

Makhteshim-Agan Industries Ltd.

**Interim Consolidated Financial
Statements**

(Unaudited)

As at March 31, 2005

(In U.S. Dollars)

Financial Statements as at March 31, 2005 (Unaudited)

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The Board of Directors
Makhteshim – Agan Industries Ltd.

Dear Sirs,

Review of the unaudited interim consolidated financial statements as at March 31, 2005

At your request, we have reviewed the interim consolidated balance sheet of Makhteshim – Agan Industries Ltd. and its subsidiaries as at March 31, 2005, and the related consolidated statements of income, changes in shareholders' equity and cash flows for the three-month period then ended.

Our review was conducted in accordance with procedures prescribed by the Institute of Certified Public Accountants in Israel and included, inter alia, reading the said financial statements, reading the minutes of shareholders' meetings and of meetings of the Board of Directors and its committees, as well as making inquiries of persons responsible for financial and accounting matters.

We received review reports of other auditors, regarding the interim financial statements of certain subsidiaries, whose assets constitute 4.0% of the total consolidated assets as at March 31, 2005 and whose revenues constitute 4.3% of the total consolidated revenues for the three-month period then ended.

Since the review performed is limited in scope and does not constitute an audit in accordance with generally accepted auditing standards, we do not express an opinion on the said interim consolidated financial statements.

In the course of our review, which included reading the review reports of other auditors as stated above, nothing came to our attention which would indicate the necessity of making material modifications to the interim consolidated financial statements referred to above, in order for them to be in conformity with generally accepted accounting principles and in accordance with Section D of the Securities Regulations (Periodic and Immediate Reports), 1970.

Somekh Chaikin
Certified Public Accountants (Isr.)

May 9, 2005

Consolidated Balance Sheets

	As at March 31 2005 <u>(Unaudited)</u> <u>US \$ thousands</u>	As at March 31 2004 <u>(Unaudited)</u> <u>US \$ thousands</u>	As at December 31 2004 <u>(Audited)</u> <u>US \$ thousands</u>
Current assets			
Cash and cash equivalents	56,450	160,942	40,477
Short-term investments	1,213	819	1,563
Trade receivables	487,770	423,780	369,209
Other receivables	74,193	60,878	77,219
Inventories	480,586	316,403	460,870
	<u>1,100,212</u>	<u>962,822</u>	<u>949,338</u>
Long-term investments, loans and receivables	<u>19,933</u>	<u>17,591</u>	<u>22,070</u>
Fixed assets			
Cost	840,096	791,603	824,544
Less – accumulated depreciation	397,033	366,258	388,805
	<u>443,063</u>	<u>425,345</u>	<u>435,739</u>
Other assets and deferred charges			
Cost	771,460	622,851	743,310
Less – accumulated amortization	236,671	176,567	215,890
	<u>534,789</u>	<u>446,284</u>	<u>527,420</u>
	<u>2,097,997</u>	<u>1,852,042</u>	<u>1,934,567</u>

	As at March 31 2005 <u>(Unaudited)</u> <u>US \$ thousands</u>	As at March 31 2004 <u>(Unaudited)</u> <u>US \$ thousands</u>	As at December 31 2004 <u>(Audited)</u> <u>US \$ thousands</u>
Current liabilities			
Credit from banks	186,570	161,600	140,021
Trade payables	348,038	255,393	325,945
Other payables	223,004	140,926	192,405
Proposed dividend	12,700	7,200	11,200
	<u>770,312</u>	<u>565,119</u>	<u>669,571</u>
Long-term liabilities			
Loans from banks	83,104	243,238	93,023
Convertible debentures	-	145,000	150,000
Other long-term liabilities	7,495	2,158	9,337
Deferred taxes, net	67,600	53,057	54,354
Employee termination benefits, net	27,169	24,049	26,709
	<u>185,368</u>	<u>467,502</u>	<u>333,423</u>
Minority interest	<u>23,970</u>	<u>8,606</u>	<u>18,756</u>
Convertible debentures	<u>173,991</u>	<u>70,512</u>	<u>38,322</u>
Shareholders' equity	<u>944,356</u>	<u>740,303</u>	<u>874,495</u>
	<u><u>2,097,997</u></u>	<u><u>1,852,042</u></u>	<u><u>1,934,567</u></u>

Danny Biran
Chairman of the Board of Directors

Shlomo Yanai
Chief Executive Officer

Eli Assraf
Chief Financial Officer

Date of approval of the financial statements: May 9, 2005

The accompanying notes are an integral part of the financial statements.

