



Makhteshim Agan Industries Ltd.

Management Discussion and Analysis for the quarter ended June 30, 2008

1. Brief description of the Company and its business environment

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

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

Note that in this interim report, the Company is implementing Accounting Standard No. 29, "Adoption of International Financial Reporting Standards (IFRS)" (hereinafter: the "**Standard**"). For further details regarding implementation of the Standard, see notes 2, 3 and 7 of the Financial Statements for June 30, 2008.

Conditions of the business environment

Brief overview of changes in the sector

In the second quarter, trends expressed in the first quarter continued, affecting the market for crop protection products and the Company, as set out below:

1. There was an increase in demand for the Company's products, stemming from the high level of agricultural outputs prices. The high level of agricultural outputs prices stemmed mainly from a continued rise in the standard of living worldwide, particularly in developing markets such as China and India as a result of dietary changes in these markets. In addition, the global increase in demand for alternative fuels produced mainly from sugar cane and corn also contributed to increase in demand for the Companies products.
2. There was an increase in the average selling prices of the Company's products. This trend had a positive effect both on the increase in the Company's revenues and on the Company's gross profit.
3. Relatively favorable weather conditions in most of the geographical regions in which the Company operates, led to extensive demand for crop protection products.
4. The Company reports its results in US Dollars ("Dollars") and therefore, the strengthening of currencies (particularly the Euro) against the US Dollar brought about an increase in the Company's revenues in Dollar terms, compared with the strengthening of the Shekel which increased local expenses in Israel.
5. On the other hand, the high level of oil prices caused a continued increase in the prices of raw materials (which are distant derivatives of oil), and an increase in energy cost which offset some of the improvement in the Company's gross profits which was obtained due to an increase in average sale prices of the Company's products, as set out above.

2. Results of Operations – Condensed Profit and Loss Statements

Statements of Profit and Loss for the Second Quarter (USD Millions):

	%	2008	%	2007	Change	%
Revenues		682.3		542.5	139.7	25.8%
Gross profit	35.1%	239.3	34.8%	188.8	50.5	26.7%
R&D and SG&A expenses	18.4%	125.9	19.4%	105.4	20.4	19.4%
Operating profit (EBIT)	16.6%	113.4	15.4%	83.4	30.0	36.0%
Financing expenses	4.8%	32.9	2.3%	12.5	20.4	163.2%
Pre-tax profit	11.8%	80.6	13.1%	70.9	9.7	13.6%
Net profit after minority share	10.1%	68.8	9.9%	53.6	15.2	28.3%
EBITDA	19.7%	134.3	19.1%	103.5	30.8	29.7%

Statements of Profit and Loss for the First Half-Year (USD Millions):

	%	2008	%	2007	Change	%
Revenues		1,404.4		1,095.7	308.8	28.2%
Gross profit	35.6%	499.5	34.8%	381.1	118.4	31.1%
R&D and SG&A expenses	18.0%	252.2	19.5%	213.2	39.0	18.3%
Operating profit (EBIT)	17.6%	247.3	15.3%	167.9	79.3	47.2%
Financing expenses	4.6%	65.3	1.4%	15.3	50.0	325.9%
Pre-tax profit	13.0%	182.0	13.9%	152.6	29.4	19.2%
Net profit after minority share	11.4%	159.7	11.4%	124.8	35.0	28.0%
EBITDA	20.6%	289.7	19.4%	212.2	77.5	36.5%

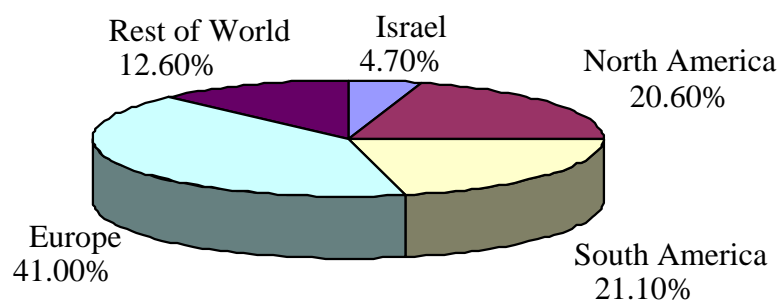
3. Analysis of Results of Business Operations

