

Makhteshim-Agan Industries Ltd.

Condensed Consolidated Interim

Financial Statements

(Unaudited)

As at June 30, 2009

Financial Statements as at June 30, 2009 (Unaudited)

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Review Report of the Independent Auditors to the Shareholders of Makhteshim–Agan Industries Ltd.

Introduction

We have reviewed the accompanying financial information of Makhteshim–Agan Industries Ltd. and its subsidiaries (hereinafter – “the Group”) comprising of the condensed consolidated interim statement of financial position as of June 30, 2009 and the related condensed consolidated interim statements of income, comprehensive income, changes in equity and cash flows for the six and three-month period then ended on those date. The Board of Directors and Management are responsible for the preparation and presentation of this interim financial information in accordance with IAS 34 “*Interim Financial Reporting*”, and are also responsible for the preparation of financial information for this interim period in accordance with Section D of the Securities Regulations (Periodic and Immediate Reports), 1970. Our responsibility is to express a conclusion on this interim financial information based on our review.

We did not review the condensed interim financial information of certain consolidated subsidiaries whose assets constitute 8.4% of the total consolidated assets as at June 30, 2009, and whose revenues constitute 12.9% and 12.4% of the total consolidated revenues for the six and three month period then ended on those date, respectively. The condensed interim financial information of those companies was reviewed by other auditors whose review reports thereon were furnished to us, and our conclusion, insofar as it relates to amounts emanating from the financial information of such companies, is based solely on the said review reports of the other auditors.

Scope of Review

We conducted our review in accordance with Standard on Review Engagements 1, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" of the Institute of Certified Public Accountants in Israel. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards in Israel and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review and the review reports of other auditors, nothing has come to our attention that causes us to believe that the accompanying financial information was not prepared, in all material respects, in accordance with IAS 34.

In addition to that mentioned in the previous paragraph, based on our review and the review reports of other auditors, nothing has come to our attention that causes us to believe that the accompanying interim financial information does not comply, in all material respects, with the disclosure requirements of Section D of the Securities Regulations (Periodic and Immediate Reports), 1970.

Respectfully,
Somekh Chaikin
Certified Public Accountants (Isr.)
August 11, 2009

Condensed Consolidated Interim Statement of Financial Position as at

In US dollars

	June 30 2009	June 30 2008	December 31 2008
	(Unaudited)	(Unaudited)	(Audited)
	\$ thousands	\$ thousands	\$ thousands
Current assets			
Cash and cash equivalents	346,938	304,043	214,920
Short-term investments	405	4,686	514
Trade receivables	682,541	561,970	519,439
Subordinated debenture	2,614	86,733	95,365
Prepaid expenses	14,707	16,372	10,328
Financial assets, including derivatives	131,287	183,365	149,972
Advances less provision for income tax	16,900	19,146	13,532
Inventories	974,273	887,256	1,135,418
	2,169,665	2,063,571	2,139,488
Long-term investments, loans and receivables			
Financial investments and other receivables	67,311	135,518	54,190
Non-financial investments and other receivables	12,859	12,309	12,268
	80,170	147,827	66,458
Property, plant and equipment			
Cost	1,088,777	1,026,809	1,046,799
Less - accumulated depreciation	538,119	500,827	514,308
	550,658	525,982	532,491
Deferred tax assets	74,601	71,331	62,412
Intangible assets			
Cost	1,051,580	989,590	1,007,487
Less - accumulated amortization	463,138	419,181	434,925
	588,442	570,409	572,562
	1,293,871	1,315,549	1,233,923
	3,463,536	3,379,120	3,373,411

In US dollars

	June 30 2009	June 30 2008	December 31 2008
	(Unaudited)	(Unaudited)	(Audited)
	\$ thousands	\$ thousands	\$ thousands
Current liabilities			
Credit from banks and others	175,589	111,212	413,857
Trade payables	380,886	482,302	482,618
Other payables and credit balances	354,983	439,747	320,318
Provision for income tax less advances	43,708	46,641	16,958
Put options held by the minority interest	23,918	17,144	17,389
	<u>979,084</u>	<u>1,097,046</u>	<u>1,251,140</u>
Long-term liabilities			
Loans from banks	52,586	17,713	60,121
Debentures	924,305	734,493	634,801
Other long-term liabilities	19,480	16,416	12,343
Deferred taxes payable	60,320	32,778	63,375
Employee benefits	54,065	68,395	57,898
Put options held by the minority interest	-	20,326	7,056
	<u>1,110,756</u>	<u>890,121</u>	<u>835,594</u>
Equity capital			
Share capital	125,563	125,542	125,542
Share premium	623,861	623,882	623,882
Reserves	6,410	26,226	7,906
Retained earnings	843,065	744,137	759,544
Treasury shares	(245,548)	(145,952)	(245,548)
	<u>1,353,351</u>	<u>1,373,835</u>	<u>1,271,326</u>
Total equity capital attributed to the Company's equity holders	<u>1,353,351</u>	<u>1,373,835</u>	<u>1,271,326</u>
Minority interest	<u>20,345</u>	<u>18,118</u>	<u>15,351</u>
Total equity	<u>1,373,696</u>	<u>1,391,953</u>	<u>1,286,677</u>
	<u>3,463,536</u>	<u>3,379,120</u>	<u>3,373,411</u>

