



Makhteshim Agan Industries Ltd.

Management Discussion and Analysis
for the Year and the Quarter ended December 31, 2006

Profile of the Company and its business environment

Makhteshim Agan Industries Ltd. is the world's leading generic manufacturers of crop protection products. The Company has a 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 upon expiration of patents.

The main area of the Company's operations is in the crop protection market, which includes the manufacturing and marketing of conventional crop protection products. The Company's operations 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 year of 2006, and in particular the fourth quarter, even more than the third quarter, was adversely affected from tough conditions of the agrochemical market in the Brazilian market, as well as ongoing trends that had been manifesting since the beginning of the year in a sharp erosion of the profits of companies operating in the field, stemming from two main factors: Price erosion and cost increases.

Price erosion stemmed mainly from extreme weather conditions in Europe and the USA during the first quarters of the year, and difficult economic conditions in Brazil. These conditions caused a decrease in demands for crop protection products, which increased the competition between the trading companies in the market, and brought about a reduction in prices.

The rise in costs was the result of an increase in oil prices, which caused an increase in raw material prices and in transportation and energy tariffs which led to erosion of the Company's gross profit and operating profit. All of these factors led to a decrease in the Company's net profits for the fourth quarter of 2006, and for the entire year.

As a result of the above, according to a survey conducted by Phillips McDougall, in 2006, the agrochemical market shrunk by approximately 3.7% in comparison with 2005, reaching sales of approximately 30 billion dollars, following nominal growth of 2.0% in 2005 and of 15.0% in 2004.

Competitors:

See under Description of Company's Business

Financial Markets:

The following are exchange rate data for the principal trade currencies used by the Group, and data of LIBOR interest:

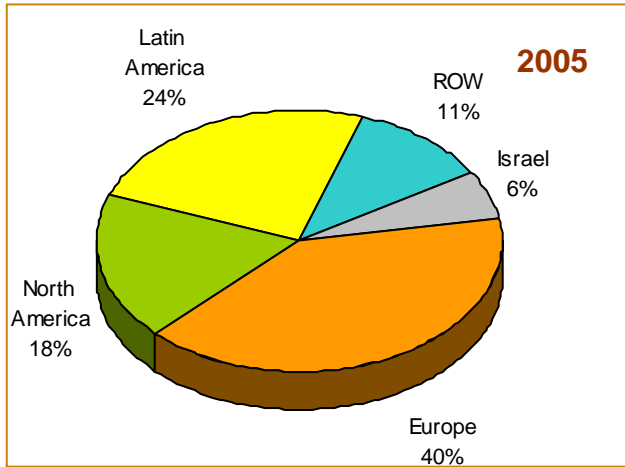
(Devaluation) / Revaluation

	December 31			Annual average			Q4 Average		
	2006	2005	Change	2006	2005	Change	2006	2005	Change
Euro	1.317	1.183	11.3%	1.255	1.243	1.0%	1.289	1.189	8.4%
Brazilian Real	2.13	2.341	(8.7%)	2.18	2.436	(10.5%)	2.155	2.251	(4.3%)
Shekel	4.225	4.603	(8.2%)	4.468	4.497	(0.6%)	4.265	4.654	(8.4%)
LIBOR interest for 3 months	5.36%	4.54%		5.19%	3.57%		5.37%	4.34%	

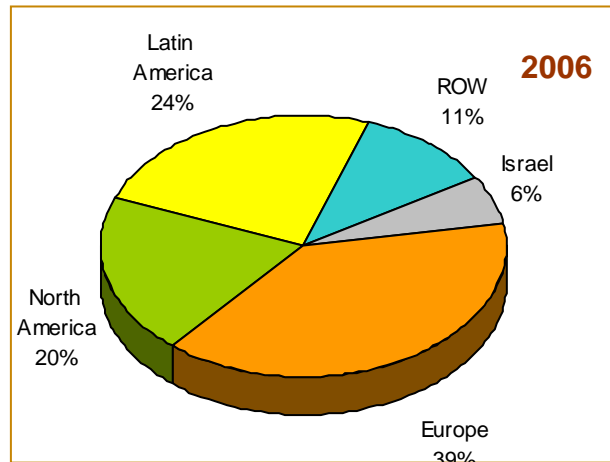
Geographical profile

In 2006, the Company's sales increased and amounted to 1,778.8 million dollars, compared with 1,740.7 million dollars in the previous year, an increase of 2.2%. The Company's sales to Europe amounted to 690.0 million dollars, compared with 700.9 million dollars in the previous year, a decrease of 1.6%. Sales to North America amounted, this year, to 349.4 million dollars, compared with 308.8 million dollars in the previous year, an increase of 13.1%. The Company's sales to Latin America amounted to 430.0 million dollars, compared with 422.8 million dollars in the previous year.

Percentage Distribution of Annual Sales:



\$1,740.7M



\$1,778.8M

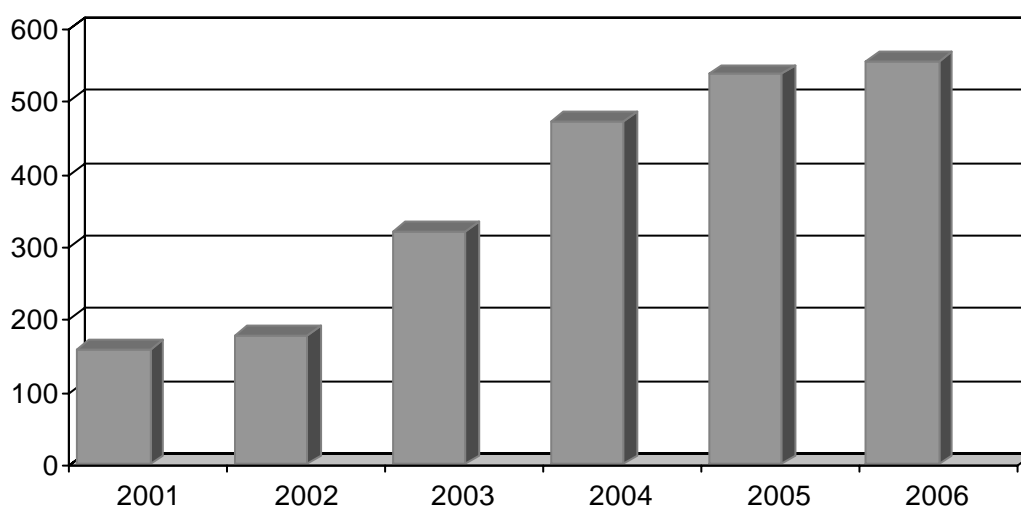
Acquisition of Companies

See under Description of Company's Business.

New Products:

In 2006, sales of new products amounted to 554.0 million dollars compared with 537.2 million dollars last year, an increase of approximately 3.0%. In 2006, new products constituted approximately 35% of total agrochemical sales, similar to the previous year.

Sales of New Products (Millions of Dollars):



Registrations of Company Products:

In 2006, the Company continued registering new products in order to increase its competitive ability in the market. During this year, the Company received approximately 166 new registrations for active ingredients, formulations and mixtures. The following registrations should be noted in particular:

Registration of Novaluron in Italy. This is one of the Company's original products (which is sold as *Rimon*, for agricultural use).

Registration of Imidacloprid, the best-selling insecticide in the world in terms of sales.

Registration to market Orius, a fungicide containing the active ingredient tebuconazole, in the USA.

Registration to market Beta-cyfluthrin, an insecticide, in England and the Czech Republic.

The Company's first generic registration in the world to market Fenpropidin, a fungicide, in England.

