

Makhteshim–Agan Industries Ltd.

Consolidated Financial Statements

(Unaudited)

As at September 30, 2005

(In U.S. Dollars)

Financial Statements as at September 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 September 30, 2005

At your request, we have reviewed the interim consolidated balance sheet of Makhteshim–Agan Industries Ltd. and its subsidiaries as at September 30, 2005, and the related consolidated statements of income, changes in shareholders' equity and cash flows for the nine-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 6.1% of the total consolidated assets as at September 30, 2005 and whose revenues constitute 6.4% and 4.7% of the total consolidated revenues for the nine-month and three-month periods then ended, respectively.

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.)

November 14, 2005

Consolidated Balance Sheets

	As at September 30 2005 <u>(Unaudited)</u> <u>US \$ thousands</u>	As at September 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	60,013	95,694	40,477
Short-term investments	1,288	7,363	1,563
Trade receivables	422,592	323,958	369,209
Other receivables	78,946	70,686	77,219
Inventories	541,966	377,188	460,870
	<u>1,104,805</u>	<u>874,889</u>	<u>949,338</u>
Long-term investments, loans and receivables	<u>22,521</u>	<u>17,380</u>	<u>22,070</u>
Fixed assets			
Cost	869,476	813,490	824,544
Less – accumulated depreciation	412,784	380,701	388,805
	<u>456,692</u>	<u>432,789</u>	<u>435,739</u>
Other assets and deferred charges			
Cost	785,956	733,499	743,310
Less – accumulated amortization	263,513	199,578	215,890
	<u>522,443</u>	<u>533,921</u>	<u>527,420</u>
	<u><u>2,106,461</u></u>	<u><u>1,858,979</u></u>	<u><u>1,934,567</u></u>

	As at September 30 2005 <u>(Unaudited)</u> <u>US \$ thousands</u>	As at September 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 and others	206,533	137,543	140,021
Trade payables	309,007	258,728	325,945
Other payables	207,755	187,817	192,405
Proposed dividend	14,850	12,200	11,200
	<u>738,145</u>	<u>596,288</u>	<u>669,571</u>
Long-term liabilities			
Loans from banks	55,938	113,288	93,023
Convertible debentures	-	150,000	150,000
Other long-term liabilities	4,769	28,067	9,337
Deferred taxes, net	67,621	55,386	54,354
Employee severance benefits, net	26,454	26,719	26,709
	<u>154,782</u>	<u>373,460</u>	<u>333,423</u>
Minority interest	<u>25,638</u>	<u>16,450</u>	<u>18,756</u>
Convertible debentures	<u>50,173</u>	<u>53,440</u>	<u>38,322</u>
Shareholders' equity	<u>1,137,723</u>	<u>819,341</u>	<u>874,495</u>
	<u>2,106,461</u>	<u>1,858,979</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: November 14, 2005

