



Makhteshim Agan Industries Ltd.

Management Discussion for the Quarter Ended March 31, 2006

Profile of the Company and its business environment

Makhteshim Agan Ltd. is the world's leading manufacturer of plant protection products. The Company is characterized by high technological-chemical ability, extensive registration of its products, compliance with strict environmental quality standards, stringent quality control, global marketing and distribution with emphasis on the growth of preferred markets such as Western Europe and North America and a strong presence in South America. Investment in research and development enables the company to launch new products regularly as the patents expire.

The main area of the Company's operations is in the plant protection products market, which includes the manufacture and marketing of conventional agro products. The Company is also active in non-agro products, which are not material for the Company and include involvement in a large number of sub-areas, none of which is of itself material, and encompass all the activities of the Company which do not fall into the category of plant protection products.

Conditions of the business environment

Summary of changes in the industry

During the first quarter, several trends which became apparent at the end of 2005 continued to influence the agrochemical market: the long winter in Europe and North America meant a late opening of the agricultural season, changes in currencies and interest rates (mainly the weaker euro against the US dollar and the strengthening of the Brazilian real), the ongoing rise in the price of oil which pushed up the prices of raw materials, energy and transportation. All these intensified competition and resulted in a decrease in sales volumes and profitability in the first quarter of 2006. The reports of the leading companies in the industry which have been published to date, indicate a drop of up to 8% in sales turnovers in dollar terms in the quarter.

The annual survey of leading research bodies in the field published in the first quarter of 2006 shows that in 2005 the agrochemical market increased by 1.9%, reaching 31.2 billion dollars, compared with 30.7 billion dollars in 2004. The non-crop market (non-agricultural uses for crop protection products) increased by 4.9%, reaching 4.9 billion dollars. (For comparison and as a reminder – in 2005 Makhteshim Agan's sales increased by 13.6%.)

Agrochemical sales of companies in the industry (in millions of dollars):

		2005	2004	% Chg	Market share 2005
1	Bayer	6,917	7,000	-1.2%	19.2%
2	Syngenta	6,307	6,030	4.6%	17.5%
3	BASF	4,097	4,166	-1.7%	11.4%
4	Dow	3,094	3,143	-1.6%	8.6%
5	Monsanto	2,910	2,864	1.6%	8.1%
6	DuPont	2,240	2,210	1.4%	6.2%
7	MAKHTESHIM-AGAN	1,543	1,358	13.6%	4.3%
8	Sumitomo	1,290	1,358	-5.0%	3.6%
9	Nufarm	1,189	1,170	1.6%	3.3%
10	Arysta	905	791	14.4%	2.5%
11	FMC	725	704	3.0%	2.0%
12	Cheminova	596	601	-0.8%	1.7%

Source: Phillips McDougall – Industry Overview , March 2006

In official publications (Phillips McDougall Agri-Service), the company was rated in 7th place in the world in agrochemical sales in 2005, with a global market share of 4.3%, compared with 3.8% in 2004.

Financial Markets:

The following are exchange rate data for the company's principal trading currencies compared to the U.S. dollar, and LIBOR interest data:

