



Makhteshim Agan Industries Ltd.

Management Discussion and Analysis for the quarter ended June 30, 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 June 30, 2009, and for the cumulative period of six months ending on that date (the "Report Period").

1. Brief description of the Company and its business environment

Makhteshim Agan Industries Ltd. engages, via companies held by it, in the primary field of activity involving the development, manufacture and marketing of crop protection products. In addition, the Company has activities in other markets, none of which, in a substantial scope for the Company. As at the date of the report, the Company is the world's leading manufacturer of branded off-patent 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, an international marketing and distribution structure, and financial resilience. 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 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.

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 second quarter, by trends expressed commencing in the last quarter of 2008, as the Company has noted in its financial statements since then, the signs of which were notable in the first quarter of 2009, and which in part increased during the second quarter. These trends were expressed in the financial statements of the large companies in the global crop protection market and brought about a reduction in the sales and profits of these companies. The trends in question are, inter alia, the following:

1. Weather conditions in the areas of the Company's operations, including a particularly long and cold winter in Europe, heavy rains in North America and the impact of the drought in Southern Brazil and Argentina gave rise to a slow-down in demand for crop protection products. The slow-down in demand was particularly emphasized in light of advancement of sales in the market during the corresponding period last year.
2. The average selling prices of the crop protection products (excluding a decline in the price of glyphosate) remained high compared with the corresponding quarter last year. However, the slow-down in crop protection products sales and the high level of inventory in marketing channels (distributors) and with competitors (manufacturers) in the industry led to a drop in the selling prices of most of the products, which impacted the sales and profits of the Company's products.
3. Credit pressures and the over-caution of growers which reduced the demand for crop protection products, mainly in developing areas such as South America, Asia, Eastern Europe and Africa and brought about a transition to purchases close to the application date.
4. The Company reports its results in US dollars ("dollar") and therefore, the strengthening of 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 revaluation 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.
5. Depletion of existing inventories purchased at high cost caused a decline in the Company's gross profits. This trend is expected to continue during the second half of the year, until the existing inventories are depleted. On the other hand, raw material supply surpluses and a drop in oil and energy prices are expected to bring about a saving on costs and to partially offset the aforesaid decline in gross profits.

The Company estimates that the trends, in whole or in part, that took place at the end of 2008 and that were noticeable in the first quarter, and to a greater extent in the second quarter of 2009 as described above, will continue in the short term.

There is no change in the Company's long-term estimates as expressed in the Company's previous reports.

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

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

	%	4-6/2009	%	4-6/2008	Change	%
Revenues		560.3		682.3	(122.0)	(17.9%)
Gross profit	27.6%	154.8	35.1%	239.3	(84.5)	(35.3%)
R&D and SG&A expenses	20.9%	117.2	18.4%	125.9	(8.7)	(6.9%)
Operating profit (EBIT)	6.7%	37.6	16.6%	113.4	(75.8)	(66.8%)
Financing expenses	5.6%	31.4	4.8%	32.9	(1.5)	(4.4%)
Pre-tax profit	1.1%	6.2	11.8%	80.6	(74.4)	(92.3%)
Net profit after minority share	0.3%	1.7	10.1%	68.8	(67.1)	(97.5%)
EBITDA	10.8%	60.5	19.7%	134.3	(73.8)	(55.0%)

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

	%	1-6/2009	%	1-6/2008	Change	%
Revenues		1,282.5		1,404.4	(121.9)	(8.7%)
Gross profit	29.0%	372.2	35.6%	499.5	(127.3)	(25.5%)
R&D and SG&A expenses	17.8%	228.9	18.0%	252.2	(23.3)	(9.2%)
Operating profit (EBIT)	11.2%	143.2	17.6%	247.3	(104.0)	(42.1%)
Financing expenses	3.3%	41.8	4.6%	65.3	(23.5)	(36.0%)
Pre-tax profit	7.9%	101.5	13.0%	182.0	(80.5)	(44.2%)
Net profit after minority share	6.2%	79.9	11.4%	159.7	(79.8)	(49.9%)
EBITDA	14.7%	188.9	20.6%	289.7	(100.8)	(34.8%)

