



**Makhteshim Agan Industries Ltd.**

**MANAGEMENT DISCUSSION AND ANALYSIS FOR THE  
QUARTER ENDED MARCH 31, 2009**

**The Board of Directors of the Company is pleased to submit the board of directors' report of the state of the Company's affairs as at March 31, 2009, and for the three month period ending on that date (the "Report Period").**

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

Makhteshim Agan Industries Ltd. (the "Company") engages in the primary field of activity involving the development, manufacture and marketing of crop protection products. Furthermore, the Company has activities in other markets, none of which, in a substantial scope for the Company. As at the date of the report, the Company is the world's leading manufacturer of branded off-patent 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 registration, observance of strict standards of environmental protection, stringent quality control, an international marketing and distribution channels, and financial strength. Investments in consistent and ongoing development facilitate the launching of new off-patent products at opportune times.

The Company's business strategy and goals in the crop protection products market focuses mainly 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 improvement 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.

## **Conditions of the business environment**

### **Brief overview of changes in the sector**

The crop protection market and the Company's operations were impacted, during the first quarter of 2009, by the following trends:

1. Preservation of a steady trend in demand for the Company's products, mainly in Europe. Slight decrease in planted areas, mainly in Brazil.
2. The level of prices for agricultural outputs remained below the peak prices recorded in 2008 even though in a long term comparison, these prices are relatively high.
3. A long and cold winter in Europe compared with the previous year, which caused later commencement of the agricultural season but did not harm sales figures.
4. Credit pressures on growers which reduced the demand for crop protection products, mainly in developing areas such as South America, Asia, Eastern Europe and Africa which led to purchases made closer to date of usage of the products.
5. Average selling prices were higher than the corresponding quarter last year. There has been a slight decrease in the selling prices of some of the Company's products, in some of the regions, compared to the selling prices in the fourth quarter of 2008.
6. The Company reports its results in US dollars ("dollar") and therefore, the strengthening of the dollar compared with other currencies in which the Company operates brought about a decrease in the dollar value of the Company's sales, and decline of gross profits. On the other hand, the strengthening of the dollar as against other currencies in which the Company operates (mainly the Shekel, the Euro and the Real) reduced operating expenses in dollar terms.
7. Surplus supply of raw materials and a drop in oil and energy prices led to a decline in the prices of raw materials, which is expected to reduce purchasing costs upon replenishment of inventory in the second half of the year.

The Company estimates that the trends which commenced in the last third of 2008 and which were prevalent in the first quarter of 2009 shall continue to exist in the short term. The Company, as opposed to some of its peers, continued to present growth in its crop protection activity also during the fourth quarter of 2008 and the first quarter of 2009. Notwithstanding this, due to advancement of sales in 2008 resulting from excess demand, the Company estimates that as a result of credit pressure on growers and purchases made closer to date of usage, there may be quarters during 2009 with lower sales than the corresponding quarters in 2008. There is no change in the Company's estimations with respect to the long term trends as were expressed in the Company's previous reports.

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

### **Statements of Profit and Loss for the First Quarter:**

	%	1-3/2009	%	1-3/2008	Change	%
<b>Revenues</b>		722.3		722.2	0.1	0.0%
<b>Gross profit</b>	30.1%	217.4	36.0%	260.2	(42.8)	-16.5%
<b>R&amp;D and SG&amp;A expenses</b>	15.5%	111.7	17.5%	126.3	(14.6)	-11.6%
<b>Operating profit (EBIT)</b>	14.6%	105.6	18.5%	133.8	(28.2)	-21.1%
<b>Financing expenses</b>	1.4%	10.3	4.5%	32.4	(22.1)	-68.1%
<b>Pre-tax profit</b>	13.2%	95.3	14.0%	101.4	(6.1)	-6.0%
<b>Net profit after minority share</b>	10.8%	78.2	12.6%	90.9	(12.7)	-14.0%
<b>EBITDA</b>	17.8%	128.4	21.5%	155.4	(27.1)	-17.4%