The Company's first generic registration in the world to market Fluazinam, a fungicide, in Ireland.

Registration for Clethodim, a herbicide, in a large number of countries.

Registration for Imazaphyr, a herbicide, in North America.

Registration for the herbicides Clortoluron and Diflufenican, in Spain.

Registration for the herbicides Diflufenican and Isproturon, in France.

Registration for the herbicide Tralkoxidim, in England.

Non-Agro:

In 2006, non-agro sales amounted to approximately 197.4 million dollars, similar to the previous year, in which the Company's sales amounted to 197.9 million dollars. In the fourth quarter, non-agro sales amounted to 40.1 million dollars compared with 46.2 million dollars in the same quarter in the previous year. The decrease in non-agro sales in the fourth quarter stems mainly from non-inclusion of the sales of Luxembourg Pharmaceuticals Ltd., due to its divestment in the second quarter.

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 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 exchange rates. The Company only effects such transactions via banking corporations and stock exchanges, which are obligated to meet capital adequacy requirements or to maintain a scenario-based level of collateral. The Company's Market Risk Manager is the CFO, Ran Maidan.

Currency Risks:

The Group's most substantial exposure is to the euro, the shekel and the Brazilian real. In addition, there are lesser exposures to the UK pound, Polish zloty, the Australian dollar and the South African rand. Currency exposure deriving from foreign currency exchange rate fluctuations is constantly checked against the assets (including inventory of finished products in countries of sale), liabilities and cash flows denominated in non-US dollar currencies. It is the Company's policy to use financial derivatives (options and forward contracts) to hedge against such exposure only when the net exposure to a certain currency is material.

In November 2006, the Company completed a bond issuance in the sum of 2.35 billion shekels. The main portion of the bonds is index-linked, and therefore, index increases and shekel exchange rate fluctuations are liable to cause significant exposure to the Company's operating currency, which is the US dollar.

During the quarter, the Company hedged most of its exposure to the euro, real and shekel on account of the debentures set out above.

See linkage balances and derivatives position table as at December 31, 2006 in the appendix.

Risks in raw material prices (in source currency):

In order to reduce exposure to fluctuations in the prices of raw materials, the Company customarily enters into long-term purchase contracts for principal materials wherever possible. In long-term production contracts, 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.

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 that may lead to changes in the composition of its hedge portfolio.

Discussion of analysis of sensitivity to changes to risk factors

The following is a description of the models for examining the sensitivity of the fair values of various financial instruments:

1. B&S formula options – the known standard deviation curve and the rates of the relevant base asset.
2. Forward transactions – the rate of the relevant base asset, and the interest points derived from the interest rates.
3. Debentures and bank loans – the known interest curve and the exercise price of the debenture.
4. Various interest rates:

Interest Rates - Ask						Interest Rates - Bid						
1Y	9M	6M	3M	2M	1M	1Y	9M	6M	3M	2M	1M	Currency
5.32	5.35	5.35	5.35	5.37	5.38	5.26	5.29	5.30	5.29	5.27	5.28	USD
5.60	5.54	5.46	5.35	5.28	5.22	5.48	5.42	5.34	5.23	5.16	5.10	GBP
4.08	4.01	3.91	3.73	3.70	3.63	3.96	3.89	3.79	3.65	3.58	3.57	EUR
4.99	5.01	4.95	4.95	4.95	4.90	4.89	4.91	4.65	4.65	4.65	4.60	ILS
6.60	6.53	6.45	6.36	6.30	6.28	6.52	6.45	6.38	6.28	6.23	6.20	AUD
9.75	9.65	9.55	9.35	9.35	9.25	9.55	9.45	9.35	9.15	9.15	9.05	ZAR
4.49	4.39	4.30	4.16	4.14	4.13	4.29	4.19	4.10	3.96	3.96	3.95	PLN
17.51	17.51	17.03	17.81	17.02	16.65	16.51	16.51	16.03	16.81	16.02	15.65	BRL
3.60	3.60	3.60	3.60	3.60	3.60	3.60	3.60	3.60	3.60	3.60	3.60	NIS Lin

Sensitivity to USD / NIS exchange rate fluctuations:

	Profit (loss) from fluctuation		Fair value	Profit (loss) from fluctuation	
	+10%	+5%		-5%	-10%
Rate	4.648	4.436	4.225	4.014	3.803
Cash and cash equivalents	(19,655)	(10,295)	216,204	11,379	24,023
Short-term investments	(74)	(39)	817	43	91
Trade receivables	(404)	(212)	4,449	234	494
Other accounts receivable	(1,585)	(830)	17,438	918	1,938
Long-term investments, loans and receivables	(215)	(113)	2,367	125	263
Total assets	(21,934)	(11,489)	241,275	12,699	26,808
Trade payables and service providers	3,585	1,878	39,437	(2,076)	(4,382)
Accounts payable	7,218	3,781	79,396	(4,179)	(8,822)
Loans from banking corporations (including current maturity loans)	50,466	26,435	555,128	(29,217)	(61,681)
Employee severance benefits, net	2,829	1,482	31,124	(1,638)	(3,458)
Total liabilities	64,099	33,575	705,085	(37,110)	(78,343)
Difference	42,165	22,086	(463,810)	(24,411)	(51,534)
Hedge tools accounting					
Options	(17,148)	(6,855)	460	10,048	24,871
Forward transactions	(10,463)	(5,819)	90	4,937	11,211
Total	(27,611)	(12,674)	550	14,985	36,082
Total	14,554	9,413	(463,260)	(9,426)	(15,452)
Hedge tools non-accounting					
Options	(410)	49	649	1,530	2,516
Forward transactions	159	(230)	159	588	1,065
Total	(251)	(181)	808	2,118	3,582

Sensitivity to USD / Euro exchange rate fluctuations:

	Profit (loss) from fluctuation		Fair value	Profit (loss) from fluctuation	
	+10%	+5%		-5%	-10%
Rate	1.185	1.251	1.317	1.383	1.449
Cash and cash equivalents	(1,528)	(764)	15,276	764	1,528
Trade receivables	(9,724)	(4,862)	97,243	4,862	9,724
Other accounts receivable	(1,426)	(713)	14,255	713	1,426
Inventories	(7,775)	(3,887)	77,749	3,887	7,775
Long-Term Investments, Loans and Receivables	(283)	(142)	2,832	142	283
Total Assets	(20,736)	(10,368)	207,355	10,368	20,736
Credit from banking corporations and other credit providers	2,475	1,237	24,746	(1,237)	(2,475)
Trade payables and service providers	8,683	4,341	86,826	(4,341)	(8,683)
Accounts payable	4,180	2,090	41,803	(2,090)	(4,180)
Loans from banking corporations (including current maturity loans)	1,249	625	12,494	(625)	(1,249)
Other long-term liabilities	36	18	356	(18)	(36)
Employee severance benefits, net	208	104	2,075	(104)	(208)
Total Liabilities	16,830	8,415	168,300	(8,415)	(16,830)
Difference	(3,906)	(1,953)	39,055	1,953	3,906
Hedge tools accounting					
Options	3,665	696	(1,850)	(2,956)	(5,071)
Forward transactions	(388)	(188)	12	212	412
Total	3,277	508	(1,838)	(2,744)	(4,659)
Total	(629)	(1,445)	37,217	(791)	(753)
Hedge tools non-accounting					
Options	10,701	3,820	(1,400)	(3,410)	(12,953)

Sensitivity to USD / BRL exchange rate fluctuations:

	Profit (loss) from fluctuation		Fair value	Profit (loss) from fluctuation	
	+10%	+5%		-5%	-10%
Rate	2.350	2.243	2.136	2.029	1.922
Cash and cash equivalents	(1,389)	(727)	15,276	804	1,697
Trade receivables	(8,840)	(4,631)	97,243	5,118	10,805
Other accounts receivable	(1,296)	(679)	14,255	750	1,584
Inventories	(9,530)	(4,992)	104,831	5,517	11,648
Long-Term Investments, Loans and Receivables	(257)	(135)	2,832	149	315
Total Assets	(21,312)	(11,164)	234,437	12,339	26,049
Credit from banking corporations and other credit providers	2,250	1,178	24,746	(1,302)	(2,750)
Trade payables and service providers	7,893	4,135	86,826	(4,570)	(9,647)
Accounts payable	3,800	1,991	41,803	(2,200)	(4,645)
Loans from banking corporations (including current maturity loans)	1,136	595	12,494	(658)	(1,388)
Other long-term liabilities	32	17	356	(19)	(40)
Employee severance benefits, net	189	99	2,075	(109)	(231)
Total Liabilities	15,300	8,014	168,300	(8,858)	(18,700)
Difference	(6,012)	(3,149)	66,137	3,481	7,349
Hedge tools accounting					
Options	3,917	2,134	1,095	975	643
Forward transactions	3,796	2,453	976	(657)	(2,471)
Total	7,713	4,587	2,071	318	(1,828)
Total	1,701	1,438	68,208	3,799	5,520

Sensitivity to USD / GBP exchange rate fluctuations:

	Profit (loss) from fluctuation		Fair value	Profit (loss) from fluctuation	
	+10%	+5%		-5%	-10%
Rate	1.766	1.864	1.962	2.060	2.158
Cash and cash equivalents	(622)	(311)	6,220	311	622
Trade receivables	(251)	(126)	2,510	126	251
Other accounts receivable	(4)	(2)	44	2	4
Inventories	(1,779)	(890)	17,794	890	1,779
Total Assets	(2,657)	(1,328)	26,568	1,328	2,657
Trade payables and service providers	25	12	246	(12)	(25)
Accounts payable	1,279	639	12,789	(639)	(1,279)
Total Liabilities	1,304	652	13,035	(652)	(1,304)
Difference	(1,353)	(677)	13,533	677	1,353
Hedge tools accounting					
Options	730	226	(216)	(742)	(1,336)
Forward transactions	1,193	398	(397)	(1,192)	(1,987)
Total	1,922	624	(613)	(1,934)	(3,323)
Total	569	(53)	12,920	(1,257)	(1,969)
Hedge tools non-accounting					
Options	2,138	523	(1,051)	(1,974)	(3,237)

Sensitivity to USD / AUD exchange rate fluctuations:

	Profit (loss) from fluctuation		Fair value	Profit (loss) from fluctuation	
	+10%	+5%		-5%	-10%
Rate	0.711	0.751	0.790	0.830	0.869
Cash and cash equivalents	(238)	(120)	2,371	117	236
Short-term investments	(12)	(6)	119	6	12
Trade receivables	(221)	(111)	2,197	109	218
Other accounts receivable	(15)	(7)	148	7	15
Inventories	(4,846)	(2,437)	48,209	2,382	4,791
Total Assets	(5,332)	(2,681)	53,044	2,620	5,271
Trade payables and service providers	759	382	7,556	(373)	(751)
Accounts payable	800	402	7,961	(393)	(791)
Total Liabilities	1,560	784	15,517	(767)	(1,542)
Difference	(3,772)	(1,897)	37,527	1,854	3,729
Hedge tools accounting					
Options	869	187	(492)	(1,445)	(2,307)
Forward transactions	697	230	(238)	(705)	(1,172)
Total	1,566	416	(729)	(2,150)	(3,478)
Total	(2,206)	(1,480)	36,798	(296)	251
Hedge tools non-accounting					
Options	1,229	306	(669)	(2,022)	(3,228)

Sensitivity to USD / PLN exchange rate fluctuations:

	Profit (loss) from fluctuation		Fair value	Profit (loss) from fluctuation	
	+10%	+5%		-5%	-10%
Rate	3.204	3.058	2.913	2.767	2.621
Cash and cash equivalents	(132)	(69)	1,456	77	162
Trade receivables	(1,499)	(785)	16,484	868	1,832
Other accounts receivable	(13)	(7)	147	8	16
Inventories	(854)	(447)	9,397	495	1,044
Total Assets	(2,499)	(1,309)	27,484	1,447	3,054
Trade payables and service providers	19	10	204	(11)	(23)
Accounts payable	43	22	472	(25)	(52)
Total Liabilities	61	32	676	(36)	(75)
Difference	(2,437)	(1,277)	26,808	1,411	2,979
Hedge tools accounting					
Options	117	(18)	(164)	(325)	(506)
Forward transactions	1,561	544	(574)	(1,811)	(3,184)
Total	1,678	526	(738)	(2,136)	(3,690)
Total	(759)	(750)	26,070	(725)	(712)
Hedge tools non-accounting					
Options	561	(47)	(761)	(1,796)	(3,142)
Forward transactions	848	200	(514)	(1,302)	(2,178)
Total	1,409	153	(1,275)	(3,098)	(5,321)

Sensitivity to USD / ZAR exchange rate fluctuations:

	Profit (loss) from fluctuation		Fair value	Profit (loss) from fluctuation	
	+10%	+5%		-5%	-10%
Rate	7.679	7.330	6.981	6.632	6.283
Cash and cash equivalents	(107)	(56)	1,178	62	131
Trade receivables	(673)	(352)	7,400	389	822
Other accounts receivable	(19)	(10)	211	11	23
Inventories	(668)	(350)	7,353	387	817
Total Assets	(1,467)	(769)	16,142	850	1,794
Trade payables and service providers	69	36	763	(40)	(85)
Accounts payable	81	42	888	(47)	(99)
Total Liabilities	150	79	1,651	(87)	(183)
Difference	(1,317)	(690)	14,491	763	1,610
Hedge tools accounting					
Options	14	29	45	62	77
Forward transactions	576	79	(467)	(1,071)	(1,741)
Total	590	108	(422)	(1,009)	(1,664)
Total	(727)	(582)	14,069	(247)	(54)
Hedge tools non-accounting					
Options	14	29	45	62	77
Forward transactions	253	(24)	(327)	(663)	(1,035)
Total	267	5	(282)	(601)	(958)

Sensitivity to USD / CNY exchange rate fluctuations:

Rate	Profit (loss) from fluctuation		Fair value	Profit (loss) from fluctuation	
	+10%	+5%		-5%	-10%
	Hedge tools non-accounting	8.590	8.200	7.810	7.420
Options	(1,860)	(894)	(173)	397	1,554
Forward transactions	(690)	(389)	(59)	306	712
Total	(2,550)	(1,283)	(232)	703	2,266

Sensitivity of financial instruments to interest rate fluctuations:

	Profit (loss) from fluctuation		Fair value	Profit (loss) from fluctuation	
	+10%	+5%		-5%	-10%
Fixed interest NIS debenture	25,774	12,887	(554,728)	(12,887)	(25,774)
Fixed interest USD loans	114	57	(33,926)	(57)	(114)
Fixed interest BRL loans	7	4	(1,236)	(4)	(7)
Fixed interest COP loans	26	13	(5,698)	(13)	(26)

- **Note** – the sensitivity of currency options and forward transactions to interest fluctuations on the relevant currencies is not material since the sensitive financial instruments have a lifespan of only a few months on average.

