



## Makhteshim Agan Industries Ltd.

### Board of Directors Report for the Quarter Ended September 30, 2006

#### **Brief description of the Company and its business environment**

Makhteshim Agan Industries Ltd. is the world's leading generic manufacturer of plant protection products. The Company is characterized by high technological-chemical ability, extensive portfolio of product registrations, compliance with strict environmental quality standards, stringent quality control and global marketing and distribution. 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 market, which includes the manufacturing and marketing of conventional agrochemical products. The activities in non-agro markets, are in a large number of sub-areas, none of which are material for the company and are grouped and defined as non-agro activities.

#### **Conditions of the business environment**

##### **Summary of changes in the industry**

The third quarter was negatively affected mainly by the difficult condition of the agrochemical market in Brazil, as well as by the ongoing trends that were manifested as of the beginning of the year, including increased competition that led to sales price erosion, and increased price of oil which pushed up the prices of raw materials, energy and transportation. These factors led to a decline in the Company's net profit in the third quarter of 2006.

#### **Financial markets:**

The following are exchange rate data for the Company's principal trading currencies, compared to the US dollar, and changes in 3 months LIBOR interest rates:

	30/9			Average for first nine months		
	2006	2005	Change	2006	2005	Change
Euro	1.268	1.202	5.5%	1.246	1.262	(1.4%)
Brazilian real	2.174	2.222	2.2%	2.183	2.497	12.4%
Shekel	4.302	4.598	6.4%	4.536	4.423	11.9
LIBOR interest for 3 months	5.37%	4.07%		5.13%	3.32%	

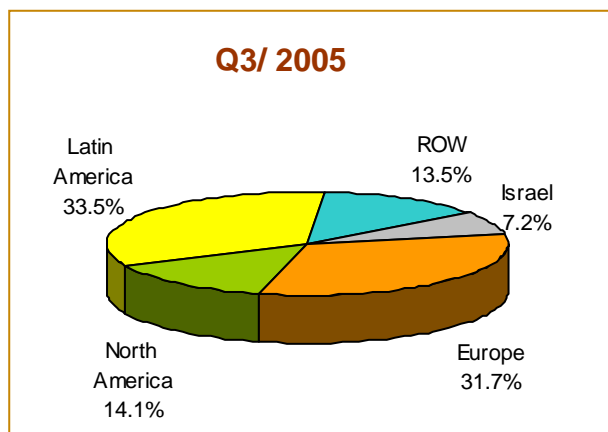
## Makhteshim – Agan

### Geographical profile

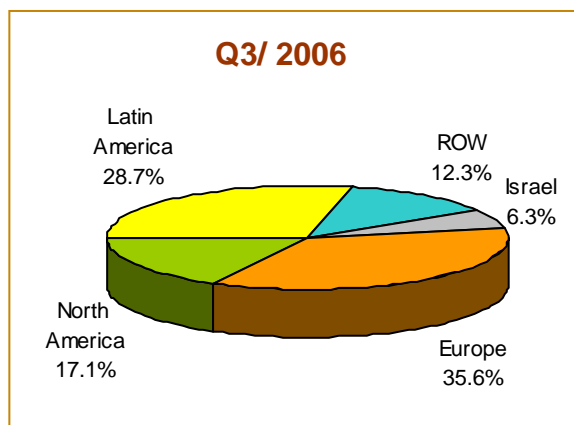
During the third quarter of 2006, the company's sales increased to \$407.6 million, compared with \$402.1 million in the same quarter last year, an increase of 1.4%. Sales to North America increased by 22.7% and amounted to \$69.5 million. Sales to Europe increased by 13.8% and amounted to \$145.1 million, which was offset by a drop in sales in South America (Brazil).

In the first nine months of the year, sales amounted to \$1,359.7 million, compared with \$1,335.6 million last year, an increase of 1.8%. Sales to North America increased by 14.1% and amounted to \$275.5 million, and were offset by a drop in sales to Europe (in the first quarter) and to South America (in the present quarter).