Avraham Bigger

Chief Executive Officer and
Chairman of the Board of Directors

Ami Erel

Director

Ran Maidan

Chief Financial Officer

Date the financial statements were approved: August 11, 2009

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

Condensed Consolidated Interim Statement of Income for the

In US dollars

	Six month period ended June 30		Three month period ended June 30		Year ended December 31
	2009	2008	2009	2008	2008
	(Unaudited) \$ thousands	(Unaudited) \$ thousands	(Unaudited) \$ thousands	(Unaudited) \$ thousands	(Audited) \$ thousands
Statement of income					
Revenues	1,282,519	1,404,424	560,251	682,256	2,535,504
Cost of sales	910,359	904,955	405,452	442,964	1,687,759
Gross profit	372,160	499,469	154,799	239,292	847,745
Other income	(1,332)	(1,633)	(561)	(1,055)	(3,684)
Selling and marketing	177,626	195,822	89,474	97,490	375,200
General and administrative	40,599	44,571	21,468	22,594	83,972
Research and development	10,420	12,620	5,753	6,655	22,374
Other expenses	1,611	829	1,055	178	2,633
	228,924	252,209	117,189	125,862	480,495
Operating income	143,236	247,260	37,610	113,430	367,250
Financing expenses	73,712	143,001	66,972	71,118	180,645
Financing income	(31,945)	(77,700)	(35,548)	(38,242)	(84,038)
Financing expenses, net	41,767	65,301	31,424	32,876	96,607
Income before tax	101,469	181,959	6,186	80,554	270,643
Income tax expense	19,342	20,502	2,818	10,575	49,684
Income for the period	82,127	161,457	3,368	69,979	220,959
Attributable to:					
The Company's equity holders	79,946	159,721	1,716	68,796	219,041
Minority interest	2,181	1,736	1,652	1,183	1,918
Income for the period	82,127	161,457	3,368	69,979	220,959
Earnings per share					
Basic earnings per share	0.186	0.359	0.004	0.155	0.498
Diluted earnings per share	0.186	0.356	0.004	0.153	0.496

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

Condensed Consolidated Interim Statement of Comprehensive Income for the

In US dollars

	Six month period ended June 30		Three month period ended June 30		Year ended December 31
	2009 (Unaudited) \$ thousands	2008 (Unaudited) \$ thousands	2009 (Unaudited) \$ thousands	2008 (Unaudited) \$ thousands	2008 (Audited) \$ thousands
Income for the period	82,127	161,457	3,368	69,979	220,959
Other elements of comprehensive income					
Foreign currency translation differences in respect of foreign activities	7,264	7,291	13,242	(33)	(12,275)
Effective part of change in fair value of cash flow hedges	13,223	58,198	(429)	33,301	22,279
Net change in fair value of hedged cash flow transferred to statement of income	(20,122)	(47,051)	(20,112)	(24,525)	(16,279)
Actuarial losses from defined benefit plan	301	(1,532)	5,847	(1,532)	(312)
Income tax relating to other comprehensive income	(1,415)	(3,013)	1,745	(2,224)	1,073
Total other comprehensive income for the period, net of tax	(749)	13,893	293	4,987	(5,514)
Comprehensive income for the period	81,378	175,350	3,661	74,966	215,445
Total comprehensive income attributable to:					
Company's equity holders	78,715	173,058	30	74,484	214,940
Minority interest	2,663	2,292	3,631	482	505
Total comprehensive income for the period	81,378	175,350	3,661	74,966	215,445

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

Condensed Consolidated Interim Statement of Changes in Equity

	Share capital	Premium on shares	Capital reserves	Retained earnings	Company shares held by Company and subsidiary	Total equity attributed to Company's equity holders	Minority interest	Total equity
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	\$ thousands	\$ thousands	\$ thousands	\$ thousands	\$ thousands	\$ thousands	\$ thousands	\$ thousands
For the six-month period ended June 30, 2009								
Balance at January 1, 2009	125,542	623,882	7,906	759,544	(245,548)	1,271,326	15,351	1,286,677
Comprehensive income for period	-	-	(1,521)	80,236	-	78,715	2,663	81,378
Exercise of employee options	21	(21)	-	-	-	-	-	-
Employee option expenses	-	-	-	3,285	-	3,285	-	3,285
Tax benefits from employee options	-	-	25	-	-	25	-	25
First-time consolidation	-	-	-	-	-	-	3,399	3,399
Dividend to minority shareholders	-	-	-	-	-	-	(1,068)	(1,068)
Balance at June 30, 2009	<u>125,563</u>	<u>623,861</u>	<u>6,410</u>	<u>843,065</u>	<u>(245,548)</u>	<u>1,353,351</u>	<u>20,345</u>	<u>1,373,696</u>
For the six-month period ended June 30, 2008								
Balance at January 1, 2008	125,274	624,150	11,575	699,019	(144,196)	1,315,822	21,245	1,337,067
Comprehensive income for period	-	-	14,450	158,608	-	173,058	2,292	175,350
Exercise of employee options	268	(268)	-	-	-	-	-	-
Buy-back of company's shares	-	-	-	-	(1,756)	(1,756)	-	(1,756)
Employee option expenses	-	-	-	5,561	-	5,561	-	5,561
Dividend to equity holders	-	-	-	(119,051)	-	(119,051)	-	(119,051)
Tax benefits from employee options	-	-	201	-	-	201	-	201
Acquisition of minority interest in subsidiary	-	-	-	-	-	-	(476)	(476)
Issuance of equity to minority shareholders	-	-	-	-	-	-	26	26
Dividend to minority shareholders	-	-	-	-	-	-	(1,405)	(1,405)
Put options to minority shareholders	-	-	-	-	-	-	(3,564)	(3,564)
Balance at June 30, 2008	<u>125,542</u>	<u>623,882</u>	<u>26,226</u>	<u>744,137</u>	<u>(145,952)</u>	<u>1,373,835</u>	<u>18,118</u>	<u>1,391,953</u>

