



## **Makhteshim Agan Industries Ltd.**

### **Management Discussion and Analysis for the period ended September 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 September 30, 2009, and for the cumulative period of nine 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**

The crop protection market in general, and the Company's results during the Report Period, and in particular during the third quarter of 2009, were influenced by events of a one-time nature whose effect, in the Company's assessment, will begin to moderate as of 2010 and during the course of next year, it is expected that the level of demand for the Company's products will increase, based on several factors where improvement is visible such as:

- A. The fundamental trends that are affecting the crop protection products market including population increase and an increase in standard of living (mainly in developing countries) alongside limited planted areas which are expected to increase the demand for crop protection products in order to increase yield per existing unit of land, and the relative high level (over the long term) of agricultural output prices is also expected to support demand for crop protection products.
- B. A decline of inventories level in distribution channels is expected to give rise to an increase in the Company's sales volume.
- C. Expansion of the Company's operations and investments in areas of development, registrations, manufacturing capacity and acquisition of products and companies during the Report Period, the effect of which will be expressed more significantly as of 2010.
- D. A relief in credit pressure on farmers in developing companies.

The impact of the one-time events during the Report Period, as set out below, such as excess inventories in distributing channels, and the auditing activities by the authorities in Brazil on companies in the industry, including the Company, are very substantial and significantly affected the Company's performance and in particular, its operating profit during the Report Period.

Nevertheless it is in the Company's assessment, and assuming there will be no material one-time events, the fact that the Company expanded its operations and investments, as well as its positive cash flow together with the basic trends of the industry as a whole and the other effects set out above, will enable the Company to return to its growth trajectory and improve its profitability in the course of 2010.

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

1. The third quarter was characterized by a number of trends, most of which were one-time only, which were stronger than in the first half of the year, as follows: stability was retained in planted areas and in the level of application of crop protection products similar to the 2008 level, however, there has been a decrease in the sales of manufacturing companies, including the Company, due to a high level of inventories in the distribution channels and mainly in Brazil.
2. During the corresponding period last year, there was a trend in which distributors of crop protection products stocked up in advance (mainly in Brazil) which caused an increase in the sales of manufacturing companies into the distribution channels. On the other hand, the third quarter of 2009 was characterized by excess inventory in the distribution channels and by increased caution on the part of distributors and farmers who tended to purchase near to the time of consumption, a trend which brought about a decrease in the sales of manufacturing companies, including the Company.

3. In addition to the above, credit pressures, mainly in developing areas such as South America, Asia, Eastern Europe and Africa caused a reduction in demand for crop protection products and a shift to purchases close to the date of application.
4. The high levels of inventory in the distribution channels and with other companies in the industry (particularly in Brazil) led to a decrease in the selling prices of some products, which harmed the Company's sales and profits. Most of the price decreases were in Brazil and also global price decrease of the non-selective herbicide (glyphosate).
5. Several companies in the industry have been investigated by the health authorities in Brazil, similar to the events that occurred to the group's company in Brazil at the beginning of the quarter. These events caused a decrease in the sales and profits of group's company in Brazil. For more details see below.
6. Weather conditions in the areas of the Company's operations, including dry conditions in Northern Europe (which mainly prevented the need to use fungicides) and heavy rains in North America.
7. 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.
8. Depletion of existing inventories purchased at high cost caused a decrease in the Company's gross profit. This trend is expected to continue in the short term, until the depletion of the entire existing inventory. On the other hand, a decline in raw material prices, oil prices and energy prices compared with the corresponding period last year, are expected to reduce costs and to partially offset the aforesaid decrease in gross profit.

The Company estimates that the cumulative effect of the above trends which have become even more obvious during the course of the third quarter, despite the fact that they are one-time trends, will continue, in whole or in part, in the short term.