Sensitivity of financial instruments to CPI fluctuations:

	Profit (loss) from fluctuation		Fair value	Profit (loss) from fluctuation	
	+10%	+5%		-5%	-10%
Index-Linked Debentures Series B	(39,800)	(19,900)	(390,532)	19,900	39,800
Index-Linked Debentures Series C	(11,200)	(5,600)	(110,059)	5,600	11,200
Total	(51,000)	(25,500)	(500,591)	25,500	51,000

Description of reorganization

For a description of the planned reorganization adopted by the board of directors of the Company on March 12, 2007, see the under Description of Company's Business.

Directors with Accounting and Finance Skills:

Pursuant to a resolution of the board of directors of March 8, 2004, the minimum number of directors who have accounting and finance skills is to be two. In determining this, the board of directors of the Company relied on the following grounds:

- Senior management of the Company is comprised of professionals, and the recruitment of manpower into management is effected on the basis of the candidates' professional experience matching the complexity and scope of operations of the Company in its various markets. Accordingly, a considerable proportion of members of senior management of the

Company have a background of accounting and financing skills and expertise. In light of that, the Company is of the opinion that setting such a minimum number of two directors will enable proper supervision and control of management's professional operations.

- The Company has regular meetings and sessions with external auditors, and these are not merely quarterly meetings to present financial statements. This custom increases levels of control and allows for more fundamental comprehension on the part of the board of directors, and for that reason as well, this minimum number is appropriate.
- Setting the minimum number at one director might not be sufficient if that director is unable to act. Setting the desired number at two enables the two directors to overlap and complement each other.

As at the date of publication of this report, the Company has eight directors who fulfill the required conditions: Avraham Bigger, Nochi Dankner, Jonathan Kolber, Ra'anan Cohen, Gideon Chitayat, Yitshak Manor, Oren Lieder, Prof. Dov Pekelman, who, by their education and professional expertise, fulfill the required conditions.

Operations of Internal Auditor:

(a) Identity of Internal Auditor

Mr. Doron Ronen, CPA (Isr.), was appointed as internal auditor of the Company and commenced work at the Company on November 8, 2006.

Mr. Doron Ronen replaced Mr. Bnayahu Shemesh, CPA (Isr.), who had held that position up until August 1, 2006.

(b) Compliance of internal auditor with statutory requirements:

The internal auditor is in compliance with the provisions of section 146(b) of the Companies Law and with the provisions of section 8 of the Internal Audit Law.

(c) Holding of securities of the Company or of an affiliated entity:

As at the date of this report, the internal auditor does not hold any securities of the Company or of any affiliated entity.

(d) Relationship between the internal auditor and the Company or an affiliated entity.

The internal auditor has no business relations or other relations with the Company which might constitute a conflict of interests with his position as internal auditor of the Company.

(e) Additional functions of the internal auditor at the Company.

With the exception of his function as internal auditor of the Company, the internal auditor is not employed by the Company and nor does he provide it with any other external services.

(f) Other functions of the internal auditor outside of the Company.

Mr. Doron Ronen is a managing partner of the Internal Audit Division of the accountancy firm of Shiff Hazenfratz-Ronen.

(g) Method of appointment of the internal auditor

Mr. Doron Ronen was appointed to act as internal auditor of the Company upon a resolution of the Company's audit committee, dated November 8, 2006, and a resolution of the board of directors of the Company dated November 8, 2006. In the discussion of the audit committee and the board of directors meetings, Mr. Ronen's appointment was approved following thorough examination of his education and his extensive experience in the internal auditing area. Mr. Ronen was found suitable to serve as the company's internal auditor taking into account the scale of operations and complexity of the Company operations.

(h) Cessation by Mr. Bnayahu Shemesh to act

Mr. Bnayahu Shemesh ceased acting as internal auditor on August 1, 2006, following his request to retire from his position.

(i) Identity of Auditor's Superior

The internal auditor reports to the CEO and to the Company's audit committee.

(j) Audit Plans

The internal auditor's audit plan is an annual audit plan.

The audit plans are set out by the Company's internal auditor in coordination with the board of directors, and with its approval, under the supervision of the CEO, and with the approval of the Company's audit committee. The guiding considerations in setting up the plan are based on matters seen as requiring in-depth examination, with the aim of finding defects, of making systems more efficient, or ensuring protection of Company assets, and of ensuring the performance of the Company's procedures and compliance with the laws of the countries in which it operates.

The annual audit plan also includes follow up audits of implementation of the recommendations of the auditor and the audit committee by Company management. The audits are conducted based on the plan, supervised by the internal auditor and are coordinated on the basis of developments and findings that become apparent during the course of the audit.

(l) Overseas audit and audit of subsidiaries

The internal auditor of Makhteshim Co., the internal auditor of Agan Co. and other external professionals report to the Company's internal auditor. The audit work on the overseas subsidiaries is done mainly by Deloitte Touche. The international audit work is supervised by Deloitte Touche in Brussels.

With respect to audits of substantially held subsidiaries, the Company's long-term audit plan aims to cover the entire gambit of audit-related issues once every few years, for each subsidiary.

(m) Employment of Internal Auditor

The internal auditor's employment conditions are determined by the audit committee in accordance with the audit plan that it approves. In 2006, the internal auditor (both the present auditor and his predecessor) conducted audits of the Company and its subsidiaries, working approximately 6,500 hours, divided as shown in the table below. The scope of the position was determined based on the needs of the audit plan, and is not limited by the party being audited.

	Work Hours
Internal audit at Company	6,500
Internal audit at subsidiaries	5,400
Internal audit of Company's operations in Israel	4,700
Internal audit of Company's operations outside of Israel	1,800

The grounds for setting the work hours set out above are as follows:

In 2006, there has been no material change in the scope of the internal auditor work compared with the previous year.

Likewise, the internal auditors of Makhteshim and of Agan performed 5,400 hours' worth of audit work. The internal auditor in other subsidiaries performed 1800 hours' worth of audit work.

(n) Guiding Professional Standards in Conducting Audit

The internal auditor and the team of employees that report to him perform their audit work in strict compliance with the criteria necessary to conduct professional, reliable audits that are independent of the party being audited. The audit reports rely on the findings of the audits and on documented facts.

(o) Independence of internal auditor

The internal auditor of the Company has free access to the Company's documents and information systems, and has an independent status.

(q) Evaluation of internal auditor's work by the board of directors of the Company

In the opinion of the board of directors of the Company, the scope, nature and continuity of the operations of the internal auditor and his work plan are reasonable under the circumstances, and will serve to realize the Company's internal audit purposes.

(r) Remuneration of internal auditor

The remuneration of the internal auditor is on per hour basis and in accordance with the work plan approved by the audit committee.

In the Company's assessment, this remuneration does not effect the internal auditor's exercise of professional discretion.

(s) Audit Committee Meetings during 2006:

Four meetings were held during 2006, at which six audit reports and two recommendation follow-up reports were presented and discussed.

The CEO received the audit reports and was present at all meetings of the audit committee.

The chairman of the board of directors of the Company also received all of the reports and received a report from the chairman of the audit committee, summarizing the discussions at the audit committee.

Dividend:

See under Description of Company's Business.

Donations:

Makhteshim Agan has a deep-seated commitment to the betterment and advancement of the community in Israel. Makhteshim Agan has set down a general policy which sets out a clear system under which the Company makes donations. Activities for the community are done with the involvement of employees, whilst instilling values of social responsibility and environmental protection.