Impact of Special Events during the Quarter (USD Millions):

		Proforma		Less Special Events - Q2 2009				
	%	4-6/2008	%	4-6/2009	Dividend	Brazil	Inventory Depreciation	4-6/2009
Revenues	100.0	682.3	100.0	560.3				560.3
Sale cost	64.9	443.0	68.8	385.3		9.0	11.2	405.5
Gross profit	35.1	239.3	31.2	175.0		(9.0)	(11.2)	154.8
R&D expenses	1.0	6.7	1.0	5.8				5.8
Sales expenses	14.3	97.5	15.7	88.0		(1.5)		89.5
G&A expenses	3.3	22.6	2.9	16.5		(5.0)		21.5
Other expenses (revenues)	(0.1)	(0.9)	0.1	0.5				0.5
Operating profit	16.6	113.4	11.5	64.3		(15.5)	(11.2)	37.6
Financing expenses	(4.8)	(32.9)	(5.6)	(31.4)				(31.4)
Profit before tax	11.8	80.6	5.9	32.9		(15.5)	(11.2)	6.2
Tax	1.6	10.6	(0.9)	(5.1)	15.0	(4.1)	(3.0)	2.8
Net profit after tax	10.3	70.0	6.8	38.0	(15.0)	(11.4)	(8.2)	3.4
Net profit after minority	10.1	68.8	6.5	36.3	(15.0)	(11.4)	(8.2)	1.7
EBITDA	19.7	134.3	15.6	87.2		(15.5)	(11.2)	60.5

The results of the quarter were affected by the trends set out above and below, but also by a number of special events, as follows:

- (1) Payment of a dividend from the Group's overseas companies – on August 11, 2009, the board of directors of the Company approved a one-time withdrawal of profits from the Group's overseas companies, in the sum of up to \$300 million, as part of the temporary provision under Amendment 169 of the Income Tax Ordinance, permitting the Company to pay a reduced tax rate of only 5% during 2009, and in the sum of \$15 million (see also section 5 – Summary of Main Developments – below).
- (2) Events at the Brazilian Subsidiary Milenia – Following examination conducted by Brazilian authorities of Milenia Agrociencias S.A., a Makhteshim Agan Group company in Brazil ("**Milenia**"), with respect registrations of a number of formulations that Milenia manufactures and/or sells in Brazil, Milenia was instructed to temporarily refrain from manufacturing and selling such formulations, with such instruction to also apply to stock of some of Milenia's customers. . The Company made a one-time provision, in the sum of approximately 15.5 million pre-tax benefit with respect to inventories, sold products and other costs related to this matter (hereinafter: the "**events at the Brazilian Subsidiary**") (for further details see section 5 – Summary of Main Developments – below).
- (3) Impairment of Inventory – the Company made a provision in the sum of \$11.2 million for impairment of product inventories with an on-book value greater than the net forecast exercise value (the forecast sale price less forecast sales expenses).