However, in the Company's assessment, as set out above, there has been no change in the basic trends that affect the crop protection market and accordingly, there is no change in the Company's long-term assessments 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 third quarter (USD millions):

	%	7-9/2009	%	7-9/2008	Change	%
Revenues		435.9		640.1	(204.1)	(31.9%)
Gross profit	25.0%	108.8	32.8%	209.9	(101.1)	(48.2%)
R&D and SG&A expenses	26.4%	114.9	19.4%	124.0	(9.1)	(7.4%)
Operating profit (EBIT)	-	(6.1)	13.4%	85.9	(91.9)	--
Financing expenses	6.6%	28.8	3.3%	20.9	7.9	37.9%
Pre-tax profit	-	(34.9)	10.1%	64.9	(99.9)	--
Net profit after minority share	-	(17.5)	7.9%	50.6	(68.1)	--
EBITDA	4.6%	20.1	17.0%	109.1	(89.0)	(81.5%)

### Statement of profit and loss for the first nine months of the year (USD millions):

	%	1-9/2009	%	1-9/2008	Change	%
Revenues		1,718.4		2,044.5	(326.0)	(15.9%)
Gross profit	28.0%	481.0	34.7%	709.3	(228.4)	(32.2%)
R&D and SG&A expenses	20.0%	343.8	18.4%	376.2	(32.4)	(8.6%)
Operating profit (EBIT)	8.0%	137.2	16.3%	333.1	(196.0)	(58.8%)
Financing expenses	4.1%	70.6	4.2%	86.2	(15.6)	(18.1%)
Pre-tax profit	3.9%	66.5	12.1%	246.9	(180.4)	(73.0%)
Net profit after minority share	3.6%	62.4	10.3%	210.3	(147.9)	(70.3%)
EBITDA	12.2%	209.0	19.5%	398.8	(189.8)	(47.6%)

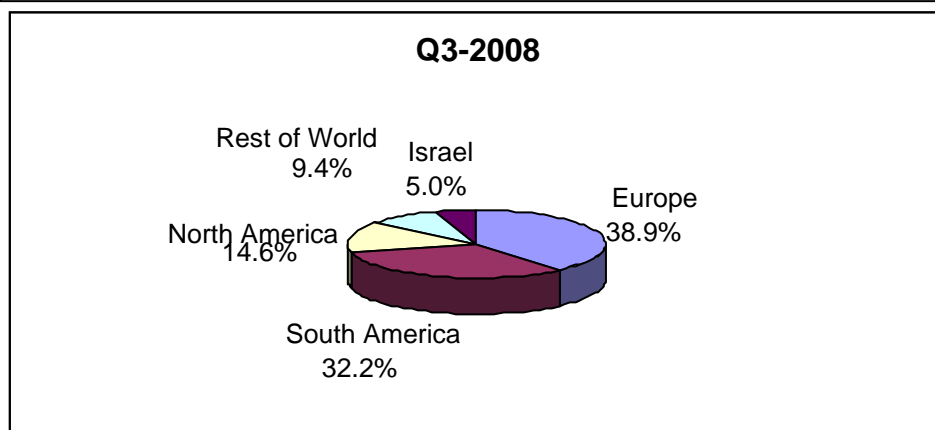
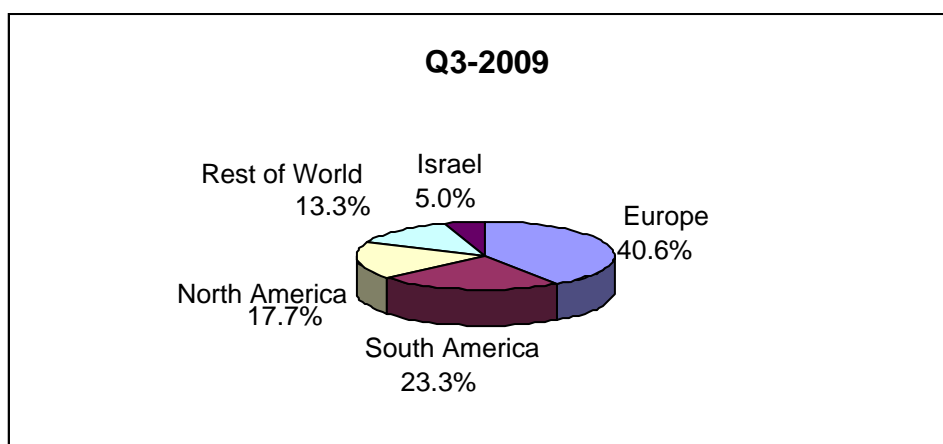
## 3. **Analysis of Results of Business Operations**

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

The Company's sales in the third quarter of 2009 amounted to the sum of \$435.9 million compared with \$640.1 million in the corresponding quarter last year. During the quarter, there was a decrease in the Company's sales compared with the corresponding quarter last year, due to a decrease in demand due to the trends noted above.