Communal involvement by Makhteshim Agan is an expression of values that are fundamental to the Company's operations:

- Corporate responsibility
- Obligations to peripheral towns in the North and the South of the country.
- Sensitivity and large-scale involvement in the local communities in which the Company operates.
- Commitment to environmental protection
- Investment in future generations
- Excellence in industry and education
- Employee involvement and commitment to corporate responsibility and environmental protection

Makhteshim Agan directs some of its donations to regions that are close in proximity to its subsidiaries (Ashdod and Beer Sheva), emphasizing sensitive involvement in local needs and generating employee pride and involvement.

These donations are concentrated into two main areas:

- (a) Areas of interest relating to the Company's operations: Environmental protection, chemistry, agriculture.
- (b) Important social issues on the public agenda: The needy, education, children and youth in distress and danger, disabilities, family violence, health issues, etc.

Employees of the Company are also involved in providing assistance to the community, such as the administrative assistance provided by Company management to the Beer Sheva Sinfonietta, and giving of their time to provide the children of employees with a variety of activities in Beer Sheva. The Company has also chosen to support an scholarship project for students from the city of Sderot.

Makhteshim Agan and the Society for the Protection of Nature in Israel have joined forces to promote the project: "Quality of Life and Environment – From Slogan to Way of Life", which actively expresses their commitment to issues of environmental protection, education and the community.

The aims of this project are to raise environmental awareness, and to direct and motivate environmental action for the good of the community, to reinforce the connection and pride in the city and its neighborhoods, and to deepen awareness of the city and its environment, and to develop social leadership and to take personal and group responsibility for the whole of society and the environment.

The project has been very successful in a number of ways which integrate the formal education system and the community: personal commitment, green council, community events, etc. The plan is based mainly on: hands-on nature and environment experience for pupils, deepening of connection to community and near environment, providing an experience of successful achievement, resulting in a reinforcement of their personal abilities. In 2006, some 1,200 pupils took part in this environmental-educational project.

In 2006, the Company donated food parcels to residents of the North of the country, and donated money to the Jewish National Fund, intended for the rehabilitation of forests in the north of the country following the war.

In 2006, the Makhteshim Agan Industries donated a total sum of approximately 1,547,000 dollars, compared with 729,000 dollars in 2005.

Environmental Issues:

See under Description of Company's Business.

Critical accounting estimates

The preparation of financial statements based on accepted accounting principles requires management of the Company to make assessments and estimates which affect the reported values for assets, liabilities, income and expenses, and disclosure regarding contingent assets and liabilities.

Management bases its assessments and estimates on past experience and on other factors which it views as relevant, taking into account the circumstances of the case. Actual results might be different from these estimates, under on other presumptions or conditions. The Company has identified the most critical assessments and estimates which require the most substantial discretion when preparing the consolidated financial statements. These estimates and assessments are critical because any change in the assessments and presumptions could substantially affect the financial statements.

Estimated Life of Intangible Assets:

Intangible assets are amortized over their useful life, in a methodical manner. The amortization period reflects the best estimate of the period in which future economic benefits can be expected to derive to the Company. Employing other presumptions might bring about a different estimate of the period in which future economic benefits are expected to be received. The Company methodically examines the possibility of a reduction of the value of assets in accordance with accounting standard no. 15. (For more on this, see Notes 2 and 10 to the financial statements).

Allotment of surplus cost of purchase of acquired companies to various asset items:

Based on accounting disclosure no. 57, the Company is required to allocate the surplus cost generated upon purchasing companies to its various asset items, where possible. The surplus cost that cannot be allocated is ascribed to goodwill and amortized accordingly (see above). The surplus cost ascribed to the various asset items is reduced according to the rate of amortization of the relevant asset. Ascription of the surplus cost to the various asset items might bring about a different amortization period.

Trade Receivables:

Trade receivables are represented on the Company's balance sheet less provisions for doubtful debts. The provision for doubtful debts is examined by management on an ongoing basis, and is prescribed based on knowledge of the customer, the customer's nature, the size of sureties provided by the customer, and credit insurance. These assessments and estimates are critical due to the large number of trade receivables on the Company's balance sheet, and the credit periods used in South America.

Adoption of international financial reporting standards (IFRS):

In July 2006, the Israeli Accounting Standards Institute published Accounting Standard No. 29 – “Adoption of International Financial Reporting Standards (IFRS)” (hereinafter: the “Standard”). The Standard provides that entities subject to the Securities Law, 5728-1968, and required to submit reports in accordance with the regulations made under that Law, shall draft their financial statements in accordance with the IFRS standards, for periods commencing January 1, 2008. The Standard allows for early adoption as of financial statements published after July 31, 2006. Initial adoption of IFRS standards is to be in implementation of the provisions of IFRS Standard 1, “First-Time Adoption of International Financial Reporting Standards”, for the purposes of transition.

Under the Standard, the Company must include balance sheet data and profit and loss data for the year ended December 31, 2007, following implementation of the recognition, measurement and presentation rules set out in the IFRS standards, in a Note to its annual financial statements for December 31, 2007.

The Company is examining the implications of transition to IFRS standards, but it is not able, at this stage, to assess the consequences of adopting IFRS standards to its financial statements. The Company does not intend to implement IFRS standards early.

The board of management of the Company has appointed Ran Maidan, CFO, to be in charge of adoption of IFRS standards.

The following are the stages of the process as determined by the board of management:

Acts done as at the date of publication of the financial statements for the year ended December 31, 2006:

- Review of all IFRS standards.
- Mapping out of the IFRS standards that are relevant to the Company and that require an in-depth examination of the implications of them on the financial statements.
- Qualitative examination of the main implications likely to be experienced by the Company as a result of adoption of IFRS standards.

Acts required to be done prior to publication of the financial statements for the second quarter of 2007:

- Quantitative examination of the principal implications likely to be experienced by the Company as a result of adoption of the IFRS standards, as at January 1, 2007.
- Identification of substantial contracts or agreements which might be affected as a result of adoption of the IFRS standards, either due to provisions being amended in light of the transition or based on or related to data or any indices which might change as a result of the transition.

Acts required to be done prior to publication of the financial statements for December 31, 2007:

- Completion of qualitative and quantitative examinations of additional implications expected as a result of adoption of IFRS standards.
- Drafting of balance sheet as at December 31, 2007, in accordance with IFRS standards.
- Drafting of profit and loss statements for 2007 in accordance with IFRS standards.

The following is a description of the anticipated implications to the financial statements of the Company as a result of the transition to IFRS standards, including changes that might take place in the Company's accounting policy as a result of the transition:

- Pursuant to the accounting rules in place in Israel, liabilities for termination of employer-employee relations are calculated on the basis of the presumption that employees that are fired shall be entitled to severance pay based on their last salary, irrespective of capitalization rates and rates of future wage increases.

Under IFRS, liabilities for termination of employer-employee relations and other social benefits for defined benefit schemes are to be generated, *inter alia*, based on actuarial estimates and capitalized sums.

- Under IFRS, inter-corporate transactions are to be cancelled out in consolidated statements based on the tax rate that applies to the purchasing company. Under Israeli accounting rules, those transactions are cancelled out in the consolidated statements based on the tax rate that applies to the selling company.
- Under IFRS, trade receivables are subtracted in cases where most of the risk and benefits are transferred from title to the asset. Under Israeli accounting rules, which are based on US standards, trade receivables are subtracted on the existence of the following three (cumulative) conditions:

The transferor has divested the assets;

The transferee has a right to charge, sell or replace the assets;

The transferor has no effective control of the assets.

The subtraction criteria under IFRS are different from those in the US standards. This means that some trade receivable sales transactions in respect of which trade receivables have been subtracted in accordance with the practice employed in Israel will not meet the subtraction criteria set out in IFRS.