## 3. **Analysis of Results of Business Operations**

### **A. Revenues by Geographical Region**

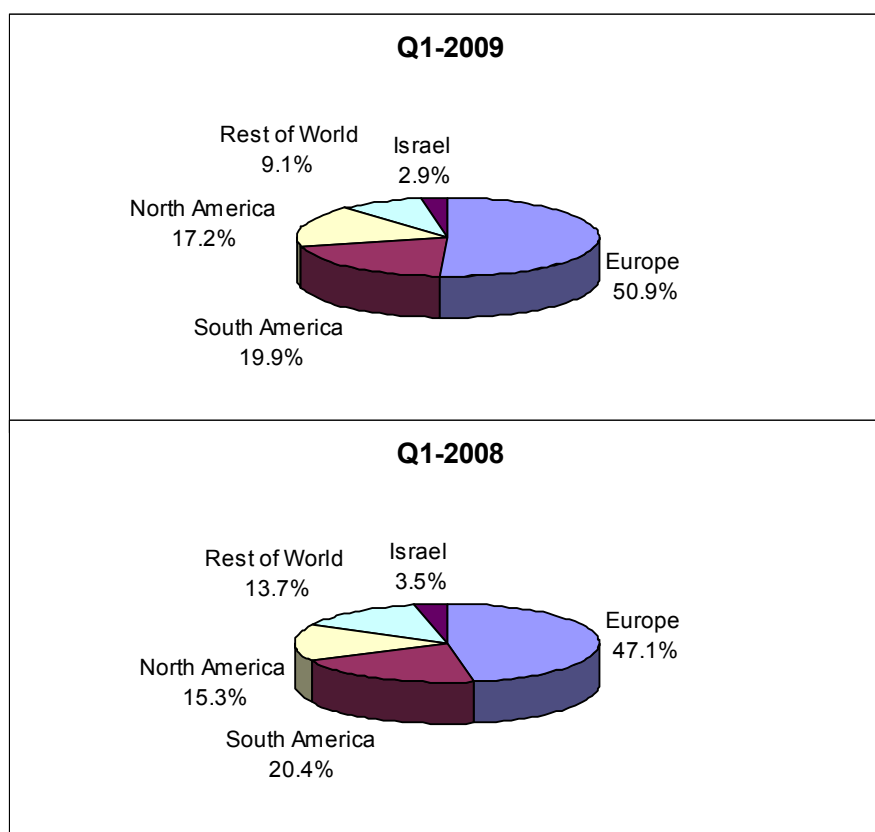
The Company's sales in the first quarter of 2009 amounted to the sum of \$722.3 million compared with \$722.2 million in the corresponding quarter last year. The Company's sales in the first quarter of 2009 in the field of crop protection products amounted to the sum of \$680.8 million compared with \$673.1 million in the corresponding quarter last year. The Company maintained a steady sales trend notwithstanding the economic slowdown caused by the global economic condition that commenced in the third quarter of 2008. The stability in the Company's sales is the result of an increase in the average selling prices of the Company's products compared with price levels in the corresponding quarter last year, which was offset by the decrease in the net dollar value, excluding hedging, of the Company's sales as a result of the strengthening of the dollar compared with other currencies in which the Company operates.

For a specific description of the unique trends of the principal areas of operations see below.

Breakdown of Quarterly Sales (\$ millions)

	%	2009	%	2008	Change	%
<b>Europe</b>	50.9%	367.6	47.1%	340.0	27.7	8.1%
<b>South America</b>	19.9%	143.8	20.4%	147.4	(3.5)	-2.4%
<b>North America</b>	17.2%	124.4	15.3%	110.7	13.6	12.3%
<b>Rest of the world</b>	9.1%	65.6	13.7%	98.7	(33.1)	-33.5%
<b>Israel</b>	2.9%	20.9	3.5%	25.4	(4.5)	-17.9%
<b>Total</b>	<b>100.0%</b>	<b>722.3</b>	<b>100.0%</b>	<b>722.2</b>	<b>0.1</b>	<b>0.0%</b>

Breakdown of Quarterly Sales:



In Europe, sales in the first quarter of 2009 amounted to the sum of \$367.6 million compared with \$340.0 million in the corresponding quarter of the previous year, an increase of \$27.7 million, reflecting growth of 8.1% compared with the corresponding quarter in the previous year. 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 average selling prices of the Company's products in local currency compared with the corresponding quarter last year and (2) an increase in demand for the Company's products which brought about an increase in sales, which was partially offset due to a weakening of currencies in European countries (mainly the Euro, the Pound and the Zloty) as against the dollar.