### Percentage distribution of quarterly sales:

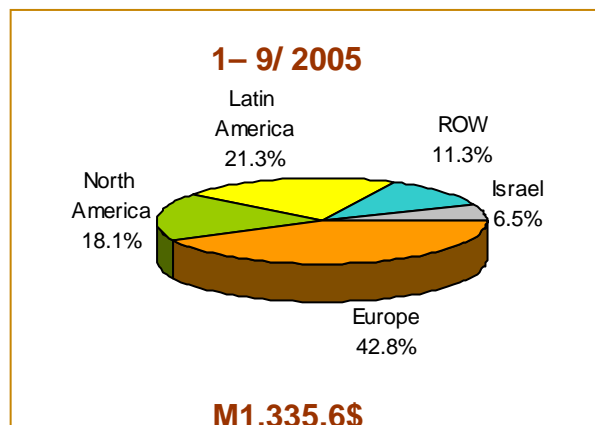


**\$402.1M**

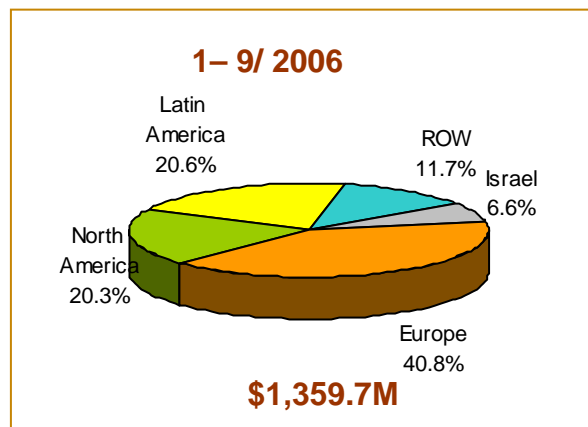


**\$407.6M**

### Percentage distribution of sales in the first nine months:



**M1,335.6\$**



**\$1,359.7M**

### **New products**

Sales of new products in the third quarter of the year reached \$139.4 million, compared with \$126.8 million last year, an increase of approximately 10%. The share of new products out of total sales of plant protection products in the third quarter was 39%, compared with 36% last year. In the first nine months of the year, sales of new products amounted to \$431.1 million, compared with \$409.3 million last year, an increase of 5.3%.

### **New registrations**

During the quarter, the Company received 37 new registrations for active chemical ingredients, formulations and mixtures. The expansion of registrations for the fungicide Tebuconazole in Europe and the US is worthy of mention.

### **Non-Agro**

Non-agro sales in the third quarter amounted to \$47.9 million, compared with \$51.7 million last year, a decrease of 7.3%. The drop in Non Agro sales stemmed primarily from the non-inclusion of the sales of the subsidiary Luxembourg Pharmaceuticals Ltd. due to its divestment on June 29, 2006.

In the first nine months of the year, non-agro sales amounted to \$157.3 million, compared with \$151.7 million last year, an increase of 3.7%.

### **Risk management**

The Company conducts its business in a number of different currencies. Due to these activities, the Company is exposed to market risks, which mainly involve foreign exchange rate fluctuations, partial adjustment of prices of products to reflect changes in cost of raw materials, and changes in interest rates.

The Board of Directors of the Company approved a policy of using financial derivatives to reduce the exposure to changes in foreign exchange rates. The Company makes such transactions only through banks and exchanges, which are obligated to meet capital adequacy requirements or maintain a scenario-based level of collateral. The Company's market risk manager is its CFO, Ran Maidan.

### **Currency Risks:**

The Group's most substantial exposure is to the euro, the Brazilian real and the shekel. In addition, there are lesser exposures to the UK pound, Argentinean peso, Polish zloty and Australian dollar. Currency exposure deriving from non US dollar exchange rate fluctuations is constantly checked against the assets, liabilities and cash flows denominated in non US dollar

currencies. It is the Company's policy to use financial derivatives (options and forward contracts) to hedge against such exposures only when the net exposure from a particular currency is material.

During the quarter, the Company hedged most of its exposure to the euro and the real.

**See linkage balances and derivatives position table as at 30.9.2006 in the appendix.**

### **Risks in raw material prices (in source currency)**

In order to reduce fluctuations in the prices of raw materials, the Company customarily enters into long-term purchase contracts for major materials wherever possible. The Company tries to adjust the selling prices of its products, as far as possible, to reflect changes in the prices of raw materials.

### **Interest Rate 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 present, the Company has decided not to hedge this risk.

### **Customer credit risks**

The company provides credit to its customers, as is customary in the various markets (including Brazil). The Company operates a credit control system based on pre-agreed procedures, and future sales are contingent on compliance with these procedures. The Company acts to obtain sureties from some of its customers and insures most of its customers in the framework of credit risk insurance.