- Under IFRS, where there are put and call options that have been received and drafted for minority shares, a liability is to be recorded based on the economic value of the liability and the rights of the minority regarding the option are to be cancelled out so that in effect, the "forecast acquisition" approach is employed. Under Israeli accounting rules, minority rights are not cancelled out, and are calculated in accordance with book value.

- Under IFRS, the currency of a corporation's operations is the currency of the principal economic environment in which the corporation operates, taking into account a number of criteria including:
 - the currency in which sale prices are set out and prescribed;
 - the currency of the country in which market forces and government statutes are what govern sales prices;
 - the currency in which wage, materials and other input costs are set out and prescribed.

Under Israeli accounting rules, it is permissible to report in a currency other than the currency of the country in which the corporation resides, upon the existence of a number of conditions.

- Under IFRS, a provision must be recognized if the chances of the obligation existing as at the balance sheet date are more likely than it not existing. Under Israeli accounting rules, the Group recognizes provisions if use of economic resources for the purpose of removing the obligation is probable.
- Under IFRS, integrated derivatives are to be separated out from hybrid instruments. Integrated derivatives that have been separated are measured according to fair value, the changes in fair value being accredited to profit and loss. Under Israeli accounting rules, integrated derivatives are not required to be separated from hybrid instruments.
- Under IFRS, all derivative instruments must be presented according to fair value, and certain documentation and efficacy requirements must be complied with in order to implement hedging. Under Israeli accounting rules, the conditions required for exercising hedging (such as documentation and efficacy tests) are must simpler than the requirements of international standards.
- Under IFRS, one-time depreciation of inventory and fixed assets, reorganization expenses, profits / losses from sale of fixed assets and depreciation of goodwill are to be included in operating profit / loss and are partially to be classified at cost of sale. Special items will not be presented separately, and will be included as part of before-tax profits. Under Israeli accounting rules, these one-time items are presented in some cases under income or under other expenses. This means that some of the profit and loss items will be classified.

Auditor's fees:

Expenses for audit services, (KPMG) in Israel and worldwide, audit-related services and tax services to the Company and to the consolidated companies amounted, this year, to 2.5 million dollars(29.7 thousand work hours) compared with 2.5 million dollars in 2005 (29.9 thousand work

hours). Expenses for other accountants amounted to 1.8 ,million dollars (18,000 hours) compared with 1.9 million dollars (19,000 hours in 2005).

Condensed profitability data (in millions of Dollars)

Annual Data:

	<u>2004</u>	Change %	<u>2005 (*)</u>	Change %	<u>2006</u>	Change %
Sales	1,539.7	30.8%	1,740.7	13.1%	1,778.8	2.2%
EBITDA	323.7	32.7%	376.9	16.3%	229.7	-39.0%
EBIT	245.4	41.4%	281.4	14.6%	126.7	-55.0%
Net Income	165.3	60.8%	204.8	23.9%	83.9	-59.0%

(*) Restated

Quarterly Data:

	<u>10-12/2004(*)</u>	<u>10-12/2005(*)</u>	<u>10-12/2006</u>	Change %
Sales	410.4	405.1	419.0	3.4%
EBITDA	80.1	80.8	-6.4	-107.9%
EBIT	58.8	57.6	-46.4	-180.6%
Net Income	42.3	47.0	-38.5	-181.9%

(*) Restated

Condensed Profit and Loss Statements

(a) Annual Profit and Loss Statements:

	2006	2005(*)	Change	% Change
Revenues	1,778.8	1,740.7	38.0	2.2%
Gross profit	606.7 34.1%	681.0 39.1%	-74.3	-10.9%
R&D and SG&A Expenses	402.9 22.7%	350.6 20.1%	52.3	14.9%
Operating Income	203.8 11.5%	330.4 19.0%	-126.6	-38.3%
Financing expenses	44.2 2.5%	34.6 2.0%	9.7	28.0%
Pre-Tax Profit	84.9 4.8%	251.6 14.5%	-166.7	-66.3%
Net profit	83.9 4.7%	204.8 11.8%	-120.9	-59.0%
EBITDA	232.9 12.9%	376.9 21.6%	-147.2	-39.0%

(*) Restated

Profit and Loss Statements – Fourth Quarter:

	10-12/2006	10-12/2005	Change	% Change
Revenues	419.0	405.1	14.0	3.4%
Gross profit	131.7 31.4%	156.9 38.7%	-25.1	-16.0%
R&D and SG& A Expenses	121.8 29.1%	90.7 22.4%	31.1	34.3%
Operating Income	9.9 2.4%	66.2 16.3%	-56.3	-85.1%
Financing expenses	11.4 2.7%	8.0 2.0%	3.4	43.3%
Pre-Tax Profit	-57.9 -13.8%	49.9 12.3%	-107.8	-215.9%
Net revenues	-38.5 -9.2%	47.0 11.6%	-85.4	-181.9%
EBITDA	-6.4 -1.5%	80.8 19.9%	-87.1	-107.9%

(b) Quarterly Profit and Loss Statements

	10-12/2006	7-9/2006	4-6/2006*	1-3/2006	10-12/2005
Revenues	419.0	407.6	458.3*	493.9	405.1
Gross profit	131.7 31.4%	137.2 33.7%	159.7 34.8%	178.2 36.1%	156.9 38.7%
R&D SG&A Expenses	121.8 29.1%	93.0 22.8%	93.5 20.4%	94.6 19.2%	90.7 22.4%
Operating profit	9.9 2.4%	44.1 10.8%	66.2 14.4%	83.6 16.9%	66.2 16.3%
Financing expenses	11.4 2.7%	7.2 1.8%	14.0* 3.0%	11.7 2.4%	8.0 2.0%
Pre-Tax Profit	-57.9 -13.8%	30.5 7.5%	47.6 10.4%	64.7 13.1%	49.9 12.3%
Net revenues	-38.5 -9.2%	24.5 6.0%	40.2 6.0%	57.7 11.7%	47.0 11.6%
EBITDA	-6.4 -1.5%	59.6 14.6%	80.2 17.5%	96.3 19.5%	80.8 19.9%

* Reclassified

Analysis of Annual Results:

One-time provisions and adjustments:

On January 16, 2007, the Company filed an immediate report in which it gave notice of expected to adversely impact the Company's results as a result of a weakening of the conditions of the agrochemical market during the fourth quarter, and other factors the effect of which will be expressed in the financial statements for the fourth quarter of 2006. Accordingly, the Company made one-time adjustments and provisions in the fourth quarter (of which, the sum of approximately 48.9 million dollars was recorded under other expenses, the sum of approximately 19 million dollars was recorded under cost of sale and operating expenses, less 12.6 million dollars in tax benefits for such expenses), as follows:

- (a) Provisions for legal claims, in the sum of approximately 21.1 million dollars;
- (b) Provisions for employees, in the sum of approximately 16 million dollars. This item includes a revision of provisions made for the retirement of employees due to the anticipated retirement of several dozen employees of the Company in Israel and overseas, as part of the Company's rationalization program.
- (c) An adjustment of approximately 17.1 million dollars for the Company's evaluation as to a reduction in the fair value of intangible rights in various of its products. This fall in value stems from regulatory decisions in some of the regions in which the Company operates, which inhibit continued sale of such products in those regions, and from a reduction in prices for such products on the relevant markets.
- (d) Various other provisions in the sum of approximately 13.7 million dollars, mainly due to a provision for doubtful debts with respect to customers of the Company in Brazil, as well as various items such as a reduction on account of inventory.

The Company recorded a tax benefit in the sum of approximately 12.6 million dollars for the above adjustments and provisions.