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

Consolidated Statements of Income

	For the nine months ended		For the three months ended		For the
	September 30 2005	September 30 2004	September 30 2005	September 30 2004	year ended December 31 2004
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	US \$ thousands	US \$ thousands	US \$ thousands	US \$ thousands	US \$ thousands
Revenues	1,335,644	1,129,321	402,132	362,751	1,539,702
Cost of sales	811,513	693,688	248,325	218,583	943,908
Gross profit	524,131	435,633	153,807	144,168	595,794
Expenses					
Research and development, net	14,533	13,659	4,819	5,177	19,480
Selling and marketing	197,612	156,586	65,721	56,764	220,212
General and administrative	47,257	46,599	13,995	13,756	66,915
	259,402	216,844	84,535	75,697	306,607
Operating profit	264,729	218,789	69,272	68,471	289,187
Financing expenses, net	26,616	20,055	8,783	6,753	27,571
Income before other expenses, net	238,113	198,734	60,489	61,718	261,616
Other expenses, net	35,916	31,173	11,156	9,232	42,735
Income before taxes on income	202,197	167,561	49,333	52,486	218,881
Taxes on income	37,269	43,344	2,448	14,353	52,334
Income after taxes on income	164,928	124,217	46,885	38,133	166,547
Minority interest in losses (income) of subsidiaries, net	(4,551)	(1,185)	185	(837)	(1,020)
Net income from continuing operations	160,377	123,032	47,070	37,296	165,527
Cumulative effect as at the beginning of the year of change in accounting method	(2,025)	-	-	-	-
Net income	158,352	123,032	47,070	37,296	165,527
	US\$	US\$	US\$	US\$	US\$
Income per share					
Basic income per NIS 1 par value of shares	0.34	0.29	0.09	0.09	0.39
Fully diluted income per NIS 1 par value of shares	0.33	0.27	0.09	0.08	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	Shares 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
Nine-month period ended September 30, 2005								
Balance as of December 31, 2004	109,258	417,487	3,009	(2,568)	12,700	345,841	(11,232)	874,495
Options exercised	1,113	11,513	(1,103)	-	-	-	-	11,523
Employee options exercised	219	(219)	-	-	-	-	-	-
Exercised shares of company held by subsidiary	-	2,324	-	-	-	-	1,524	3,848
Conversion of convertible debentures	6,944	130,033	-	-	-	-	-	136,977
Adjustments deriving from translation of financial statements of investee companies	-	-	-	(2,037)	-	-	-	(2,037)
Dividend	-	-	-	-	(12,700)	(32,735)	-	(45,435)
Proposed dividend subsequent to balance sheet date	-	-	-	-	14,058	(14,058)	-	-
Net income	-	-	-	-	-	158,352	-	158,352
Balance as of September 30, 2005	117,534	561,138	1,906	(4,605)	14,058	457,400	(9,708)	1,137,723
Nine-month period ended September 30, 2004								
Balance as of December 31, 2003	103,793	369,543	3,912	(5,393)	7,200	229,914	(15,428)	693,541
Options exercised	356	3,852	(357)	-	-	-	-	3,851
Employee options exercised	350	(350)	-	-	-	-	-	-
Exercised shares of company held by subsidiary	-	3,304	-	-	-	-	4,196	7,500
Conversion of convertible debentures	2,405	22,091	-	-	-	-	-	24,496
Adjustments deriving from translation of financial statements of investee companies	-	-	-	(179)	-	-	-	(179)
Dividend	-	-	-	-	(7,200)	(25,700)	-	(32,900)
Proposed dividend subsequent to balance sheet date	-	-	-	-	11,200	(11,200)	-	-
Net income	-	-	-	-	-	123,032	-	123,032
Balance as of September 30, 2004	106,904	398,440	3,555	(5,572)	11,200	316,046	(11,232)	819,341

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

Statements of Shareholders' Equity (cont'd)

	Share capital	Premium on shares	Receipts from issuance of options	Capital reserves	Proposed dividend subsequent to balance sheet date	Retained earnings	Shares 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 September 30, 2005								
Balance as of June 30, 2005	116,999	556,215	2,326	(5,128)	15,000	423,823	(9,708)	1,099,527
Options exercised	414	4,330	(420)	-	-	-	-	4,324
Employee options exercised	52	(52)	-	-	-	-	-	-
Conversion of convertible debentures	69	645	-	-	-	-	-	714
Adjustments deriving from translation of financial statements of investee companies	-	-	-	523	-	-	-	523
Dividend	-	-	-	-	(15,000)	565	-	(14,435)
Proposed dividend subsequent to balance sheet date	-	-	-	-	14,058	(14,058)	-	-
Net income	-	-	-	-	-	47,070	-	47,070
Balance as of September 30, 2005	117,534	561,138	1,906	(4,605)	14,058	457,400	(9,708)	1,137,723
Three-month period ended September 30, 2004								
Balance as of June 30, 2004	106,635	396,727	3,609	(5,790)	12,200	289,950	(11,232)	792,099
Options exercised	53	576	(54)	-	-	-	-	575
Employee options exercised	79	(79)	-	-	-	-	-	-
Conversion of convertible debentures	137	1,216	-	-	-	-	-	1,353
Adjustments deriving from translation of financial statements of investee companies	-	-	-	218	-	-	-	218
Dividend	-	-	-	-	(12,200)	-	-	(12,200)
Proposed dividend subsequent to balance sheet date	-	-	-	-	11,200	(11,200)	-	-
Net income	-	-	-	-	-	37,296	-	37,296
Balance as of September 30, 2004	106,904	398,440	3,555	(5,572)	11,200	316,046	(11,232)	819,341

