



Makhteshim Agan Industries Ltd.

MANAGEMENT DISCUSSION AND ANALYSIS FOR THE QUARTER ENDED MARCH 31, 2007

1. BRIEF PROFILE OF THE COMPANY AND ITS BUSINESS ENVIRONMENT

Makhteshim Agan Industries Ltd. is the world's leading manufacturer of generic crop protection products. The Company benefits from high technological-chemical abilities; an extensive portfolio of product registrations; stringent quality control; extensive global reach in marketing and distribution; and complies with the strictest environmental quality standards. Ongoing investment in research and development enables the Company to launch new products regularly upon expiration of patents.

The main business focus of the Company is in the crop protection market, which includes the manufacturing, marketing and distribution of conventional crop protection products. The Company's operations in non-agro markets extend to a large number of sub-areas, none of which are material for the company and are grouped and defined as non-agro activities.

Summary of the Company's Principal Developments during the Quarter

Reorganization plan – on March 12, 2007, the board of directors of the Company approved implementation of a change plan and effectiveness and efficiency improvement of the Company. The purpose of the reorganization plan is to attain two main goals: (1) Continuing to turn the Company into a multinational company focusing on global marketing. To this end, in accordance with the recommendations set out in the plan, the Company intends to empower regional management of the Company's main regions of operation: Europe, North America, Latin America and the Rest of the World, with the aim of strengthening the Group's marketing channels so as to be able to better respond to the changing needs of the customers of each region. (2) Completion of the operational merger between Makhteshim and Agan, which is to include integration of various functions in the areas of purchasing of raw materials, sales, finance, etc., with the aim of making operations more efficient, and of optimizing the Company's production facilities and its supply chain. The board of directors has instructed management of the Company to launch the plan immediately, with full implementation expected to be mostly completed by the end of 2008.

In the assessment of management of the Company, the plan will start to show fruit and bring about greater efficiency and better operational results from the second half of 2007, with the main effect being expected during the course of 2008. This assessment, which is forward-looking, is based on the Company's assessment of the plan and its expected influence on the various levels of the Company's operations. The Company's assessments as to the duration of implementation of the plan, the way in which it will be effected and the outcome of it may not come to fruition, and the Company may decide to make changes to the plan due to unexpected changes taking place in the crop protection market and/or due to the plan's having different results from those forecast, when implemented.

For details of the plan, see the immediate report dated March 13, 2007 (Ref. 2007-01-334826) and the information contained therein by way of reference.

Filing draft prospectus – on March 12, 2007 the board of directors of the Company approved the filing of a draft prospectus with the Israeli Securities Authority for the purpose of listing the debentures (series B to D) which were issued by the Company in a private placement to local institutional investors on December 4, 2006 and an additional shelf prospectus, the structure of which has not yet been finalized.

Accounting treatment of options granted under the Company's 2005 option plan - on March 13, 2005, the Company's Board of Directors approved an employee share option plan, an immediate report and related description in respect of which was published on March 14, 2005. Relying on the transitional rules of Accounting Standard 24, "Share-Based Payments", the Company did not apply that Standard to the grants made under the option plan, and did not record an expense in respect thereof, pursuant to the Standard's transitional rules which provide that the Standard applies to grants after March 15, 2005, and which had not vested prior to January 1, 2006.

In connection with review of the draft prospectus submitted by the Company for listing of bonds it issued, and following a meeting with the staff of the Israeli Securities Authority on May 8, 2007, questions arose regarding the factual circumstances leading to removal of the grants from application of the aforesaid Standard.

Had Standard 24 been applied to all of the grants made under the 2005 option plan, the Company estimates the maximum additional expense that would have been recorded in respect thereof at the sum of approximately \$6 million in 2005, approximately \$8 million in 2006 (approximately \$2 million per quarter) and approximately \$2 million in the first quarter of 2007.

The Company's Board of Directors has decided to re-examine the facts on the basis of which the grants were treated for accounting purposes, under the supervision of the Company's Audit Committee. If the outcome of the examination indicates that the Company

should have applied the Standard to the aforesaid grants, or part thereof, and taking into account the materiality of this matter, the Company may restate its financial statements for the years 2005 and 2006 and for the first quarter of 2007, by the maximum amounts stated above.