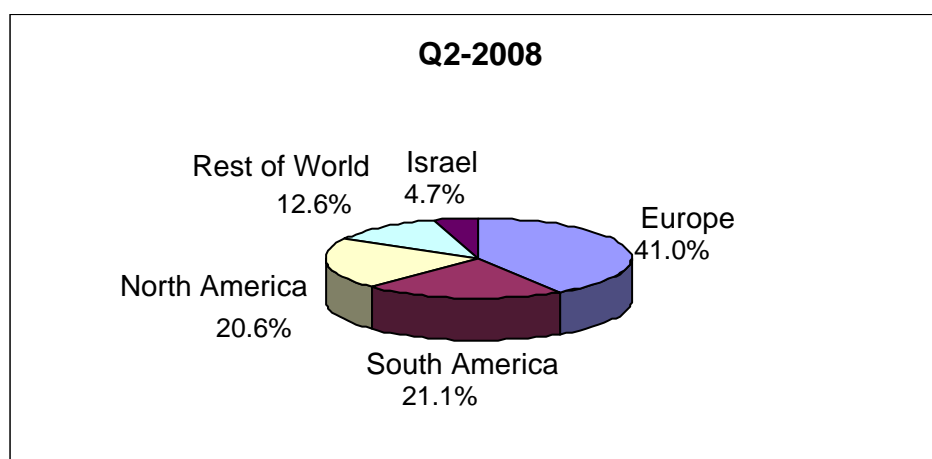
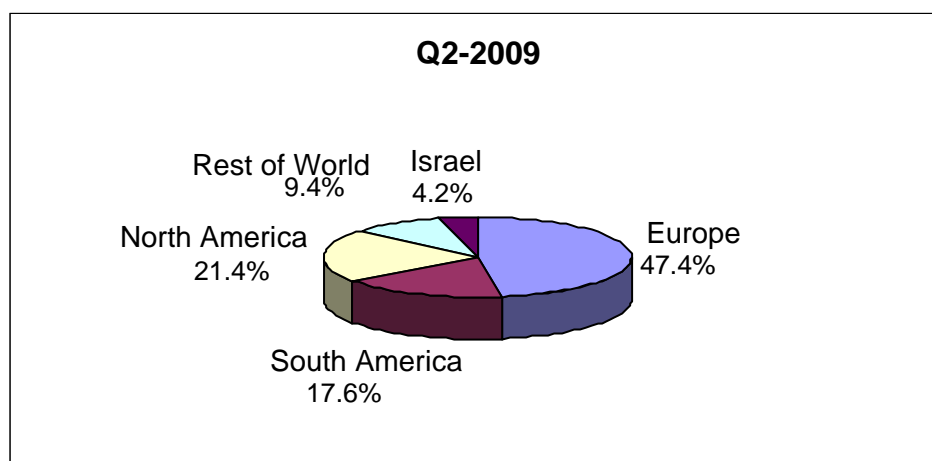
3. Analysis of Results of Business Operations

A. Revenues by Geographical Region

The Company's sales in the second quarter of 2009 amounted to the sum of \$560.3 million compared with \$682.3 million in the corresponding quarter last year. The Company's sales in the second quarter of 2009 in the field of crop protection products amounted to the sum of \$520.4 million compared with \$630.0 million in the corresponding quarter last year. During the course of this quarter, there was a decline in the Company's sales compared with the corresponding quarter last year, due to a reduction in demand as a result of the trends described above, a reduction in the dollar value of the Company's sales due to the revaluation of the dollar compared with the other currencies in which the Company operates and due also to the continued economic slowdown caused by the economic condition that began during the third quarter of 2008 (hereinafter: the "global condition").

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

Breakdown of Quarterly Sales:



Breakdown of Quarterly Sales (\$ millions)

	%	4-6/2009	%	4-6/2008	Change	%
Europe	47.4%	265.7	41.0%	279.9	(14.2)	(5.1%)
South America	17.6%	98.8	21.1%	143.6	(44.8)	(31.2%)
North America	21.4%	120.0	20.6%	140.7	(20.6)	(14.7%)
Rest of the world	9.4%	52.4	12.6%	85.9	(33.5)	(39.0%)
Israel	4.2%	23.3	4.7%	32.2	(8.9)	(27.6%)
Total	100.0%	560.3	100.0%	682.3	(122.0)	(17.9%)

Breakdown of Half-Yearly Sales (\$ millions)