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

Statements of Shareholders' Equity (cont'd)

	Share capital	Premium on shares	Receipts from issuance of options	Capital reserves	Proposed dividend subsequent to balance sheet date	Retained earnings	Shares of Company held by subsidiary	Total
	(Audited)	(Audited)	(Audited)	(Audited)	(Audited)	(Audited)	(Audited)	(Audited)
	US\$ thousands	US\$ thousands	US\$ thousands	US\$ thousands	US\$ thousands	US\$ thousands	US\$ thousands	US\$ thousands
Year ended December 31, 2004								
Balance as of 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)	(36,900)	-	(44,100)
Proposed dividend subsequent to balance sheet date	-	-	-	-	12,700	(12,700)	-	-
Net income	-	-	-	-	-	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 nine months ended		For the three months ended		For the
	September 30	September 30	September 30	September 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	158,352	123,032	47,070	37,296	165,527
Adjustments to reconcile net income to net cash flows generated by operating activities (see A. below)	(62,602)	103,635	(96,412)	15,951	50,126
Net cash inflow (outflow) generated by operating activities	95,750	226,667	(49,342)	53,247	215,653
Cash flows generated by investing activities:					
Acquisition of fixed assets	(38,387)	(30,418)	(11,828)	(9,424)	(38,823)
Investment grant received	-	466	-	466	686
Additions to other assets and deferred charges, net	(21,558)	(16,870)	(6,564)	(5,833)	(33,749)
Short-term investments, net	15	(6,262)	1,324	8,570	(463)
Proceeds from disposal of fixed and other assets	163	493	-	-	574
Proceeds from sale of long-term investments	-	2,711	-	2,711	2,819
Other long-term investments	-	(828)	-	-	(828)
Investments in newly consolidated companies (see B. below)	(3,598)	*(72,152)	-	(14,730)	(72,152)
Acquisition of minority interest in subsidiaries	(970)	(1,056)	-	-	(1,056)
Net cash outflow generated by investing activities	(64,335)	(123,916)	(17,068)	(18,240)	(142,992)
Cash flows generated by financing activities:					
Receipt of long-term loans from banks	3,846	23,941	3,183	103	24,700
Repayment of long-term loans from banks and others	(69,257)	(158,096)	(5,253)	(34,051)	(227,851)
Issuance of convertible debentures, less issuance expenses	-	147,450	-	-	147,450
Increase (decrease) in short-term credit from banks and others, net	85,794	(46,154)	57,790	(5,665)	4,222
Proceeds from exercise of options	11,523	3,851	4,324	575	9,647
Dividend to shareholders	(41,635)	(27,700)	(17,735)	(13,500)	39,900
Dividend to minority shareholders in subsidiaries	(2,150)	(198)	(2,042)	(97)	(301)
Net cash inflow (outflow) generated by financing activities	(11,879)	(56,906)	40,267	(52,635)	(82,033)
Increase (decrease) in cash and cash equivalents	19,536	45,845	(26,143)	(17,628)	(9,372)
Cash and cash equivalents at beginning of period	40,477	49,849	86,156	113,322	49,849
Cash and cash equivalents at end of the period	60,013	95,694	60,013	95,694	40,477

* Reclassified.

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

Consolidated Statements of Cash Flows (cont'd)

	For the nine months ended		For the three months ended		For the
	September 30	September 30	September 30	September 30	year ended
	2005	2004	2005	2004	December 31
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	2004
	US \$ thousands	US \$ thousands	US \$ thousands	US \$ thousands	(Audited)
					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	72,859	58,399	24,716	19,445	82,624
Adjustments of long-term liabilities to banks and others	(96)	(674)	2,675	249	1,791
Minority interest in earnings (losses) of subsidiaries, net	4,551	1,185	(185)	837	1,020
Increase in employee termination benefits, net	133	1,746	804	821	1,973
Deferred taxes, net	12,815	4,158	(4,717)	400	(163)
Capital loss (gain) of disposal of fixed and other assets, net	850	3,464	(110)	1,154	511
Amortization of discount on convertible debentures	409	716	127	207	916
Provision for loss with respect to options granted to employees of subsidiaries	1,129	-	279	-	2,090
Earnings from issuance of a subsidiary to a third party	-	(926)	-	-	(926)
Changes in operating assets and liabilities:					
Decrease (increase) in trade and other receivables	(53,075)	3,080	(52,149)	32,989	(53,236)
Decrease (increase) in inventories	(68,155)	14,337	(7,918)	(17,914)	(69,345)
Increase (decrease) in trade and other payables	(34,022)	18,150	(59,934)	(22,237)	82,871
	(62,602)	103,635	(96,412)	15,951	50,126