A. Revenues by Geographical Region

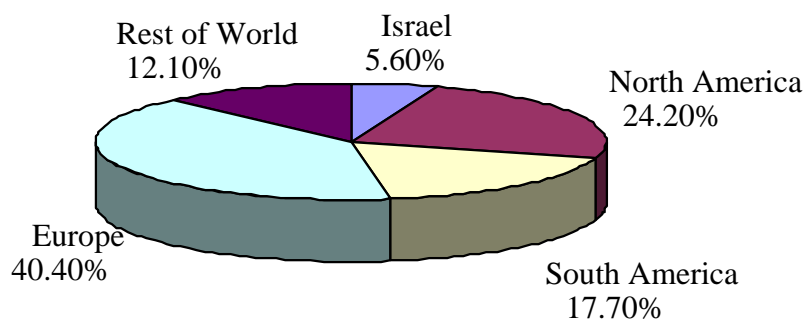
In the second quarter of 2008, the Company's total sales amounted to \$682.3 million, compared with \$542.5 million in the corresponding quarter last year, an increase of 25.8%. In the second quarter, the Company's sales of crop protection products amounted to \$630.0 million, compared with \$491.2 million in the corresponding quarter last year, an increase of 28.3%. This growth was recorded in all of the geographical regions in which the Company operates, and particularly in Europe, Latin America and in the Asia Pacific Region, and mainly in Australia (the region defined in the chart below as "rest of the world"). For a specific description of the unique trends of the principal areas of operations see below.

Breakdown of Second Quarter Sales:

Q2/2008



Q2/2007



Breakdown of Second Quarter Sales (\$ millions)

	%	4-6/2008	%	4-6/2007	Change	%
Europe	41.0%	279.9	40.4%	219.1	60.8	27.8%
South America	21.1%	143.6	17.7%	96.0	47.6	49.6%
North America	20.6%	140.7	24.2%	131.4	9.3	7.1%
Rest of the world	12.6%	85.9	12.1%	65.5	20.4	31.1%
Israel	4.7%	32.2	5.6%	30.5	1.7	5.4%
Total	100.0%	682.3	100.0%	542.6	139.7	25.8%

Breakdown of First Half Sales (\$ millions)

	%	1-6/2008	%	1-6/2007	Change	%
Europe	44.1%	619.9	44.4%	486.5	133.4	27.4%
South America	20.7%	291.0	17.9%	196.0	94.9	48.4%
North America	17.9%	251.4	21.3%	233.7	17.7	7.6%
Rest of the world	13.1%	184.6	11.3%	123.5	61.0	49.4%
Israel	4.1%	57.6	5.1%	55.9	1.7	3.0%
Total	100.0%	1,404.4	100%	1,095.7	308.8	28.2

In Europe, sales in the second quarter of 2008 amounted to \$279.9 million compared with \$219.1 million in the corresponding quarter of the previous year, an increase of \$60.8 million, constituting growth of 27.8%. Apart from the effect of the general trends that characterized the quarter as set out above, the aforesaid increase stemmed mainly from: (1) an increase in demand which brought about an increase in the Company's sales; and (2) significant strengthening of the Euro which increased the dollar value of the sales.

In the first half of the year, sales to Europe amounted to \$619.9 million compared with \$486.5 million during the corresponding period last year; an increase of \$133.4 million, constituting growth of 27.4%.

In South America, sales in the second quarter amounted to \$143.6 million compared with \$96.0 million in the corresponding quarter of the previous year, an increase of \$47.6 million, constituting growth of 49.6%. Most of the increase in sales was related to Brazil. This increase stemmed from a continued increase in demand, which brought about an increase in the Company's sales. Likewise, in the Company's assessment, part of this increase might be ascribed to demand being brought forward on account of the coming quarters of this year, mainly as a result of the high levels of demand in the market.

In the first half of the year, sales in South America amounted to \$291.0 million compared with \$196.0 million in the corresponding period of the previous year, an increase of \$94.9 million, constituting growth of 48.4%.

In North America, sales in the second quarter amounted to \$140.7 million compared with \$131.4 million in the corresponding quarter of the previous year, an increase of \$9.3 million, constituting growth of 7.1%. The relatively low growth rate stemmed primarily from the divestment of RiceCo. during 2007.

In the first half of the year, sales to North America amounted to \$251.4 million compared with \$233.7 million during the corresponding period in the previous year, an increase of \$17.7 million, constituting growth of 7.6%. The relatively low growth rate stemmed primarily from the divestment of RiceCo. during 2007.

