

Makhteshim–Agan Industries Ltd.

**Consolidated Financial Statements
(Unaudited)**

As at June 30, 2005

(In U.S. Dollars)

Financial Statements as at June 30, 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 June 30, 2005

At your request, we have reviewed the interim consolidated balance sheets of Makhteshim–Agan Industries Ltd. and its subsidiaries as at June 30, 2005, and the related consolidated statements of income, changes in shareholders' equity and cash flows for the six-month and three-month periods 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 5.5% of the total consolidated assets as at June 30, 2005 and whose revenues constitute 7.1% and 9.9% of the total consolidated revenues for the six-month and three-month periods 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.)

August 8, 2005

Consolidated Balance Sheets

	As at June 30 2005 <u>(Unaudited)</u> <u>US \$ thousands</u>	As at June 30 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	86,156	113,322	40,477
Short-term investments	2,872	15,933	1,563
Trade receivables	371,892	341,608	369,209
Other receivables	81,130	63,401	77,219
Inventories	534,048	336,239	460,870
	<u>1,076,098</u>	<u>870,503</u>	<u>949,338</u>
Long-term investments, loans and receivables	<u>20,899</u>	<u>15,993</u>	<u>22,070</u>
Fixed assets			
Cost	851,801	802,181	824,544
Less – accumulated depreciation	403,991	372,953	388,805
	<u>447,810</u>	<u>429,228</u>	<u>435,739</u>
Other assets and deferred charges			
Cost	779,351	706,072	743,310
Less – accumulated amortization	249,059	187,436	215,890
	<u>530,292</u>	<u>518,636</u>	<u>527,420</u>
	<u>2,075,099</u>	<u>1,834,360</u>	<u>1,934,567</u>

	As at June 30 2005 <u>(Unaudited)</u> <u>US \$ thousands</u>	As at June 30 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	174,758	141,029	140,021
Trade payables	343,677	256,712	325,945
Other payables	221,427	164,963	192,405
Proposed dividend	18,300	13,500	11,200
	<u>758,162</u>	<u>576,204</u>	<u>669,571</u>
Long-term liabilities			
Loans from banks	30,182	146,535	93,023
Convertible debentures	-	150,000	150,000
Other long-term liabilities	9,810	28,116	9,337
Deferred taxes, net	74,350	52,043	54,354
Employee severance benefits, net	25,649	25,817	26,709
	<u>139,991</u>	<u>402,511</u>	<u>333,423</u>
Minority interest	<u>26,649</u>	<u>8,935</u>	<u>18,756</u>
Convertible debentures	<u>50,770</u>	<u>54,611</u>	<u>38,322</u>
Shareholders' equity	<u>1,099,527</u>	<u>792,099</u>	<u>874,495</u>
	<u>2,075,099</u>	<u>1,834,360</u>	<u>1,934,567</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: August 8, 2005

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

Consolidated Statements of Income

	For the six months ended		For the three months ended		For the
	June 30 2005	June 30 2004	June 30 2005	June 30 2004	year ended December 31 2004
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	US \$ thousands	US \$ thousands	US \$ thousands	US \$ thousands	US \$ thousands
Revenues	933,512	766,570	416,538	352,092	1,539,702
Cost of sales	563,188	475,105	251,295	218,798	943,908
Gross profit	370,324	291,465	165,243	133,294	595,794
Expenses					
Research and development, net	9,714	8,482	4,939	4,325	19,480
Selling and marketing	131,891	99,822	61,094	49,020	220,212
General and administrative	33,262	32,843	13,776	15,039	66,915
	174,867	141,147	79,809	68,384	306,607
Operating profit	195,457	150,318	85,434	64,910	289,187
Financing expenses, net	17,833	13,302	12,433	5,856	27,571
Income before other expenses, net	177,624	137,016	73,001	59,054	261,616
Other expenses, net	24,760	21,941	11,344	10,463	42,735
Income before taxes on income	152,864	115,075	61,657	48,591	218,881
Taxes on income	34,821	28,991	8,761	7,571	52,334
Income after taxes on income	118,043	86,084	52,896	41,020	166,547
Minority interest in earnings of subsidiaries, net	(4,736)	(348)	(2,737)	(462)	(1,020)
Net income from continuing operations	113,307	85,736	50,159	40,558	165,527
Cumulative effect as at the beginning of the year of change in accounting method	(2,025)	-	-	-	-
Net income	111,282	85,736	50,159	40,558	165,527
	US\$	US\$	US\$	US\$	US\$
Income per share					
Basic income per NIS 1 par value of shares	0.24	0.20	0.10	0.10	0.39