Labor dispute - on March 14, 2007 the Company received notice regarding a labor dispute which was announced by the New Labor Union – Negev District, relating to the Makhteshim plant. The notice was filed with the Controller in charge of labor disputes at the Ministry of Labor in accordance with the Labor Dispute Law – 1957. The notice provides that the dispute relates to (1) the reorganization plan, which includes statements regarding expected layoffs and increasing outsourcing (2) remuneration agreement. The parties are in the process of negotiation to resolve the dispute.

Claims filed against the State and the Ramat Hovev Counsel for damages due to health injuries sustained by residents in areas near Ramat Hovev – on March 28, 2007, two claims were filed with the District Court at Beer Sheva, against the Local Industrial Council at Ramat Hovev and against the State of Israel. One of the claims was filed by 54 members of the Bedouin community living in the Northern Negev, and the other claim was filed by 9 residents of Omer and Beer Sheva. The plaintiffs in both claims plead that they suffer from various illnesses and deformities and claim that there is a causal link between their illnesses and toxins emitted from the Ramat Hovev site or which permeated the soil from the site. According to the plaintiffs, two main points of contamination have been identified: The effluent treatment plant and evaporation pools (which are owned and operated by the Council) and the factors, including the Company which, according to the plaintiffs, significantly exceeded permissible levels of contamination. According to the plaintiffs, the Council and the State have been negligent, inter alia, in failing to supervise, enforce and take positive steps to prevent the plaintiffs' exposure to contamination originating from Ramat Hovev. Neither the Company nor any other of the factories at Ramat Hovev has been named as defendants under the claim. The plaintiffs have estimated the sums of the claims at approximately 184 million Shekels.

New Registrations – during this quarter, the Company received 31 new registrations for active ingredients, formulations and mixtures. Of special note are two new registrations in Canada: a registration of the generic product Imidacloprid and registration of Nuvaloron – sold as *Rimon*, Makhteshim-Agan's ethical product which was registered for use in potatoes and apples. These two registrations will enable to commence sales of these products to commence in Canada in 2007.

Summary of changes in the industry

A number of events affecting the agrochemical market and the Company took place in the first quarter:

1. The early Spring in Europe brought forward the start of the agricultural season, giving rise to larger and earlier than expected demands of crop protection products in the first quarter.
2. The Company reports its results in US Dollars (in this Report: “Dollars”), and therefore, the strengthening of currencies (particularly the Euro and the Brazilian Real) against the US Dollar influenced the increase in the Company’s revenues positively, while the strengthening of the Shekel which increased local expenses.
3. An increase in the prices of agricultural commodities (mainly corn and soy) caused accordingly an increase in demand for the Company’s products.

The reports of leading companies in the industry published so far this year show that there was an increase of approximately 7% in sales turnover, in Dollar terms, in the first quarter, as opposed to a decrease of approximately 2% in sales in the agrochemical market in 2006 compared with 2005 (note that in 2006, Makhteshim-Agan’s sales increased by 2.5%).

Professional publications (Phillips McDougall Agri-Service) have rated the Company in seventh place in the world for agrochemical sales in 2006, with a total international market share of 4.4% compared with 4.3% in 2005.

2. RESULTS OF OPERATIONS – CONDENSED PROFIT AND LOSS STATEMENTS

A. Profit and Loss Statements for First Quarter:

	1-3/2007	1-3/2006	Change	%
Revenues	559.3	493.9	65.5	13.3%
Gross profit	198.2 35.4%	178.2 36.1%	20.1	11.3%
R&D and SG&A expenses	98.2 17.6%	94.6 19.2%	3.6	3.8%
Operating income	100.0 17.9%	83.6 16.9%	16.5	19.7%
Financing expenses	11.4 2.0%	11.7 2.4%	-0.3	-2.5%
Pre-tax profit	84.2 15.1%	64.7 13.1%	19.5	30.1%
Net profit	66.6 11.9%	57.7 11.7%	8.9	15.4%
EBITDA*	119.2 21.3%	96.3 19.5%	19.9	23.8%
Profit per share	0.15	0.13	0.02	15.4%