	%	1-6/2009	%	1-6/2008	Change	%
Europe	49.4%	633.3	44.1%	619.9	13.4	2.2%
South America	18.9%	242.7	20.7%	291.0	(48.3)	(16.6%)
North America	19.1%	244.4	17.9%	251.4	(7.0)	(2.8%)
Rest of the world	9.2%	118.0	13.1%	184.6	(66.6)	(36.1%)
Israel	3.4%	44.2	4.1%	57.6	(13.4)	(23.3%)
Total	100.0%	1,282.5	100.0%	1,404.4	(121.9)	(8.7%)

In Europe: sales in the second quarter of 2009 amounted to \$265.7 million compared with \$279.9 million in the corresponding quarter of the previous year. The reduction in sales stemmed from: (1) a weakening of currencies, net, less hedging in European countries (mainly in EUR, GBP and PLN), compared with the USD and (2) a reduction in sales volume due to weather conditions, as aforesaid. The reduction in sales partially off-set by the first-time consolidation of companies acquired in Eastern Europe and due to an increase in selling prices compared with the corresponding quarter last year.

During the Report Period, sales to Europe amounted to \$633.3 million compared with \$619.9 million during the corresponding period last year; an increase of \$13.4 million.

In South America: sales in the second quarter of 2009 amounted to \$98.8 million compared with \$143.6 million in the corresponding quarter of the previous year, a decrease of \$44.8 million. The decrease in sales stemmed from: (1) a decline in prices and a reduction in sales volume as a result of high levels of inventory at distributors and due to a drought in Southern Brazil and Argentina, and (2) a weakening of the Brazilian Real compared to the USD.

During the Report Period, sales in South America amounted to \$242.7 million compared with \$291.0 million during the corresponding period last year.

In North America: sales in the second quarter of 2009 amounted to \$120.0 million compared with \$140.7 million in the corresponding quarter of the previous year, a decrease of \$20.6 million. This reduction stems mainly from a decline in sales volume compared with the

corresponding quarter last year due to weather conditions which brought about a late start to the agricultural season in the U.S.

During the Report Period, sales in North America amounted to \$244.4 million compared with \$251.4 million during the corresponding period last year; a decrease of \$7.0 million.

In the Rest of the World: sales in the second quarter of 2009 amounted to \$52.4 million compared with \$85.9 million in the corresponding quarter of the previous year, a decrease of \$33.5 million. The decrease in sales stemmed mainly from: (1) a decline in sales volume; (2) price erosion compared with the corresponding quarter last year; and (3) a revaluation of the USD compared with the other currencies in which the Company operates (mainly the AUD) which reduced the USD value of sales.

During the Report Period, sales in the rest of the world amounted to \$118.0 million compared with \$184.6 million during the corresponding period last year; a decrease of \$66.6 million.

In Israel: sales in the second quarter of 2009 amounted to \$23.3 million compared with \$32.2 million in the corresponding quarter of the previous year, a decrease of \$8.9 million. 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.

During the Report Period, sales in Israel amounted to \$44.2 million compared with \$57.6 million during the corresponding period last year; an increase of \$13.4 million.

B. Additional areas of activity:

During the second quarter of 2009, the Company's sales from other areas of activity amounted to \$39.9 million compared with sales of \$52.3 million in the corresponding quarter last year, a decrease of \$12.4 million. The decrease stemmed mainly from a decline in demand and from the revaluation of the dollar as against the currencies in which the Company's operations take place.

During the Report Period, the Company's sales from other areas of activity amounted to \$81.3 million compared with \$101.4 million in the corresponding period in the previous year.

C. Gross Profit:

Gross profit in the second quarter of 2009 less special events in the quarter as set out above, amounted to \$175.0 million (31.2% of sales) compared with \$239.3 million (35.1% of sales) in the corresponding quarter last year, a decrease of \$64.3 million. Following the impact of the special events in the quarter, as set out above, the gross profit in the second quarter of 2009 amounted to \$154.8 million (27.6% of sales).