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

Statements of Changes in Shareholders' Equity

	Share capital (Unaudited)	Premium on shares (Unaudited)	Receipts from issuance of options (Unaudited)	Capital reserves (Unaudited)	Proposed dividend subsequent to balance sheet date (Unaudited)	Retained earnings (Unaudited)	Shares of Company held by subsidiary (Unaudited)	Total (Unaudited)
	US\$ thousands	US\$ thousands	US\$ thousands	US\$ thousands	US\$ thousands	US\$ thousands	US\$ thousands	US\$ thousands
Six-month period ended June 30, 2005								
Balance as at December 31, 2004	109,258	417,487	3,009	(2,568)	12,700	345,841	(11,232)	874,495
Options exercised	699	7,183	(683)	-	-	-	-	7,199
Employee options exercised	167	(167)	-	-	-	-	-	-
Realization of company shares held by subsidiary	-	2,324	-	-	-	-	1,524	3,848
Conversion of convertible debentures	6,875	129,388	-	-	-	-	-	136,263
Adjustments deriving from translation of financial statements of investee companies	-	-	-	(2,560)	-	-	-	(2,560)
Dividend paid	-	-	-	-	(12,700)	-	-	(12,700)
Proposed dividend	-	-	-	-	-	(18,300)	-	(18,300)
Proposed dividend subsequent to balance sheet date	-	-	-	-	15,000	(15,000)	-	-
Net income	-	-	-	-	-	111,282	-	111,282
Balance as at June 30, 2005	<u>116,999</u>	<u>556,215</u>	<u>2,326</u>	<u>(5,128)</u>	<u>15,000</u>	<u>423,823</u>	<u>(9,708)</u>	<u>1,099,527</u>
Six-month period ended June 30, 2004								
Balance as at December 31, 2003	103,793	369,543	3,912	(5,393)	7,200	229,914	(15,428)	693,541
Options exercised	303	3,276	(303)	-	-	-	-	3,276
Employee options exercised	271	(271)	-	-	-	-	-	-
Realization of company shares held by subsidiary	-	3,304	-	-	-	-	4,196	7,500
Conversion of convertible debentures	2,268	20,875	-	-	-	-	-	23,143
Adjustments deriving from translation of financial statements of investee companies	-	-	-	(397)	-	-	-	(397)
Dividend paid	-	-	-	-	(7,200)	-	-	(7,200)
Proposed dividend	-	-	-	-	-	(13,500)	-	(13,500)
Proposed dividend subsequent to balance sheet date	-	-	-	-	12,200	(12,200)	-	-
Net income	-	-	-	-	-	85,736	-	85,736
Balance as at June 30, 2004	<u>106,635</u>	<u>396,727</u>	<u>3,609</u>	<u>(5,790)</u>	<u>12,200</u>	<u>289,950</u>	<u>(11,232)</u>	<u>792,099</u>

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

Statements of Shareholders' Equity (cont'd)