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

Condensed Consolidated Interim Statement of Changes in Equity

	Share capital	Premium on shares	Capital reserves	Retained earnings	Company shares held by Company and subsidiary	Total equity attributed to Company's equity holders	Minority interest	Total equity
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	\$ thousands	\$ thousands	\$ thousands	\$ thousands	\$ thousands	\$ thousands	\$ thousands	\$ thousands
For the three-month period ended June 30, 2009								
Balance at April 1, 2009	125,550	623,874	12,595	835,448	(245,548)	1,351,919	13,666	1,365,585
Comprehensive income for period	-	-	(6,186)	6,216	-	30	3,631	3,661
Exercise of employee options	13	(13)	-	-	-	-	-	-
Employee option expenses	-	-	-	1,401	-	1,401	-	1,401
Tax benefits from employee options	-	-	1	-	-	1	-	1
First-time consolidation	-	-	-	-	-	-	3,399	3,399
Dividend to minority shareholders	-	-	-	-	-	-	(351)	(351)
Balance at June 30, 2009	<u>125,563</u>	<u>623,861</u>	<u>6,410</u>	<u>843,065</u>	<u>(245,548)</u>	<u>1,353,351</u>	<u>20,345</u>	<u>1,373,696</u>
For the three-month period ended June 30, 2008								
Balance at April 1, 2008	125,329	624,095	19,280	673,820	(144,196)	1,298,328	17,621	1,315,949
Comprehensive income for period	-	-	6,801	67,683	-	74,484	482	74,966
Exercise of employee options	213	(213)	-	-	-	-	-	-
Buy-back of Company's shares	-	-	-	-	(1,756)	(1,756)	-	(1,756)
Employee option expenses	-	-	-	2,634	-	2,634	-	2,634
Tax benefits from employee options	-	-	145	-	-	145	-	145
Issuance of equity to minority shareholders	-	-	-	-	-	-	15	15
Balance at June 30, 2008	<u>125,542</u>	<u>623,882</u>	<u>26,226</u>	<u>744,137</u>	<u>(145,952)</u>	<u>1,373,835</u>	<u>18,118</u>	<u>1,391,953</u>

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

Condensed Consolidated Interim Statement of Changes in Equity

	<u>Share capital</u>	<u>Premium on shares</u>	<u>Capital reserves</u>	<u>Retained earnings</u>	<u>Company shares held by Company and subsidiary</u>	<u>Total equity attributed to Company's equity holders</u>	<u>Minority interest</u>	<u>Total equity</u>
	<u>(Audited)</u>	<u>(Audited)</u>	<u>(Audited)</u>	<u>(Audited)</u>	<u>(Audited)</u>	<u>(Audited)</u>	<u>(Audited)</u>	<u>(Audited)</u>
	<u>\$ thousands</u>	<u>\$ thousands</u>	<u>\$ thousands</u>	<u>\$ thousands</u>	<u>\$ thousands</u>	<u>\$ thousands</u>	<u>\$ thousands</u>	<u>\$ thousands</u>
For the year ended December 31, 2008								
Balance at January 1, 2008	125,274	624,150	11,575	699,019	(144,196)	1,315,822	21,245	1,337,067
Comprehensive income for year 2008	-	-	(3,844)	218,784	-	214,940	505	215,445
Exercise of employee options	268	(268)	-	-	-	-	-	-
Buy-back of Company's shares	-	-	-	-	(101,352)	(101,352)	-	(101,352)
Employee option expenses	-	-	-	10,350	-	10,350	-	10,350
Tax benefits from employee options	-	-	175	-	-	175	-	175
Dividend to equity holders	-	-	-	(168,609)	-	(168,609)	-	(168,609)
Dividend to minority shareholders	-	-	-	-	-	-	(1,405)	(1,405)
Acquisition of minority interest	-	-	-	-	-	-	(1,430)	(1,430)
Exercise of put option by Company	-	-	-	-	-	-	(3,564)	(3,564)
Balance at December 31, 2008	<u>125,542</u>	<u>623,882</u>	<u>7,906</u>	<u>759,544</u>	<u>(245,548)</u>	<u>1,271,326</u>	<u>15,351</u>	<u>1,286,677</u>

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

Condensed Consolidated Interim Statement of Changes in Cash Flows for the**In US dollars**