Gross profit during the Report Period amounted to \$372.2 million (29.0% of sales) compared with \$499.5 million (35.6% of sales) in the corresponding quarter last year, a decrease of \$127.3 million. Note that the erosion in gross margin during the second quarter

of 2009 (less the impact of the special events in the quarter, as set out above) compared with the corresponding quarter last year was less than the rate of erosion in the first quarter of 2009, compared with the first quarter of 2008.

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

- (1) A significant decrease in the dollar value of sales due to the revaluation of the exchange rate of the dollar as against the currencies in which the Company operates;
- (2) A decrease in the Company's average selling prices compared with the corresponding quarter last year;
- (3) Depletion of inventory that was purchased at high prices and exchange rates during 2008, impacted its gross profits in the second quarter of 2009;
- (3) Special events during the quarter, as set out above.

D. Operating Profit:

Operating profit in the second quarter of 2009 amounted to \$37.6 million (6.7% of sales) compared with \$113.4 million (16.6% of sales) in the corresponding quarter last year, a decrease of \$75.8 million. The reduction in operating profit stemmed from a reduction in gross profit, as set out above, and was also due to additional operating expenses for the events at the Brazilian Subsidiary, as set out above.

Operating profit during the Report Period amounted to \$143.2 million (11.2% of sales) compared with \$247.3 million (17.6% of sales) in the corresponding quarter last year, a decrease of \$104.0 million.

Operating expenses this quarter amounted to \$117.2 million (20.9% of sales), compared with \$125.9 million (18.4% of sales) in the corresponding quarter last year.

During the Report Period, operating expenses amounted to \$228.9 million (17.8% of sales) compared with \$17.8 million (18% of sales) last year.

R&D expenses in the second quarter of 2009 amounted to approximately \$5.8 million compared with approximately \$6.7 million last year. During the report period, R&D expenses amounted to \$10.4 million compared with \$12.6 million last year. The decrease in expenses stemmed mainly from the revaluation of the dollar as against the shekel.

Sales expenses in the second quarter of 2009 amounted to the sum of \$89.5 million (16.0% of sales) compared with \$97.5 million (14.3% of sales) in the corresponding quarter last year. Sales expenses during the Report Period amounted to \$177.6 million (13.8% of sales) compared with \$195.8 million (13.9% of sales) in the corresponding quarter last year. The reduction in sales expenses during the quarter and during the Report Period is a reduction in variable expenses as a result of a reduction in sales.

General and administrative expenses in the second quarter of 2009 amounted to \$21.5 million (3.8% of sales) compared with \$22.6 million (3.3% of sales) in the corresponding quarter last year.

G&A expenses during the Report Period amounted to \$40.6 million (3.2% of sales) compared with \$44.6 million (3.2% of sales) in the corresponding period last year.

The decrease in these expenses stemmed from the revaluation of the dollar, a decrease in expenses for employee options and containment of operating expenses. The decrease in expenses was mostly offset by a provision, in the sum of approximately \$5.0 million, for the events at the Brazilian Subsidiary, as set out above.

E. Financing Expenses:

Financing expenses during the second quarter of 2009 amounted to \$31.4 million which was similar to financing expenses during the corresponding quarter last year, which amounted to the sum of \$32.9 million.

Financing expenses in the Report Period amounted to \$41.8 million, compared with \$65.3 million in the corresponding period last year.

The sharp drop in financing expenses during the Report Period 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 financing expense was recorded in the corresponding period last year for the valuation of employee reserves due to the revaluation of the shekel as against the dollar. Whilst in the Report Period, financing revenues were recorded for the valuation of these reserves as a result of the revaluation of the dollar as against the shekel.

F. Taxes on Income:

Tax expenses in the second quarter of 2009 amounted to \$2.8 million compared with \$10.6 million in the corresponding quarter last year. Less the impact of payment of a dividend from the Group's overseas companies as set out above, the Company's revenues from taxes this quarter amounted to the sum of \$12.2 million. The Company's revenues from taxes in this quarter stemmed, mainly, from a revaluation of the dollar compared with the Company's operating currencies.