Revenues by region (in millions of dollars):

	2006	%	2005	%	Change	% Change
Israel	111.6	6.3%	110.2	6.3%	1.4	1.3%
North America	349.4	19.6%	308.8	17.7%	40.6	13.1%
South America	430.0	24.2%	422.8	24.3%	7.3	1.7%
Europe	690.0	38.8%	700.9	40.3%	(10.9)	-1.6%
Rest of the world	197.8	11.1%	198.0	11.4%	(0.3)	-0.1%
Total	1,778.8	100.0%	1740.7	100.0%	38.1	2.2%

In 2006, the Company's sales reached 1,778.8 million dollars, compared with 1,740.7 million dollars in the previous year, an increase of 2%.

In Europe there was a reduction in sales of approximately 10.9 million dollars compared with the previous year. Sales to Europe amounted to 690.0 million dollars, compared with 700.9 million dollars in the previous year. This fall stems from a reduction in sales due to tough weather conditions and a weakening of the euro during the first half of the year, which was set off, mainly, by the first-time consolidation of the sales of Kollant, which was acquired this year.

In North America, there was an increase of 40.6 million dollars (approximately 13%) compared with the previous year. The Company's sales to North American amounted to 349.4 million dollars. This increase stems mainly from completion of the first time consolidation of CSI (due to an increased holding of the company from 45% to 67%) and H. Riseman, buy the subsidiary, Lycored.

In South America, sales amounted to 430.0 million dollars, compared with 422.8 million dollars last year, an increase of 7.3 million dollars.

In Israel, there was an increase of 1.4 million dollars compared with last year, stemming mainly from internal growth which was set off by the sale of Luxembourg Pharmaceuticals Ltd.

In the rest of the world, sales amounted to 197.8 million dollars, compared with last year when the Company's sales were 198.0 million dollars.

Gross Profit:

Gross profit this year amounted to 606.7 million dollars compared with 681.0 million dollars in the previous year. The margin decreased from 39.1% in the previous year to 34.1% this year. The reduction in gross profit and in the profit margin stemmed from difficult market conditions in Brazil, tough weather conditions in Europe which caused a fall in demand for crop protection products, which increased competition in that market, and caused an erosion of prices. In addition, gross profit was eroded due to an increase in the costs of raw materials.

Operating Profit:

R&D Expenses – in 2006 amounted to 19.0 million dollars, compared with 20.6 million dollars in the previous year.

Sales Expenses – rose from 267.9 million dollars in the previous year to 303.2 million dollars this year. The increase in sales expenses stems mainly from (1) an increase in current expenses for registration of products and depreciation expenses thereof; (2) an increase in sales which increases variable sales expenses (mainly fees and transportation); and (3) better direct marketing, which is one of the reasons for the increase in salary expenses.

Management and General Expenses – increased from 62.1 million dollars in the previous year to 80.8 million dollars this year. The percentage of management expenses out of total sales rose to

4.5% this year, compared with 3.6% in the previous year. The increase stems mainly from (1) a significant increase in provisions for doubtful debts; (2) an increase in salary expenses stemming, among other things, from a revaluation of the shekel; and (3) an increase in professional services.

Operating profit – amounted to approximately 203.8 million dollars, constituting 11.5% of sales, compared with 330.4 million dollars constituting 19.0% in the previous year, a reduction of 126.6 million dollars.

EBITDA:

EBITDA for the year amounted to \$ 229.7 million (12.6%) compared with \$ 376.9 million (21.6%) in the previous year, a reduction of 147.2 million dollars.

Financing:

Financing expenses this year amounted to 44.2 million dollars, compared with 34.6 million dollars in the previous year. The increase in financing expenses stems mainly from an increase in the scope of credit used, and an increase in LIBOR interest.

The Company has an undertaking towards certain banks to maintain certain financial covenants. The Company is in compliance with such covenants.

Other expenses:

Other expenses amounted this year to 74.6 million dollars compared with 44.2 million dollars last year, an increase of 30.4 million dollars stemming entirely from various provisions made by the Company under this item, in the sum of 48.9 million dollars. Provisions made under the other expenses item include: (1) 19.1 million dollars for legal claims; (2) 15.0 million dollars for the Company's assessments regarding the fall in fair value of intangible rights in various of its products; (3) 14.3 million dollars for employees, and mainly, for an update of reserves for retirement of employees as a result of the expected retirement of several dozen of the Company's employees in Israel and overseas, as part of the Company's rationalization process. Without these provisions, other expenses this year would have amounted to 25.7 million dollars, compared with 44.2 million dollars last year. See also Note 30 to the financial statements.

This item also includes expenses relating to depreciation for products purchased in the sum of 11.3 million dollars compared with 11.5 million dollars last year, and expenses relating to the customer portfolio debenture plan, which amounted, this year, to 13.3 million dollars compared with 9.0 million dollars last year, mainly due to an increase in the size of the debenture plan, and an increase in LIBOR interest. In 2006, due to a change in accounting policy, depreciations of goodwill

were not made in respect to acquired companies, as compared with depreciations in the sum of 9.9 million dollars last year. See also Note 30 to the financial statements.

Taxes on Income:

In 2006, the Company recorded a tax benefit in the sum of 1.4 million dollars compared with tax expenses in the sum of 40 million dollars last year. The change in tax expenses this year was exceptional and stemmed from (1) a decline in the Company's before-tax profits; (2) revaluation of the dollar exchange rate, which increased the Company's tax assets; (3) benefits for approved enterprises; (4) revenues taxable at other rates that are lower than the tax rates applicable in Israel; (5) various provisions made by the Company during the fourth quarter. See also Note 18 to the financial statements.

Net Profit:

The net profit in 2006 amounted to 83.9 million dollars (profit margin – 4.7%) compared with 204.8 million dollars in the previous year (profit margin – 11.8%), a decrease of 120.9 million dollars (59.0%). Not taking into account the effect of provisions made by the Company during the fourth quarter of 2006, net profit amounted to 139.2 million dollars (7.8%). The fall in net profit and in the profit margin stems from erosion of gross profit, an increase in operating costs and the effect of the provisions made by the Company.

Cash flow (in millions of dollars):

	2006	2005	2004
Cash Flow from Current Operations	127.9	183.2	215.7
Cash Flow from Investment Activities			
Acquisition of Fixed Assets, Net	(70.1)	(49.2)	(38.1)
Acquisition of Companies and Minority Share	(27.1)	(9.9)	(73.2)
Acquisition of New Products and Investments in Licensing	(42.9)	(38.3)	(33.7)
Others	0.7	0.5	2.1
Total Investment Activities	(139.4)	(96.8)	(143.0)
Free Cash Flow	(11.5)	86.4	72.7

Cash flow from current operations:

Amounted this year to 127.9 million dollars compared with 183.2 million dollars in the previous year. The decrease in cash flow stems mainly from a decrease in the Company's net profits. For additional details, see under Description of Company's Business.

Cash flows used in investment activities:

Investments this year amounted to 139.4 million dollars, compared with 96.8 million dollars in the previous year. See details in table above.

Analysis of fourth quarter results

Revenue by region:

	Q4/2006	%	Q4/2005	%	Change	% Change
Israel	22.4	5.3%	23.4	5.8%	(1.1)	-4.5%
North America	73.9	17.6%	67.3	16.6%	6.6	9.7%
South America	150.2	35.8%	137.8	34.0%	12.4	9.0%
Europe	134.6	32.1%	129.0	31.8%	5.6	4.4%
Rest of the world	38.0	9.1%	47.6	11.7%	(9.6)	-20.2%
Total	419.0	100.0%	405.1	100.0%	14.0	3.4%

In the fourth quarter of 2006, sales amounted to the sum of 419.0 million dollars compared with 405.1 million dollars in the corresponding quarter, an increase of approximately 3.4%.