### **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 Board of Directors is updated once every quarter with regard to the market risks and management thereof. The Company monitors market fluctuations and changes that may lead to changes in the composition of its hedge portfolio.

### **Changes in the Company Board of Directors**

On October 18, 2006, the Chairman of the Board of Directors, Mr. Danny Biran, announced his resignation. Mr. Avraham Bigger was appointed as Chairman of the Board of Directors on that date.

### **Changes in the Company Management**

On October 18, 2006, the Company's President and CEO, Mr. Shlomo Yanai, announced his intention to leave his post in early 2007.

### **Additional financial data (in millions of dollars)**

#### **Annual Data**

	<b>2003</b>	<b>% Chg</b>	<b>2004</b>	<b>% Chg</b>	<b>2005</b>	<b>% Chg</b>
<b>Sales</b>	1177.3	32.1%	1,539.7	30.8%	1,740.7	13.1%
<b>EBITDA</b>	243.9	41.1%	323.9	32.8%	376.9	16.3%
<b>EBIT</b>	173.3	47.1%	245.4	41.6%	281.4	14.6%
<b>Net earnings</b>	102.8	55.2%	165.5	61.1%	204.8	23.7%

#### **Quarterly Data**

	<b>7-9/2003</b>	<b>7-9/2004</b>	<b>7-9/2005</b>	<b>7-9/2006</b>	<b>% Chg</b>
<b>Sales</b>	279.0	362.8	402.1	407.6	1.4%
<b>EBITDA</b>	59.7	76.2	83.5	59.6	-28.6%
<b>EBIT</b>	41.5	58.4	58.1	37.9	-34.8%
<b>Net earnings</b>	23.2	37.3	46.8	24.5	-47.8%

#### **None-monthly data**

	<b>1-9/2003</b>	<b>1-9/2004</b>	<b>1-9/2005</b>	<b>1-9/2006</b>	<b>% Chg</b>
<b>Sales</b>	883.7	1129.3	1335.6	1359.7	1.8%
<b>EBITDA</b>	185.8	243.5	296.1	236.1	-20.3%
<b>EBIT</b>	133.7	186.4	223.8	173.1	-37.9%
<b>Net earnings</b>	78.8	123.0	157.9	122.4	-22.5%

## Summary of profit and loss reports

### A. Profit and loss reports for the third quarter:

	7-9/2006	7-9/2005	Change	% Chg
Revenues	407.6	402.1	5.5	1.4%
Gross profit	137.2 33.7%	153.8 38.2%	-16.6	-10.8%
R&D sales expenses General and Administrative	93.0 22.8%	84.8 21.1%	8.3	9.8%
Operating income	44.1 10.8%	69.0 17.2%	-24.9	-36.1%
Financing Expenses	7.2 1.8%	8.8 2.2%	-1.6	-18.5%
Pre-Tax Profit	30.5 7.5%	49.1 12.2%	-18.6	-38.0%
Net earnings	24.5 6.0%	46.8 11.6%	-22.4	-47.8%
EBITDA	59.6 14.6%	83.5 20.8%	-23.8	-28.6%

### B. Profit and loss reports for the nine months:

	1-9/2006	1-9/2005	Change	% Chg
Revenues	1,359.7	1,335.6	24.1	1.8%
Gross profit	475.0 34.9%	524.1 39.2%	-49.1	-9.4%
R&D sales expenses General and Administrative	281.1 20.7%	259.9 19.5%	21.2	8.2%
Operating income	193.9 14.3%	264.2 19.8%	-70.3	-26.6%
Financing Expenses	32.8 2.4%	26.6 2.0%	6.2	23.4%
Pre-Tax Profit	142.8 10.5%	201.7 15.1%	-58.9	-29.2%
Net earnings	122.4 9.0%	157.9 11.8%	-35.5	-22.5%
EBITDA	236.1 1,359.7	296.1 1,335.6	-60.1 24.1	-20.3% 1.8%