	Six month period ended June 30		Three month period ended June 30		Year ended December 31
	2009	2008	2009	2008	2008
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	\$ thousands	\$ thousands	\$ thousands	\$ thousands	\$ thousands
Cash flows from operating activities					
Income for the period	82,127	161,457	3,368	69,979	220,959
Adjustments:					
Interest paid in cash	(36,882)	(32,046)	(30,556)	(25,766)	(68,354)
Interest received in cash	6,439	2,878	4,844	1,571	5,593
Taxes paid in cash, net	(14,952)	(30,414)	(7,665)	(16,855)	(32,078)
Depreciation and amortization	47,797	44,168	24,508	22,008	91,191
Gain from buy-back of Company's debentures	-	-	-	-	(5,692)
Depreciation (appreciation) of long-term investments	312	(92)	(70)	203	103
Capital loss (gain) from sale of property, plant and equipment and other assets, net	1,457	(487)	1,488	(753)	153
Amortization of discount/premium and issue costs	(6)	46	(27)	23	92
Employee option expenses	3,285	5,561	1,401	2,623	10,350
Revaluation of put options	173	701	87	350	1,702
Adjustment of long-term liabilities	3,761	110,784	72,543	56,831	32,649
SWAP transaction	1,319	(47,061)	(26,221)	(24,645)	(16,279)
Change in provision for tax and income tax prepayments, net	23,382	21,568	16,762	10,088	(2,501)
Interest paid in cash	36,882	32,046	30,556	25,766	68,354
Interest received in cash	(6,439)	(2,878)	(4,844)	(1,571)	(5,593)
Taxes paid in cash, net	14,952	30,414	7,665	16,855	32,078
Change in deferred taxes, net	(16,660)	(33,365)	(16,866)	(18,253)	26,911
Changes in items of assets and liabilities					
Decrease (increase) in trade receivables and debit balances	(83,272)	(167,155)	110,644	34,811	(66,237)
Decrease (increase) in inventories	175,865	(102,715)	75,864	(85,283)	(355,094)
Increase (decrease) in trade payables and other payables and credit balances	(77,076)	209,483	(42,233)	85,926	76,276
Change in provisions and benefits for employees	(3,042)	11,038	879	6,205	232
Net cash provided by operating activities	159,422	213,931	222,127	160,113	14,815

Condensed Consolidated Interim Statement of Changes in Cash Flows for the (cont'd)**In US dollars**

	Six month period ended June 30		Three month period ended June 30		Year ended December 31
	2009	2008	2009	2008	2008
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	\$ thousands	\$ thousands	\$ thousands	\$ thousands	\$ thousands
Cash flows for investing activities					
Acquisition of property, plant and equipment	(27,550)	(39,903)	(14,872)	(21,399)	(70,430)
Additions to intangible assets	(34,845)	(27,666)	(21,979)	(13,476)	(60,686)
Short-term investments, net	109	91,173	(36)	(2,695)	95,345
Repayment of long-term investment	-	-	-	-	541
Proceeds from realization of property, plant and equipment and intangible assets	377	1,430	37	1,183	6,882
Acquisition of subsidiaries net of cash acquired (Appendix A)	(12,940)	(2,520)	(13,014)	-	(2,520)
Acquisition of minority interest	(888)	(511)	(888)	-	(16,419)
Net cash provided by (used in) investment activities	(75,737)	22,003	(50,752)	(36,387)	(47,287)

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

Condensed Consolidated Interim Statement of Changes in Cash Flows for the**In US dollars**

	Six month period ended		Three month period ended		Year ended
	June 30		June 30		December 31
	2009	2008	2009	2008	2008
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	\$ thousands	\$ thousands	\$ thousands	\$ thousands	\$ thousands
Cash flows from financing activities					
Receipt of long-term loans from banks	295	-	124	-	55,101
Repayment of long-term loans and liabilities from banks and others	(8,915)	(1,648)	(2,868)	(904)	(5,085)
Increase (decrease) in short-term liabilities to banks	(246,214)	(7,315)	(200,142)	(19,627)	285,934
Settlement of SWAP transaction	18,000	-	18,000	-	-
Dividend to minority shareholders in subsidiaries	(582)	(275)	(582)	-	(326)
Buy-back of Company's shares	-	(1,756)	-	(1,756)	(101,352)
Dividend to shareholders	-	(119,051)	-	(119,051)	(168,609)
Issuance of debentures net of issue costs	285,749	-	-	-	-
Buy-back of Company's debentures	-	-	-	-	(16,425)
Net cash provided by (used in) financing activities	48,333	(130,045)	(185,468)	(141,338)	49,238
Increase (decrease) in cash and cash equivalents	132,018	105,889	(14,093)	(17,612)	16,766
Cash and cash equivalents at the beginning of the period	214,920	198,154	361,031	321,655	198,154
Cash and cash equivalents at the end of the period	346,938	304,043	346,938	304,043	214,920
A. Investments in newly consolidated companies					
Working capital (excluding cash and cash equivalents)	(6,103)	208	(6,218)	-	208
Property, plant and equipment, net	(9,980)	(22)	(9,890)	-	(22)
Other assets, net	(1,629)	(8,836)	(1,554)	-	(8,836)
Goodwill created on acquisition	(5,802)	-	(2,005)	-	-
Excess cost attributable to intangible assets	(3,828)	-	(500)	-	-
Short-time liabilities for acquisition Company	3,376	-	-	-	-
Long-term liabilities	7,627	-	3,754	-	-
Minority interest	3,399	-	3,399	-	-
Put options granted to the minority interest	-	6,130	-	-	6,130
	(12,940)	(2,520)	(13,014)	-	(2,520)

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

Notes to the Financial Statements as at June 30, 2009 (Unaudited)

Note 1 - Reporting Principles and Accounting Policies**A. The reporting entity**

- (1) The Company is an Israel-resident company that was incorporated in Israel, and its official address is the Arava Building in Airport City Park. The consolidated financial statements of the Company as at June 30, 2009 include those of the Company and its subsidiaries (together – "the Group"). The Group operates in Israel and abroad and is engaged in the development, manufacture and marketing of agrochemicals, intermediate materials for other industries, food additives and synthetic aromatic products, mainly for export. The Company is held by Koor Industries Ltd. (hereinafter, "Koor"). The Company's securities are listed for trading on the Tel Aviv Stock Exchange.
- (2) Sales of agrochemical products are directly dependent on the agricultural seasons and the cyclical pattern of the growing seasons and, therefore, the Company's income is not spread evenly throughout the year. Countries located in the northern hemisphere are characterized by the same timing of the agricultural seasons and, as a result, sales to these countries are usually highest in the first half of the year. In the southern hemisphere, the seasonal trends are the opposite and most of the local sales are made in the second half of the year, except for Australia where most of the sales are made in April through July. The Company's worldwide operations act to balance out the seasonal impacts, even though the Company's sales are higher in the northern hemisphere.