In South America, sales in the first quarter of 2009 amounted to \$143.8 million compared with \$147.4 million in the corresponding quarter of the previous year, a decrease of \$3.5 million. The decrease stemmed mainly from volume decrease and from a devaluation of the Brazilian Real as against the dollar.

In North America, sales in the first quarter of 2009 amounted to the sum of \$124.4 million compared with \$110.7 million in the corresponding quarter of the previous year, an increase of \$13.6 million, reflecting growth of 12.3%. The increase in sales stemmed mainly from an volume increase and from an increase in average selling prices for the Company's products compared with the corresponding quarter last year.

In the rest of the world, sales in the first quarter of 2009 amounted to \$65.6 million compared with \$98.7 million in the corresponding quarter of the previous year, a decrease of \$33.1 million. The decrease in sales stemmed mainly from the global economic conditions which caused volume decrease and an erosion of prices compared with the corresponding quarter last year, and from a revaluation of the dollar as against the other currencies in which the Company operates (mainly the Australian dollar), which reduced the dollar value of the sales.

In Israel sales in the first quarter of 2009 amounted to \$20.9 million compared with \$25.4 million in the corresponding quarter last year. The decrease in sales stems mainly from the revaluation of the dollar as against the Shekel and from a decrease in the sale of non-crop-protection products.

**B. Additional areas of activity:**

During the first quarter of 2009, the Company's sales from other areas of activity amounted to \$41.5 million compared with sales of \$49.1 million in the corresponding quarter last year, a decrease of \$7.6 million. The decrease stemmed mainly from a drop in demand and from the revaluation of the dollar as against the currencies in which the Company's operations take place.

**C. Gross Profit:**

Gross profit in the first quarter of 2009 amounted to \$217.4 million (30.1% of sales) compared with \$260.2 million (36.0% of sales) in the corresponding quarter last year, a decrease of \$42.8 million.

The decrease in gross profit and gross margin during the Report Period stemmed from the following factors:

(1) A significant decrease in the dollar value of sales due to the strengthening of the dollar compared to other currencies in which the Company operates with no parallel decrease in the expenses which are mostly denominated in dollar;

(2) Albeit a significant decrease in the cost of raw materials has commenced during the fourth quarter of 2008, the Company had relatively high level of inventory which was purchased at high prices and exchange rates during 2008 and affected the gross margin in the first quarter of 2009; Nevertheless, following replenishment of inventory and assuming no significant change in other parameters, the Company anticipate that there may be improvement in the Company's gross margin during the second half of 2009.

(3) On the other hand, the high level of average selling prices for the Company's products compared with prices in the corresponding quarter last year (despite the fact that during the quarter, the prices of some of the Company's products in some of regions began to decrease), partially moderated the impact on gross profits.

**D. Operating Profit:**

The operating profit during the first quarter of 2009 amounted to the sum of \$105.6 million (approximately 14.6% of sales) compared with the sum of \$133.8 million (approximately 18.5% of sales) in the corresponding quarter last year, a decrease of \$28.2 million. A decrease in operating expenses as percentage of sales enabled the Company to moderate the decrease in operating profit and margin which stemmed from a reduction in gross profit, as set out above.

Operating expenses this quarter amounted to \$111.7 million (15.5% of sales), compared with \$126.3 million (17.5% of sales) in the corresponding quarter last year. This trend of a continuing decrease in operating expenses as a percentage of sales stems mainly from the

following: 1) the strengthening of the dollar; 2) a decline in energy prices and in transportation costs; and 3) continued containment of operating expenses.

R&D expenses in the first quarter of 2009 amounted to approximately \$4.7 million compared with approximately \$6.0 million last year. The decrease in expenses derived mainly from the revaluation of the dollar as against the Shekel.