	Share capital (Unaudited)	Premium on shares (Unaudited)	Receipts from issuance of options (Unaudited)	Capital reserves (Unaudited)	Proposed dividend subsequent to balance sheet date (Unaudited)	Retained earnings (Unaudited)	Shares of Company held by subsidiary (Unaudited)	Total (Unaudited)
	US\$ thousands	US\$ thousands	US\$ thousands	US\$ thousands	US\$ thousands	US\$ thousands	US\$ thousands	US\$ thousands
Three-month period ended June 30, 2005								
Balance as at March 31, 2005	110,703	437,501	2,589	(3,693)	18,300	388,664	(9,708)	944,356
Options exercised	269	2,780	(263)	-	-	-	-	2,786
Employee options exercised	81	(81)	-	-	-	-	-	-
Conversion of convertible debentures	5,946	116,015	-	-	-	-	-	121,961
Adjustments deriving from translation of financial statements of investee companies	-	-	-	(1,435)	-	-	-	(1,435)
Proposed dividend	-	-	-	-	(18,300)	-	-	(18,300)
Proposed dividend subsequent to balance sheet date	-	-	-	-	15,000	(15,000)	-	-
Net income	-	-	-	-	-	50,159	-	50,159
Balance as at June 30, 2005	<u>116,999</u>	<u>556,215</u>	<u>2,326</u>	<u>(5,128)</u>	<u>15,000</u>	<u>423,823</u>	<u>(9,708)</u>	<u>1,099,527</u>
Three-month period ended June 30, 2004								
Balance as at March 31, 2004	104,692	377,686	3,781	(5,520)	13,500	261,592	(15,428)	740,303
Options exercised	170	1,859	(172)	-	-	-	-	1,857
Employee options exercised	221	(221)	-	-	-	-	-	-
Realization of company shares held by subsidiary	-	3,304	-	-	-	-	4,196	7,500
Conversion of convertible debentures	1,552	14,099	-	-	-	-	-	15,651
Adjustments deriving from translation of financial statements of investee companies	-	-	-	(270)	-	-	-	(270)
Proposed dividend	-	-	-	-	(13,500)	-	-	(13,500)
Proposed dividend subsequent to balance sheet date	-	-	-	-	12,200	(12,200)	-	-
Net income	-	-	-	-	-	40,558	-	40,558
Balance as at June 30, 2004	<u>106,635</u>	<u>396,727</u>	<u>3,609</u>	<u>(5,790)</u>	<u>12,200</u>	<u>289,950</u>	<u>(11,232)</u>	<u>792,099</u>

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

Statements of Shareholders' Equity (cont'd)