Tax expenses in the Report Period amounted to \$19.3 million, compared with \$20.5 million in the corresponding period last year.

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

Net profit in the second quarter of 2009 excluding special events in the quarter as set out above, amounted to \$36.3 million (6.5% of sales) compared with \$68.8% million (10.1% of sales) in the corresponding quarter last year. Following the impact of the special events in the quarter, as set out above, net profit in the second quarter of 2009 amounted to \$1.7 million (0.3% of sales).

Net profit during the Report Period amounted to \$79.9 million (6.2% of sales) compared with \$159.7 million (11.4% of sales) in the corresponding quarter last year, a decrease of \$79.8 million.

H. **EBITDA:**

EBITDA in the second quarter of 2009 amounted to \$60.5 million (10.8% of sales) compared with \$134.3 million (19.7% of sales) in the corresponding quarter last year, a decrease of \$73.8 million.

EBITDA during the Report Period amounted to \$188.9 million (14.7% of sales) compared with \$289.7 million (20.6% of sales) in the corresponding quarter last year. The reduction in EBITDA during the quarter and the Report Period stemmed mainly from a reduction in the Company's operating profits.

4. **Financial Condition and Liquidity**

A. **Operating cash flow:**

Operating cash flow during the second quarter of 2009 was positive, amounting to \$222.1 million, compared with a positive cash flow of \$160.1 million in the corresponding quarter in the previous year. The increase in current cash flow stemmed from efficient collection from customers and continued exercise of existing inventory.

During the Report Period, operating cash flow was positive, amounting to \$159.4 million compared with \$213.9 million in the corresponding period last year.

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

The Company's investments in the second quarter of 2009 amounted to the sum of \$50.8 million compared with \$36.4 million in the corresponding quarter last year. The increase in investment operations stemmed mainly from the purchase of Rokita in Poland. In addition, these investments mostly include investments in 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 \$14.9 million, compared with \$21.4 million in the corresponding quarter last year.

During the Report Period, investments amounted to \$75.7 million compared with \$22.0 million in the corresponding period last year.

C. **Free cash flow:**

Free cash flow (less short term investments) in the second quarter of 2009 amounted \$171.4 million compared with a positive cash flow of \$126.4 million in the corresponding quarter last year. The increase in the free cash flow stemmed from an increase in operating cash flows.

In the Report Period, free cash flow amounted to \$83.6 million compared with \$144.8 million in the corresponding period last year.

D. Current assets:

Total current assets as at June 30, 2009 amounted to \$2,169.7 million, compared with \$2,063.6 million on June 30, 2008 and \$2,139.5 million on December 31, 2008.

The increase in current assets stemmed mainly from an increase of approximately \$87 million in inventory balances due to a lower than expected scope of sales. Note that despite the lower than expected sales, as aforesaid, the Company reduced its inventory level as at the date of the Report by approximately \$60 million compared with the inventory level as at May 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 June 30, 2009, to the sum of \$1,152.4 million (of which 15.2% was short-term credit) compared with \$863.3 million (of which 12.9% was short-term credit) on June 30, 2008.

The balance of cash and short-term investments as at June 30, 2009 amounted to \$347.3 million compared with \$308.7 million as at June 30, 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 investments) amounted, as at June 30, 2009, to \$805.0 million compared with \$554.6 million as at June 30, 2008 and \$893.3 million as at December 31, 2008.

The increase in the net debt balance as at June 30, 2009 compared with the net debt balance as at June 30, 2008 stems, mainly, from an increase in working capital, from payment of a dividend of approximately \$50 million by the Company to its shareholders in December 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:

Shareholders' equity as at June 30, 2009 amounted to \$1,373.7 million compared with \$1,392.0 million as at June 30, 2009 and \$1,286.7 million as at December 31, 2008. Shareholders' equity out of total balance sheet as at June 30, 2009 amounted to 39.7%, as at June 30, 2008 to 41.2% and as at December 31, 2008 to 38.1%.