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)

	%	7-9/2009	%	7-9/2008	Change	%
Europe	40.6%	177.1	38.9%	248.8	(71.7)	(28.8%)
South America	23.3%	101.8	32.2%	206.1	(104.3)	(50.6%)
North America	17.7%	77.0	14.6%	93.3	(16.3)	(17.5%)
Rest of the world	13.3%	58.2	9.4%	60.0	(1.8)	(3.0%)
Israel	5.0%	21.9	5.0%	31.9	(10.0)	(31.3%)
<b>Total</b>	<b>100.0%</b>	<b>435.9</b>	<b>100.0%</b>	<b>640.1</b>	<b>(204.1)</b>	<b>(31.9%)</b>

Breakdown for first Nine Months (\$ millions)

	%	1-9/2009	%	1-9/2008	Change	%
Europe	47.2%	810.4	42.5%	868.7	(58.3)	(6.7%)
South America	20.0%	344.4	24.3%	497.1	(152.7)	(30.7%)
North America	18.7%	321.3	16.9%	344.7	(23.4)	(6.8%)
Rest of the world	10.3%	176.2	12.0%	244.5	(68.3)	(27.9%)
Israel	3.8%	66.1	4.4%	89.5	(23.4)	(26.2%)
<b>Total</b>	<b>100.0%</b>	<b>1,718.4</b>	<b>100.0%</b>	<b>2,044.5</b>	<b>(326.0)</b>	<b>(15.9%)</b>

In Europe: sales in the third quarter of 2009 amounted to \$177.1 million compared with \$248.8 million in the corresponding quarter of the previous year. The reduction in sales stemmed from: (1) a weakening of currencies 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.

During the Report Period, sales to Europe amounted to \$810.4 million compared with \$868.7 million during the corresponding period last year; an increase of \$58.3 million. During the Report Period, the Company retained its position as one of the leading companies in the industry in Europe.

In South America: sales in the third quarter of 2009 amounted to \$101.8 million compared with \$206.1 million in the corresponding quarter of the previous year, a decrease of \$104.3 million. The decrease in sales stemmed from: (1) the events at the group's company in Brazil which caused a decrease in sales and profits. (2) Increased stocking by distributors of crop protection products in the corresponding quarter last year on the one hand, and deferral of demand by farmers and a shift to purchasing close to the application date in the current quarter, on the other hand, led to a decrease in demands and volume. (3) A drop in selling prices as a result of high inventory levels with distributors, due to droughts in Southern Brazil and Argentina and mainly, a significant decrease in prices of the non-selective herbicide, glyphosate.

During the Report Period, sales in South America amounted to \$344.4 million compared with \$497.1 million during the corresponding period last year; a decrease of \$152.7 million.

The main harm to the Company's sales and profits stemmed from the Company's operations in South America and mainly in Brazil due to the one-time events described above. However, the Company is taking all necessary steps in order to reclaim its position in Brazil. Thus, the products that had been seized by the authorities in two states in Brazil was recently released and the Company was permitted to sell, distribute and manufacture the products without having to make any changes or adjustments; only a small portion of the products have not yet been released for production and therefore, the group's company in Brazil assesses that most of the impact of these events will end during the course of the fourth quarter. (For further information see the chapter entitled "Summary of Main Developments").

In North America: sales in the third quarter of 2009 amounted to \$77.0 million compared with \$93.3 million in the corresponding quarter of the previous year, a decrease of \$16.3 million. This reduction stems mainly from a decrease 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 \$321.3 million compared with \$344.7 million during the corresponding period last year; a decrease of \$23.4 million.