	Share capital (Audited)	Premium on shares (Audited)	Receipts from issuance of options (Audited)	Capital reserves (Audited)	Proposed dividend subsequent to balance sheet date (Audited)	Retained earnings (Audited)	Shares of Company held by subsidiary (Audited)	Total (Audited)
	<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 at December 31, 2003	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 balance sheet date	-	-	-	-	12,700	(12,700)	-	-
Net income for the year ended December 31, 2004	-	-	-	-	-	165,527	-	165,527
Balance as at 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 six months ended		For the three months ended		For the
	June 30	June 30	June 30	June 30	year ended
	2005	2004	2005	2004	December 31
(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)	
US \$ thousands	US \$ thousands	US \$ thousands	US \$ thousands	US \$ thousands	
Cash flows generated by operating activities:					
Net income	111,282	85,736	50,159	40,558	165,527
Adjustments to reconcile net income to net cash flows generated by operating activities (see A. below)	33,810	87,684	82,553	129,463	50,126
Net cash inflow generated by operating activities	145,092	173,420	132,712	170,021	215,653
Cash flows generated by investing activities:					
Acquisition of fixed assets	(26,559)	(20,994)	(12,273)	(10,106)	(38,823)
Investment grant received	-	-	-	-	686
Additions to other assets and deferred charges, net	(14,994)	(11,037)	(10,453)	(5,057)	(33,749)
Short-term investments, net	(1,309)	(14,833)	(1,659)	(15,114)	(463)
Proceeds from disposal of fixed and other assets	163	494	94	41	574
Proceeds from sale of long-term investments	-	-	-	-	2,819
Other long-term investments	-	(828)	-	(603)	(828)
Investments in newly consolidated companies (see B. below)	(3,598)	*(57,422)	(3,598)	(51,151)	(72,152)
Acquisition of minority interest in subsidiaries	(970)	(1,056)	-	(1,056)	(1,056)
Net cash outflow generated by investing activities	(47,267)	(105,676)	(27,889)	(83,046)	(142,992)
Cash flows generated by financing activities:					
Receipt of long-term loans from banks	663	23,838	663	528	24,700
Repayment of long-term loans from banks and others	(64,004)	(124,045)	(54,267)	(95,199)	(227,851)
Issuance of convertible debentures, less issuance expenses	-	147,450	-	4,625	147,450
Increase (decrease) in short-term credit from banks, net	28,004	(40,489)	(11,491)	(39,105)	4,222
Proceeds from exercise of options	7,199	3,276	2,786	1,857	9,647
Dividend to shareholders	(23,900)	(14,200)	(12,700)	(7,200)	(39,900)
Dividend to minority shareholders in subsidiaries	(108)	(101)	(108)	(101)	(301)
Net cash outflow generated by financing activities	(52,146)	(4,271)	(75,117)	(134,595)	(82,033)
Increase (decrease) in cash and cash equivalents	45,679	63,473	29,706	(47,620)	(9,372)
Cash and cash equivalents at beginning of period	40,477	49,849	56,450	160,942	49,849
Cash and cash equivalents at end of the period	86,156	113,322	86,156	113,322	40,477

* Reclassified

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

Consolidated Statements of Cash Flows (cont'd)

	For the six months ended		For the three months ended		For the
	June 30	June 30	June 30	June 30	year ended
	2005	2004	2005	2004	December 31
(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)	
US \$ thousands	US \$ thousands	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	48,143	38,954	22,235	18,717	82,624
Adjustments of long-term liabilities to banks and others	(2,771)	(922)	(1,468)	(382)	1,791
Minority interest in earnings of subsidiaries, net	4,736	348	2,737	462	1,020
Increase (decrease) in employee termination benefits, net	(671)	924	(818)	1,792	1,973
Deferred taxes, net	17,532	3,758	6,602	(1,570)	(163)
Capital loss on disposal of fixed and other assets, net	960	2,310	596	908	511
Amortization of discount on convertible debentures	282	509	121	210	916
Provision for loss with respect to options granted to employees of subsidiaries	850	-	711	-	2,090
Gain on issuance of subsidiary to a third party	-	(926)	-	-	(926)
Changes in operating assets and liabilities:					
Decrease (increase) in trade and other receivables	(926)	(29,909)	110,903	93,911	(53,236)
Decrease (increase) in inventories	(60,237)	32,251	(45,335)	(12,339)	(69,345)
Increase (decrease) in trade and other payables	25,912	40,387	(13,731)	27,754	82,871
	33,810	87,684	82,553	129,463	50,126

Consolidated Statements of Cash Flows (cont'd)

	For the six months ended		For the three months ended		For the
	June 30	June 30	June 30	June 30	year ended
	2005	2004	2005	2004	December 31
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	US \$ thousands	US \$ thousands	US \$ thousands	US \$ thousands	US \$ thousands
B. Investment in newly consolidated companies					
Working capital (excluding cash and cash equivalents)	(1,597)	(6,514)	(1,639)	(6,514)	(6,485)
Fixed assets	(223)	(1,171)	(181)	(1,171)	(2,258)
Other assets	(8,027)	(58,203)	-	(58,203)	(63,081)
Long-term liabilities	77	27,121	68	27,121	33,896
Goodwill created on acquisition	(2,173)	(19,884)	(2,173)	(19,884)	(41,851)
Exercise of company shares held by a subsidiary	3,848	7,500	-	7,500	7,500
Minority interest	4,497	-	327	-	6,398
	(3,598)	(51,151)	(3,598)	(51,151)	(65,881)
Repayment of liability in respect of investee company previously acquired	-	(6,271)	-	-	(6,271)
	(3,598)	(57,422)	(3,598)	(51,151)	(72,152)
C. Non-cash activities					
Acquisition of other assets	12,250	8,425	715	5,425	1,516
Acquisition of fixed assets	4,537	-	2,490	-	3,904