Sales expenses in the first quarter of 2009 amounted to the sum of \$88.2 million compared with \$98.3 million in the corresponding quarter last year. Sales expenses as a percentage of sales decreased to 12.2% in the first quarter of 2009 compared with 13.6% last year, mainly from 1) the strengthening of the dollar; 2) a decline in energy prices and in transportation costs; and 3) continued containment of operating expenses.

General and administrative expenses in the first quarter of 2009 amounted to the sum of \$19.1 million compared with \$22.0 million in the corresponding quarter last year. The decrease in these expenses stemmed from the strengthening of the dollar, a decrease in expenses for employee options and continued containment of operating expenses.

E. **Financing Expenses:**

Financing expenses in the first quarter of 2009 amounted to the sum of \$10.3 million compared with \$32.4 million in the corresponding quarter last year. The decline in financing expenses stemmed mainly from a valuation of employee reserves (mainly due to severance pay and vacation pay). Since liabilities to employees are calculated in shekels, a non-cash, financing expense was recorded in the corresponding quarter last year for the valuation of employee reserves due to the strengthening of the Shekel as against the dollar. Whilst in the first quarter of 2009, financing income was recorded for the valuation of these reserves as a result of the strengthening of the dollar as against the Shekel.

F. **Taxes on Income:**

The tax expenses for the first quarter of 2009 amounted to the sum of \$16.5 million (constituting 17.3% of profits before tax) compared with the sum of \$9.9 million (constituting 9.8% of profits before tax) during the corresponding quarter last year. The increase in taxes during the quarter stemmed mainly from the strengthening of the dollar as against the Shekel and the Real which increased the dollar value of the Company's liabilities for deferred taxes.

G. **Net profit ascribed to the shareholders of the Company:**

Net profit in the first quarter of 2009 amounted to the sum of \$78.2 million (10.8% of sales) compared with \$90.9 million (12.6% of sales) in the corresponding quarter last year, a decrease of \$12.7 million.

H. **EBITDA:**

EBITDA in the first quarter of 2009 amounted to the sum of \$128.4 million (17.8% of sales) compared with \$155.4 million (21.5% of sales) in the corresponding quarter last year, a

decrease of \$27.1 million which stemmed mainly from a decrease in the Company's operating profit.

#### 4. **Financial Condition and Liquidity**

##### A. **Operating cash flow:**

Operating cash flow during the first quarter of 2009 was negative, amounting to \$62.7 million, compared with a positive cash flow of \$53.8 million in the corresponding quarter last year. The decrease in current cash flow in this quarter stems mainly from the payment to suppliers for the inventory purchased during the course of 2008.

##### B. **Cash flows used in investment activities:**

The Company's investments (less short term investments) in the first quarter of 2009 amounted to the sum of \$25.1 million compared with \$35.5 million in the corresponding quarter last year. These investments mostly include product registrations, intangible assets and investments in fixed assets. Investments in fixed assets, which included investments in plant and equipment, including plants for environmental preservation and protection, amounted, less investment grants, to the sum of \$12.7 million, compared with \$18.5 million in the corresponding quarter last year.

##### C. **Free cash flow:**

Free cash flow (less short term investments) in the first quarter of 2009 amounted to negative cash flow of \$87.8 million compared with a positive cash flow of \$18.3 million last year. The decrease in the free cash flow stemmed from a decrease in operating cash flows.

##### D. **Current assets:**

Total current assets as at March 31, 2009 amounted to \$2,371.2 million, compared with \$2,032.0 million on March 31, 2008 and \$2,139.5 million as at December 31, 2008.

The increase in current assets stemmed mainly from an increase of approximately \$234 million in inventory balance which was due to the Company's having stocked inventory in 2008 on the basis of sales forecasts which were higher than actual sales in the first quarter of 2009 and at higher costs. Note that despite lower than expected sales figures, as set out above, the Company reduced its inventory as at the date of the Report Period by approximately \$100 million compared with the inventory balance as at December 31, 2008.

##### E. **Investments in Fixed Assets:**

See Cash Flow chapter above.