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

Consolidated Statements of Cash Flows (cont'd)

	For the nine months ended		For the three months ended		For the
	September 30	September 30	September 30	September 30	year ended
	2005	2004	2005	2004	December 31
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	2004
	US \$ thousands	US \$ thousands	US \$ thousands	US \$ thousands	(Audited)
					US \$ thousands
B. Investment in newly consolidated companies					
Working capital (excluding cash and cash equivalents)	(1,597)	(6,485)	-	29	(6,485)
Fixed assets	(223)	(2,258)	-	(1,087)	(2,258)
Other assets	(8,027)	(60,823)	-	(2,620)	(63,081)
Long-term liabilities	77	29,938	-	2,817	33,896
Exercised shares of company held by subsidiary	3,848	7,500	-	-	7,500
Minority interests	4,497	6,398	-	6,398	6,398
Goodwill created on acquisition	(2,173)	(40,151)	-	(20,267)	(41,851)
	(3,598)	(65,881)	-	(14,730)	(65,881)
Repayment of liability in respect of investee company previously acquired	-	(6,271)	-	-	(6,271)
	(3,598)	(72,152)	-	(14,730)	(72,152)
C. Non-cash activities					
Acquisition of other assets	11,397	5,988	-	-	1,516
Acquisition of fixed assets	9,988	8,106	5,451	8,106	3,904

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

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

Note 1 - Reporting Principles and Accounting Policy**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 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, except for that mentioned in Note 1B..
3. These financial statements have been prepared in an abridged form as at September 30, 2005, and for the nine-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

1. 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.

Note 1 - Reporting Principles and Accounting Policy (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.

2. In September 2005 the Israel Accounting Standards Board published Accounting Standard No. 24, "Share-Based Payments". The standard requires that share-based payment transactions, including transaction with employees or other parties that are to be settled by equity instruments, cash or other assets, be recognized in the financial statements. In accordance with the standard, share-based payment transactions in which goods or services are received will be recognized at their fair value.

Furthermore, the standard provides various disclosure requirements regarding the nature and extent of the share-based payment arrangements that existed during the period, and regarding the method by which the fair value of such arrangements was determined.

The standard will apply to financial statements for periods beginning as from January 1, 2006. The instructions of the standard should be applied to each share-based payment transaction executed after March 15, 2005 that has not yet vested until the effective date of the standard. Changes in the terms of a share-based payment transaction being settled by means of equity instruments are to be treated in accordance with the instructions of the new standard, and comparative data relating to periods after March 15, 2005 is to be restated.

The anticipated effect of the initial implementation of the standard on the financial statements of the Company is the recording of an expense in respect of benefits granted to employees according to option distribution plans after March 15, 2005.

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.

Note 1 - Reporting Principles and Accounting Policy (cont'd)

D. Financial statements in US dollars (cont'd)

Changes in the representative exchange rate of the 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 nine-month period ended:				
September 30, 2005	1.89	6.73	13.46	(16.22)
September 30, 2004	1.21	2.35	2.51	(1.06)
During the three-month period ended:				
September 30, 2005	1.38	0.52	0.51	(4.72)
September 30, 2004	(0.20)	(0.33)	(1.40)	(8.00)
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 nine months ended September 30, 2005					
Income	876,086	251,498	285,466	(77,406)	1,335,644
Operating income**	155,945	30,232	65,993	(2,415)	249,755
For the nine months ended September 30, 2004					
Income	720,769	238,452	262,770	(92,670)	1,129,321
Operating income**	100,165	39,031	56,914	4,037	200,147
For the three months ended September 30, 2005					
Income	238,212	113,274	75,333	(24,687)	402,132
Operating income**	29,154	15,172	19,979	(5)	64,300
For the three months ended September 30, 2004					
Income	201,731	116,791	69,937	(25,708)	362,751
Operating income**	17,285	29,140	15,603	703	62,731
	<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.