In the rest of the world, sales in the quarter amounted to \$85.9 million compared with \$65.5 million in the corresponding quarter of the previous year, an increase of \$20.4 million, constituting growth of 31.1%.

In the first half of the year, sales to the rest of the world amounted to \$184.6 million compared with \$123.5 million during the corresponding period in the previous year, an increase of \$61.0 million, constituting growth of 49.4%. The rise in sales in the quarter and in the first half of the year, apart from the effect of the general trends, stemmed from an increase in sales of the Company's products in the Asia Pacific region, and particularly in Australia, which was positively affected by a good agricultural season following several years of drought.

In Israel sales in the quarter amounted to \$32.2 million compared with \$30.5 million in the corresponding quarter of the previous year.

In the first half of the year, sales in Israel amounted to \$57.6 million compared with \$55.9 million during the corresponding period last year; an increase of \$1.7 million, constituting growth of 3.0%. The slight growth in sales during the quarter and the first half of the year was achieved due to an increase in sales of the Company's products, which was mostly set off by the divestment of the Company's holdings in Prizma in 2007, which is not part of the Company's core businesses.

B. Additional areas of activity:

During the quarter, the Company's sales from other areas of activity amounted to \$52.3 million compared with sales of \$51.3 million in the corresponding quarter last year.

In the first half of the year, sales from other areas of activity amounted to \$101.4 million compared with \$99.5 million in the corresponding period in the previous year.

C. Gross Profit:

Gross profit in the quarter amounted to \$239.3 million compared with \$188.8 million in the corresponding quarter of the previous year, an increase of \$50.5 million, constituting growth of 26.7%. Alongside the increase in gross profit, the Company's gross margin increased to 35.1% compared with 34.8% in the corresponding period last year.

In the first half of the year, gross profit amounted to \$499.5 million compared with \$381.1 million in the corresponding period last year, an increase of \$118.4 million constituting growth of 31.1%. In the first half of the year, gross margin increased to 35.6% compared with 34.8% in the corresponding period last year.

The significant increase in gross profit and margin stemmed mainly from the following factors:

- (1) An increase in Company's sales due to the trends described above;
- (2) An increase in the average selling prices of the Company's products;

(3) Strengthening of the Euro compared with the corresponding quarter last year;

The increase in gross profit was partially offset by an increase in costs stemming from the continuing increase in oil prices, resulting in an increase of raw material prices (which are distant derivatives of oil) and energy costs, and appreciation of currencies which increased production costs.

D. Operating Profit:

The operating profit in the quarter amounted to \$113.4 million (16.6% of sales) compared with \$83.4 million (15.4% of sales) in the corresponding quarter of the previous year, an increase of \$30.0 million, constituting growth of 36.0%.

In the first half of the year, operating profit amounted to \$247.3 million compared with \$167.9 million in the corresponding period last year, an increase of \$79.3 million constituting growth of 47.2%.

The increase in operating profit and operating margin stemmed from an increase in gross profit and margin, and continued containment of operating expenses.

Operating expenses in the quarter amounted to \$125.9 million (18.4% of sales), compared with \$105.4 million (19.4% of sales) in the corresponding quarter last year.

In the first half of the year, operating expenses increased by \$39.0 million, amounting to \$252.2 million compared with \$213.2 million last year. Operating expenses as a percentage of sales dropped to 18% compared with 19.5% in the corresponding period last year. This trend of continued decrease in percentage of sales of operating expenses stems mainly from continued sales growth as well as the effects of the change and efficiency plan.

R&D Expenses in the quarter amounted to \$6.7 million compared with \$5.1 million last year – an increase of \$1.6 million. In the first half of the year, R&D expenses amounted to \$12.6 million compared with \$10.2 million in the corresponding period last year, an increase of \$2.4 million.

Sales expenses in the quarter amounted to \$97.5 million compared with \$82.0 million in the corresponding quarter last year. The increase of \$15.5 million dollars (18.9%) stemmed mainly from an increase in variable expenses. Sales expenses as a percentage of sales dropped to 14.3%, compared with 15.1% last year, mainly from a significant growth in sales.

In the first half of the year, sales expenses amounted to \$195.8 million (13.9% of sales) compared with \$163.4 million dollars (14.9% of sales) in the corresponding quarter last year.