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

The Company's credit (bank credit and bonds) amounted, on March 31, 2009, to the sum of \$1,273.9 million (of which 28.9% was short-term credit) compared with \$827.3 million (of which 15.5% was short-term credit).

The balance of cash and short-term investments as at March 31, 2009 amounted to \$361.4 million compared with \$323.6 million as at March 31, 2008, and \$215.4 million as at December 31, 2008.

The Company's net debt (loans to banks and debentures less cash and short-term loans) amounted, as at March 31, 2009, to the sum of \$912.5 million compared with \$503.6 million as at March 31, 2008 and \$893.3 million as at December 31, 2008.

The increase in the net debt balance as at March 31, 2009 compared with the net debt balance as at March 31, 2008 stems, mainly, from an increase in working capital, from payment of a dividend of approximately \$170 million by the Company to its shareholders during the course of 2008, and from a share buy-back in the sum of approximately \$100 million during the course of 2008.

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

**G. Shareholders' equity:**

The Company's equity as at March 31, 2009 amounted to \$1,365.6 million compared with \$1,315.9 million as at March 31, 2008 and \$1,286.7 million as at December 31, 2008. The ratio of equity to total balance as at March 31, 2009 amounted to 37.8%, as at March 31, 2008 to 39.9%, and as at December 31, 2008 to 38.1%.

**H. Financial ratios:**

	<u>As at March 31,</u>		<u>As at</u>
	<u>2009</u>	<u>2008</u>	<u>December</u>
			<u>31,</u>
			<u>2008</u>
<b>Ratio of current assets to current liabilities (current ratio)</b>	1.99	1.77	1.71
<b>Ratio of current assets excluding inventory, to current liabilities (acid-test ratio)</b>	1.12	1.07	0.8
<b>Financial liabilities out of total balance sheet</b>	35.3%	25.1%	32.9%
<b>Financial liabilities out of total equity</b>	93.3%	62.9%	86.2%

I.

**Sources of financing:**

The Company finances its operations using independent means, debentures and bonds, short-term and long-term bank credit, customer securitization and supplier credit.

On March 25, 2009, the Company issued debentures by way of an expansion of series C and D, as follows:

NIS 661,000,000 par value debentures series C and NIS 472,000,000 par value debentures series D. The gross consideration for the issue amounted to the sum of NIS 1,201,176,000. The proceeds of the issue were used by the Company to pay short term credit from banks which was mostly effected after the balance sheet date.

## 5. **Summary of Main Developments**

- ◆ **New Registrations:** During the quarter, the Company received 101 registrations for active ingredients, formulations and mixtures of which 63 are new registrations.
- ◆ On March 22, 2009, Standard & Poors Maalot notified the approval of a rating of iIAA for the debentures series B, C and D and of a rating of iIAA to the issue by way of extension of series C and D, with negative outlook.
- ◆ On March 25, 2009, the Company issued NIS 661,000,000 par value debentures (series C) and NIS 472,000,000 par value debentures (series D) by way of extension of the series under the shelf prospectus published by the Company in May 2008. The gross proceeds of the issue amounted to the sum of NIS 1,201,176,000. For further details see the immediate report of the Company of March 26, 2009 (Ref. No. 2009-01-067944).
- ◆ On March 10, 2009, the board of directors of the Company approved entry by the Company into an insurance policy covering property and loss of profits with Clal Insurance Company Ltd., a company under the control of IDB Development Company Ltd., as an unexceptional transaction. For further details, see the Company's immediate report of March 11, 2009 (Ref. No. 2009-01-055245).
- ◆ On January 14, 2009, a fire broke out in a raw materials storage warehouse at the factory of Agan Chemicals Manufacturers Ltd. ("Agan") at Ashdod. The incident did not substantially affect the Company's operations and/or profits. For further details, see the Company's immediate report of January 15, 2009 (Ref. No. 2009-01-013932).

