



Makhteshim Agan Industries Ltd.

Management Discussion for the Quarter Ended June 30, 2006

Brief description of the Company and its business environment

Makhteshim Agan Ltd. is the world's leading generic 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 growth in preferred markets such as 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 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, encompassing 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 second quarter, several trends which became apparent in the first quarter of the year continued to influence the agrochemical market: the long winter in Europe and the USA, which meant a late opening of the agricultural season (some sales were postponed to the second quarter and some were lost), changes in currencies and interest rates, the ongoing rise in the price of oil which pushed up the prices of raw materials, energy and transportation. All these intensified competition, eroded prices and resulted in a decrease in profitability in the second quarter of 2006.

Financial markets:

The following are exchange rate data for the Company's principal trading currencies, and LIBOR interest rates

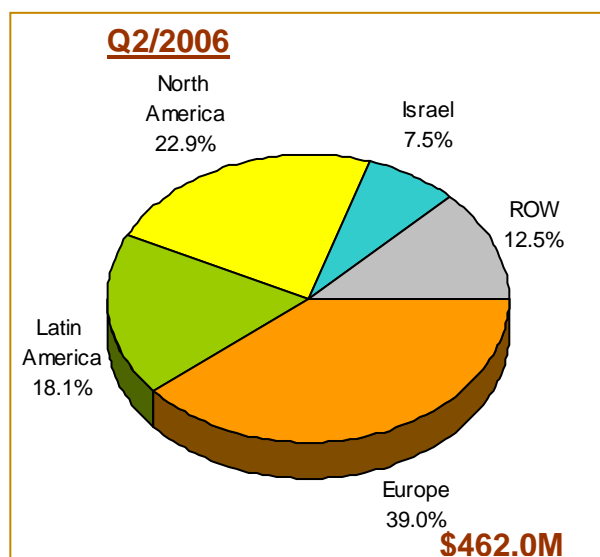
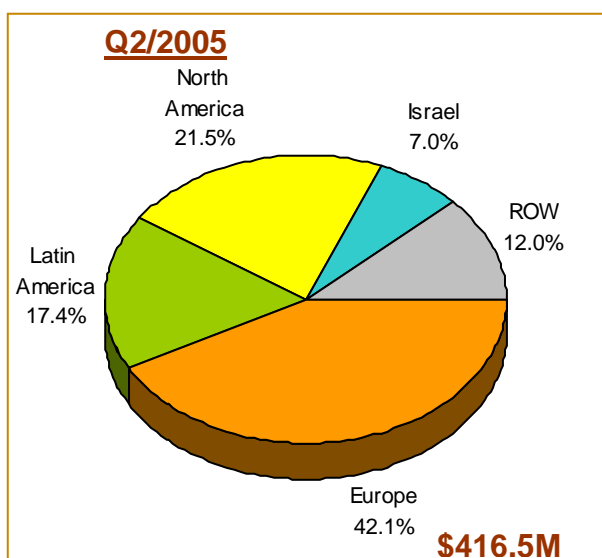
	30/6/2006			Quarterly average			Half-yearly average		
	2006	2005	Change	2006	2005	Change	2006	2005	Change
Euro	1.271	1.208	5.2%	1.256	1.261	-0.4%	1.23	1.286	-4.4%
Brazilian real	2.164	2.3504	7.9%	2.189	2.485	11.9%	2.193	2.573	14.8%
Shekel	4.44	4.574	2.9%	4.524	4.416	-2.4%	4.601	4.392	-4.8%
LIBOR interest for 3 months	5.50%	3.52%		5.22%	3.30%		5.00%	3.07%	