General and administrative expenses during the quarter amounted to \$22.6 million compared with \$18.3 million last year – an increase of \$4.3 million. The increase in G&A expenses stemmed from the strengthening of various currencies in the Company's main areas of activity, and mainly from the strengthening of the shekel.

In the first half of the year, G&A expenses amounted to \$44.6 million (3.2% of sales) compared with \$39.6 million dollars (3.6% of sales) in the corresponding quarter last year.

E. Financing Expenses:

Financing expenses in the quarter amounted to \$32.9 million compared with \$12.5 million in the corresponding quarter last year. The increase in financing expenses did not stem from the increase in the Company's ordinary financing expenses but rather, mainly from the exceptional factors set out below: (1) shekel liabilities to the Company's employees (such as severance pay, vacation pay, sick pay, etc.), are presented in the financial statements at dollar values. Due to the strengthening of the shekel during the quarter, a non-cash expense was recorded due to adjustment of the value of the shekel liability to the dollar value on the balance sheet; (2) increase of 2.4% in CPI prices which increased CPI linked liabilities by a similar percentage. The main CPI-linked liabilities are \$2.35 billion worth of debentures raised by the Company in November 2006. The effect of the increase of the CPI was mostly offset by CPI hedging transactions effected by the Company.

In the first half of the year, financing expenses amounted to \$65.3 million, compared with \$15.3 million in the corresponding quarter last year. In addition to the factors set out above, the increase in financing expenses stemmed from one-time financing revenues in the sum of \$11 million in Brazil during the first quarter of 2007. Following the first time implementation of IFRS standards in the first half of the year, this revenue was recorded as financing revenue and in the previous year, this revenue had been classified as "other revenue" in the Company's financial statements;

F. Taxes on Income:

The tax expenses for the quarter amounted to \$10.6 million (constituting 13.2% of pre-tax profits) compared with \$14.8 million (constituting 20.9% of pre-tax profits) during the corresponding quarter last year.

In the first half of the year, tax expenses amounted to \$20.5 million (constituting 11.3% of pre-tax profits) compared with \$24.2 million last year (15.9% of pre-tax profits).

The low tax rate during the first half of the year stemmed mainly from a strengthening of the Shekel, which reduced the dollar value of the Company's tax reserves.

Net profit:

Net profit in the quarter amounted to \$68.8 million (10.1% of sales) compared with \$53.6 million (9.9% of sales) in the corresponding quarter last year, an increase of \$15.2 million, constituting growth of 28.3%.

In the first half of the year, net profit amounted to \$159.7 million (11.4% of sales) compared with \$124.8 million (11.4% of sales) in the corresponding period last year, an increase of \$35.0 million constituting growth of 28.0%.

H. EBITDA:

EBITDA in the second quarter amounted to \$134.3 million (19.7% of sales) compared with \$103.5 million (19.1% of sales) in the corresponding quarter last year. The increase of \$30.8 million, reflecting growth of 29.7%, stems mainly from the increase (36.0%) in the Company's operating profit, and fixed depreciation costs.

In the first half of the year, EBITDA amounted to \$289.7 million (20.6% of sales) compared with \$212.2 million (19.4% of sales).

4. Financial Condition and Liquidity

A. Operating cash flow:

Operating cash flow during the second quarter was positive, amounting to \$160.1 million, compared with a positive cash flow of \$197.8 million in the corresponding quarter in the previous year. The reduction of operating cash flow stems from the significant growth in sales which led to an increase in the working capital of the Company.

In the first half of the year, operating cash flow was positive, amounting to \$213.9 million compared with \$133.9 million in the corresponding period last year.

B. Cash flows used in investment activities:

The Company's investments (less short term investments) in the quarter amounted to \$33.7 million compared with \$19.5 million in the corresponding quarter last year. These investments mostly include product registrations, intangible assets and investments in fixed assets. Investments in fixed assets mostly included investments in plant and equipment for upgrade and improvement of environmental standards and amounted, less investment grants, to \$21.4 million, compared with \$8.0 million in the corresponding quarter last year.

In the first half of the year, investments amounted to \$69.2 million compared with \$70.1 million in the corresponding period last year.

C. Free cash flow:

Free cash flow (less short term investments) in the quarter amounted \$126.4 million compared with a positive cash flow of \$178.3 million in the corresponding quarter last year. The decrease in free cash flow stems from a decrease in operating cash flow and from an increase in cash flow for investment activities, as set out above.