Consolidated Statements of Income

	For the three months ended		For the
	March 31	March 31	year ended
	2005	2004	December 31
	(Unaudited)	(Unaudited)	(Audited)
	US \$ thousands	US \$ thousands	US \$ thousands
Revenues	516,974	414,478	1,539,702
Cost of sales	311,893	256,307	943,908
Gross profit	205,081	158,171	595,794
Expenses			
Research and development, net	4,775	4,157	19,480
Selling and marketing	70,797	50,802	220,212
General and administrative	19,486	17,804	66,915
	95,058	72,763	306,607
Operating income	110,023	85,408	289,187
Financing expenses, net	5,400	7,446	27,571
Income before other expenses, net	104,623	77,962	261,616
Other expenses, net	13,416	11,478	42,735
Income before taxes on income	91,207	66,484	218,881
Taxes on income	26,060	21,420	52,334
Income after taxes on income	65,147	45,064	166,547
Minority interest in losses (income) of subsidiaries, net	(1,999)	114	(1,020)
Net income from continuing operations	63,148	45,178	165,527
Cumulative effect as at the beginning of the year of change in accounting method	(2,025)	-	-
Net income	61,123	45,178	165,527
Income per share NIS 1 par value of ordinary shares			
	US \$	US \$	US \$
<u>Basic income</u>			
From continuing operations	0.13	0.11	0.39
In respect of cumulative effect as at the beginning of the year of change in accounting method	-	-	-
Net income per share	0.13	0.11	0.39
<u>Fully diluted income</u>			
From continuing operations	0.13	0.10	0.37
In respect of cumulative effect as at the beginning of the year of change in accounting method	-	-	-
Net income per share	0.13	0.10	0.37

The accompanying notes are an integral part of the financial statements.

Statements of Changes in Shareholders' Equity

	Share capital	Premium on shares	Receipts from issuance of options	Capital reserves	Proposed dividend subsequent to balance sheet date	Retained earnings	Share of company held by subsidiary	Total
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	US\$ thousands	US\$ thousands	US\$ thousands	US\$ thousands	US\$ thousands	US\$ thousands	US\$ thousands	US\$ thousands
Three-month period ended March 31, 2005								
Balance as of December 31, 2004	109,258	417,487	3,009	(2,568)	12,700	345,841	(11,232)	874,495
Adjustments deriving from translation of financial statements of investee companies	-	-	-	(1,125)	-	-	-	(1,125)
Sale of Company shares by a subsidiary	-	2,324	-	-	-	-	1,524	3,848
Proposed dividend	-	-	-	-	(12,700)	-	-	(12,700)
Proposed dividend subsequent to balance sheet date	-	-	-	-	18,300	(18,300)	-	-
Employee options exercised	86	(86)	-	-	-	-	-	-
Conversion of convertible debentures into shares	929	13,373	-	-	-	-	-	14,302
Options exercised	430	4,403	(420)	-	-	-	-	4,413
Net income	-	-	-	-	-	61,123	-	61,123
Balance as of March 31, 2005	110,703	437,501	2,589	(3,693)	18,300	388,664	(9,708)	944,356
Three-month period ended March 31, 2004								
Balance as of December 31, 2003	103,793	369,543	3,912	(5,393)	7,200	229,914	(15,428)	693,541
Adjustments deriving from translation of financial statements of investee companies	-	-	-	(127)	-	-	-	(127)
Dividend	-	-	-	-	(7,200)	-	-	(7,200)
Proposed dividend	-	-	-	-	13,500	(13,500)	-	-
Employee options exercised	50	(50)	-	-	-	-	-	-
Conversion of convertible debentures into shares	716	6,776	-	-	-	-	-	7,492
Options exercised	133	1,417	(131)	-	-	-	-	1,419
Net income	-	-	-	-	-	45,178	-	45,178
Balance as of March 31, 2004	104,692	377,686	3,781	(5,520)	13,500	261,592	(15,428)	740,303

The accompanying notes are an integral part of the financial statements.