Notes to the Financial Statements as at June 30, 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 June 30, 2005, and for the six-month and three-month periods 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. Disclosure of effect of new accounting standards in the period prior to their implementation

In August 2005 the Israel Accounting Standards Board published Accounting Standard No. 22, "Financial Instruments: Disclosure and Presentation". The standard provides rules for presenting financial instruments in the financial statements and specifies the proper disclosure required in respect thereto. Furthermore, the standard provides the method for classifying financial instruments as financial liabilities and as shareholders' equity, for classifying the interest, dividends, losses and gains related to them and the circumstances in which financial assets should be offset from financial liabilities. The new standard will apply to periods beginning on January 1, 2006 or thereafter. The standard provides that it is to be adopted on a prospective basis. The comparative data presented in the financial statements for periods beginning on the date the standard comes into effect will not be restated.

Notes to the Financial Statements as at June 30, 2005 (Unaudited)

Note 1 - Financial Reporting Principles and Accounting Policies (cont'd)
C. Disclosure of effect of new accounting standards in the period prior to their implementation (cont'd)

The anticipated effect of the initial implementation of the standard on the financial statements of the Company is the separation of convertible debentures into a liability component and into a capital component and the cancellation of provisions for losses in respect of options to employees in subsidiaries.

D. 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.

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

	<u>CPI</u>	<u>Representative exchange rate of the U.S. \$ to the NIS</u>	<u>Representative exchange rate of the U.S. \$ to the Euro</u>	<u>Representative exchange rate of the U.S. \$ to the Brazilian real</u>
	%	%	%	%
During the six-month period ended:				
June 30, 2005	0.50	6.17	12.89	(11.50)
June 30, 2004	1.41	2.69	3.96	7.55
During the three-month period ended:				
June 30, 2005	1.10	4.88	7.20	(11.96)
June 30, 2004	1.51	(0.68)	0.58	6.83
During the year ended December 31, 2004	1.21	(1.62)	(7.33)	(8.13)

Notes to the Financial Statements as at June 30, 2005 (Unaudited)

Note 2 - Segment Information

A. Geographical segments according to location of assets

	Israel (Unaudited) US\$ thousands	Latin America (Unaudited) US\$ thousands	Europe * (Unaudited) US\$ thousands	Adjustments (Unaudited) US\$ thousands	Consolidated (Unaudited) US\$ thousands
For the six months ended June 30, 2005					
Income	637,874	138,224	210,133	(52,719)	933,512
Operating income**	126,791	15,060	46,014	(2,410)	185,455
For the six months ended June 30, 2004					
Income	519,038	121,661	192,833	(66,962)	766,570
Operating income**	82,880	9,891	41,311	3,334	137,416
For the three months ended June 30, 2005					
Income	293,841	57,580	79,354	(14,237)	416,538
Operating income**	72,439	2,395	9,053	(1,270)	82,617
For the three months ended June 30, 2004					
Income	251,712	56,848	69,360	(25,828)	352,092
Operating income**	33,673	4,925	13,784	7,193	59,575
	Israel (Audited) US\$ thousands	Latin America (Audited) US\$ thousands	Europe * (Audited) US\$ thousands	Adjustments (Audited) US\$ thousands	Consolidated (Audited) US\$ thousands
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.