Makhteshim – Agan

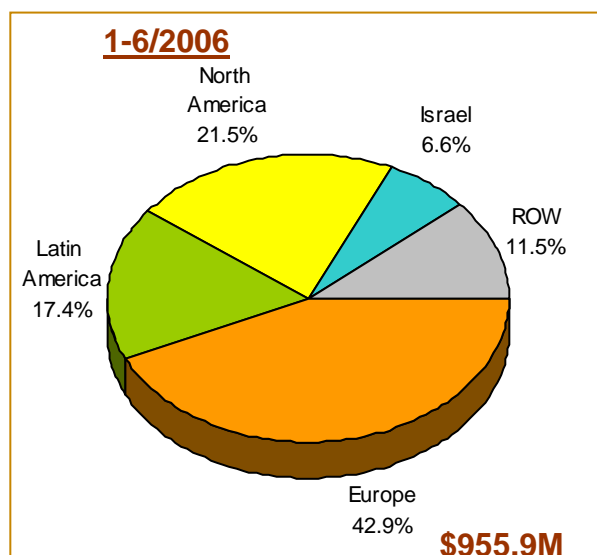
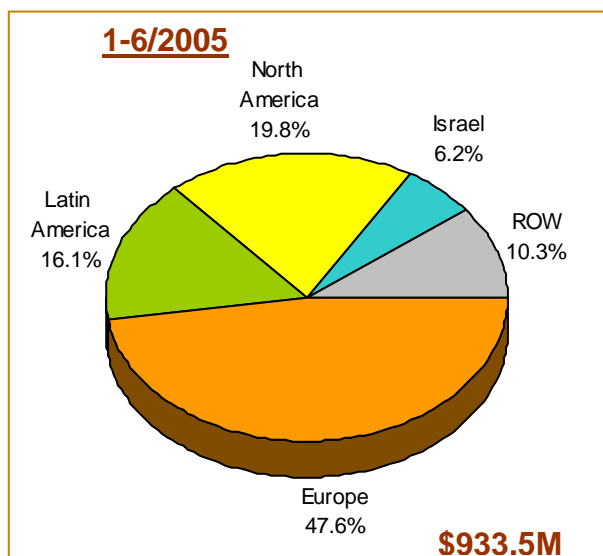
Geographical profile

During the second quarter of 2006, the company's sales increased to \$462.0 million, compared with \$416.5 million in the same quarter last year, an increase of 10.9%. Strong growth was evident in North America, where sales increased by 18% and amounted to \$105.8 million. In the first half of the year, sales amounted to \$955.9 million, compared with \$933.5 million last year, an increase of 2.4%.

Percentage distribution of quarterly sales:



Percentage distribution of half-yearly sales:



New products

Sales of new products in the second quarter of the year came to \$135.9 million, compared with \$122.1 million last year, an increase of about 11.4%. The share of new products out of total sales of plant protection products in the second quarter was 33.5%, similar to last year.

In the first half of the year, sales of new products amounted to \$292.0 million, compared with \$288.4 million last year, an increase of 1.3%.

New registrations

During the quarter, the Company received 42 new registrations for active substances, formulations and mixtures, among them the registration for the generic version of the herbicide Clethodim in Australia and New Zealand, which is used mainly to protect field crops, orchards, fruits and vegetables. Another noteworthy registration is for the pesticide Beta Cyflutrin in England.

Non-Agro

Non-agro sales in the second quarter amounted to \$56.7 million, compared with \$49.2 million last year, an increase of 15%.

In the first half of the year, non-agro sales amounted to \$109.4 million, compared with \$100.0 million last year, an increase of 9%.

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 and credit risks.

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 its 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 the euro, the real and the British pound.

See linkage balances and derivatives position table as at 30.6.2006 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.

Customer credit risks

The company sells to its customers with credit according to the norm in various countries (including Brazil). The company activates a credit control system according to internal regulations and defines future sales accordingly, including receipt of foreign trade risk insurance for some of its customers

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 regularly, and the Board of Directors is updated once every quarter.

Changes in the Board of Directors:

Due to the change in control in Koor Industries, few directors have resigned from Makhteshim Agan board of directors and the board of directors appointed new directors to replace them, until the next general shareholders meeting of the company.

The directors that resigned are: Aaron Zuker, Oswaldo Pitol, Michael Walden.

The appointed directors are: Nochi Dankner, Ami Erel, Raanan Cohen, Haim Gavrieli, Zvika Livnat.

Dividend

In May 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%	281.4	14.6%
Net Income	102.8	55.2%	165.5	61.1%	204.8	23.7%
ROCE	13.2%		17.6%		18.4%	

Quarterly Data:

	4-6/2003	4-6/2004	4-6/2005*	4-6/2006	Change %
Sales	279.6	352.1	416.5	462.0	10.9%
EBITDA	58.3	73.3	93.4	83.9	-10.2%
EBIT	40.9	54.0	71.3	62.9	-11.8%
Net Income	23.4	40.6	50.1	40.2	-19.7%

First Half Data:

	1-6/2003	1-6/2004	1-6/2005*	1-6/2006	Change %
Sales	604.7	766.6	933.5	955.9	2.4%
EBITDA	126.1	167.3	212.6	180.2	-15.3%
EBIT	92.2	128.0	165.7	139.0	-16.1%
Net Income	55.6	85.7	111.0	97.9	-11.8%

ROCE	11.4%	15.5%	19.4%	15.8%	
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* 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.