Statements of Changes in Shareholders' Equity (cont'd)

	<u>Share capital</u>	<u>Premium on shares</u>	<u>Receipts from issuance of options</u>	<u>Capital reserves</u>	<u>Proposed dividend subsequent to balance sheet date</u>	<u>Retained earnings</u>	<u>Share of company held by subsidiary</u>	<u>Total</u>
	<u>(Unaudited)</u>	<u>(Unaudited)</u>	<u>(Unaudited)</u>	<u>(Unaudited)</u>	<u>(Unaudited)</u>	<u>(Unaudited)</u>	<u>(Unaudited)</u>	<u>(Unaudited)</u>
	<u>US\$ thousands</u>	<u>US\$ thousands</u>	<u>US\$ thousands</u>	<u>US\$ thousands</u>	<u>US\$ thousands</u>	<u>US\$ thousands</u>	<u>US\$ thousands</u>	<u>US\$ thousands</u>
Year ended December 31, 2004								
Balance as of January 1, 2004	103,793	369,543	3,912	(5,393)	7,200	229,914	(15,428)	693,541
Employee options exercised	578	(578)	-	-	-	-	-	-
Conversion of convertible debentures into shares	3,974	35,581	-	-	-	-	-	39,555
Options exercised	913	9,637	(903)	-	-	-	-	9,647
Adjustments deriving from translation of financial statements of investee companies	-	-	-	2,825	-	-	-	2,825
Realization of company shares held by a subsidiary	-	3,304	-	-	-	-	4,196	7,500
Dividend	-	-	-	-	(7,200)	(25,700)	-	(32,900)
Proposed dividend	-	-	-	-	-	(11,200)	-	(11,200)
Proposed dividend subsequent to the balance sheet date	-	-	-	-	12,700	(12,700)	-	-
Net income	-	-	-	-	-	165,527	-	165,527
Balance as of December 31, 2004	<u>109,258</u>	<u>417,487</u>	<u>3,009</u>	<u>(2,568)</u>	<u>12,700</u>	<u>345,841</u>	<u>(11,232)</u>	<u>874,495</u>

The accompanying notes are an integral part of the financial statements.

Consolidated Statements of Cash Flows

	For the three months ended		For the
	March 31	March 31	year ended
	2005	2004	December 31
	(Unaudited)	(Unaudited)	(Audited)
US\$ thousands	US\$ thousands	US\$ thousands	
Cash flows generated by operating activities			
Net income	61,123	45,178	165,527
Adjustments to reconcile net income to net cash flows generated by operating activities (see A. below)	(48,743)	(41,778)	50,126
Net cash inflow generated by operating activities	12,380	3,400	215,653
Cash flows generated by investing activities			
Acquisition of fixed assets	(14,286)	(10,888)	(38,823)
Investment grant received	-	-	686
Additions to other assets and deferred charges, net	(4,541)	(5,980)	(33,749)
Short-term investments, net	350	281	(463)
Investments in newly consolidated companies (see B. below)	-	*(6,271)	(72,152)
Proceeds from disposal of fixed and other assets	69	452	574
Proceeds from sale of long-term investments	-	-	2,819
Other long-term investments	-	(225)	(828)
Acquisition of minority interest in subsidiaries	(970)	-	(1,056)
Net cash used in investing activities	(19,378)	(22,631)	(142,992)
Cash flows generated by financing activities			
Receipt of long-term loans from banks	-	23,310	24,700
Repayment of long-term loans and liabilities from banks and others	(9,737)	(28,846)	(227,851)
Issuance of convertible debentures, less issuance expenses	-	142,825	147,450
Proceeds from exercise of options	4,413	1,419	9,647
Dividend to shareholders	(11,200)	(7,000)	(39,900)
Short-term credit from banks and others, net	39,495	(1,384)	-
Dividend to minority shareholders in subsidiaries	-	-	(301)
Net cash (used in) provided by financing activities	22,971	130,324	(82,033)
Increase (decrease) in cash and cash equivalents	15,973	111,093	(9,372)
Cash and cash equivalents at beginning of the period	40,477	49,849	49,849
Cash and cash equivalents at end of the period	56,450	160,942	40,477

*Reclassified

The accompanying notes are an integral part of the financial statements.