In the first half of the year, free cash flow amounted to \$144.8 million compared with \$63.7 million in the corresponding period last year.

D. Current assets:

Total current assets as at June 30, 2008 amounted to \$2,063.6 million, compared with \$1,981.0 million on June 30, 2007 and \$1,771.1 million on December 31, 2007.

E. Investments in Fixed Assets:

See Cash Flow chapter above.

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

The Company's net debt (loans from banks, debentures less cash, short-term investments and fair value of forward transactions related to debentures) amounted, as at June 30, 2008, to \$443.0 as detailed below.

The Company's credit (bank credit and bonds) amounted, as at June 30, 2008, to \$863.3 million (of which 12.9% was short-term credit) compared with \$989.6 million as at June 30, 2007 (of which 40.3% was short-term credit).

Cash and short-term investment balances as at June 30, 2008 amounted to \$308.7 million compared with \$471.8 million as at June 30, 2007, and \$294.0 million as at December 31, 2007.

The Company's net debt (loans to banks and debentures less cash and short-term investments) amounted, as at June 30, 2008, to \$554.6 million compared with \$517.9 million as at June 30, 2007 and \$467.0 million as at December 31, 2007.

CPI-linked Shekel debentures are converted at the exchange rate on the balance-sheet date and recorded under long-term liabilities, where the fair value on forward transactions, in the sum of approximately \$111.7 million, ascribed to such debentures, were recorded under trade payables and long-term investments. Neutralizing the forward transactions, net debt amounted as at June 30, 2008 to approximately \$443.0 million.

The decrease in cash balances during the first half of the year, compared with the corresponding period last year stems mainly, from payment of a dividend in the sum of approximately \$120 million to the Company's shareholders on April 10, 2008.

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

G. Shareholders' equity:

Shareholders' equity as at June 30, 2008 amounted to \$1,392.0 million compared with \$1,294.7 million as at June 30, 2007 and \$1,337.1 million as at December 31, 2007. Shareholders' equity out of total balance sheet as at June 30, 2008 amounted to 41.2%, as at March 31, 2007 to 40.7% and as at December 31, 2007 to 44.9%.

H. Financial ratios:

	As at June 30,		As at
	2008	2007	December 31,
			2007
Ratio of current assets to current liabilities (current ratio)	1.88	1.74	2.08
Ratio of current assets excluding inventory, to current liabilities (acid-test ratio)	1.07	1.21	1.16
Financial liabilities out of total balance sheet	25.5%	31.1%	25.6%
Financial liabilities out of total equity	62.0%	76.4%	56.9%

I. Sources of financing:

The Company finances its operations using independent means, debentures and bonds, securitization and sale of customers' receivables, suppliers' credit and bank credit.

5. Summary of Main Developments

- ◆ On April 22, 2008, the employees of Makhteshim Chemical Plants Ltd. declared a labor dispute. For details see the immediate report of the Company regarding notice of a labor dispute dated April 22, 2008, Ref. No. 2008-01-115479. As at the date hereof, the labor dispute has not yet ended.
- ◆ On May 13, 2008, after receiving the approval of the audit committee, the board of directors of the Company resolved:
 - a. To approve the issue of 800,000 options each exercisable for one ordinary share of NIS 1.00 par value in the Company via a trustee to an officer of the Company. For details see the immediate report by the Company on this matter dated May 14, 2008 (Reference No. 2008-01-132465), the information contained therein being incorporated into this report by way of reference.
 - b. To update the conditions of remuneration to external directors, directors which are not external directors including directors which may be deemed as controlling parties, in accordance with the permitted remuneration set forth in the Company Law. For details see the immediate report by the Company on this matter dated May 14, 2008 (Reference No. 2008-01-132468), the information contained therein being incorporated into this report by way of reference.
- ◆ On May 27, 2008, the Company published a prospectus for listing for trading of bonds (series B, C and D), which were issued by the Company in a private allotment to institutional investors and which started trading on June 4, 2008. In addition, the prospectus is also a shelf prospectus which can be used for future allotment of shares, bonds, convertible bonds and warrants.
- ◆ On June 1, 2008, a third party notice was filed against Makhteshim, a wholly owned subsidiary, and against thirty five other corporations and persons, by the Ramat Hovav Industrial Council as part of three claims filed against the State of Israel and the Ramat

Hovav Industrial Council in the District Court at Beer Sheva, on grounds of harm to the health of the plaintiffs allegedly caused by pollution originating at the Ramat Hovav industrial site. The plaintiffs are claiming a sum of approximately NIS 242 million.