Results of operations – Condensed statements of income

A. Quarterly statements of income:

	4-6/2006	4-6/2005*	Change	Change %
Revenue	462.0	416.5	45.5	10.9%
Gross profit	163.4 35.4%	165.2 39.7%	-1.8	-1.1%
R&D, SG&A expenses	93.5 20.2%	79.8 19.2%	13.7	17.1%
Operating income	69.9 15.1%	85.4 20.5%	-15.5	-18.1%
Financing expenses	17.7 3.8%	12.4 3.0%	5.3	42.3%
Pre-tax profit	47.6 10.3%	61.7 14.8%	-14.0	-22.8%
Net Income	40.2 8.7%	50.1 12.0%	-9.9	-19.7%
EBITDA	83.0 18.2%	93.4 22.4%	-9.5	-10.2%

B. First Half statement of income:

	1-6/2006	1-6/2005*	Change	Change %
Revenue	955.9	933.5	22.4	2.4%
Gross profit	341.6 35.7%	370.3 39.7%	-28.7	-7.8%
R&D, SG&A expenses	188.1 19.7%	175.1 18.8%	13.2	7.6%
Operating income	153.5 16.1%	195.2 20.9%	-41.7	-21.4%
Financing expenses	29.4 3.1%	17.8 1.9%	11.6	65.0%
Pre-tax profit	112.3 11.8%	152.6 16.4%	-40.3	-26.4%
Net Income	97.9 10.2%	111.0 11.9%	-13.1	-11.8%
EBITDA	180.2 18.8%	212.6 22.8%	-32.5	-15.3%

* 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.

C. Quarterly statements of income:

	4-6/2006	1-3/2006	10-12/2005*	7-9/2005*	4-6/2005*
Revenue	462.0	493.9	405.1	402.1	416.5
Gross profit	163.4	178.2	156.9	153.8	165.2
	35.4%	36.1%	38.7%	38.2%	39.7%
R&D, SG&A expenses	93.5 20.2%	94.6 19.2%	90.8 22.4%	84.8 21.1%	79.8 19.2%
Operating income	69.9	83.6	66.0	69.0	85.4
	15.1%	16.9%	16.3%	17.2%	20.5%
Financing expenses	17.7	11.7	8.0	8.8	12.4
	3.8%	2.4%	2.0%	2.2%	3.0%
Pre-tax profit	47.6	64.7	49.8	49.0	61.6
	10.3%	13.1%	12.3%	12.2%	14.8%
Net Income	40.2	57.7	46.8	46.8	50.1
	8.7%	11.7%	11.6%	11.6%	12.0%
EBITDA	83.0	96.3	80.6	83.4	93.4
	18.2%	19.5%	19.9%	20.7%	22.4%

* 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 Results

Sales by Region

A. Second quarter

Change	4-6/2006		4-6/2005		Change	
	\$ millions	%	\$ millions	%	\$ millions	%
Israel	34.4	7.5%	29.1	7.0%	5.3	18.1%
North America	105.8	22.9%	89.5	21.5%	16.3	18.3%
South America	83.4	18.1%	72.6	17.4%	10.8	14.9%
Europe	180.4	39.0%	175.4	42.1%	5.0	2.9%
Rest of World	58.0	12.5%	49.9	12.0%	8.1	15.9%
Total	462.0	100.0%	416.5	100.0%	45.5	10.9%

B. First half

	1-6/2006		1-6/2005		Change	
	\$ millions	%	\$ millions	%	\$ millions	%
Israel	63.6	6.6%	57.9	6.2%	5.7	9.7%
North America	206.0	21.5%	184.8	19.8%	21.2	11.5%
South America	166.6	17.4%	150.3	16.1%	16.3	10.9%
Europe	410.3	42.9%	444.5	47.6%	(34.2)	-7.7%
Rest of World	109.4	11.5%	96.0	10.3%	13.4	13.9%
Total	955.9	100.0%	933.5	100.0%	22.4	2.4%

In the second quarter of 2006, Company sales increased by 10.9% and amounted to \$462.0 million, compared with \$416.5 million last year. All geographical regions posted an increase, particularly North America, South America and Australia (additional details below).

In the first half of the year, sales increased by 2.4% to \$955.9 million, compared with \$933.5 million last year.

In Europe, sales increased by \$5 million (2.9%) compared with last year, and amounted to \$180.4 million compared with \$175.4 million last year. In the first half, sales to Europe reached \$410.3 million, compared with \$444.5 million last year, a decrease of 7.7%.

In North America, sales in the quarter amounted to \$105.8 million, compared with \$89.5 million last year, an increase of \$16.3 million (18.3%). In the first half of the year, sales increased by \$21.2 million (11.5%), and amounted to \$206.0 million, compared with \$184.8 million in the first half of 2005.