In the Rest of the World: sales in the third quarter of 2009 amounted to \$58.2 million compared with \$60.0 million in the corresponding quarter of the previous year, a decrease of \$1.8 million. The decrease in sales stemmed mainly from: (1) decrease of prices compared with the corresponding quarter last year, which stemmed mainly from a decline in the price of glyphosate and (2) a appreciation of the USD compared with the other currencies in which the Company operates (mainly

the Australian Dollar ) which reduced the USD value of sales. On the other hand, an increase in the sales volume of the Company's products in India partially offset the aforesaid reduction in sales.

During the Report Period, sales in the rest of the world amounted to \$176.2 million compared with \$244.5 million during the corresponding period last year; a decrease of \$68.3 million.

In Israel: sales in the third quarter of 2009 amounted to \$21.9 million compared with \$31.9 million in the corresponding quarter of the previous year, a decrease of \$10.0 million. The decrease in sales stems mainly from the appreciation of the dollar as against the shekel and from a decrease in the sale of products, most of which are not crop-protection products.

During the Report Period, sales in Israel amounted to \$66.1 million compared with \$89.5 million during the corresponding period last year; an increase of \$23.4 million.

**B. Additional areas of activity:**

During the third quarter of 2009, the Company's sales from other areas of activity amounted to \$44.8 million compared with sales of \$52.6 million in the corresponding quarter last year, a decrease of \$7.9 million. The decrease stemmed mainly from a decline in demand and from the appreciation of the dollar as against the currencies in which the Company operates.

During the Report Period, the Company's sales from other areas of activity amounted to \$126.1 million compared with \$154.1 million in the corresponding period in the previous year.

**C. Gross Profit:**

Gross profit in the third quarter of 2009 amounted to \$108.8 million (25.0% of sales) compared with \$209.9 million (32.8% of sales) in the corresponding quarter last year, a decrease of \$101.1 million.

Gross profit during the Report Period amounted to \$481.0 million (28% of sales) compared with \$709.3 million (34.7% of sales) in the corresponding quarter last year, a decrease of \$228.4 million.

Gross profit was affected during the Report Period mainly by exercise of inventory surpluses purchased at high prices during 2008. However, in light of depletion of most of the inventory during the Report Period, the Company's management assesses, that in 2010 there will be an improvement in the Company's gross profits.

The decrease in gross profits and gross margin this quarter stemmed, as aforesaid, from the following factors, some of which are of a one-time nature only:

- (1) Reduction in Company's sales.
- (2) Depletion of inventory, purchased at high prices during 2008, at current sale prices that were lower than in the corresponding quarter last year. The decrease was mainly occurred in the selling price of glyphosate globally, and in selling prices in Brazil.
- (3) The events at the group's company in Brazil which caused a decrease in sales and profit margins in Brazil.
- (4) A decrease in sales and adjustment of the Company's production capacity due to the reduction in demand which led to ascription of fixed expenditure at a higher rate than sales.

(5) A decrease in the dollar value of sales due to the appreciation of the dollar as against the currencies in which the Company operates;

**D. Operating Profit:**

Operating loss in the third quarter of 2009 amounted to \$6.1 million compared with \$85.9 million in the corresponding quarter of the previous year, a decrease of \$91.9 million. The decrease in operating profit stemmed from a decrease in gross profit, as set out above.

Operating profit during the Report Period amounted to \$137.2 million (8.0% of sales) compared with \$333.1 million (16.3% of sales) in the corresponding quarter last year, a decrease of \$196.0 million.

Operating expenses this quarter amounted to \$114.9 million (26.4% of sales), compared with \$124.0 million (19.4% of sales) in the corresponding quarter last year. The decrease in operating expenses stemmed from a reduction in variable operating expenses due to a decline in sales. On the other hand, fixed expenses, which did not decrease in direct proportion to the reduction in sales, caused an increase of expenses as percentage of sales.

During the Report Period, operating expenses amounted to \$343.8 million (20.0% of sales) compared with \$376.2 million (18.4% of sales) last year.

R&D expenses in the third quarter of 2009 amounted to approximately \$6.2 million compared with approximately \$5.3 million last year. During the report period, R&D expenses amounted to \$16.6 million compared with \$17.9 million last year.