- ◆ On June 4, 2008, the meeting of bondholders (series C and D) approved authorization of the appointment of Hermetic Trusts (1975) Ltd. as trustee for the bonds (series C and D). For details see the immediate report by the Company on this matter dated May 20, 2008 (Reference No. 2008-01-139800), the information contained therein being incorporated into this report by way of reference.
- ◆ On July 20, 2008, after the balance sheet date, the annual general shareholder meeting of the Company was held. The Company published an immediate report regarding the annual general shareholder meeting on June 11, 2007 (reference no. 2008-01-164853), the information contained in which is incorporated herein by reference. The Company also published an immediate report regarding the outcome of the annual general shareholder meeting on July 20, 2007 (reference no. 2008-01-208092), the information contained in which is incorporated herein by reference.
- ◆ As at the date hereof, the Company has acquired 1,374,689 of the Company at a cost of approximately NIS 39.5 million as part of a share buy-back plan which was approved by the board of directors on March 11, 2008.
- ◆ On July 22, 2008, after the balance sheet date, the Clean Air for Israel Law, 5768-2008 (the "Law") was passed by the Knesset. The purpose of the Law is to regulate air quality in Israel and to prevent pollution, inter alia by setting up a national monitoring system for measuring air pollution and setting air pollution standards. As at the date hereof, the Company is unable to assess the impact of the Law on its operations.
- ◆ New Registrations: During the quarter, the Company received 40 registrations for active ingredients, formulations and mixtures.

6. **Exposure to market risks and methods of managing such risks**

The Company conducts its business in a number of different currencies. Due to its activities, the Company is exposed to market risks, which mainly involve exchange rate fluctuations, partial adjustment of the prices of products to reflect changes in the cost of raw materials, changes in the rates of increase of the CPI and changes in interest rates. The board of directors of the Company approved a policy of using financial derivatives to reduce the exposure to changes in exchange rates and CPI increases. The Company only effects such transactions via banking corporations and stock exchanges, which are obligated to meet capital adequacy requirements or to maintain a scenario-based level of collateral.

Risk Management Officer

The Company's Market Risk Manager is the CFO, Ran Maidan.

Description of Market Risks

Company's Policy regarding Market Risk Management

The Company's policy is to maintain as high as possible degree of correlation between the currency in which it sells its products and the currency in which it purchases its raw materials. The Company is continually examining its balance sheet and economic exposures 12 months in advance, in accordance with its revenue and expenditure forecasts. The Company hedges most of its balance sheet exposure and some of its economic exposure in respect of its principal currencies.

The following are details of the policies implemented for each risk. Note that there were no significant changes in the Company's risk management policy during the second quarter of 2008:

Currency Risks:

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

During the second quarter of 2008, the Company hedged most of its balance sheet exposure to the Euro, Real and Shekel.

Crop protection product sales depend directly on agricultural seasons and on the cyclical nature of crop growth, and therefore, the Company's revenues and its exposure to various currencies are not evenly distributed over the year. Countries in the northern hemisphere have similar agricultural seasons and therefore, in those countries, the highest sales are usually in the first half of the calendar year. During this period, the Company has substantial exposures to the Euro, the Zloty and the Pound. In the southern hemisphere, the seasons are opposite, and most of the local sales (except in Australia) are made in the second half of the year. In these months, most of the Company's exposure is in the Brazilian Real. The Company has more sales in the markets in the northern hemisphere and therefore the Company's sales in the first half of the year are higher than its sales in the second half of the year.

In November 2006, the Company completed a bond issue in the sum of NIS 2.35 billion. The main portion of the bonds is linked to the consumer price index, and therefore, an increase in the consumer price index as well as fluctuations in Shekel rates may bring about a significant

exposure to the Company's operating currency, which is the dollar. During the second quarter and the first half of the year, the Company hedged most of its exposure to these risks in this regard by way of swap transactions and forward contracts.

Exposure to CPI linkage:

The main portion of the above bonds is linked to the consumer price index, and therefore, an increase in the consumer price index might bring about a significant increase in the Company's financing expenses. The Company hedges most of its exposure to this risk on an ongoing basis in CPI hedging transactions.