Note 2 - Basis for Financial Statement Preparation**A. Declaration of compliance with International Financial Reporting Standards (IFRS)**

The condensed consolidated financial statements were prepared in accordance with IAS 34 – *Financial Reporting for Interim Periods* and do not include all the information required for full annual financial statements. They should be read in conjunction with the annual financial statements for the year ended December 31, 2008 ("annual financial statements"). Additionally, these financial statements were prepared in accordance with the provisions of Chapter IV of the Securities Regulations (Periodic and Immediate Reports, 1970).

The condensed financial statements were approved for publication by the Group's Board of Directors on August 11, 2009.

B. Use of estimates and judgment

When preparing condensed financial statements in conformance with IFRS, Company management is required to use judgment when making assessments, estimates and assumptions that affect the implementation of the policies and amounts of assets and liabilities, revenues and expenses. It is clarified that the actual results are likely to be different from these estimates. Management's judgment when applying the Group's accounting policies and key assumption used in estimates that involve uncertainty are consistent with those used in the annual financial statements.

Notes to the Financial Statements as at June 30, 2009 (Unaudited)

Note 3 - Significant Accounting Policies

Except as provided in Par. (1) below, the Group's accounting policies in its condensed consolidated interim financial statements are the policies that it applied in its annual financial statements.

Presented below is a description of the changes in accounting policies instituted in the condensed consolidated interim financial statements and their effect:

(1) First-time application of new standards**A. Financial statement presentation**

Commencing January 1, 2009, the Group applies IAS 1, *Financial Statement Presentation*, Amended ("the Standard"). The standard allows for the presentation of a single statement of comprehensive income (a statement that combines a statement of income and other comprehensive income), or alternatively, to present two separate statements (a separate statement of income and a separate statement of comprehensive income). The Group has elected to present income and expense items and other comprehensive income items in two separate statements – a statement of income followed by a statement of comprehensive income. Additionally, the Group presents a statement of equity capital, instead of footnote disclosure, immediately after the statement of comprehensive income.

The statement includes changes in capital also deriving from transactions with shareholders of the Company, by virtue of their being shareholders (such as dividends, transaction with controlling shareholders, issuance of shares and/or options, etc). The standard is applied retroactively.

B. Segment reporting

Commencing January 1, 2009, the Group applies IFRS 8, *Operating Segments* ("the Standard"). The Standard provides that segment reporting will conform to the "management approach", i.e. based on the reporting format for the Group's primary decision making.

An operating segment is an element of the Group that meets the following three conditions:

1. Engages in business activity from which it could generate revenues and for which it could incur expenses.
2. Its operating results are reviewed regularly by the Group's chief operational decision maker, in order to reach decisions on the resources to be allocated to it and in order to assess its performance.
3. There is separate, available financial information about it.

First-time application of the Standard did not have an effect on the composition of the Group's reportable segments.

C. Employee benefits

Commencing January 1, 2009, the Group applies the Amendment to IAS 19, *Employee Benefits* ("the Amendment"), instituted as part of the improvement project for 2008, whereby the employee benefits were classified as short-term or other long-term benefits, will be done based on the date on which the liability is to be settled. According to the aforesaid, certain benefits were classified as short-term benefits. The Amendment was adopted retroactively.

The application of the Amendment did not have a material effect on the Company.

Notes to the Financial Statements as at June 30, 2009 (Unaudited)

Note 3 - Significant Accounting Policies (cont'd)**(2) New standards and interpretations not yet adopted****A. Business combinations and consolidated and separate financial statements**

IFRS 3 (Revised 2008) *Business Combinations* and amendment to IAS 27 from 2008, *Consolidated and Separate Financial Statements* (hereinafter – "the standards"). The main relevant changes in the standards are:

1. The definition of a business was expanded, which will cause more acquisitions to be treated as business combinations.
2. Treatment according to fair value in transactions leading to discontinuing the consolidation, so that the remaining holdings after discontinuing the consolidation is revalued on the date consolidation was discontinued, at fair value, in the statement of income.
3. Treatment according to full fair value in transactions that lead to a consolidation of financial statements (that were not consolidated previously), so that the original investment before the consolidation will be revalued on the first date of consolidation, at fair value, to the statement of income.
4. Rights do not confer control (minority interest) will be measured at fair value or according to the proportionate share of the identified assets and liabilities of the acquired party, on the basis of each transaction separately.
5. The treatment of acquisitions of additional shares or sales of some of the existing shares, without the Company stopping to consolidate the financial statements of the companies in which transactions were effected, will be done in a manner whereby all differences deriving from the transactions will be recognized directly in equity (including differences that were recognized in the past in the statement of income or in goodwill).
6. Immediately recognizing the transaction costs in the statement of income.
7. Measurement of contingent proceeds in business combinations at fair value, and charging the changes in estimates related to the contingent proceeds, which is a financial obligation, to the statement of income.
8. No updating goodwill for utilization of tax loss carryforwards that existed on the acquisition date of the business.
9. Allocation of comprehensive income among the equity holders, also in the event that the subsidiary has a capital deficiency.