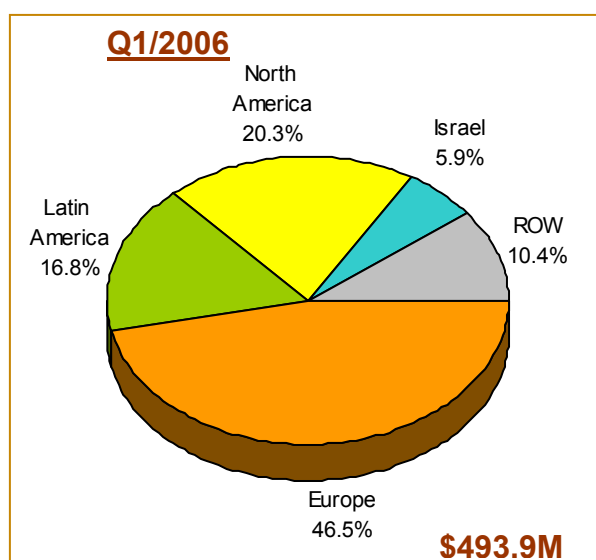
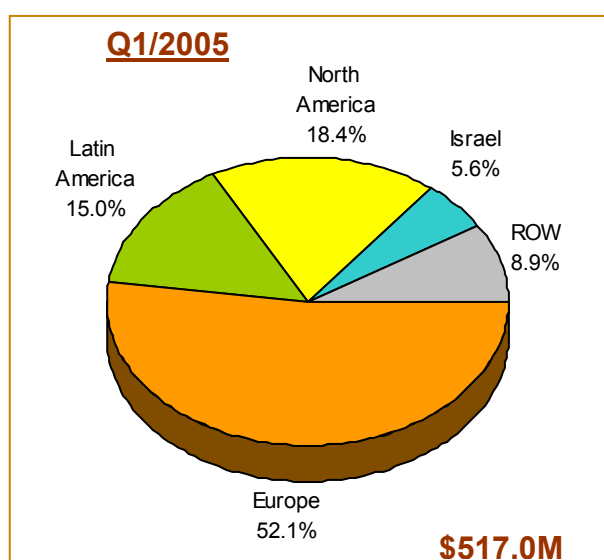
	March 31			Quarterly average		
	2006	2005	Change	2006	2005	Change
Euro	1.2137	1.2953	-6.3%	1.203	1.3124	-8.3%
Brazilian Real	2.2049	2.666	17.3%	2.198	2.663	17.5%
Shekel	4.665	4.361	-7.0%	4.679	4.367	-7.1%
LIBOR interest for 3 months	5.00%	3.12%		4.76%	2.84%	

Makhteshim – Agan

Geographical profile

During the first quarter of 2006, the company's sales amounted to \$493.9 million, compared with \$517.0 million in the same quarter last year, a decrease of 4.5%. Deducting the \$17 million decrease in sales due to currency changes, the decrease in sales was only 1.2%. Sales to North America amounted to \$100.1 million, compared with \$95.3 million last year (growth of 5.1%), and in sales to Europe amounted to \$229.9 million, compared with \$269.1 million last year (decrease of 14.6%).

Percentage distribution of quarterly sales:



Acquisitions:

After the report date the company announced that on April 3, 2006, one of its wholly-owned overseas subsidiaries has acquired 30% of the American company Alligare, LLC. Alligare specializes in the development, marketing and sale of herbicides for the non-crop weed control market, with a particular emphasis on products for forestry, range and pasture, aquatic, and vegetation management applications. Sales in 2005 were close to \$20 million.

On May 8, 2006, one of its wholly-owned overseas subsidiaries has signed an agreement to acquire 60% of the Italian group, Kollant. Kollant is a leading company in the Italian non-crop market. It develops, manufactures and sells a range of plant protection products, rodenticides and molluskicides, aimed mainly, but not only, for non-crop uses.

New products

Sales of new products in the first quarter of the year came to \$156.1 million, compared with \$165.2 million last year, a decrease of about 5.5%. The reduction is due to late a late opening of the agricultural season in North America and Europe.

New registrations

In the first quarter the Company received 45 new registrations for active ingredients, formulations and mixtures.

Non-Agro

Non-agro sales in the first quarter amounted to \$52.7 million, compared with \$50.8 million last year, an increase of 3.7%. Most of the increase stems from the increase in sales of the subsidiary LycoRed.

Risk management

The Company runs its business in various environments which operate in different currencies. Due to these activities, the Company is exposed to market risks, which mainly involve exchange rate fluctuations, partial adjustment of the prices of produce to the prices of raw materials, and changes in LIBOR rates.

The Board of Directors of the Company approved a policy of using financial derivatives to reduce the exposure to changes in exchange rates. The Company makes such transactions only through banks and stock exchanges, which are obligated to meet capital adequacy requirements or to maintain a scenario-based level of collateral. The Company's Market Risk Manager is the CFO, Eli Assraf.

Currency risks

The Group's most substantial exposure is to the euro, the Brazilian real and the shekel. In addition, there are lesser exposure risks to the British pound and the Argentinean peso. Currency exposure deriving from foreign currency exchange rate fluctuations is constantly checked against the assets, liabilities and cash flows denominated in foreign currencies. It is the Company's policy to use financial derivatives (options and forward contracts) to hedge against this exposure only when the net exposure from a particular currency is material.