B. Sales by geographic area

	For the six months ended		For the three months ended		For the year ended
	June 30 2005 (Unaudited) US \$ thousands	June 30 2004 (Unaudited) US \$ thousands	June 30 2005 (Unaudited) US \$ thousands	June 30 2004 (Unaudited) US \$ thousands	December 31 2004 (Audited) US \$ thousands
Israel	57,918	51,900	29,141	26,360	103,245
Latin America	150,288	148,600	72,665	75,442	428,638
Europe	444,086	398,030	174,962	163,458	649,859
North America	184,779	102,700	89,465	54,020	198,035
Other	96,441	65,340	50,305	32,812	159,925
	933,512	766,570	416,538	352,092	1,539,702

Notes to the Financial Statements as at June 30, 2005 (Unaudited)

Note 3 - Additional Information

- (1) As part of the commitments of the Company and of its subsidiaries under agreements regarding a securitization transaction whereby trade receivables were sold to a foreign company, which was incorporated for this purpose and which was not owned or controlled by the Makhteshim Agan Industries Group, the balance of the trade receivables sold for cash amounted, as at the balance sheet date, to US\$ 205.6 million (June 30, 2004 – US\$ 150.0 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\$ 70 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.

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 offered 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 determined for the options is as follows:

With respect to the options issued to the Company's CEO and eight additional employees (hereinafter - Group A), the exercise price will be equal to the opening price of the Company's shares on April 15, 2006, and if there is no trading on that day – on the first trading date thereafter.

With respect to the options issued to the other offerees (hereinafter - Group B), the exercise price will be equal to NIS 25.10 (subject to adjustments in respect of a dividend distribution), which is the opening price of the Company's shares on the stock exchange on the date the decision of the Company's Board of Directors was made (March 8, 2005).

Notes to the Financial Statements as at June 30, 2005 (Unaudited)

Note 3 - Additional Information (cont'd)

(3) (cont'd)

With respect to offerees who will be issued options in the future as stated above, the exercise price will be equal to the closing price of the Company's shares immediately prior to the decision to issue the options to them.

Subsequent to the balance sheet date, on August 8, 2005, the Company's Board of Directors decided to adjust the exercise price of the options which were issued to Group A such that the exercise price of these options will be equal to the exercise price determined for the options which were issued to Group B. As at the balance sheet date, the exercise price after the aforementioned adjustments is NIS 24.97.

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 18,198 thousand par value debentures (Series A) were converted into 1,819 thousand of the Company's ordinary shares of NIS 1 par value. Furthermore in the current period US\$ 133,650 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 29,429 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\$ 136 million.

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, 3,042 thousand options (Series 1) were exercised for 3,042 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\$ 7 million.

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

In May 2005, the Company's Board of Directors decided to distribute an interim dividend, in the amount of \$ 18.3 million, to be paid on September 1, 2005.

Subsequent to the balance sheet date, in August 2005, the Company's Board of Directors resolved to distribute an interim dividend, in the amount of US\$ 15 million, to be paid on November 29, 2005.

(7) Subsequent to balance sheet date, on July 25, 2005 the Knesset passed the Law for the Amendment of the Income Tax Ordinance (No. 147 and Temporary Order) – 2005 by which the company tax rate will be reduced in the following manner: in 2006 the tax rate will be 31%, in 2007 the tax rate will be 29%, in 2008 the tax rate will be 27%, in 2009 the tax rate will be 26% and from 2010 onward the tax rate will be 25%. Furthermore, as from 2010, upon reduction of the company tax rate to 25%, real capital gains will be subject to tax of 25%.

The current taxes and the deferred taxes balances as at June 30, 2005 are calculated in accordance with the tax rates that were in effect before the aforementioned Amendment. The anticipated effect of the lowering of the tax rate on the deferred taxes balances as at June 30, 2005 is a decrease in taxes on income in the amount of US\$ 6.3 million. This effect will be reflected in the financial statements as at September 30, 2005.