In Latin America, sales amounted to \$83.4 million, an increase of \$10.8 million compared with last year. In the first half, sales reached \$166.6 million, compared with \$150.3 million last year, an increase of \$16.3 million.

In Israel, sales in the quarter amounted to \$34.4 million, compared with \$29.1 million last year. In the first half of the year, sales increased by \$5.7 million compared with last year, and reached \$63.6 million.

In the rest of the world, sales in the quarter amounted to \$58.0 million, compared with \$49.9 million last year, an increase of \$8.1 million (15.9%). In the first half of the year sales increased by \$13.4 million to \$109.4 million, compared with \$96.0 million last year. The most noteworthy country in quarterly and half-yearly growth is Australia.

Gross profit

Gross profit for the quarter amounted to \$163.4 million, compared with \$165.2 million last year. The margin was 35.4%, compared with 39.7% in the second quarter of 2005.

In the first half of the year gross profit reached \$341.6 million, compared with \$370.3 million last year, a decrease of 7.8%. The margin in the first half was 35.7%, compared with 39.7% last year. The decrease in gross profit stems mainly from price erosion and a rise in the prices of raw materials and energy, which pushes up the cost of selling.

Operating income

Overhead expenses in the quarter were 20.2% of sales, compared with 19.2% of sales last year. In the first half of the year, overhead expenses accounted for 19.7% of sales, compared with 18.8% last year.

R&D expenses in the second quarter amounted to \$5.0 million, compared with \$4.9 million last year. In the first half, R&D expenses were \$9.7 million, similar to last year.

Selling expenses increased from \$61.1 million last year to \$72.9 million this quarter. Selling expenses out of sales turnover were 15.8% in the quarter, compared with 14.7% last year. Most of the increase derives from higher transportation expenses following the rise in oil prices and in product registration expenses.

Selling expenses out of sales turnover in the first half of the year reached \$147.9 million (15.5%), compared with \$131.9 million (14.1%) last year.

General and administration expenses amounted to \$15.6 million (3.4% of sales), compared with \$13.8 million (3.3%) last year. In the first half, G&A expenses amounted to \$30.5 million (3.2% of sales), compared with \$33.5 million (3.6%) last year.

Operating income in the quarter amounted to \$69.9 million (15.1% of sales), compared with \$85.4 million (20.5%) in the second quarter of 2005. Operating income in the first half of the year amounted to \$153.5 million (16.1% of sales), compared with \$195.2 million (20.9%) last year.

EBITDA

EBITDA for the quarter amounted to \$83.9 million (18.2%), compared with \$93.4 million (22.4%) last year, a decrease of 10.2% which derives from the lower operating income. In the first half of the year EBITDA amounted to \$180.2 million (18.9%), compared with \$212.6 million (22.8%) last year, a decrease of 15.3%.

Financing

Financing expenses in the quarter amounted to \$17.7 million, compared with \$12.4 million in the same quarter last year, an increase of \$5.3 million due to the following three main factors:

- Financing the buy-back of Company shares
- The rise in the LIBOR rate

- Exchange rate differentials.

Financing expenses in the first half of the year amounted to \$29.4 million, compared with \$17.8 million last year, an increase of \$11.6 million.

Other expenses

Other expenses in the quarter amounted to \$4.7 million, compared with \$11.3 million last year, a decrease of \$6.7 million. These expenses include amortization of goodwill (\$2.9 million) in respect of the acquisition of new products and expenses related to the securitization plan (\$3.7 million). Most of the decrease is accounted for by a decrease in one-time expenses and by the first-time application of Accounting Standard 20, concerning termination of the methodical amortization of goodwill. See Note 1B(1) to the financial statements.

In the first half of the year, other expenses amounted to 11.8 million, compared with \$24.8 million last year, a decrease of \$13.0 million.

Income tax

Tax expenses in the quarter amounted to \$5.0 million (10.5% of pre-tax income), compared with \$8.8 million last year (14.3% of pre-tax income). Most of the decrease in the tax expense is the result of lower corporate tax rates in Israel, and the decline in earnings.

In the first half of the year, income tax amounted to \$11.6 million (10.3%), compared with \$34.8 million (22.8%) last year.

Net earnings

Net earnings for the quarter amounted to \$40.2 million (8.7%), compared with \$50.1 million (12.0%) last year, a decrease of \$9.9 million.

Net earnings in the first half of the year amounted to \$97.9 million (10.2%), compared with \$111.0 million (11.9%) last year, a decrease of \$13.1 million.