During the quarter, the Company hedged most of its accounting and economic exposure to its principal trading currencies.

See linkage balances and derivatives position table as at 31.3.2006 in the appendix.

Risks in raw material prices (in source currency)

In order to reduce exposure to changes in the prices of raw materials, the Company customarily enters into long-term purchase contracts for major materials wherever possible. When making such long-term production contracts, the selling prices are adjusted, as far as possible, to changes in the prices of the raw materials.

Interest risks

The Company is exposed to changes in the LIBOR interest rate on the US dollar, since most of its short- and long-term liabilities are in that currency and bear a variable LIBOR rate. The Company prepares a quarterly summary of its exposure to changes in the LIBOR rate. At this stage, the Company has decided not to hedge this risk. The Company has prepared an interest-rate hedging plan which will be activated at the appropriate time.

Means of supervision and policy implementation

The Company keeps internal documentation regarding the designation of financial instruments for exposures which indicate the link between the instruments and the exposure. The Company monitors the level of exposure on a weekly basis, and the Board of Directors is updated once every quarter on market risks and their management. The Company tracks market movements and changes that lead to modification of the composition of the hedging portfolio.

Dividend

The Board of Directors resolved, on March 8, 2006, to revise the Company's dividend distribution policy in the following manner:

1. The Company will strive to distribute a dividend every year at an annual rate of 50% of its net earnings.
2. The decision takes effect starting with the dividend for the fourth quarter of 2005.
3. The decision modifies the decision made by the Board of Directors in 2001, whereby the policy called for dividends of 15 – 30% of net earnings.
4. The dividend will be paid for each quarter out of the quarterly net earnings (in the last quarter of each year, the distribution will be adjusted to the annual rate as in Item 1 above).
5. The policy will be implemented subject to the Company's cash flow, the results of its operations, the maintenance of profits sufficient for distribution, and subject to the provisions of any law applicable to the Company at each distribution date.
6. The policy is also subject to future decisions which the Company may make, including decisions earmarking its profits for other purposes and/or decisions which change the dividend policy.

In March 2006 a dividend of \$23.5 million was announced for the fourth quarter of 2005 according to the revised policy described above, to be paid on May 31, 2006. On May 10, 2006 the Board of

Directors resolved to distribute a dividend of \$28.8 million for the first quarter of 2006, which will be paid on August 31, 2006.

Condensed profitability data (in millions of dollars)

Annual Data:

	2003	% Chg	2004	% Chg	2005	% Chg
Sales	1177.3	32.1%	1,539.7	30.8%	1,740.7	13.1%
EBITDA	243.9	41.1%	323.9	32.8%	376.9	16.3%
EBIT	173.3	47.1%	245.4	41.6%	245.4	0.0%
Net Income	102.8	55.2%	165.5	61.1%	204.8	23.7%
ROCE	13.2%		17.6%		18.42%	

Quarterly Data:

	1-3/2004	1-3/2005	1-3/2006	Change %
Sales	414.5	517.0	493.9	-4.5%
EBITDA	94.0	119.5	96.3	-19.4%
EBIT	74.0	94.4	76.1	-19.4%
Net Income	45.2	60.9	57.7	-5.2%

Condensed statements of income

A. Statements of income for the first quarter:

	1-3/2006	1-3/2005	Change	Change %
Revenue	493.9	517.0	-23.1	-4.5%
Gross profit	178.2 36.1%	205.1 39.7%	-26.9	-13.1%
R&D, SG&A expenses	94.6 19.2%	95.3 18.4%	-0.7	-0.7%
Operating income	83.6 16.9%	109.8 21.2%	-26.2	-23.9%
Financing expenses	11.7 2.4%	5.4 1.0%	6.3	117.2%
Pre-tax profit	64.7 13.1%	91.0 17.6%	-26.2	-28.8%
Net Income	57.7 11.7%	60.9* 11.8%	-3.2	-6.2%
EBITDA	96.3 19.5%	119.2 23.1%	-23.0	-19.2%

* General and Administrative expenses are restated due to first time application of Accounting Standard 24, concerning employee stock options. See Note 1B to the financial statements.