These standards will apply to annual financial reporting periods commencing on or after July 1, 2009. These standards can be applied early (only both together). The main changes in these standards will be applied prospectively, for transactions after the date of first-time application.

Notes to the Financial Statements as at June 30, 2009 (Unaudited)

Note 3 - Significant Accounting Policies (cont'd)**(2) New standards and interpretations not yet adopted (cont'd)****B. Improvement project for international standards**

Within the scope of the improvement project for international standards, from 2009, (Improvements to IFRSs), the IASB published and approved in April 2009, 15 amendments to International Financial Reporting Standards on a wide range of accounting issues. These amendments will apply to periods commencing on or after January 1, 2010, with the possibility of early adoption, subject to the conditions provided for each amendment. Provided below are the amendments that could be relevant for the Group and which could impact the financial statements:

- Amendment to IAS 17 – Leases, classification of land and building leases ("the Amendment") – According to the Amendment there is no longer a requirement to classify land leases as operational leases whenever ownership is not expected to pass to the lessee at the end of the lease period. According to the Amended Standard, the requirement is to evaluate the land lease based on the ordinary criteria for classification as a financing or operating lease. Likewise, it was provided that the elements of land and building in a land and building lease are examined separately for the purpose of classifying the leases, based on the Standard's criteria, with considerable weight in classifying the land element given to the fact that the land generally has an indefinite useful life. The Amendment applies to financial statements for annual periods commencing on or after January 1, 2010. Early application of the Amendment is possible, upon giving disclosure. The Amendment will be applied retroactively, i.e. the classification of land leases should be evaluated based on the information that existed at the time of the lease commitment, and if changes occurred in the lease classification, the provisions of IAS 17 should be applied retroactively, from the date of the lease commitment. However, if the entity does not have the information necessary for retroactive application of the Amendment, it must use the information existing on the adoption date of the Amendment, and recognize the asset and liability related to the land lease, which was classified in the wake of the Amendment as a financing lease, at their fair value on such date. Any difference between the property's fair value and the fair value of the liability will be recognized in retained earnings.
- Amendment to IAS 36, *Impairment of Assets*, Allotment of Goodwill to Cash-Producing Units ("the Amendment") – According to the Amendment, for the purpose of examining for impairment, the cash-producing unit to which goodwill will be allotted, will not be larger than the operating segment as defined in IFRS 8, before application of the grouping criteria in Section 12 of IFRS 8. The Amendment will apply to annual periods commencing on or after January 1, 2010. Early application is possible, upon providing disclosure.
- Amendment to IAS 39, *Financial Instruments: Recognition and Measurement*, is no longer applicable to contracts for business combinations ("the Amendment") – the Amendment clarifies that only forward contracts between a buyer and seller regarding the sale or purchase of a controlled entity, within the scope of a business combination on a future purchase date, is not covered by IAS 39, when the forward contract's period does not exceed the normal period required to obtain the requisite approvals for the transaction. The Amendment will be applied prospectively to all contracts that have not yet lapsed, for annual periods commencing January 1, 2010. Early application is possible, upon providing disclosure.

Notes to the Financial Statements as at June 30, 2009 (Unaudited)
Note 4 - Information on Business Segments
A. Products and services

The Company presents its segment reporting according to a format based on a breakdown into the following business segments:

- Activity in the agrochemicals (Agro) market
The main area of the Company's operation includes the manufacture and marketing of conventional agrochemical products.
- Non-Agro activity
This area of activity includes a large number of sub-fields, including: Lycopene (an oxidization retardant), aromatic products, and other chemicals. It combines all the Company's activities not included in the agro-products segment.

	<u>Agro</u>	<u>Non-Agro</u>	<u>Adjustments</u>	<u>Consolidated</u>
	<u>\$ thousands</u>	<u>\$ thousands</u>	<u>\$ thousands</u>	<u>\$ thousands</u>
Six-month period ended				
June 30, 2009				
Segment sales – third party	1,201,194	81,325	-	1,282,519
Segment sales – other segments	-	3,284	(3,284)	-
Income from operating segments	131,679	12,168	(611)	143,236
Financing expenses, net	-	-	-	41,767
Income before tax	-	-	-	101,469
Six-month period ended				
June 30, 2008				
Segment sales – third party	1,303,054	101,370	-	1,404,424
Segment sales – other segments	-	3,616	(3,616)	-
Income from operating segments	233,726	13,679	(145)	247,260
Financing expenses, net	-	-	-	65,301
Income before tax	-	-	-	181,959
Three-month period ended				
June 30, 2009				
Segment sales – third party	520,379	39,872	-	560,251
Segment sales – other segments	-	1,126	(1,126)	-
Income from operating segments	31,206	6,691	(287)	37,610
Financing expenses, net	-	-	-	31,424
Income before tax	-	-	-	6,186
Three-month period ended				
June 30, 2008				
Segment sales – third party	629,998	52,258	-	682,256
Segment sales – other segments	-	2,122	(2,122)	-
Income from operating segments	107,271	6,170	(11)	113,430
Financing expenses, net	-	-	-	32,876
Income before tax	-	-	-	80,554
Year ended December 31, 2008				
Segment sales – third party	2,334,517	200,987	-	2,535,504
Segment sales – other segments	-	8,849	(8,849)	-
Income from operating segments	339,082	29,229	(1,061)	367,250
Financing expenses, net	-	-	-	96,607
Income before tax	-	-	-	270,643

