in the subsidiary. The effect as at June 30, 2007 is expressed in an increase in intangible assets of approximately \$15.7 million, an increase in liabilities in respect of put options held by the minority interest of approximately \$23.3 million and a decrease in the minority interest of approximately \$7.2 million. In addition, there was an increase in financing expenses of approximately \$ 0.5 million for the period ended June 30, 2007.

11. According to Israeli GAAP, investments in put options on the investment in investee is not expressed as a separate financial asset. According to IFRS, when a group holds put options, this holding is recorded in the balance sheet at fair value. Changes in the fair value are recognized in the statement of income. The effect as at June 30, 2007 was expressed in an increase in long-term investments of \$3.2 million, an increase in deferred tax liabilities of \$0.8 million and an increase in retained earnings of \$2.7 million.

Note 7 - Explanation Regarding the Effect of the Transition to IFRS (cont'd)**C. Effects not expressed as part of adoption of new accounting standards in Israel in 2007 (cont'd)**

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 on the recognition date of the income in the financial statements and in the tax returns. 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 at June 30, 2007 increased by approximately \$26.0 million.
13. According to Israeli GAAP, a dividend declared subsequent to the balance sheet date but before the approval date of the financial statements is to be presented in 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 reclassification is made in the equity section.
14. According to Israeli GAAP, balances of trade receivables that were sold where the control was transferred, but 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 June 30, 2007 there was an increase in the trade receivables in the amount of approximately \$3.2 million and an increase in the same amount 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 business results of derivative financial instruments were reclassified from the sales and cost of sales items to the financing expenses item.
17. Minority rights – measurement and presentation

According to Israeli GAAP, attribution of the cost of acquiring assets, intangible assets and liabilities of a subsidiary, was based on their fair values on the acquisition date and according to the percentage of the holdings acquired, and 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 sheet at acquisition date at their full fair values. The minority interest on the acquisition date is 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 statement of income 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 minority's income for the period is not deducted from the Group's income for the period.

Note 7 - Explanation Regarding the Effect of the Transition to IFRS (cont'd)**C. Effects not expressed as part of adoption of new accounting standards in Israel in 2007 (cont'd)**

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

	June 30
	2007
	\$ thousands
Deferred taxes	
Classification of deferred taxes from short-term	39,997
Intercompany transactions	25,988
Financial derivatives	770
Call options	(789)
Liabilities in respect of grants from the Chief Scientist	1,098
Employee benefits	9,012
Amortization of land development rights	1,743
	<u>77,819</u>

The effect of the transition to IFRS on the statement of income for the six-month period ended June 30, 2007, was a decrease in the tax expenses previously reported for the period, in the amounts of \$5,600 thousand.

19. Effect of the aforementioned adjustments on the retained earnings:

	June 30
	2007
	\$ thousands
Retained earnings	
Amortization of land development rights	(4,748)
Employee benefits	(24,928)
Taxes in respect of intercompany transactions	25,988
Change in functional currency	6,557
Credit of capital reserve to surplus	4,668
Call options	2,711
Put options	(489)
Liabilities in respect of grants from the Chief Scientist	(3,046)
Financial derivatives	(2,809)
Minority interest in income	1,196
	<u>5,100</u>

Note 7 - Explanation Regarding the Effect of the Transition to IFRS (cont'd)**D. Explanations of material adjustments to the statement of cash flows for the six-month and three-month period ended June 30, 2007**Securitization of Trade Receivables

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

According to IFRS, until 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 until 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.