Sales expenses in the third quarter of 2009 amounted to the sum of \$87.9 million (20.2% of sales) compared with \$96.1 million (15.0% of sales) in the corresponding quarter last year. Sales expenses during the Report Period amounted to \$265.6 million (15.5% of sales) compared with \$291.9 million (14.3% of sales) in the corresponding quarter last year. The reduction in sales expenses during the quarter and during the Report Period stemmed mainly from a reduction in variable expenses as a result of a reduction in sales. On the other hand, fixed expenses, which did not decrease in direct proportion to the reduction in sales, caused an increase of expenses as percentage sales.

General and administrative expenses in the third quarter of 2009 amounted to \$19.6 million (4.5% of sales) compared with \$22.6 million (3.5% of sales) in the corresponding quarter last year.

G&A expenses during the Report Period amounted to \$60.2 million (3.5% of sales) compared with \$67.1 million (3.3% of sales) in the corresponding period last year.

The reduction in these expenses stemmed from the revaluation of the dollar and containment of operating expenses.

Throughout the Report Period, the general and administrative expenses as percentage of sales remained steady.

**E. Financing Expenses:**

Financing expenses in the third quarter of 2009 amounted to the sum of \$28.8 million compared with \$20.9 million in the corresponding quarter last year. The increase in financing expenses during the

quarter stemmed mainly from: (1) financing expenses recorded due to the valuation of employee reserves (mainly for severance pay and vacation pay). Since liabilities to employees are calculated in shekels, financing revenues were recorded in the corresponding quarter for valuation of employee reserves due to the strengthening of the dollar as against the shekel whilst in the current quarter, due to the strengthening of the shekel as against the dollar, financing expenses were recorded; (2) due to the increase in the Company's debt as a result of the raising of debentures in March 2009.

Financing expenses in the Report Period amounted to \$70.6 million, compared with \$86.2 million in the corresponding period last year. The decrease in financing expenses during the Report Period stemmed from financing revenues which were due to the valuation of employee reserves, as set out above, due to strengthening of the dollar as against the shekel.

**F. Taxes on Income:**

The Company's income from taxation in the third quarter of 2009 amounted to the sum of \$17.4 million compared with tax expenses in the sum of \$14.4 million in the corresponding quarter last year. The Company's income from taxation this quarter stemmed mainly from the reduction in the Company's profits compared with the corresponding quarter last year, and a decrease in the balance of deferred tax liabilities and a recognition of a tax revenue of approximately \$7 million as a result of the decrease of tax rates following the Economic Rationalization (Statutory Amendments for the Implementation of the Economic Plan for 2009 and 2010) Law, 5769-2009.

Tax expenses in the Report Period amounted to \$2.0 million, compared with \$34.9 million in the corresponding period last year.

**G. Net income:**

The results of the Company's operations in the third quarter of 2009 amounted to a loss of \$17.5 million compared with a net profit of \$50.6 million (7.9% of sales) in the corresponding quarter of the previous year, a decrease of \$68.1 million.

Net profit during the Report Period amounted to \$62.4 million (3.6% of sales) compared with \$210.3 million (10.3% of sales) in the corresponding quarter last year.

**H. EBITDA:**

EBITDA in the third quarter of 2009 amounted to \$20.1 million (4.6% of sales) compared with \$109.1 million (17.0% of sales) in the corresponding quarter last year, a decrease of \$89.0 million.

**EBITDA during the Report Period amounted to \$209.0 million (12.2% of sales) compared with \$398.8 million dollars (19.5% 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. In the Company's assessment, the one-time events described in the preamble to this Report had a very significant impact on the EBITDA during the Report Period.

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

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

Operating cash flow during the third quarter of 2009 was positive, amounting to \$60.2 million, compared with a negative cash flow of \$111.9 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. Nevertheless, there has been a considerable increase in the number of day's receivables in Brazil as a result of the competitive environment.

During the Report Period, operating cash flow was positive, amounting to \$219.6 million compared with \$102.0 million in the corresponding period last year.

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

The Company's investments in the third quarter of 2009 amounted to the sum of \$36.8 million compared with \$30.6 million in the corresponding quarter last year. The increase in investment operations stemmed mainly from payment of data compensation and investments in product registrations. 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 \$17.6 million, compared with \$18.5 million in the corresponding quarter last year.