Consolidated Statements of Cash Flows (cont'd)

	For the three months ended		For the
	March 31	March 31	year ended
	2005	2004	December 31
	(Unaudited)	(Unaudited)	(Audited)
	US \$ thousands	US \$ thousands	US \$ thousands
A. Adjustments to reconcile net income to net cash flows generated by operating activities			
Revenues and expenses not affecting cash flows			
Depreciation and amortization	25,908	20,237	82,624
Adjustment of long-term liabilities to banks and others	(1,303)	(540)	1,791
Minority interest in income (losses) of subsidiaries, net	1,999	(114)	998
Increase (decrease) in employee severance benefits, net	147	(868)	1,973
Deferred taxes, net	10,930	5,328	(163)
Amortization of discount on convertible debentures	161	299	916
Capital loss on disposal of fixed and other assets, net	364	477	511
Provision for loss with respect to options granted to employees of subsidiaries	139	-	2,090
Gain on issuance of a subsidiary to a third party	-	-	(926)
Changes in operating assets and liabilities			
Increase in trade and other receivables	(111,829)	(123,820)	(53,236)
Decrease (increase) in inventories	(14,902)	44,590	(69,345)
Increase in trade and other payables	39,643	12,633	82,893
	(48,743)	(41,778)	50,126
B. Investment in newly consolidated companies			
Working capital (excluding cash and cash equivalents)	42	-	(6,485)
Fixed assets, net	(42)	-	(2,258)
Other assets, net	(8,027)	-	(63,081)
Goodwill created on acquisition	-	-	(41,851)
Long-term liabilities	9	-	33,896
Exercise of Company shares held by a subsidiary	3,848	-	7,500
Minority interest	4,170	-	6,398
	-	-	(65,881)
Repayment of liability in respect of investee company previously acquired	-	(6,271)	(6,271)
	-	(6,271)	(72,152)
C. Non-cash activities			
Acquisition of other assets on supplier credit	11,535	3,000	6,287
Acquisition of fixed assets on supplier credit	2,047	-	-

The accompanying notes are an integral part of the financial statements.

Notes to the Financial Statements as at March 31, 2005 (Unaudited)

Note 1 - Financial Reporting Principles and Accounting Policies**A. General**

1. These interim financial statements have been prepared in accordance with generally accepted accounting principles applicable to the preparation of interim-period financial statements in accordance with Standard No. 14 of the Israel Accounting Standards Institute and with Article 4 of the Securities Regulations (Immediate and Periodic Reports) 1970.
2. The accounting policies applied in the preparation of these financial statements are consistent with those applied in the audited financial statements as at December 31, 2004.
3. These financial statements have been prepared in an abridged form as at March 31, 2005 and for the three-month period then ended. They should be read in conjunction with the annual financial statements as at December 31, 2004 and for the year then ended, and the notes related thereto.

B. First time application of accounting standard No.19, Taxes on Income.

In July 2004, the Israeli Accounting Standards Board published Accounting Standard No. 19, "Taxes on Income". The Standard provides that a liability for deferred taxes is to be recorded for all temporary differences subject to tax, except for a limited number of exceptions. In addition, a deferred tax asset is to be recorded for all temporary differences that may be deducted, losses for tax purposes and tax benefits not yet utilized, if it is anticipated that there will be taxable income against which they can be offset, except for a limited number of exceptions. The new Standard applies to financial statements for periods beginning on January 1, 2005. The Standard provides that it is to be implemented by means of a cumulative effect of a change in accounting method.