H. Financial ratios:

	<u>As at June 30,</u>		<u>As at</u>
	<u>2009</u>	<u>2008</u>	<u>December</u>
			<u>31,</u>
			<u>2008</u>
Ratio of current assets to current liabilities (current ratio)	2.22	1.88	1.71
Ratio of current assets excluding inventory, to current liabilities (acid-test ratio)	1.22	1.07	0.8
Financial liabilities out of total balance sheet	33.3%	25.5%	32.9%
Financial liabilities out of total equity	83.9%	62.0%	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.

5. Summary of Main Developments

- ◆ On May 24, 2009, the board of directors of the Company approved the appointment of Mr. Erez Vigodman to the position of CEO of the Company commencing on January 1, 2010. For further particulars see the immediate report of the Company dated May 24, 2009 (reference no. 2009-01-117690), the information contained in which is hereby imported into this report by way of reference.
- ◆ New Registrations: During the quarter, the Company received 109 registrations for active ingredients, formulations and mixtures of which 68 are new registrations.
- ◆ On July 1, 2009, a criminal complaint was filed with the Local Court at Beer Sheva against Agan Chemical Manufacturers Ltd., a wholly owned subsidiary (hereinafter: “**Agan**”), directors, officers and a manager at Agan by a group of residents of Moshav Nir Galim (hereinafter: the “**Complainants**”). In the Complaint, the Complainants plead that Agan’s plant at Ashdod created strong and unreasonable odorous hazards on several occasions between 2007 and 2009 in contravention of the Prevention of Hazards Law, 5721-1961. Likewise, the Complainants plead that during the course of a fire which broke out at the Agan plant on January 14, 2009, strong and unreasonable air pollution was caused and hazardous substances were emitted into the atmosphere in contravention of the conditions of Agan’s business license, and in breach of the toxin permit, in contravention of the Business Licensing Law, 5728-1968 and the Hazardous Substances Law, 5753-1993. In the Complaint, the Complainants seek to convict the defendants and to impose fines and/or imprisonment upon them in accordance with the provisions of the relevant laws (hereinafter: the “**Complaint**”).

On July 14, 2009, a claim was filed with the District Court at Beer Sheva against Agan, directors, officers and a manager of Agan by 392 residents of Nir Galim (hereinafter: the

“**Plaintiffs**”) claiming damages caused to the Plaintiffs, as it were, due to the odor, noise and air pollution hazards originating at Agan’s plant. In the statement of claim, the Plaintiffs have asked that the Court award an injunction and a mandamus order against Agan and that it require Agan to pay compensation in the sum of approximately NIS 59 million (hereinafter: the “**Civil Claim**”).

As at the date of approval of the financial statements, neither the Complaint nor the Civil Claim have been lawfully served on Agan and therefore management of the Company is unable to assess the chances of such proceedings.

- ◆ On July 5, 2009, a special annual general meeting of the shareholders of the Company was convened. The Company published an immediate report regarding the convening of a general meeting on May 25, 2009 (reference no. 2009-01-120774), the information contained in which is imported herein by reference. The Company also published an immediate report regarding the outcome of the general meeting on July 5, 2007 [sic] (reference no. 2009-01-161796), the information contained in which is imported herein by reference.
- ◆ Following examination conducted by Brazilian authorities of Milenia with respect registrations of a number of formulations that Milenia manufactures and/or sells in Brazil, Milenia was instructed to temporarily refrain from manufacturing and selling such formulations, with such instruction to also apply to stock of some of Milenia's customers. Milenia is in ongoing contact with the authorities and that pursuant to the Brazilian Ministry of Health's request, the Brazilian Ministry of Agriculture, which is responsible for authorizing product registrations in Brazil, has confirmed that the changes made by Milenia to the products which were the subject of the examination, are acceptable and should not prevent the Company from continuing manufacturing and selling those products. Milenia's position, as presented to the authorities, is that the formulations are similar to those produced and sold by other companies in the Brazilian market, that the changes made to the formulations were minor, aimed to improve their quality, and if any variation exists – it is of a mere procedural nature. Milenia's position is that it applies advanced technologies in the formulation process, in accordance with the best public health standards. Should the contact with the Ministry of Health not resolve this matter, and based on measures taken by the Company to ensure supply of most of the formulations which were temporarily halted, the Company estimates, at this time, that there will be no material effect on the Company's sales and profits in the second half of the year
- ◆ On August 11, 2009, the board of directors of the Company resolved as follows:
 - A. to approve a one-time distribution of profits from the Group overseas companies in the sum of up to \$300 million as part of the temporary provision under Amendment 169 to the Income Tax Ordinance, enabling the Company, in the 2009 tax year only, to pay a reduced