During the Report Period, investments amounted to \$113.0 million compared with \$101.2 million in the corresponding period last year.

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

Free cash flow (less short term investments) in the third quarter of 2009 amounted to positive cash flow of \$25.5 million compared with a negative cash flow of \$139.2 million last year.

In the Report Period, free cash flow (less short-term investments) amounted to \$109.0 million compared with \$5.6 million in the corresponding period last year.

The increase in the free cash flow in the quarter and in the Report Period stemmed from a significant improvement in operating cash flows.

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

Total current assets as at September 30, 2009 amounted to \$2,262.7 million, compared with \$2,051.6 million on September 30, 2008 and \$2,139.5 million on 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 September 30, 2009, to the sum of \$1,283.5 million (of which 16.1% was short-term credit) compared with \$935.8 million (of which 19.9% was short-term credit) on September 30, 2008.

The balance of cash and short-term investments as at September 30, 2009 amounted to \$444.3 million compared with \$169.7 million as at September 30, 2008, and \$215.4 million as at December 31, 2008.

The Company's net debt (loans to banks and bonds less cash and short-term investments) amounted on September 30, 2009 to the sum of \$839.2 million compared with the sum of \$766.0 million as at September 30, 2008 and the sum of \$893.3 million as at December 31, 2008. The net debt (less profit from hedging transactions ascribed to debt) amounted, as at September 30, 2009, to the sum of \$742.3 million compared with the sum of \$690.2 million as at September 30, 2008.

The increase in the net debt balance as at September 30, 2009 compared with the new debt balance as at September 30, 2008 stems mainly from payment of a dividend in the sum of approximately \$50 million which the Company paid to its shareholders in December 2008, and from a share buy-back.

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 September 30, 2009 amounted to \$1,298.0 million compared with \$1,357.2 million as at September 30, 2008 and \$1,286.7 million as at December 31, 2008. The ratio of equity to total balance as at September 30, 2009 amounted to 35.8%, as at September 30, 2008 to 40.8%, and as at December 31, 2008 to 38.1%.

#### H. Financial ratios:

	As at September 30,		As at December
	2009	2008	31, 2008
<b>Ratio of current assets to current liabilities (current ratio)</b>	2.01	1.91	1.71
<b>Ratio of current assets excluding inventory, to current liabilities (acid-test ratio)</b>	1.12	1.00	0.8
<b>Ratio of financial liabilities to total gross balance</b>	35.4%	28.2%	32.9%
<b>Ratio of financial liabilities to total gross equity</b>	98.9%	68.9%	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.

#### 5. Summary of Main Developments

- ◆ New Registrations: During the quarter, the Company received 119 registrations for active ingredients, formulations and mixtures of which 57 are new registrations.
- ◆ The Company exercised an option to acquire 100% stake in Bold, a U.S company which primarily engages in formulating crop protection products, the investment in which is considered immaterial to the Company's business.
- ◆ On August 11, 2009, the board of directors of the Company resolved as follows:
  - A. To approve the conditions of employment of Mr. Erez Vigodman, the incoming CEO, including the allotment of 3,600,000 options each exercisable for one ordinary share of NIS 1.00 par value of the Company. For further particulars, see the immediate reports of the Company of August 12, 2009 (reference no. 2009-01-195411 and 2009-01-195390), the information contained in which is imported into this Report by way of reference.
  - B. To update the conditions of the options allotted between the years 2006-2008 to twelve officers and employees of the Company and subsidiaries, such that the exercise period of the above options would be extended by two more years.
- ◆ On August 11, 2009, the board of directors of the Company resolved to approve distribution of 70 million dollars by way of dividend to the shareholders of the Company. For further particulars, see the immediate report of the Company of August 12, 2009 (reference no. 2009-01-195360), the information contained in which is imported into this Report by way of reference. On October 14, 2009, after the balance sheet date, the Company paid this dividend.
- ◆ On August 17, 2009, Koor Industries Ltd. ("Koor") published a special tender offer for the purchase of up to 22,000,000 ordinary shares of NIS 1.00 each of the Company, constituting approximately 5.06% of the issued and paid-up share capital of the Company and approximately 5.11% of the

voting rights therein, at a price of NIS 16.20 per share which was raised on October 12, 2009 to the sum of NIS 18.00 per share. The aforesaid tender offer was accepted in full on October 22, 2009.