B. Quarterly Profit and Loss Statements:

	1-3/2007	10-12/2006	7-9/2006	4-6/2006	1-3/2006
Revenues	559.3	419.0	407.6	458.3	493.9
Gross profit	198.2 35.4%	131.7 31.4%	137.2 33.7%	159.7 34.8%	178.2 36.1%
R&D and SG&A expenses	98.2 17.6%	121.8 29.1%	93.0 22.8%	93.5 20.4%	94.6 19.2%
Operating income	100.0 17.9%	9.9 2.4%	44.1 10.8%	66.2 14.4%	83.6 16.9%
Financing expenses	11.4 2.0%	11.4 2.7%	7.2 1.8%	14.0 3.0%	11.7 2.4%
Pre-tax profit	84.2 15.1%	-57.9 -13.8%	30.5 7.5%	47.6 10.4%	64.7 13.1%
Net profit	66.6 11.9%	-38.5 -9.2%	24.5 6.0%	40.2 8.8%	57.7 11.7%
EBITDA*	119.2 21.3%	-6.4 -1.5%	59.6 14.6%	80.2 17.5%	96.3 19.5%

C. Condensed profitability data (US\$ millions)

Annual Data:

	2004	% Chg	2005	% Chg	2006	% Chg
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**	245.2	41.4%	281.4	14.8%	126.7	-55.0%
Net Income	165.3	60.8%	204.8	23.9%	83.9	-59.0%

Quarterly Data:

	1-3/2005	1-3/2006	1-3/2007	Change % 2007 V 2006
Sales	517.0	493.9	559.3	13.3%
EBITDA*	119.5	96.3	119.2	23.8%
EBIT**	94.4	76.1	93.9	23.4%
Net Income	60.9	57.7	66.6	15.4%

* EBITDA is made up of EBIT (see below) plus depreciation and amortization which are included in the statement of cash flow.

** EBIT includes net profit plus tax expenses and financing expenses.

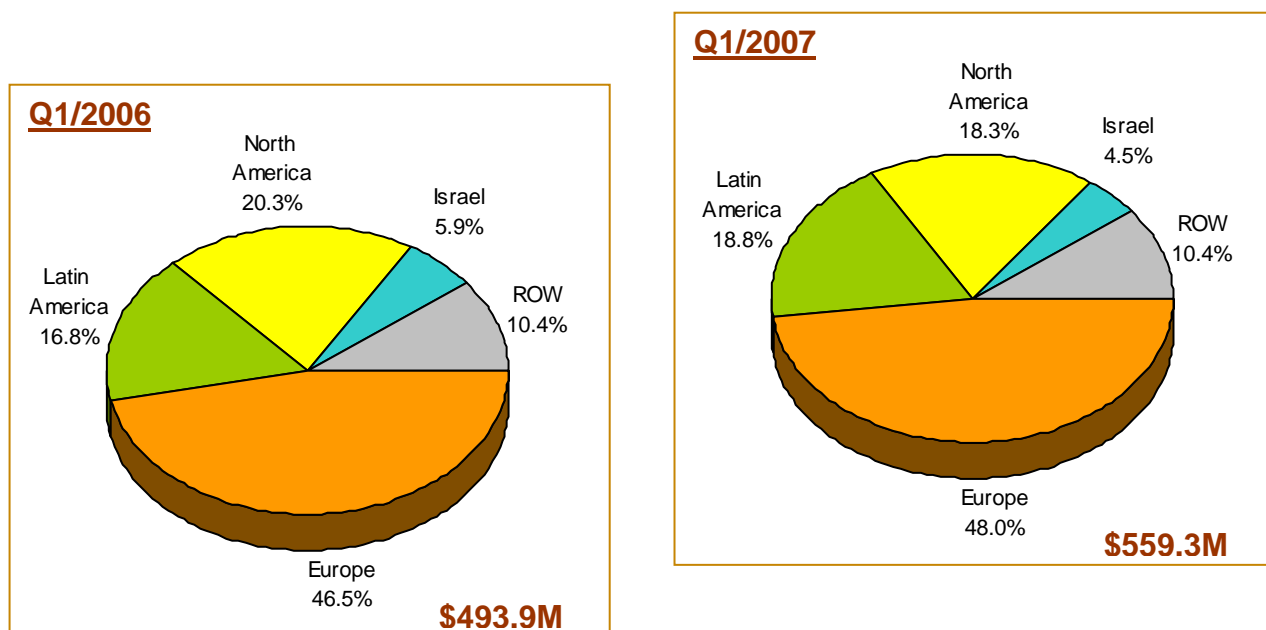
All of the data comprising these indexes (including tax expenses, depreciation expenses and financing expenses) have been reviewed or audited, as required.