**C. Quarterly profit and loss reports:**

	<b>7-9/2006</b>	<b>4-6/2006</b>	<b>1-3/2006</b>	<b>10-12/2005**</b>	<b>7-9/2005**</b>
Revenues	407.6	458.3*	493.9	405.1	402.1
Gross profit	137.2 33.7%	159.7 34.8%	178.2 36.1%	156.9 38.7%	153.8 38.2%
R&D sales expenses General and Administrative	93.0 22.8%	93.5 20.4%	94.6 19.2%	90.8 22.4%	84.8 21.1%
Operating income	44.1 10.8%	66.2 14.4%	83.6 16.9%	66.0 16.3%	69.0 17.2%
Financing Expenses	7.2 1.8%	14.0* 3.0%	11.7 2.4%	8.0 2.0%	8.8 2.2%
Pre-Tax Profit	30.5 7.5%	47.6 10.4%	64.7 13.1%	49.8 12.3%	49.1 12.2%
Net earnings	24.5 6.0%	40.2 6.0%	57.7 11.7%	46.8 11.6%	46.8 11.6%
EBITDA	59.6 14.6%	80.2 17.5%	96.3 19.5%	80.6 19.9%	83.5 20.8%

\* Reclassified

\*\* Re-presented see note 1(b)(4) to the Financial Statements

## **Analysis of Results**

### **Income by Region**

#### **A. Third quarter**

	<b>7-9/2006</b>	<b>%</b>	<b>7-9/2005</b>	<b>%</b>	<b>Change</b>	<b>% Chg</b>
Israel	25.7	6.3%	28.8	7.2%	-3.1	-11.1%
North America	69.5	17.1%	56.7	14.1%	12.8	22.7%
South America	117.0	28.7%	134.8	33.5%	-17.8	-13.2%
Europe	145.1	35.6%	127.4	31.7%	17.7	13.8%
Rest of World	50.3	12.3%	54.4	13.5%	-4.1	-7.5%
<b>Total</b>	<b>407.6</b>	<b>100%</b>	<b>402.1</b>	<b>100.0%</b>	<b>5.5</b>	<b>-1.4%</b>

#### **B. Nine months**

	<b>1-9/2006</b>	<b>%</b>	<b>1-9/2005</b>	<b>%</b>	<b>Change</b>	<b>% Chg</b>
Israel	89.2	6.6%	86.7	6.5%	2.6	2.8%
North America	275.5	20.3%	241.5	18.1%	34.0	14.1%
South America	279.8	20.6%	285.0	21.3%	-5.2	-1.8%
Europe	555.3	40.8%	571.9	42.8%	-16.6	-2.9%
Rest of World	159.8	11.7%	150.5	11.3%	9.3	6.2%
<b>Total</b>	<b>1,359.7</b>	<b>100%</b>	<b>1,335.6</b>	<b>100.0%</b>	<b>24.1</b>	<b>1.8%</b>

Sales Increased by 1.4% in the third quarter of 2006 and amounted to \$407.6 million, compared with \$402.1 million last year. The increase in sales in North America and Europe (additional details below) stems, among other things, from the acquisition of new companies.

In the first nine months of 2006, sales increased by 1.8% and amounted to \$1,359.7 million, compared with \$1,335.6 million last year.

In Europe, sales increased by \$17.7 million (13.8%) compared with last year, and amounted to \$145.1 million in the quarter, compared with \$127.4 million last year. In the first nine months of 2006, sales to Europe reached \$555.3 million, compared with \$571.9 million last year, a decrease of 2.9%.

In North America, sales in the quarter amounted to \$69.5 million, compared with \$56.7 million last year, an increase of \$12.8 million (22.7%). In the first nine months of the year, sales increased by \$34.0 million (14.1%), and amounted to \$275.5 million, compared with \$241.5 million in the same period of 2005.

In Latin America, sales amounted to \$117.0 million, a decrease of \$17.8 million compared with last year. The decrease stems from increased competition in the Brazilian market. In the first nine months, sales reached \$279.8 million, a decrease of \$5.2 million compared with the same period of last year.

In Israel, sales in the quarter amounted to \$25.7 million, compared with \$28.8 million last year. The decrease in sales stems mainly from the non-inclusion of sales of Luxembourg Pharmaceuticals Ltd. due to its divestment on June 29, 2006. In the first nine months of the year, sales increased by \$2.6 million compared with last year, and reached \$89.3 million.

In the rest of the world, sales in the quarter decreased by \$4.1 million (from \$54.4 million to \$50.3 million). In the first nine months of the year sales increased by \$9.3 million, compared with the same period of last year.

### **Gross profit**

Gross profit for the quarter declined to \$137.2 million, compared with \$153.8 million last year, a decrease of 10.8%.

The decline in gross profit in the third quarter stems mainly from the difficult condition of the Brazilian agrochemical market which led to price erosion and an increase in raw materials costs. These changes explain the drop in the gross profitability rate in the quarter, to 33.7%, compared with 38.2% in the same quarter of last year.