tax rate of 5% instead of 25% on payment of dividends from affiliated companies overseas. This withdrawal shall not affect the Company's dividend policy and timing.

B. Distribution of \$70 million as dividend to the shareholders of the Company which is based on the Company's report for the period ending June 30, 2009 and in line with the profit test set out in the Israeli Companies Law (1999) and following a discussion in the Board of Directors that, to the best of the directors knowledge, in light of the Company's needs and anticipated cash flow there is no concern that the dividend payment will prevent the Company from meeting its existing and expected undertakings at relevant times. The total dividend per share at the date of the decision above is \$0.16098 and shall be adjusted at the exercise date.

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:

	30/6			Q2 Average			6 Month Average		
	2009	2008	Change	2009	2008	Change	2009	2008	Change
EUR/USD	1.41	1.58	-10.4%	1.36	1.56	-12.9%	1.33	1.53	-12.8%
USD/BRL	1.95	1.60	-22.0%	2.07	1.64	-26.6%	2.19	1.68	-30.2%
USD/PLN	3.20	2.13	-50.2%	3.28	2.19	-50.1%	3.37	2.29	-47.1%
USD/ZAR	7.74	7.84	1.2%	8.51	7.80	-9.1%	9.23	7.67	-20.3%
AUD/USD	0.81	0.96	-15.4%	0.76	0.94	-19.7%	0.71	0.92	-23.3%
GBP/USD	1.66	1.99	-16.6%	1.54	1.97	-21.7%	1.49	1.97	-24.6%
USD/ILS	3.92	3.35	16.9%	4.07	3.43	18.9%	4.06	3.53	15.1%
USD L 3M	1.19%	2.78%	-57.2%	0.84%	2.75%	-69.5%	1.04%	3.02%	-65.6%

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

E. Exposure to CPL 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 significant 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 second 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.

_____	_____	_____
Avraham Bigger	Ami Erel	Ran Maidan
Chairman of the Board of Directors and CEO	Director	CFO

August 11, 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 June 30, 2009 (NIS millions)	Nominal CPI-linked par value as at June 30, 2009 (NIS millions)	On-book value of bond balances as at June 30, 2009 (USD millions)	On-book value of interest payable as at June 30, 2009 (USD millions)	Fair value as at June 30, 2009 (USD millions)
Series B	12/2006	ilAA (5)	1,650	Annual interest Linked to CPI	5.15%	7.0%	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	1,776.0	433.5 (6)	1.9	373.0
Series C(4)	12/2006	ilAA (5)	465	Annual interest Linked to CPI	4.45%	1.7%	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	1,126.0	1,221.2	312.8	1.1	337.3
	3/2009		661												
Series D(4)	12/2006	ilAA (5)	235	Annual interest	6.5%	5.6%	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	707.0	707.0	178.0	1.0	188.4
	3/2009		472												

- (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.
- (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.
- (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 ilAA rating for the Debentures in circulation and an ilAA 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 June 30, 2009 is presented less debentures acquired by a wholly owned subsidiary.