3. ANALYSIS OF RESULTS:

A. Revenues by Geographical Region:

There was significant growth during the first quarter of 2007, and the Company's sales amounted to 559.3 million dollars, compared with 493.9 million dollars in the corresponding quarter last year, an increase of 13.3%.

The following graphs show the percentage distribution of quarterly sales:



Distribution of quarterly sales in millions of dollars:

	1-3/2007	%	1-3/2006	%	Change	
Israel	25.4	4.5%	29.1	5.9%	(3.7)	-12.9%
North America	102.3	18.3%	100.1	20.3%	2.1	2.1%
South America	105.1	18.8%	83.1	16.8%	22.0	26.4%
Europe	268.5	48.0%	229.9	46.5%	38.6	16.8%
Rest of the world	58.0	10.4%	51.6	10.4%	6.4	12.5%
Total	559.3	100.0%	493.9	100.0%	65.5	13.3%

In Europe – sales in the quarter amounted to 268.5 million dollars compared with 229.9 million dollars in the corresponding quarter, an increase of 38.6 million dollars, constituting growth of 16.8%. The increase in sales stemmed mainly from: (1) Winter ending early, causing the agricultural season to commence earlier. (2) Strengthening of the Euro, which increased the dollar value of sales.

In South America – sales in the quarter amounted to 105.1 million dollars compared with 83.1 million dollars in the corresponding quarter, an increase of 22.0 million dollars, constituting growth of 26.4%. The increase in sales was mainly due to an increase in sales in Brazil.

In North America – sales in the quarter amounted to 102.3 million dollars, compared with 100.1 million dollars in the corresponding quarter, constituting growth of 2.1%.

In the rest of the world – sales in the quarter amounted to 58.0 million dollars compared with 51.6 million dollars in the corresponding quarter, an increase of 6.4 million dollars.

In Israel, sales in the quarter amounted to \$ 25.4 million, compared with \$ 29.1 million in the corresponding quarter. The decrease stemmed from the sale of Luxembourg Pharmaceuticals Ltd. during the course of 2006.

B. Non-Agro

In the first quarter of 2007, non-agro sales amounted to approximately 48.2 million dollars, compared with 53.5 million dollars in the previous year. The decrease stemmed mainly from the sale of Luxembourg Pharmaceuticals Ltd. during the course of 2006.

C. Gross Profit

Gross profit for the quarter amounted to 198.2 million dollars compared with 178.2 million dollars in the corresponding quarter, an increase of 20.1 million dollars.

The increase in gross profit stemmed mainly from:

- An increase in sales.
- The strengthening of currencies (in particular, the Euro) compared with the corresponding quarter in the previous year.

Gross profitability in this quarter amounted to 35.4% compared with 36.1% in the previous year. The slight erosion of profitability stemmed mainly from an erosion of prices during 2006 (note that during the fourth quarter of 2006, gross profitability was approximately 31.4%), which stabilized during the first quarter of 2007.

D. Operating Profit

Operating profit during the quarter amounted to 100.0 million dollars (17.9% of sales) compared with 83.6 million dollars (16.9% of sales) during the corresponding quarter. Overheads during the quarter increased by 3.6 million dollars, amounting to 98.2 million dollars (17.6% of sales) compared with 94.6 million dollars in the previous year (19.2% of sales).

R&D expenses in the first quarter increased by 0.4 million dollars, and amounted to 5.0 million dollars compared with 4.7 million dollars last year.

Sales expenses amounted to 75.7 million dollars, which was similar to sales results last year.

Sales expenses as a percentage of sales turnover dropped to 13.5% this quarter, compared with 15.2% last year, as a result of continued efforts to rationalize in order to reduce costs, and of increased sales.

General and administrative expenses in the quarter amounted to approximately 17.4 million dollars (3.1% of sales) compared with 14.9 million dollars (3.0% of sales) last year, an increase of 2.5 million dollars stemming mainly from a recording of expenses for options to employees.