Note 2 - Segment Information (cont'd)

B. Sales by geographic area

	For the nine months ended		For the three months ended		For the
	September 30 2005	September 30 2004	September 30 2005	September 30 2004	year ended December 31 2004
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	US \$ thousands	US \$ thousands	US \$ thousands	US \$ thousands	US \$ thousands
Israel	86,756	76,950	28,838	25,050	103,245
Latin America	285,032	285,648	134,744	137,048	428,638
Europe	571,925	515,977	127,839	117,947	649,859
North America	241,469	144,826	56,690	42,126	198,035
Other	150,462	105,920	54,021	40,580	159,925
	1,335,644	1,129,321	402,132	362,751	1,539,702

Note 3 - Additional Information

- A. 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\$ 152.7 million (September 30, 2004 – US\$ 160 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 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.

- B. In September 2005 subsidiaries signed agreements with a bank by which the subsidiaries sold to the bank certain customers debts. In the balance sheet as at September 30, 2005 the balance of customers decreased by the amount of US\$ 21 million in respect of the customer balances that were sold. The difference between the book balance of the sold debts and the consideration received from the bank was recorded under other expenses. In accordance with the agreements the subsidiaries committed to indemnify the bank, in certain cases defined in the agreements, wherein the receivables sold are not collected.
- C. 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\$ 61 million (September 30, 2004 - US\$ 84 million; December 31, 2004 - US\$ 98 million).

Note 3 - Additional Information (cont'd)

- D.** 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. 800,000 option warrants were issued to the CEO of the Company, 11,600,000 option warrants were issued to the employees of the Company in Israel and abroad and the balance in the amount of 2,500,000 option warrants was 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).

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.

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 24.78.

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.

Note 3 - Additional Information (cont'd)

- E.** During the period of the report, NIS 21,312 thousand par value debentures (Series A) were converted into 2,139 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\$ 137 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.

- F.** During the period of the report, 4,912 thousand options (Series 1) were exercised for 4,912 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\$ 12 million.

- G.** 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 resolved to distribute an additional interim dividend, in the amount of US\$ 18.3 million, to be paid on September 1, 2005.

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

Subsequent to the balance sheet date in November 2005, the Company's Board of Directors resolved to distribute an interim dividend, in the amount of US\$ 14.2 million, to be paid on February 28, 2006.

- H.** 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 September 30, 2005 are calculated in accordance with the tax rates as the aforementioned Amendment. The effect of the lowering of the tax rate on the results of the Company for the nine-month and three-month periods ended September 30, 2005 is tax income in the amount of US\$ 5.6 million.

Note 3 - Additional Information (cont'd)

I. On August 8, 2005 the Company's Board of Directors decided to increase the authorized share capital of the Company from NIS 500 million composed of 500 million ordinary shares of a par value of NIS 1 each to NIS 750 million composed of 750 million ordinary shares of a par value of NIS 1 each.

J. On August 23, 2005 the Company's Board of Directors decided to approve the allotment of additional options to directors and managers of a subsidiary - Lycored Natural Products Industries Ltd. (Lycored), including the Chairman of the Board of Directors of the Company, the CEO of the Company and two other executives of the Company.

938,925 options exercisable into 938,925 ordinary shares of a par value of NIS 1 each of Lycored, constituting 7.4% of the issued and paid-in share capital of Lycored, are to be allotted. 176,048 options were allotted to the Chairman of the Board and the CEO of the Company each.

K. Subsequent to balance sheet date, on November 14, 2005, the Company's Board of Directors decided to adopt a policy by which the Company would act to purchase its own shares at a volume of up to US\$ 150 million.

The Board of Directors' decision sets various parameters for the said purchase of shares, which include, inter alia, purchase in response to supply without creating demand, restrictions on daily purchase volumes, and price and execution of off-floor transactions criteria.

The shares that will be purchased will become dormant shares for as long as they are held by the Company.