B. Quarterly statements of income:

	1-3/2006	10-12/2005	7-9/2005	4-6/2005	1-3/2005
Revenue	493.9	405.1	402.1	416.5	517.0
Gross profit	178.2 36.1%	156.9 38.7%	153.8 38.2%	165.2 39.7%	205.1 39.7%
R&D, SG&A expenses	94.6 19.2%	90.8* 22.4%	84.5* 21.0%	79.8* 19.2%	95.3 18.4%
Operating income	83.6 16.9%	66.0 16.3%	69.3 17.2%	85.4 20.5%	109.8 21.2%
Financing expenses	11.7 2.4%	8.0 2.0%	8.8 2.2%	12.4 3.0%	5.4 1.0%
Pre-tax profit	64.7 13.1%	49.8 12.3%	49.3 12.3%	61.7 14.8%	91.0 17.6%
Net Income	57.7 11.7%	46.8 11.6%	47.1 11.7%	50.2 12.0%	60.9* 11.8%
EBITDA	96.3 19.5%	80.6 19.9%	83.7 20.8%	93.4 22.4%	119.2 23.1%

* General and Administrative expenses are restated due to first time application of Accounting Standard 24, concerning employee stock options. See Note 1B to the financial statements.

Analysis of Quarterly Results

Sales by Region

	1-3/2006		1-3/2005		Change	
	\$ millions	%	\$ millions	%	\$ millions	%
Israel	29.1	5.9%	28.8	5.6%	0.4	0.4%
North America	100.1	20.3%	95.3	18.4%	4.8	5.1%
South America	83.1	16.8%	77.6	15.0%	5.5	7.1%
Europe	229.9	46.5%	269.1	52.1%	(39.2)	-14.6%
Rest of World	51.6	10.4%	46.2	8.9%	5.4	11.8%
Total	492.9	100.0%	517.0	100%	(23.1)	-4.5%

In the first quarter of 2006, the Company's sales amounted to \$493.9 million, compared with \$517.0 million last year, a decrease of 4.5%.

In Europe, sales amounted to \$229.9 million, compared with \$269.1 million last year. The decrease derives from a long winter which resulted in the late opening of the agricultural season, and from the weaker euro (8.3%), which affected the dollar value of the sales.

In North America, sales amounted to \$100.1 million, compared with \$95.3 million last year, an increase of 5.1%. Most of the increase was from sales to the non-crop segment. The sales increase was achieved despite the late start of the agriculture season.

In Latin America, sales amounted to \$83.1 million, compared with \$77.6 million last year, an increase of \$5.5 million.

In the rest of the world, sales amounted to \$51.6 million, compared with \$46.1 million last year, an increase of \$5.4 million.

In Israel, sales amounted to \$29.1 million, compared with \$28.8 million last year.

Gross profit

Gross profit for the quarter amounted to \$178.2 million (36.1%), compared with \$205.1 million last year (39.7%), a decrease of \$26.9 million.

The decrease in gross profit stemmed mainly from:

- A rise in the prices of raw materials, which increased the cost of selling
- A weaker euro, which eroded the selling prices in the euro bloc
- The extended winter in Europe, which resulted in smaller quantities sold

Operating income

Overhead expenses in the quarter decreased by \$0.7 million to \$94.6 million (19.2%), compared with \$95.3 million (18.4%) last year..

R&D expenses remained unchanged from last year.

Selling expenses increased by \$4.2 million to \$75.0 million. The increase stems mainly from rise in transportation expenses following the rise in the prices of oil, and from an increase in registration expenses.

Selling expenses out of sales turnover increased to 15.2% this quarter, compared with 13.7% last year.

General and administration expenses amounted to \$14.9 million (3.0% of sales), compared with \$19.7 million (3.8% of sales) last year, a decrease of \$4.8 million.

Operating income in the quarter amounted to \$83.6 million (16.9% of sales), compared with \$109.8 million (21.2%) in the first quarter of 2005.

EBITDA

EBITDA amounted to \$96.3 million (19.5%), compared with \$119.2 million (23.1%) last year, a decrease of \$22.9 million (19.2%), as derived from the lower gross profit.

Financing

Financing expenses in the quarter amounted to \$11.7 million, compared with \$5.4 million in the same quarter last year, an increase of \$6.3 million due to the following three main reasons:

- Financing the buy-back of Company shares
- The rise in the LIBOR rate
- The stability of the euro during the quarter compared with its depreciation in the corresponding quarter last year (from 1.39 at the beginning of 2005 to 1.3 on March 31, 2006), increased the financing expenses in the quarter by \$1.6 million.