Gross profit for the first nine months of the year amounted to \$475.0 million, compared with \$524.1 million last year, a decrease of 9.4%. The decline in gross profit stems mainly from price erosion and an increase in raw materials costs. Gross profitability in the first nine months decreased to 34.9% from 39.2% in the same period of last year.

### **Operating income**

**R&D expenses** in the quarter amounted to \$4.7 million, compared with \$4.8 million last year. In the first nine months, R&D expenses were \$14.4 million, compared with \$14.5 in the same period of last year.

**Selling expenses** increased from \$65.7 million last year to \$68.8 million this quarter. Selling expenses in the quarter were 16.9% of sales, compared with 16.3%% last year. In the first nine months, selling expenses were \$216.7 million (15.9%), compared with \$197.6 (14.7%) in the same period of last year. Most of the increase in selling expenses in the quarter and in the first

nine months derives from the effect of the first-time consolidation of the companies that were acquired and from the increase in product registration expense.

**General and administration expenses amounted to \$19.5 million (4.8% of sales),** compared with \$14.2 million (3.5%) last year. In the first nine months, G&A expenses were \$50.0 million (3.7%), compared with \$47.7 (3.8%) in the same period of last year. Most of the increase stems from an increase in the allowance for doubtful debts in Brazil in the quarter.

Operating income in the quarter amounted to \$44.1 million (10.8% of sales), compared with \$69.0 million (17.2%) in the third quarter of 2005. Operating income in the first nine months of the year amounted to \$193.9 million (14.3% of sales), compared with \$264.2 million (19.8%) last year.

### **EBITDA**

EBITDA for the quarter amounted to \$59.6 million (14.6%), compared with \$83.5 million (20.8%) last year. In the first nine months of the year, EBITDA amounted to \$236.1 million (17.4%), compared with \$296.1 (22.2%) in the same period last year.

### **Financing:**

Financing expenses in the quarter amounted to \$7.2 million, compared with \$8.8 million in the same quarter of last year.

Financing expenses in the first nine months of the year amounted to \$32.8 million, compared with \$26.6 million last year, an increase of \$6.2 million.

The Company has an undertaking towards certain banks to maintain financial criteria. The Company is in compliance with those undertakings.

### **Other expenses**

Other expenses in the quarter amounted to \$6.5 million, compared with \$11.2 million last year. These expenses include amortization of goodwill in respect of acquisition of new products and expenses related to the securitization plan.

In 2006 the Company ceased to amortize goodwill on an on going basis in respect of acquisition of new companies, in accordance with the change in accounting standards in Israel and will review the need for such amortization on an annual basis.

In the first nine months of the year, other expenses amounted to \$18.3 million, compared with \$35.9 million last year.

## **Income tax**

Tax expenses in the quarter amounted to \$6.3 million (20.6% of pre-tax income), compared with \$2.5 million last year (5.0% of pre-tax income). In the same quarter of last year there was a one-time effect in respect of the reduction of corporate tax rates in Israel. After neutralizing the one-time effect, the tax expenses in the same period of last year would have amounted to \$8.1 million, 16.5% of pre-tax income.

Tax expenses in the first nine months of the year amounted to \$17.9 million (12.5% of pre-tax income), compared with \$37.3 million last year (18.4% of pre-tax income). In the same period of last year there was a one-time effect in respect of the reduction of corporate tax rates in Israel. After neutralizing the one-time effect, the tax expenses in the same period of last year would have amounted to \$42.9 million, 21.3% of pre-tax income.

## **Earnings**

Earnings for the quarter amounted to \$24.5 million (6.0%), compared with \$46.8 million (11.6%) last year, a decrease of \$22.6 million.

Earnings in the first nine months of the year amounted to \$122.4 million (9.0%), compared with \$157.9 million last year (11.8%), a decrease of \$35.5 million.

## **Financial situation and liquidity**

### **Cash flow from current operations**

This quarter, the cash flow was negative, and amounted to \$58.9 million, compared with a negative flow of \$49.3 million last year.

In the first nine months of the year, cash flow from current operations amounted to \$136.6 million, compared with \$95.8 million last year.