E. Financing Expenses

Financing expenses in the quarter amounted to 11.4 million dollars, compared with 11.7 million dollars in the corresponding quarter last year, a decrease of 0.3 million dollars.

F. Other Income and Expenses

Other expenses amounted to 4.4 million dollars this quarter, compared with 7.1 million dollars last year. The decrease in these expenses stemmed mainly from a legal ruling in favor of the Company in a claim filed in Brazil, which was set off against a reduction in the fair value of intangible rights in one of the projects, and from an update of employee retirement reserves.

This item also includes expenses relating to the securitization plan which amounted, this quarter to 2.9 million dollars, compared with 2.4 million dollars last year.

G. Taxes on Income

Tax expenses during the quarter amounted to 15.9 million dollars (constituting 18.9% of pre-tax profits) compared with 6.6 million dollars last year (10.2% of pre-tax profits). The increase in tax expenses stems mainly from: (1) an increase in pre-tax profits; (2) a decrease in taxable revenues in jurisdictions with lower tax rates than Israel.

H. Net Profit

The net profit this quarter amounted to 66.6 million dollars (11.9%) compared with 57.7 million dollars (11.7%) in the previous year, an increase of 8.9 million dollars.

I. EBITDA

EBIDTA amounted to 119.2 million dollars this quarter (21.3%) compared with 96.3 million dollars (19.5%) last year, an increase of 22.9 million dollars (23.8%) stemming from an increase in operating profit.

4. FINANCIAL CONDITION AND LIQUIDITY:

A. Cash flow from current operations

Amounted, this quarter, to a negative sum of 8.0 million dollars compared with negative cash flow of 1.8 million dollars last year. The reduction in cash flow stems from significant growth in the first quarter, which brought about an increase in working capital (mainly an increase in receivable balances).

B. Cash flows used in investment activities

Investments this quarter amounted to 50.5 million dollars, compared with 31.4 million dollars last year. Investments in fixed assets amounted to 22.1 million dollars this quarter, compared with 16.4 million dollars in the corresponding quarter last year. Investment in product registrations and marketing rights amounted, in this quarter, to 20.8 million dollars, compared with 10.1 million dollars last year.

C. Free Cash Flow

Free cash flow (cash flow from current operations less cash flow from investment operations) in the quarter was negative at 58.6 million dollars, compared with a negative cash flow of 33.2 million dollars last year.

The decrease in free cash flow stems from the decrease in cash flow from current operations, and from the increase in investments in fixed assets, product registrations and marketing rights.

D. Current Assets

Total current assets as at March 31, 2007 amounted to 1,656.7 million dollars, compared with 1,265.6 million dollars on March 31, 2006 and 1,526.1 million dollars on December 31, 2006.

Trade receivables – receivable balances as at March 31, 2007 amounted to 680.6 million dollars, compared with 518.3 million dollars on March 31, 2006. The increase in receivable balances stemmed from: (1) an increase in sales; (2) strengthening of currencies (mainly the Euro, the Real and the Shekel) against the dollar; (3) first-time consolidation.

E. Investments in Fixed Assets

See Cash Flow chapter above.

F. Cash, Current Liabilities and Long-Term Loans

The Company's credit (bank credit and convertible debentures) amounted, on March 31, 2007, to 728.3 million dollars, of which 17.0% is short term, compared with 403.4 million dollars on March 31, 2006 (of which 85.0% was short term) and 712.2 million dollars on December 31, 2006 (of which 15.7% was short term).

Cash and short-term investment balances as at March 31, 2007 amounted to 274.5 million dollars compared with 74.0 million dollars on March 31 last year, and 326.1 million dollars on December 31, 2006.

The increase in debit balances, and the increase in cash balances stems from the debenture placement in December 2006, which increased debit balances and cash balances accordingly.

The Company has an undertaking towards certain banks to maintain financial criteria. As at the balance sheet date, the Company is in fulfillment of its undertakings.

G. Shareholders' Equity

As at March 31, 2007, amounted to 1,205.4 million dollars, compared with 1,140.5 million dollars in the corresponding period last year.