Financial situation and liquidity

Cash flow from current operations

This quarter, cash flow amounted to \$199.8 million, compared with \$132.7 million last year. The improvement in cash flow derives from the decrease in the Company's working capital.

In the first half of the year, cash flow amounted to \$198.0 million, compared with \$145.1 million last year.

Cash flow used for investment activities

Investments in the quarter amounted to \$61.4 million and include investments of \$23.2 million in fixed assets, \$28 million in acquisitions and \$15.9 million in product registrations and marketing

rights. Investments in the same quarter last year amounted to \$27.9 million, and included \$3.6 million in acquisitions and \$10.5 million in product registrations and marketing rights.

Investments in the first half of the year amounted to \$92.7 million, compared with \$47.3 million last year.

Free cash flow

Free cash flow (cash flow from current operations less cash flow from investment activities) in the quarter amounted to \$138.4 million, compared with \$104.8 million last year. Free cash flow in the first half of the year amounted to \$105.2 million, compared with \$97.8 million last year.

Financial situation

Current assets

Total current assets as at June 30, 2006 amounted to \$1,242.7 million, compared with \$1,076.1 million on June 30, 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 (credit from banks and other institutions and convertible debentures) as at June 30, 2006 amounted to \$382.6 million, of which 80.7% is short term, compared with \$255.7 million on June 30, 2005 (68.4% short term) and \$324.1 million on December 31, 2005 (76.5% short term).

Cash and short-term investment balances as at June 30, 2006 amounted to \$138.1 million, compared with \$89.0 million on June 30, 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 June 30, 2006, shareholders' equity amounted to \$1,126.6 million, compared with \$1,099.0 million in the same period last year.

Convertible debentures

- Of the private series of convertible debentures issued in March and April 2004 (\$150.0 million), \$149.3 million have been converted into shares. The balance of the debentures in the balance sheet as at June 30, 2006 amounts to \$0.67 million.
- Of the series of convertible debentures issued in November 2001 and January 2002, \$66.3 million has been converted into shares as at the date of these financial statements. The balance of debentures in the balance sheet as at June 30, 2006 amounts to \$24.8 million.

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:

	June 30	June 30	December 31
	<u>2006</u>	<u>2005</u>	<u>2005</u>
Ratio of current assets to current liabilities (current ratio)	1.27	1.42	1.38
Ratio of current assets excluding inventory, to current liabilities (quick ratio)	0.69	0.71	0.68
Fixed assets (net) out of total balance sheet	21.3%	21.6%	21.7%
Financial liabilities out of total balance sheet	16.6%	12.3%	15.2%
Shareholders' equity out of total balance sheet	48.9%	53.0%	53.2%
Ratio of financial liabilities to shareholders' equity	33.9%	23.3%	28.6%
Earnings per share (in dollars)	0.23	0.27	0.49
ROCE	15.8%	19.5%	18.4%

Danny Biran
Chairman of the Board

Shlomo Yanai
President & CEO

August 6, 2006, Tel Aviv

Report by linkage base as at June 30, 2006 (in thousands of %)

Assets:	Israeli	Dollar	Real	Euro	Other	Other Items	Total
Cash and cash equivalents	8,389	42,240	11,864	56,001	17,448		135,942
Short-term investments	753	1146		249			2,148
Trade receivables	20,039	111,768	105,460	115,066	65,233		417,566
Other receivables and debit balances	15,493	65,083	22,630	10,458	4,333		117,997
Inventory						569,054	569,054
Long-term investments, loans and debit balances	2,510	4436	15,594	2711	1367		26,618
Fixed assets						490,315	490,315
Other assets						544,091	544,091
Total Assets	47,184	224,673	155,548	184,485	88,381	1,603,460	2,303,731
Liabilities -							
Credit from banking corporations and other credit providers	4,299	273,939	1,609	20,931	4,928		305,706
Suppliers and Service Providers	33,815	166,847	41,094	100,780	14,540		357,076
Other payables and credit balances	59,085	113,749	19,465	74,471	43,540	248	310,558
Loans from banking corporations (including current maturity loans)	0	43,180	2732	7,248	1,035		51,463
Other long-term liabilities				3358			6,090
Convertible Debentures		25,473					25,473
Net deferred taxes						60,305	60,305
Employee severance benefits, net	27,251	0	796	2009	370		30,426
Total Liabilities	124,450	623,188	65,696	208,797	64,413	60,553	1,147,097
Difference	-77,266	-398,515	89,852	-24,312	23,968	1,542,907	1,156,634