In Europe, sales in the quarter increased by 5.6 million dollars. The Company's sales amounted to 134.6 million dollars compared with 129.0 million dollars in the corresponding quarter last year. The increase stems mainly from the first-time consolidation of Kollant.

In North America, there was an increase of 6.6 million dollars (9.7%) compared with the previous year. The increase stems mainly from the first-time consolidation of H. Riseman, which was purchased by Lycored.

In South America, sales increased from 137.8 million dollars in the previous year to 150.2 million dollars this quarter. This increase stems mainly from increased sales in Brazil.

In Israel, there was a reduction of 1.0 million dollars, and sales this quarter amounted to 22.4 million dollars, mainly due to sale of Luxembourg Pharmaceuticals Ltd.

In the rest of the world, sales fell by 9.6 million dollars compared with the previous year, due to a fall in sales in Australia which suffered from a drought during the year.

Gross Profit:

Gross profit for the quarter amounted to 131.7 million dollars for the quarter compared with 156.9 million dollars in the previous year. The margin decreased from 38.7% in the previous year to

31.4% this quarter. The reduction in gross profit and in the profit margin stemmed from difficult market conditions in Brazil, tough weather conditions in Europe which caused a decrease in demand for crop protection products, which increased competition in that market, and caused price erosion. In addition, gross profit was eroded due to an increase in the costs of raw materials.

Operating Profit:

R&D Expenses – amounted to 4.6 million dollars in this quarter, compared with approximately 6.1 million dollars in the corresponding period last year.

Sales Expenses – rose from 70.3 million dollars in the fourth quarter of the previous year to 86.5 million dollars this quarter. The increase in sales expenses stemmed from (1) provisions made by the Company (legal claims and a reduction in fair value of intangible rights in various of its products); (2) an increase in current expenses for registration of products and costs of depreciation thereof; and (3) increased marketing and advertising.

General and management expenses – amounted to 30.8 million dollars compared with 14.3 million dollars in the previous year, an increase of 16.5 million dollars, of which 10.4 million dollars were for one-time provisions made by the Company under this item, mainly for increased expenses for doubtful debts. In addition, there was an increase in salary expenses, mainly due to the revaluation of the shekel and an increase in payment for professional services.

As a result of the above, operating profit for the quarter amounted to 9.9 million dollars, constituting 2.4% of sales, compared with 66.2 million dollars (16.3%) in the previous year, a reduction of approximately 56.3 million dollars.

EBITDA:

EBITDA in the fourth quarter was negative, amounting to a loss of 6.4 million dollars, compared with 80.8 million dollars last year.

Financing:

Financing expenses increased this quarter, amounting to 11.4 million dollars compared with 8.0 million dollars in the previous year, as a result of an increase in credit and in LIBOR interest.

Other expenses:

Other expenses this quarter amounted to 56.3 million dollars compared with 8.3 million dollars last year, an increase of 48.0 million dollars stemming entirely from various provisions made by the Company under this item, in the sum of 48.9 million dollars. Provisions made under the other expenses item include: (1) 19.1 million dollars for legal claims; (2) 15.0 million dollars for the Company's assessments regarding the fall in fair value of intangible rights in various of its

products; (3) 14.3 million dollars for employees, and mainly, for an update of reserves for retirement of employees as a result of the expected retirement of several dozen of the Company's employees in Israel and overseas, as part of the Company's rationalization process. Without these provisions, other expenses this quarter would have amounted to 7.4 million dollars, compared with 8.3 million dollars last year. See also Note 30 to the financial statements.

Taxes on Income:

In the fourth quarter, the Company recorded a tax benefit in the sum of 19.3 million dollars compared with tax expenses in the sum of 2.7 million dollars last year. The tax benefit flows mainly from (1) recording of a tax asset for the loss in the fourth quarter; (2) revaluation of the dollar; and (3) various provisions made by the Company during the fourth quarter. See also Note 18 to the financial statements.

Net Profit (Loss):

During the fourth quarter, the Company recorded a loss which amounted to 38.5 million dollars, compared with a net profit in the quarter, amounting to 47.0 million dollars. The fall in net profit and in the profit margin stems from erosion of gross profit, an increase in operating costs and the effect of the provisions made by the Company, as set out above.

Cash flow from current operations:

In the fourth quarter, the Company recorded negative cash flow in the sum of 8.7 million dollars compared with a positive cash flow in the sum of 87.4 million dollars during the corresponding quarter in the previous year, a decline of 96.1 million dollars. This decline in cash flow stems mainly from a reduction in profits and a transition to a net loss in the fourth quarter.

Cash flows used in investment activities:

During this quarter, the Company invested 16.3 million dollars in net fixed assets compared with 12.0 million dollars in the previous year. Current investments in registration of products amounted, in this quarter, to the sum of 9.2 million dollars compared with 16.7 million dollars in the previous year.

Financial condition:

Current Assets:

Total current assets as at December 31, 2006 amounted to 1,526.1 million dollars compared with 1,108.6 million dollars on December 31, 2005, an increase of 417.5 million dollars.

Investments in Fixed Assets:

See under Cash Flow above.

Shareholders' Equity:

As at 31 December 2006, shareholders' equity amounted to 1,131.7 million dollars compared with 1,134.2 million dollars in the previous year.

Convertible Debentures:

- In March and April 2004, the Company raised 150.0 million dollars in an international private issue of convertible debentures. For details see Note 15 to the Financial Statements. As at the date of this report, 149.3 million dollars have been converted into shares (13.7 million dollars' worth and 135.7 million dollars' worth in 2006 and 2005 respectively). The balance of the debentures on the balance sheet as at December 31, 2006 amounts to 0.7 million dollars. As at the date of publication of this report, the balance of the debentures on the balance sheet is 0.7 million dollars.
- Of a series of convertible debentures issued in November 2001 and January 2002, the total sum of 77.8 million dollars has been converted into shares as at the date of this financial report (14.0 million dollars' worth and 12.7 million dollars' worth in 2006 and 2005 respectively). As at the date of publication of this report, the balance of the debentures on the balance sheet is 12.1 million dollars.

Share Buy-Back:

In November 2005, the Company gave notice of adoption of a policy to buy back its shares at up to 150 million dollars (this sum complies with the test for permitted distributions under the Companies Law). In August 2006, the board of directors of the Company approved conclusion of the buy-back scheme. As at December 31, 2006, the Company holds 24,875,703 shares, which constitute approximately 5.35% of its issued share capita, which was purchased in accordance with the above resolution. For additional details, see under Description of Company's Business.

The Company's issued and paid-up capital as at December 31, 2006 is 465,352,365 par value and 473,686,130 fully diluted.

Financial Ratios as at 31 December:

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Ratio of current assets to current liabilities (current ratio)	2.03	1.38	1.42
Ratio of current assets excluding inventory, to current liabilities (acid-test ratio)	1.22	0.68	0.73
Fixed assets (net) out of total balance sheet	19.5%	21.6%	22.5%
Financial liabilities out of total balance sheet	27.2%	15.1%	21.8%
Shareholders' equity out of total balance sheet	43.2%	52.8%	45.2%
Ratio of financial liabilities to shareholders' equity	62.9%	28.6%	48.1%
Earnings per share (in dollars)	0.19	0.49	0.43

Avraham Bigger
Chairman of the Board & CEO

Ra'anan Cohen
Director

Ran Maidan
CFO

March 12, 2007, Tel Aviv