On January 18, 2009, a monetary claim was filed in the District Court at Beer Sheva against Agan, as well as a motion to certify the claim as a class action under the Class Actions Law, by a resident of Ashdod, claiming damages allegedly caused as a result of the pain that the plaintiff claims to have suffered as a result of the Fire at the Ashdod Plant. In the event that the claim is certified as a class action, the plaintiff estimates that the sum claimed against Agan will be approximately NIS 100 million. At this stage, Agan is unable to assess the chances of success of the claim or of the motion to certify it as a class action.

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

### A. **General**

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 to use acceptable financial instruments (such as options, forward contracts and swap contracts) for the purpose of hedging against exposure to exchange rate fluctuations and increases in the CPI flowing from the Company's operations. 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.

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

	March 31 2009			Quarterly Average		
	2009	2008	Change	2009	2008	Change
EUR/USD	1.331	1.581	-15.8%	1.31	1.50	-12.7%
USD/BRL	2.32	1.75	32.6%	2.31	1.73	33.5%
USD/PLN	3.55	2.23	58.7%	3.45	2.39	44.4%
USD/ZAR	9.49	8.09	17.4%	9.96	7.55	32.0%
AUD/USD	0.69	0.91	-24.3%	0.66	0.94	-29.6%
GBP/USD	1.43	1.99	-28.0%	1.44	1.97	-26.9%
USD/ILS	4.19	3.55	17.9%	4.06	3.64	11.6%
USD L 3M	1.19%	2.69%	-55.8%	1.24%	3.29%	-62.3%

The exchange rate fluctuations for these currencies during the Report Period are ascribed to the various items in the financial statements of the Company. The net effect of changes in the exchange rates of the currencies during the period following the balance sheet date on balance sheet exposures is not substantial due to the high levels of balance sheet hedging effected by the Company, as set out above.

### B. **Risk Management Officer**

The Company's Market Risk Manager is the CFO, Mr. Ran Maidan. For details of his education, qualifications and business experience, see section 26A of Chapter D of the Periodic Report published by the Company on March 11, 2009.

C. **Description of Market Risks**

Company's Policy regarding Market Risk Management

The Company's policy is to maintain as high as possible a 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. As at the date of approval of the financial statements, 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 as at the date of approval of the financial statements, there have been no significant changes in the Company's risk management policy.

D. **Currency Risks**

The Company's financial statements are set out in US dollars (the Company's functional currency) whilst its operations, sales and purchases of raw materials are effected in a variety of currencies. Therefore, exchange rate fluctuations of the purchasing currency as against the sale currency, either positively or negatively as the case may be, will affect the Company's results. In the Company's assessment, 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. The strengthening of the dollar as against other currencies in which the Company operates reduces the scope of the Company's dollar sales, and vice versa.

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 high rate of fluctuation of these currencies might increase the costs of transactions to hedge against currency exposures thereby increasing the costs of financing the Company. The Company tends to use common financial instruments (such as options, forward contracts and swap contracts) to hedge most of its substantial net balance sheet exposure to any particular currency. However, since the Company hedges against most of its balance sheet exposure in the context of these operations, and only against part of its economic exposure, extreme fluctuations in the exchange rates of these currencies might affect the Company's results and profits positively or negatively, as the case may be. As at the date of the financial statements, the Company hedged most of its exposure to the Euro, Real and Shekel.

In addition, 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. Currently, most of the exposure is to 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.

During the month of November 2006, the Company completed a raising of debentures in the sum of NIS 2,350,000,000 par value and on March 25, 2009, the Company completed an issue of debentures by way of extension of series C and D in the sum of NIS 1,133,000,000 par value (hereinafter jointly: the "**Debentures**"). The main portion of the Debentures 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. As at the date of approval of the financial statements, the Company hedged most of its exposure resulting from the issues of the Debentures, as aforesaid, in swap transactions and forward contracts.

**E. 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. As at the date of approval of the financial statements, the Company has hedged most of its exposure to this risk on an ongoing basis in CPI hedging transactions.

**F. Risks in raw material prices (in source currency)**

Approximately 70% of the Company's sales costs stem from raw material costs. Most of the Company's raw materials are distant derivatives of oil prices. Therefore, any increase or decrease in oil prices affects raw material prices.