Notes to the Financial Statements as at June 30, 2009 (Unaudited)**Note 4 - Information on Business Segments (cont'd)****B. Sales distribution by geographic regions**

	Six month period ended June 30		Three month period ended June 30		Year ended December 31
	2009	2008	2009	2008	2008
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	\$ thousands	\$ thousands	\$ thousands	\$ thousands	\$ thousands
Israel	44,159	57,592	23,299	32,187	113,214
Latin America	242,684	290,995	98,842	143,633	675,006
Europe	633,307	619,869	265,692	279,906	1,010,894
North America	244,360	251,405	120,007	140,655	443,969
Others	118,009	184,563	52,411	85,875	292,421
	<u>1,282,519</u>	<u>1,404,424</u>	<u>560,251</u>	<u>682,256</u>	<u>2,535,504</u>

Note 5 - Supplementary Information

- A.** In the ordinary course of business, lawsuits have been filed against the Company, including motions for class action recognition. In the estimation of the Company's management, based, inter alia, on the opinions of its legal counsel regarding the prospects of the lawsuits, including motions for class action recognition, the financial statements include appropriate provisions, where necessary, to cover the exposure resulting from these lawsuits.

A detailed description of existing contingent liabilities against the Company appear in Note 20 to the annual financial statements for year 2008.

Presented below are the material changes that occurred in the contingent liabilities since December 31, 2008:

- On January 18, 2009, a financial claim was lodged against Agan Chemical Manufacturer Ltd., a wholly-owned subsidiary ("Agan") in Beer Sheba District Court, as well as a motion for recognition as a class action under the Class Action Law, by a resident of Ashdod, asserting that damages were allegedly sustained due to the suffering that the plaintiff asserted was caused as a result of the fire in the Ashdod plant on January 14, 2009. If recognized as a class action, the plaintiff estimates that the amount claimed from Agan is NIS 100 million. At this juncture, Agan is unable to estimate the prospects of the claim and the motion for its recognition as a class action.
- On July 1, 2009, a criminal complaint was filed in Beer Sheba Magistrate's Court against Agan, directors, officers and an executive in Agan, by group of residents of the moshav Nir Galim ("the Complainants"). In the complaint, the Complainants assert that there were several instances during the years 2007-2009, in which the Ashdod plant of Agan produced strong and unreasonable odor nuisances in violation of the provisions of the Abatement of Nuisances Law, 1961. Likewise, the Complainants assert that during the fire that occurred in the Agan plant on 14.1.2009, strong and unreasonable air pollution was caused and hazardous materials were emitted into the air, contrary to the terms of Agan's business license and in violation the Poisons Permit, and contrary to the Businesses Licensing Law, 1968 and the Hazardous Materials Law, 1993. In the complaint, the Complainants are petitioning to convict the defendants and to impose penalties and/or imprisonment, based on the provisions of the relevant laws ("the Complaint").

Notes to the Financial Statements as at June 30, 2009 (Unaudited)

Note 5 - Supplementary Information (cont'd)**A. (cont'd)**

On July 14, 2009, a Civil lawsuit was filed in Beer Sheba District Court against Agan, directors, officers and an executive in Agan, by group of residents of Nir Galim ("the Plaintiffs"), asserting damages they allegedly sustained due to the nuisances of bad odor, noise and air pollution originating in the Agan plant. In the statement of claim, the plaintiffs are petitioning the court to issue a restraining order and a mandatory injunction against Agan and to require Agan to pay damages totaling NIS 59 million. As at the approval date of the financial statements, the complaint and the statement of claim have not yet been furnished to Agan as required by law, and therefore, the Company's management is unable to assess the prospects of these proceedings.

B. On March 10, 2009, the Company's board of directors approved the Company's undertaking in a property and loss of profits insurance policy with Clal Insurance Ltd. ("Clal"), a company controlled by I.D.B. Development Ltd., as an unexceptional transaction. Under the terms of this undertaking, the Company will bear an annual premium for purchasing the said policy totaling \$6.6 million. I.D.B. Development Ltd., which could be deemed a controlling shareholder (indirect) in the Company, could be deemed a personal interested party in the transaction, due to the fact that it is the controlling shareholder in Clal. Furthermore, the individuals who could be deemed the controlling shareholders (indirect) in the Company could be deemed personal interested parties due to their tenure and/or tenure of their relatives (as the term "relative" is defined in the Companies Law) as directors in Clal.

C. On March 25, 2009, the Company issued debentures, through the expansion of Series C and D, by virtue of a shelf prospectus published on May 27, 2008, in the total amount of NIS 1,133 million par value of debentures, in consideration for 101.56% and 98.95% of their par value, respectively. The debentures are divided into two series, as follows:

1. Series C totaling NIS 661 million par value, debentures are linked to the CPI for October 2006, bears annual interest of 4.45%. The principal will be repaid in four equal installments in the years 2010 through 2013. The issue costs for this series totaled \$1,297 thousand.
2. Series D totaling NIS 472 million par value, debentures bear basic annual interest of 6.5% and is unlinked. The principal will be repaid in 6 equal installments in the years 2011 through 2016. The issue costs for this series totaled \$1,090 thousand.

D. Following tests performed by the Brazilian health authorities in the company Mileania Agrociaenias S.A., a subsidiary in Brazil ("the subsidiary"), relating to the licensing issues of several formulations that the subsidiary produces and/or markets in Brazil, it was ruled that the subsidiary must refrain, temporarily, from the production and sale of these formulations, and the ruling also applies to existing inventory held by some of the subsidiary's customers.