H. Convertible Debentures

- Of a series of private convertible debentures issued in March and April 2004 (150.0 million dollars), 149.3 million dollars have been converted into shares as at the date of this report. The balance of the debentures on the balance sheet as at December 31, 2007 amounts to 0.7 million dollars. After the balance sheet date, all of the remaining debentures were converted.
- Of a series of convertible debentures issued in November 2001 and January 2002, the total sum of 82.3 million dollars has been converted into shares as at the date of this financial report. As at March 31, 2007, the balance of the debentures on the

balance sheet amounts to 7.6 million dollars.

I. Financial Ratios:

		As at March 31, 2006	As at December 31, 2006
Ratio of current assets to current liabilities (current ratio)	2.00	1.30	2.03
Ratio of current assets excluding inventory, to current liabilities (acid-test ratio)	1.28	0.71	1.22
Fixed assets (net) out of total balance sheet	18.4%	20.4%	19.5%
Financial liabilities out of total balance sheet	26.1%	17.6%	27.2%
Shareholders' equity out of total balance sheet	43.3%	49.6%	43.2%
Ratio of financial liabilities to shareholders' equity	60.4%	35.4%	62.9%

J. Sources of Finance

The Company finances its operations using independent means, debentures, bank credit (short-term and long-term) and credit from suppliers. There have been no changes made to the financing agreements with banks.

5. EXPOSURE TO MARKET RISKS AND METHODS OF MANAGING SUCH RISKS

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.

Risk Management Officer

The Company's Market Risk Manager is the CFO, Ran Maidan. For details of his education, qualifications and experience, see under Further Particulars, under Section 26A to the periodic report published by the Company on March 12, 2007.

The following are exchange rate data for the principal trade currencies used by the Company, in comparison with the dollar, as well as LIBOR interest data:

	31/3			Quarterly Average		
	2007	2006	Change	2007	2006	Change
Euro	1.332	1.214	9.7%	1.310	1.203	8.9%
Brazilian Real	2.050	2.172	5.6%	2.108	2.193	3.9%
Shekel	4.155	4.665	-10.9%	4.221	4.679	-9.8%
LIBOR interest for 3 months	5.35%	5.00%		5.36%	4.76%	

Description of Market Risks

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, swaps and forward contracts) to hedge against such exposure only when the net exposure to a certain currency is material.

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

In November 2006, the Company completed a debenture issue in the sum of 2.35 billion shekels. The debentures are denominated in shekels, whilst the Company's operating currency is dollars. Changes in the exchange rate of the shekel against the dollar might significantly increase the Company's financing expenses. As at the date of this report, the Company has hedged most of its risk in this regard by way of swap transactions and forward contracts.

Exposure to CPI Linkage

As stated above, in November 2006, the Company completed a debenture issue in the sum of 2.35 billion shekels. The main portion of the debenture is linked to the consumer price index, and therefore, an increase in the consumer price index might bring about a significant increase in the Company's financing expenses. The Company partially hedges against this risk.

Risks in raw material prices (in source currency):

Approximately 70% of the Company's cost of goods stem from raw material costs. Most of the Company's raw materials are derivatives of petroleum. An increase in petroleum prices can cause an increase in raw material prices.

In order to reduce exposure to fluctuations in the prices of raw materials, the Company customarily enters into long-term supply contracts for principal materials wherever possible. In long-term supply contracts, the purchase prices are adjusted as much possible, to reflect changes in the prices of their raw materials.

The Company has not entered into any transactions to hedge against petroleum or 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. As at the date of publication of this report, the Company does not hedge this exposure.

Company's Policy regarding Market Risk Management

The Company's policy is to maintain as high as possible a coefficient between the currency in which it sells its merchandise and the currency in which it purchases its raw materials. The Company is continually examining its accounting and economic exposures 12 months in advance, in accordance with its revenue and expenditure forecasts. As at the date of this

report, the Company has hedged most of its accounting exposure and some of its economic exposure in respect of the principal currencies in which it operates. For details of the Company's policies for each type of risk, see details of the risks above.

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 and the Finance Committee discuss the Company's exposure to market risks and the acts done by management of the Company in respect thereof, once every quarter.

There have been no substantial changes this quarter with respect to exposure to market risks, nor to the methods of managing such.

Avraham Bigger
Chairman & Chief Executive Officer

Ra'anán Cohen
Director

May 13, 2007, Tel Aviv