First time application of the said Standard has a net non-recurring impact, as at January 1, 2005, of decreasing the net income by approximately US\$ 2 million, net. The annual financial statements of the Company as at December 31, 2004 disclose in the notes that the anticipated effect of the initial implementation of Standard 19 is an increase in net earnings in the amount of \$ 11.6 million. The change is due to the reexamination of Standard 19 with respect to the matter of creating deferred taxes in respect of profits not yet realized from inter-company transactions, following which the Company is of the opinion that the "deferral method" can be continued to be applied, by which the taxes in respect of the unrealized profits should be deferred according to the tax rate of the selling company, in accordance with Opinion 57 of the Institute of Certified Public Accountants in Israel.

C. Financial statements in US dollars

The Company and its Israeli subsidiaries maintain their current accounting records in nominal shekels and dollars using a multi-currency system. Since most of the Group's revenues are received in dollar and the principal raw materials and fixed assets are purchased in dollar. The dollar is the principal currency of the economic environment in which the Group operates ("the functional currency"). Accordingly, the dollar is the measurement and reporting currency in these financial statements. It should not be construed that the translated amounts actually represent or can be converted into dollars, unless otherwise indicated in these statements.

Notes to the Financial Statements as at March 31, 2005 (Unaudited)**Note 1 - Financial Reporting Principles and Accounting Policies (cont'd)**

Changes in the representative exchange rates of the U.S. dollar and the Consumer Price Index (CPI) are as follows:

	CPI	Representative exchange rate of the U.S.\$ to the NIS	Representative exchange rate of the U.S.\$ to the Euro	Representative exchange rate of the U.S.\$ to the Brazilian Real
	%	%	%	%
During the three-month period ended March 31, 2005	(0.60)	1.23	5.32	0.53
During the three-month period ended March 31, 2004	(0.10)	3.40	3.36	0.67
During the year ended December 31, 2004	1.21	(1.62)	(7.33)	(8.13)

Note 2 - Segment Information**A. Geographical segments according to location of assets**

	<u>Israel</u> <u>(Unaudited)</u> <u>US\$ thousands</u>	<u>Latin America</u> <u>(Unaudited)</u> <u>US\$ thousands</u>	<u>Europe *</u> <u>(Unaudited)</u> <u>US\$ thousands</u>	<u>Adjustments</u> <u>(Unaudited)</u> <u>US\$ thousands</u>	<u>Consolidated</u> <u>(Unaudited)</u> <u>US\$ thousands</u>
For the three months ended March 31, 2005					
Income	344,033	80,644	130,779	(38,482)	516,974
Operating income**	54,352	12,665	36,961	(1,140)	102,838
For the three months ended March 31, 2004					
Income	267,326	64,813	123,473	(41,134)	414,478
Operating income**	49,207	4,966	27,527	(3,859)	77,841
	<u>Israel</u> <u>(Audited)</u> <u>US\$ thousands</u>	<u>Latin America</u> <u>(Audited)</u> <u>US\$ thousands</u>	<u>Europe *</u> <u>(Audited)</u> <u>US\$ thousands</u>	<u>Adjustments</u> <u>(Audited)</u> <u>US\$ thousands</u>	<u>Consolidated</u> <u>(Audited)</u> <u>US\$ thousands</u>
For the year ended December 31, 2004					
Income	1,033,327	350,207	290,532	(134,364)	1,539,702
Operating income**	146,996	56,764	61,260	(393)	264,627

* Mainly products manufactured through non-Group companies.

** Includes amortization of goodwill on the acquisition of products and amortization of goodwill arising on the acquisition of subsidiaries.

Notes to the Financial Statements as at March 31, 2005 (Unaudited)**Note 2 - Segment Information (cont'd)****B. Sales by geographic area**

	For the three months ended		For the
	March 31	March 31	year ended
	2005	2004	December 31
	(Unaudited)	(Unaudited)	(Audited)
	US\$ thousands	US\$ thousands	US\$ thousands
Israel	28,777	25,540	103,245
Latin America	77,623	73,158	428,638
Europe	269,124	234,572	649,859
North America	95,314	48,680	198,035
Other	46,136	32,528	159,925
	516,974	414,478	1,539,702

Note 3 - Additional Information

- (1) As part of the commitments of the Company and of its subsidiaries under agreements signed in September 2004, regarding a securitization transaction whereby trade receivables were sold to companies in the RaboBank International Group, the balance of the trade receivables sold for cash amounted, as at the balance sheet date, to US\$ 199.3 million (March 31, 2004 – US\$ 149.3 million, December 31, 2004 – US\$ 142.2 million).