### **Cash flow used for investment activities**

Investments in the quarter amounted to \$21.2 million and include investments of \$14.6 million in fixed assets, \$7.6 million in product registrations and marketing rights. Investments in the same quarter last year amounted to \$17.1 million, and included \$11.8 million in fixed assets, and \$6.6 million in product registrations and marketing rights. Investments in the first nine months of the year amounted to \$111.5 million (\$30.1 million of which were invested in the acquisition of subsidiaries), compared with \$64.3 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 a negative flow of \$80 million, compared with a negative flow of \$66.4 million last year. Free cash flow in the first nine months of the year amounted to \$25.2 million, compared with \$31.4 million last year.

## **Financial situation**

### **Current assets**

Total current assets as at September 30, 2006 amounted to \$1,246.8 million, compared with \$1,104.8 million on September 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 convertible debentures) as at September 30, 2006 amounted to \$476.8 million (85.8% is short term) compared with \$312.6 million (66% is short term) on September 30, 2005 and \$324.1 million on December 31, 2005 (76.5% short term).

Cash and deposit balances as at September 30, 2006 amounted to \$117.1 million, compared with \$60.0 million on September 30, 2005 and \$71.3 million on December 31, 2005.

### **Shareholders' equity**

As at September 30, 2006, shareholders' equity amounted to \$1,154.2 million, compared with \$1137.0 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 September 30, 2006 amounts to \$0.7 million.
- Of the series of convertible debentures issued in November 2001 and January 2002, \$68 million has been converted into shares as at the date of these financial statements.

The balance of the debentures in the balance sheet as at September 30, 2006 amounts to \$24 million.

- In the third quarter the Company's shareholders' equity increased by \$1 million as a result of the debenture conversions.
- In the past nine months the Company's shareholders' equity has increased by \$15.7 million as a result of the debenture conversions.

### **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**

	30/09/2006	30/09/2005	31/12/2005
Ratio of current assets to current liabilities (current ratio)	1.29	1.50	1.38
Ratio of current assets excluding inventory, to current liabilities (quick ratio)	0.69	0.76	0.68
Fixed assets (net) out of total balance sheet	21.4%	21.7%	21.7%
Financial liabilities out of total balance sheet	20.5%	14.8%	15.2%
Shareholders' equity out of total balance sheet	49.6%	54.0%	53.2%
Ratio of financial liabilities to shareholders' equity	41.3%	27.5%	28.6%
Earnings per share (in dollars)	0.28	0.38*	0.49*

\* Restated

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Avraham Bigger  
Chairman of the Board

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Shlomo Yanai  
President and CEO

November 7, 2006, Tel Aviv

**Report by Linkage Bases as at September 30, 2006 (in \$ thousands):**

<b>Assets:</b>	<b>Israeli</b>	<b>US dollar</b>	<b>Real</b>	<b>Euro</b>	<b>Other</b>	<b>Other items</b>	<b>Total</b>
<b>Cash and cash equivalents</b>	1,668	62,599	11,743	28,161	12,889		117,060
<b>Short-Term Investments</b>	775	316			219		1,310
<b>Customers</b>	14,167	156,108	109,408	98,832	69,642		448,157
<b>Other Accounts Receivable</b>	14,809	16,864	26,026	7,506	6,244	31,765	103,214
<b>Inventories</b>						577,066	577,066
<b>Investments, Loans and Long-Term Debit Balances</b>	2,572	4,922	17,784	2,704	1,434	12,595	42,011
<b>Fixed Assets</b>						497,085	497,085
<b>Other assets</b>						540,439	540,439
<b>Total Assets</b>	33,991	240,809	164,961	137,203	90,428	1,658,950	2,326,342
<b>Liabilities -</b>							
<b>Credit from banking corporations and other credit providers</b>	6,931	367,307	3,162	21,440	6,088		404,928
<b>Suppliers and service providers</b>	35,060	158,822	40,425	75,935	11,452		321,694
<b>Creditors and credit balances</b>	66,191	52,702	18,597	49,763	47,568	356	235,177
<b>Loans from banking corporations (including current maturities)</b>		30,490		12,768	3,865		47,123
<b>Other long-term liabilities</b>			2,920	765			3,685
<b>Convertible debentures</b>		24,694					24,694
<b>Deferred taxes, net</b>						73,509	73,509
<b>Net liabilities in respect of termination of employer-employee relations</b>	27,955	143	819	1,955	252		31,124
<b>Total liabilities</b>	136,137	634,158	65,923	162,626	69,225	73,865	1,141,934
<b>Difference</b>	-393,349		99,038	-25,423	21,203	1,585,085	1,184,408