Other income and expenses

Other expenses amounted to \$7.1 million this quarter, compared with \$13.4 million last year. Most of the decrease is accounted for by a one-time decrease and by the first-time application of Accounting Standard 20, concerning termination of the methodical amortization of goodwill. See Note 1 (b) to the financial statements.

This item also includes expenses related to the customer portfolio securitization plan, which amounted to \$2.4 million this quarter, compared with \$1.7 million last year.

Income tax

Tax expenses in the quarter amounted to \$6.6 million (10.2% of pre-tax income), compared with \$26.1 million last year (28.6% of pre-tax income). Most of the decrease in the tax expense is the result of lower corporate tax rates in Israel, the strengthening of the Brazilian real and the decline in gross profit.

Net Income

Net income for the quarter amounted to \$57.7 million (11.7%), compared with \$60.9 million (11.8%) last year, a decrease of \$3.2 million

Financial situation and liquidity

Cash flow from current operations

This quarter, cash flow was negative at \$1.8 million, compared with \$12.4 million last year. The decrease derives from the decrease in net profit.

Cash flows used for investment activities

Investments in the quarter amounted to \$31.4 million, compared with \$19.4 million last year. Investments in fixed assets amounted to \$16.4 million in the quarter, compared with \$14.3 million in the same quarter last year. Investment in product registrations and marketing rights amounted to \$10.1 million, compared with \$4.5 million last year.

Free cash flow

Free cash flow (cash flow from current operations less cash flow from investment activities) in the quarter was negative at \$33.2 million, compared with a negative cash flow of \$7.0 million last year.

Current assets

Total current assets as at March 31, 2006 amounted to \$1,265.7 million, compared with \$1,100.2 million on March 31, 2005 and \$1,108.6 million on December 31, 2005.

Investment in fixed assets

See Cash Flow section above.

Cash, current liabilities and long-term loans

The Company's credit (bank credit and convertible debentures) as at March 31, 2006 amounted to \$407.8 million, of which 84.0% is short term, compared with \$443.6 million on March 31, 2005 (42.1% short term) and \$324.1 million on December 31, 2005 (76.5% short term).

Cash and short-term investment balances as at March 31, 2006 amounted to \$74.0 million, compared with \$57.7 million on March 31, 2005 and \$72.6 million on December 31, 2005.

The Company has an undertaking towards certain banks to maintain financial criteria. As at the balance sheet date, the Company is in compliance with those undertakings.

Shareholders' Equity

As at March 31, 2006, shareholders' equity amounted to \$1,140.5 million, compared with \$943.9 million in the same period last year.

Convertible debentures

- Of a series of private convertible debentures issued in March and April 2004 (\$150 million), 148.65 million dollars have been converted into shares as at the date of this financial

statement. The balance of debentures on the balance sheet as at March 31, 2006 amounts to 1.35 million dollars.

- Of a series of convertible debentures issued in November 2001 and January 2002, the total sum of 65.7 million dollars has been converted into shares as at the date of this financial statement. The balance of debentures on the balance sheet as at March 31, 2006 amounts to 25.8 million dollars.

Sources of financing

The Company finances its operations by independent means, bank credit (short- and long-term) and supplier credit. The financing agreements with the banks remain unchanged.

Financial Ratios:

	<u>March 31,</u>		<u>December 31,</u>
	<u>2006</u>	<u>2005</u>	<u>2005</u>
Ratio of current assets to current liabilities (current ratio)	1.30	1.43	1.39
Ratio of current assets excluding inventory, to current liabilities (quick ratio)	0.71	0.80	0.68
Fixed assets (net) out of total balance sheet	20.4%	21.1%	21.7%
Financial liabilities out of total balance sheet	17.7%	21.1%	15.2%
Shareholders' equity out of total balance sheet	49.6%	45.0%	53.2%
Ratio of financial liabilities to shareholders' equity	35.8%	47.0%	28.6%
Earnings per share (in dollars)	0.13	0.15	0.49
ROCE	16.63%	18.4%	18.42%

Danny Biran
Chairman of The Board

Shlomo Yanal
CEO

May 10, 2006, Tel Aviv