- ◆ On September 22, 2009, the general meeting of the shareholders of the Company resolved, following receipt of the consent of the audit committee and the board of directors of the Company, to approve an amendment to the conditions of the options granted to Avraham Bigger, chairman of the board of directors and CEO of the Company. For further particulars, see the invitation to the general meeting published by the Company of August 12, 2009 (reference no. 2009-01-195375), the information contained in which is imported into this Report by way of reference.
- ◆ On September 21, the Company gave notice that it had signed a strategic joint venture agreement and an investment agreement with Cibus Global (“Cibus”) to the effect that the Company would invest in a joint venture with Cibus the purpose of which is the development of improved traits in a number of central cultivars. For further particulars, see the immediate report of the Company of September 21, 2009 (reference no. 2009-01-236325), the information contained in which is imported into this Report by way of reference.
- ◆ Pursuant to the reports regarding the group's company in Brazil, and similar reports of other companies in the industry in respect of whose operations the authorities in Brazil effected enforcement and seizure measures, the inventory of products that had been seized by the authorities in two states in Brazil was recently released and the Company was permitted to sell, distribute and manufacture the products contained in such inventory without requiring any changes or adjustments, and only a small portion of the products has not yet been released for manufacture. In this regard, the group's company position that the aforesaid formulations sold by it are similar to those sold on the Brazilian market by other companies and that the changes made to such formulations are minor and are intended to improve their quality was accepted. The group's company in Brazil estimates that most of the implications of these events will be over in the coming weeks.

◆ On November 8, 2009,

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

### C. **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:

1-9/2009 Average			7-9/2009 Average			30/9/2009			
Change	2008	2009	Change	2008	2009	Change	2008	2009	
-10.3%	1.520	1.363	-4.9%	1.503	1.429	0.3%	1.462	1.466	EUR/USD
-24.1%	1.679	2.083	-11.8%	1.669	1.866	6.2%	1.914	1.795	USD/BRL
-42.7%	2.261	3.226	-33.5%	2.204	2.943	-23.1%	2.353	2.896	USD/PLN
-13.6%	7.711	8.764	-0.5%	7.786	7.824	8.9%	8.165	7.44	USD/ZAR
-18.2%	0.911	0.745	-6.2%	0.886	0.831	6.4%	0.830	0.883	AUD/USD
-21.1%	1.946	1.536	-13.2%	1.891	1.641	-12.4%	1.838	1.61	GBP/USD
13.3%	3.519	3.988	9.8%	3.494	3.835	9.9%	3.421	3.76	USD/ILS
-72.1%	2.98%	0.83%	-85.9%	2.91%	0.41%	-92.8%	4.05%	0.29%	USD/L3M

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.

#### D. 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.

#### E. Description of Market Risks

##### Company's Policy regarding Market Risk Management

The Company's policy is to maintain as high as possible a coefficient 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.

#### F. 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 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.

#### G. 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.

#### H. **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.

#### I. **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.

#### J. **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.

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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

November 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 September 30, 2009 (NIS millions)	Nominal CPI-linked par value as at September 30, 2009 (NIS millions)	On-book value of debenture balances as at September 30, 2009 (USD millions)	On-book value of interest payable as at September 30, 2009 (USD millions)	Fair value as at September 30, 2009 (USD millions)
Series B	12/2006	ilAA (5)	1,650	Annual interest Linked to CPI	5.15%	6.4%	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	1819.3	463.1 (6)	8.3	432.6
Series C(4)	12/2006	ilAA (5)	465	Annual interest Linked to CPI	4.45%	1.8%	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	1,251	334.0	5.0	361.1
	3/2009		661												
Series D(4)	12/2006	ilAA (5)	235	Annual interest	6.5%	4.9%	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	185.8	4.1	205.2
	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 September 30, 2009 is presented less debentures acquired by a wholly owned subsidiary.