**Positions in Derivatives as at September 30, 2006, in \$ Millions\*:**

\* \*

	Euro/Dollar*				Shekel/Dollar				Rand/Dollar*				Real/Dollar*				Sterling/Dollar				
	Par value		Fair value		Par value		Fair value		Par value		Fair value		Par value		Fair value		Par value		Fair value		
	Long	Short	Long	Short	Long	Short	Long	Short	Long	Short	Long	Short	Long	Short	Long	Short	Long	Short	Long	Short	
<b><u>Purchase option</u></b>																					
Recognized for protection for accounting purposes	89.0	40.1	0.3	(0.1)		26.0		(0.0)		0.1		-0.0	60	60	1.4	-0.5	19.2	4	0.0	-0.0	
Not recognized for protection for accounting purposes	105.0	3.0	0.8	-0.0		16.0		(0.0)									13.2		0.2		
<b><u>Sales option</u></b>																					
Recognized for protection for accounting purposes	115.0	50.7	-0.5	0.0	14.0	36.0	-0.1	0.9	0.2	0.1	-0.0	0.0	10	17	-0.1	0.3	21.3	4.0	-0.9	0.1	
Not recognized for protection for accounting purposes	109.9		-0.7		11	18	-0.1	0.7									13.3		-0.4		
<b><u>Forward deals</u></b>																					
Recognized for protection for accounting purposes	5	5	-0.0	0.0	10	19	-0.2	1.0	11.0		0.9		10		0.0		20.6	4.8	-0.1	0.1	
Not recognized for protection for accounting purposes									2.0		0.3										
<b><u>Swap deals</u></b>																					
Recognized for protection for accounting purposes													42.3		-1.3						

(\*) Long/short balances pertain to the dollar

	Zloty/Dollar				Corona/Dollar				Yuan/Dollar				Yen/Dollar*				Australian Dollar/Dollar			
	Par value		Fair value		Par value		Fair value		Par value		Fair value		Par value		Fair value		Par value		Fair value	
	Long	Short	Long	Short	Long	Short	Long	Short	Long	Short	Long	Short	Long	Short	Long	Short	Long	Short	Long	Short
<b><u>Purchase option</u></b>																				
Recognized for protection for accounting purposes	6.1		0.0									-0.0	2.3	1.3	0.0	-0.0	16.2		0.3	
Not recognized for protection for accounting purposes	16.0	3.2	0.3	-0.0						32		-0.0	0.9	0.5	0.0	0.0	14.9	2.2	0.3	-0.0
<b><u>Sales option</u></b>																				
Recognized for protection for accounting purposes	6.2		(0.2)									0.0	2.5		0.0		16.7		(0.2)	
Not recognized for protection for accounting purposes	18.1	3.4	(0.3)	0.0						32		-0.0	1.0		0.0		15.5	0.4	(0.2)	0.0
<b><u>Forward deals</u></b>																				
Recognized for protection for accounting purposes	30.6	3.2	-(0.1)	0.0	0.4	0.4	0.0	0.0									8.8	5.8	-0.0	-0.0
Not recognized for protection for accounting purposes	3.3	2	0.1	-0.1																
<b><u>Swap deals</u></b>																				
Recognized for protection for accounting purposes																				

(\*) Long/short balances pertain to the dollar



**Makhteshim Agan Industries Ltd.**

**Material changes that have occurred in the Company's business during the three months ended on September 30, 2006 compared with the description of the corporation's business for the year 2005**

As per the Provisions of Regulation 39A of the Securities Regulations (Periodic and Immediate Reports), 5729-1970

1. To Section 1.4 – Distribution of Dividends

On November 11, 2006 the Company's Board of Directors resolved to review the Company's dividend policy which was adapted on April 23, 2001 and amended on March 8, 2006. This review is expected to conclude by the date of the Company's release of its results for the financial year of 2006. Accordingly, no dividend will be paid in relation to the second and third quarter of this year.

On August 31, 2006 the Company distributed a dividend of \$28.8 to its shareholders.

2. To Section 1.20.3 – the Company's group of officers and senior position holders

On October 18, 2006, the Chairman of the Board of Directors, Mr. Danny Biran, announced his resignation. Mr. Avraham Bigger was appointed as Chairman of the Board of Directors on that date.

On October 18, 2006, the Company's President and CEO, Mr. Shlomo Yanai, announced his intention to leave his post in early 2007.