Risks relating to raw material prices (in source currency):

Approximately 70% of the Company's sales costs stem from raw material costs. Most of the Company's raw materials are distant derivatives of oil prices. Therefore, an increase in oil prices can cause an increase in the price of raw materials.

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

As at the date hereof, the Company has not entered into any transactions to hedge against oil or the prices of raw materials.

Interest risks

The Company is exposed to changes in the LIBOR interest rate on the US dollar, since the Company has liabilities in that currency which bear a variable LIBOR rate. The Company prepares a quarterly summary of its exposure to changes in the LIBOR rate. As at the date hereof, the Company has not hedged against this exposure.

Means of supervision of market risk management policy and method of implementation thereof

The Company keeps internal documentation regarding the designation of financial instruments for exposures which indicate the link between the instruments and the exposure. The board of directors and the finance committee discuss the Company's exposure to market risks and the acts done by management of the Company in respect thereof, once every quarter. The Company's management examines the control procedures on an ongoing basis, and updates them in accordance with the scope of operations and the risk derived from the operations.

7. **Critical Accounting Estimates**

There have been no substantive changes during the second quarter of 2008 with respect to the critical accounting estimates used by the Company for the purposes of the financial statements.

8. **International Financial Reporting Standards (IFRS)**

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

For the purpose of the transition, the Company implemented the provisions of International Financial Reporting Standard 1 (IFRS1) in its financial statements for the second quarter of 2008, and presented an opening balance for January 1, 2007, a balance for December 31, 2007 and a statement of profit and loss for the year ending on that date, drafted in accordance with IFRS standards. The Company presented adjustments in the financial statements for March 31, 2008 and June 30, 2008 between reporting in accordance with the acceptable accounting rules employed in Israel and reporting in accordance with IFRS standards as at the Date of Transition, December 31, 2007 and the year ending on that date, such adjustments being retroactive (forever) (subject to exceptions).

Due to the Company’s being an industrial company, the effects of implementation of IFRS standards on its results, and particularly on the balance sheet and statement of profit and loss for 2007, are not material.

For further details regarding the effect of the transition to IFRS standards on the Company, see Notes 2, 3 and 7 to the financial statements.

9. **Process of Approval of Financial Statements**

The Company has a finance committee which receives a detailed presentation each quarter of the financial results from the CFO. Each quarter, the committee discusses the financial results before presenting them to the board of directors and recommends that it approves the financial statements. The financial statements are approved by the board of directors, which is the organ responsible for the overall control of the Company. In addition to these regular quarterly discussions, the finance committee holds additional meetings at its discretion, at which it discusses various matters arising from the Company's financial statements, in greater detail and depth. The Company’s finance committee is made up of 6 directors, of which one is an external director. All the committee members have accounting and financial qualifications.

The members of the committee and members of the board of directors receive the draft financial statements a few days before convening the meetings.

Representatives of the Company's auditors are invited to meetings of the finance committee, as well as to those meetings of the board of directors at which the financial statements are discussed and approved and they refer to and respond to questions directed to them by members of the board of directors, relating to substantial issues deriving from the data

presented in the relevant financial statements. When presenting the financial statements to the board of directors, the CEO of the Company, who is also the chairman of the board of directors, Mr. Avraham Bigger, sets out the main results of the Company's operations during the period under review and refers to substantial events that may have taken place during the period. Thereafter, Mr. Ran Maidan, CFO, gives a detailed presentation of the Company's financial results during the period under review and compares it with previous periods, with the emphasis being placed on the substantial issues that arise from such. During the course of these reviews, management responds to questions addressed to it by members of the board of directors. At the end of the discussion by the board of directors, a vote is held, during which the financial statements are approved.

10. **Matters referred to by the Company's auditors in their opinion on the financial statements**

In October 2007, a monetary claim was filed with the District Court at Beer Sheva against Makhteshim Chemical Plants Ltd., a subsidiary of the Company, together with an application to approve the claim as a class action under the Class Actions Law, 5766-2006, by three residents of the town of Wadi El Na'im, claiming damage to their health caused, allegedly, by Makhteshim's factory at Ramat Hovav, based on various grounds relating to air pollution. For additional details in this regard see Note 6 to the financial statements.

_____	_____	_____
Avraham Bigger	Raanan Cohen	Ran Maidan
Chairman of the Board of Directors and CEO	Director	CFO

August 6, 2008, Tel Aviv