Notes to the Financial Statements as at June 30, 2009 (Unaudited)

Note 5 - Supplementary Information (cont'd)**D. (cont'd)**

The subsidiary is in regular contact with the authorities, and at the request of the Health Authority, the Ministry of Agriculture, the body responsible for authorizing product registrations in Brazil, furnished approval, whereby the changes made by the subsidiary to the tested products are acceptable to it, and therefore, from the standpoint of the Ministry of Agriculture, there is nothing preventing the continuation of production and marketing of these products. The subsidiary's position, as presented to the authorities, is that the formulations it sells are similar to those sold in the Brazilian market by other companies, and that the changes made to the formulations are minor, intended to improve their quality, and if there is any variation, it is merely an administrative and procedural matter. The subsidiary further argues that it insists on implementing advanced technologies in the formulation process, in order to meet the most stringent public health standards.

To the extent that the subsidiary's contacts with the Health Authority will not be successful, in view of the alternate solutions adopted by the subsidiary to supply most of the formulations for which production and marketing has been suspended temporarily, the Company assesses, as at the approval date of the financial statements, that the effect of the events on the subsidiary's sales and income in the second half of the year 2009 is not expected to be material.

Likewise, as a result of the aforesaid, the subsidiary's management has decided to recognize a one-off provision, before tax benefit, of \$15.5 million in its financial statements, for inventory and goods sold in the past, and expenses related to dealing with the said events.

E. On July 25, 2005, the Knesset passed the Law to Amend the Income Tax Ordinance (No. 147), 2005, which prescribed, inter alia, a gradual reduction in the corporate tax rate, reaching 25% in the 2010 tax year and henceforth.

On July 14, 2009, the Knesset passed the Economic Efficiency Law (Legislative Amendments for Implementation of the Economic Plan for the Years 2009 and 2010), 2009, which prescribed, inter alia, a further gradual reduction in the corporate tax rate, to 18% in 2016 and henceforth. According to the said amendments, the corporate tax rates in effect in the tax year 2009 and henceforth are as follows: in 2009 tax year – 26%; in 2010 tax year – 25%; in 2011 tax year – 24%; in 2012 tax year – 23%; in 2013 tax year – 22%; in 2014 tax year – 21%, in 2015 tax year – 20% and in the tax year 2016 and henceforth, a corporate tax rate of 18% will be in effect. The implication of the change in tax rates will be expressed in the financial statements for the third quarter of 2009, by a reduction in the deferred tax liability and recognition of tax savings in the amount of \$7 million, net.

F. Subsequent to the balance sheet date, the Company's board of directors resolved to distribute a dividend totaling \$70,000 thousand.

Notes to the Financial Statements as at June 30, 2009 (Unaudited)

Note 5 - Supplementary Information (cont'd)

- G.** Further to the aforesaid in the Periodic Report published by the Company on March 11, 2009, with respect to the Temporary Order under the Amendment of Section 169 of the Income Tax Ordinance ("the Ordinance"), which enables the Company, in the 2009 tax year alone, to pay tax at the reduced rate of 5%, instead of 25%, on dividends withdrawn from related companies overseas, and after the Company evaluated how to implement the said Amendment to the Ordinance, the Company's board of directors ratified a proposal for a one-off drawing of earnings from the Group's overseas companies in the amount of up to \$300 million. The transferred earnings will be used by the Company for its current needs and as a reserve for the distribution of a dividend.

The financial statements include a deferred taxes payable for the payment of \$15 million in tax (5% of the dividend amount).

It should be clarified that the withdrawal of earnings, as noted, does not change the Company's dividend distribution policy and/or its timing.

- H.** During the second quarter, the Company received an inquiry about convertible debentures (Series A) that were issued by the Company pursuant to the prospectus dated November 21, 1001, and which were repaid and/or converted into ordinary shares of the Company by October 2007, whereby the Company's interpretation of the manner of adjustment of the conversion rate of the debentures for dividends it had distributed did not conform to the wording of the prospectus. According to the inquiry, the Company should have acted in accordance with Section 3.1.8.1 of the prospectus: "If the Company distributes a cash dividend, the following provisions shall apply: (a) Immediately after the record date for the cash dividend distribution, a calculation will be made of the difference (in agorot) between the share price at the close of the record date, as noted, and the price of the share as will be determined by the stock exchange, after adjustment for the dividend distribution. (b) Commencing on the date on which the shares will trade ex-dividend, the adjusted conversion price of the debentures will be equal to the previous conversion rate net of the amount of the positive difference, as noted in Subpar. (a) above. The Company will announce the adjusted conversion price, as noted, on the earliest date on which the Company will have all the data for calculating the adjusted conversion price, but not later than the date on which the shares will trade ex-dividend. The Company's position is that the way in which it treated the calculation of the debentures' adjusted conversion price was worthy and fulfilled the economic purpose of the prospectus, and is consistent with the Company's reporting currency (the U.S. dollar) and conforms to the manner of treatment and the currency in which the dividends distributed by the Company were determined and declared. In the Company's estimation, even if the Company had accepted the position of the inquiring party, the financial implications for the Company (also by means of the allotment of additional shares) are not material, totaling less than \$1 million.
- I.** The group wrote-down inventory to net realizable value by the amount of \$16.2 million and \$11.2 million for the six and three-month periods ended June 30, 2009, respectively.