In order to reduce exposure to fluctuations in the prices of raw materials, the Company customarily enters into long-term purchase contracts for principal 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 of approval of the financial statements, the Company has not entered into any transactions to hedge against oil or the prices of raw materials.

G. **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 of approval of the financial statements, the Company has not hedged against this exposure.

H. **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 were no substantive changes during the first quarter of 2009 with respect to the critical accounting estimates used by the Company for the purposes of the financial statements.

8. **Details of the Company's debentures**

See table attached as an appendix.

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 5 directors, one of whom 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.

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Avraham Bigger  
Chairman of the Board  
of Directors and CEO

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Raanan Cohen  
Director

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Ran Maidan  
CFO

May 12, 2009, Tel Aviv

**Appendix of details of the Company's debentures**

Series	Date of Issue	Rating	Total par value on date of issue (NIS millions)	Type of interest	Interest rate set	Effective interest as at date of report	Listed for trading on Stock Exchange (Yes / No)	Dates of payment of interest	Dates of repayment of principal	Basis for linkage	Nominal par value as at March 31, 2009 (NIS millions)	CPI-linked nominal par value as at March 31, 2009 (NIS millions)	On-book value of debenture balances as at March 31, 2009 (USD Millions)	On-book value of interest payable as at March 31, 2009 (USD Millions)	Fair value as at March 31, 2009 (USD Millions)
Series B	12/2006	ilAA (6)	1,650	Annual interest Linked to CPI	5.15%	7.3%	Yes	Twice a year on May 31, and November 30 in the years: 2006-2036	On November 30 of each of the years: 2020-2036	CPI for October 2006	1,637.5	1,743.1	398.0 (7)	6.9	337.6
	12/2006		465												
Series C(5)	3/2009	ilAA (6)	661	Annual interest Linked to CPI	4.45%	3.1%	Yes	Twice a year on May 31, and November 30 in the years: 2006-2013	On November 30 of each of the years: 2010-2013	CPI for October 2006	1,126	1,198.6	287.3	4.2	300.9
	12/2006		235												
Series D(5)	3/2009	ilAA (6)	472	Annual interest	6.5%	6.4%	Yes	Twice a year on May 31, and November 30 in the years: 2006-2016	On November 30 of each of the years: 2011-2016	Unlinked	707	707	166.4	3.7	173.7
	12/2006														

- (1) The trustee for the Debentures (Series B) is Aurora Fidelity Trust Company Ltd.: 12 Menachem Begin Road, Ramat Gan (Tel.: 03-6005946, Fax: 03-6120675). Contact person: Adv. Iris Shlevin; CEO; email: [ishlevin@aurorafidelity.com](mailto:ishlevin@aurorafidelity.com).
- (2) The trustee for the Bonds (Series C and D) is: Hermetic Trusts (1975) Ltd. 113 Hayarkon St., Tel Aviv (Tel.: 03-5274867; Fax: 03-5271736); contact person: Dan Avnon or Meirav Ofer. Email: [hermetic@hermetic.co.il](mailto:hermetic@hermetic.co.il).
- (3) As at the date of the report, the Company was in compliance with all of the conditions and undertakings under the deed of trust and no conditions existed giving rise to a cause of action for immediate repayment of the bonds.
- (4) On March 25, 2009, the Company issued NIS 661,000,000 par value debentures (series C) and NIS 472,000,000 par value debentures (series D) by way of extension of the series under the shelf prospectus published by the Company in May 2008. For further details, see the Company's immediate report of March 26, 2009 (Ref. No. 2009-01-067944).
- (5) On December 4, 2006, Standard & Poors Maalot ("Maalot") announced a rating of AA/Stable for the Debentures (Series B, C and D). On December 11, 2008, Maalot announced that the rating of the Debentures (Series B, C and D) had been entered into Credit Watch Negative. On March 22, 2009, Maalot announced approval of an i/AA rating for the Debentures in circulation and an i/AA rating for the issue by way of extension of series C and D of up to NIS 1.2 billion.
- (6) The on-book value of the balance of the Debentures (Series B) as at March 31, 2009 is presented less debentures acquired by a wholly owned subsidiary.