The maximum expected volume of the financial means available to the acquiring companies for the purpose of purchasing the trade receivables of the consolidated subsidiaries, is about US\$ 250 million, on a current basis, such that the amounts to be collected from customers whose debts were sold, will serve to purchase new trade receivables.

- (2) The Company and a subsidiary in Brazil committed to indemnify financial institutions, upon the existence of certain conditions, in respect of credit received by the subsidiary's customers from those financial institutions and which was used for repayment of the debts of those customers to the subsidiary for sales to them.

As at the balance sheet date, the amount of the liability to indemnify is US\$ 85 million (December 31, 2004 – US\$ 98 million).

- (3) On March 8, 2005 the Company's Board of Directors decided to adopt a new option plan for officers and employees of the Company and its subsidiaries. Pursuant to the plan, 14,900,000 option warrants exercisable into up to 14,900,000 ordinary shares of the Company of a par value of NIS 1 each were issued on March 14, 2005. Of these, 800,000 option warrants were issued to the CEO of the Company, 9,600,000 to the employees of the Company in Israel, 2,000,000 to the employees of the Company abroad and 2,500,000 were deposited with a trustee for future distribution.

Notes to the Financial Statements as at March 31, 2005 (Unaudited)

Note 3 - Additional Information (cont'd)

(3) (cont'd)

Notwithstanding the aforementioned, the assumption of a full exercise of the option warrants is only theoretical, as the offerees who exercise the option warrants will not actually be issued the full amount of the shares deriving from them, but only an amount of shares that reflects the amount of the monetary benefit embodied in the option warrants, meaning the difference between the price of Company's ordinary share on the date of exercise and the exercise price of the option.

In accordance with the plan the option warrants are offered to the offerees at no cost. The options were issued to the offerees in three equal portions, and according to the plan the vesting period of the first portion will begin after the third and last vesting period of the employee stock option plan from 2003 (meaning after April 14, 2006).

The exercise price of the plan is NIS 25.10, which is equal to the opening price of the Company's share on the stock exchange on the date of the Board of Director's resolution (March 8, 2005). The options were issued according to the plan in accordance with the provisions of Section 102 of the Income Tax Ordinance under the capital track.

(4) During the period of the report, NIS 17,365 thousand par value debentures (Series A) were converted into 1,735 thousand of the Company's ordinary shares of NIS 1 par value. Furthermore in the current period US\$ 10,500 thousand par value of the debentures that were allotted in March 2004 in a private placement to institutional investors (hereinafter - "the debentures") were converted into 2,312 thousand shares of the Company of a par value of NIS 1. As a result of the conversion, as stated, the Company's shareholders' increased by about US\$ 14.3 million.

Subsequent to balance sheet date and up to proximate to the date of signing the financial statements, debentures of a par value of US\$ 81,350 thousand that were issued in March 2004 in the framework of a private placement to institutional investors (hereinafter: The Debentures) were converted into 17,913 thousand ordinary shares of the Company of a par value of NIS 1 each.

Until December 31, 2004 it was not anticipated that The Debentures would be converted and accordingly they were presented according to their liability value as part of the long-term liabilities. As at balance sheet date, management of the Company believes that conversion of The Debentures is probable and accordingly they are presented (together with the Series A debentures) at their liability value as a separate balance sheet item between the long-term liabilities and the shareholders' equity.

(5) During the period of the report, 1,867 thousand options (Series 1) were exercised for 1,867 thousand of the Company's ordinary shares of NIS 1 par value. As a result of exercise of the options, the Company's shareholders' increased by about US\$ 4.4 million.

(6) In March 2005, the Company's Board of Directors resolved to distribute a dividend, in the amount of US\$ 12.7 million, to be paid on June 1, 2005. Subsequent to the balance sheet date, in May 2005, the Company's Board of Directors resolved to distribute an interim dividend, in the amount of US\$ 18.3 million, to be paid on September 1, 2005.

