



Makhteshim Agan Industries Ltd.

Management Discussion for the Quarter Ending 31 March 2005

Profile of the Company and its business environment

After a number of years in which the agrochemical market has been undergoing significant structural changes, a trend towards recovery in this area has been visible over the past two years, the signs of which are an increase in demand for crop protection products and an improvement in the business results of most companies.

The recovery, like the other significant steps being taken by the Company, brought about growth for Makhteshim-Agan, and stabilized its status as a leading generic manufacturer in the field of crop protection products. Official publications (Phillips McDougall Agri-Service) ranked the Group seventh in the world for sales in the field of agrochemicals in 2004.

Conditions of the business environment

Summary of changes in the industry

During the First quarter, the annual survey of leading research bodies in the field was published. This survey shows that the agrochemical market increased by 15% in 2004, reaching 30.7 billion dollars, compared with 26.7 billion dollars in 2003. The non-crop market (non-agricultural uses for crop protection products) also increased by some 5.2%, reaching 4.6 billion dollars.

Agrochemical Sales of Companies in the Industry (in millions of Dollars):

		2004	2003	% Chg	Market Share 2004
1	Bayer	7000	6207	12.8%	22.8%
2	Syngenta	6030	5421	11.2%	19.6%
3	BASF	4166	3589	16.1%	13.6%
4	Dow	3143	2800	12.3%	10.2%
5	Monsanto	2864	2784	2.9%	9.3%
6	DuPont	2210	2010	10.0%	7.2%
7	MAKHTESHIM-AGAN	1358	1035	31.2%	4.4%
8	Sumitomo	1358	1235	10.0%	4.4%
9	Nufarm	1170	859	36.2%	3.8%
10	Arysta	791	604	31.0%	2.6%
11	FMC	704	640	10.0%	2.3%
12	Cheminova	492	374	31.6%	1.6%

Source: Phillips McDougall – Industry Overview , March 2005

Financial Markets:

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

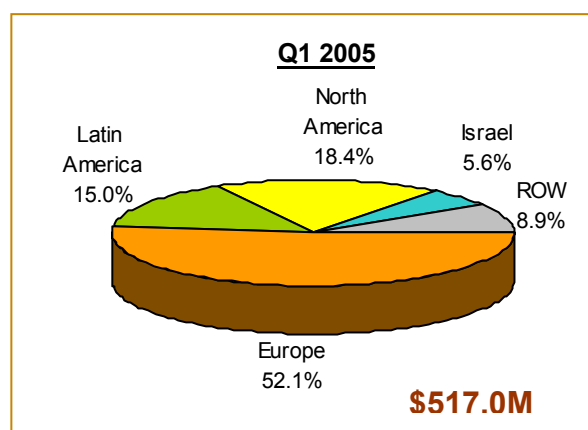
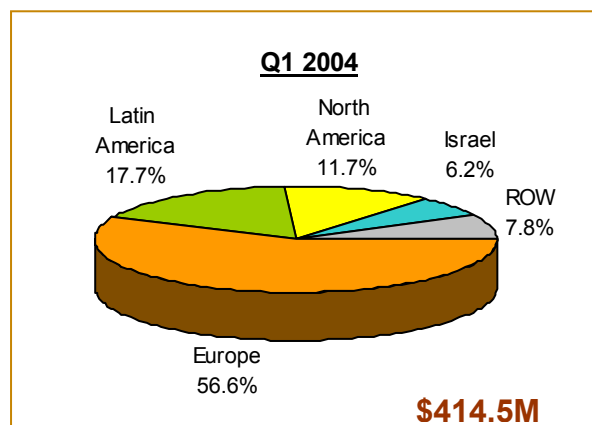
	31/3			Quarterly Average		
	2005	2004	Change	2005	2004	Change
Euro	1.2953	1.2225	6.0%	1.3124	1.2494	5.0%
Brazilian Real	2.666	2.909	8.4%	2.663	2.895	8.0%
Shekel	4.361	4.528	3.7%	4.367	4.473	2.4%
LIBOR interest for 3 months	3.12%	1.11%		2.84%	1.12%	

Makhteshim – Agan

Geographical profile

During the first quarter of 2005, the strong growth in sales continued (517.0 million dollars compared with 414.5 million dollars in the same quarter last year, an increase of 24.7%). The main growth was in sales to North America, which amounted to 95.3 million dollars compared with 48.7 million dollars last year (growth of 95.8%), and in sales to Europe, which amounted to 269.1 million dollars compared with 234.6 million dollars last year (growth of 14.7%).

Percentage Distribution of Quarterly Sales:



Acquisition of companies and joint ventures

On January 15, 2005, the company gave notice that a wholly owned subsidiary of it had signed a memorandum of understanding to purchase 49% of the Dutch company Mabeno. Mabeno, which is owned by AWS Holding BV, has been the exclusive distributor of Makhteshim-Agan's crop protection products in the Benelux and Scandinavian regions since the 1960s. The acquisition was effected in consideration for allotment of shares of Makhteshim-Agan Industries. Makhteshim-Agan received an option to increase its holdings in Mabeno to 55% in the future.

The new joint venture will expand the Company's presence and the extent of provision of distribution services for crop protection products in the Netherlands, Belgium, Luxembourg, Denmark, Sweden, Norway and Finland.

On April 6, 2005, the Company gave notice that a wholly owned subsidiary had signed a memorandum of understanding (MOU) to purchase 70% of the Hungarian distribution company, Biomark Trading. The acquisition was finalized IN May 2005

Biomark Trading is a Hungarian crop protection product distribution company, the annual sales of which are estimated at some 11 million dollars. The acquisition was effected in cash. Makhteshim-Agan received an option to purchase the balance of the shares of the company in the future, and thereby to increase its holdings to 100%. The new joint venture is expected to expand the company's operations and the extent of distribution of crop protection products in Hungary, by launching additional Makhteshim-Agan products.

On February 14, 2005, the Company gave notice that a wholly owned subsidiary had signed a long term joint supply agreement with Bayer CropScience LP for the marketing of **Tebuconazole** in the USA (the product is sold under the name "Orius" which is the brand name under which Makhteshim-Agan sells Tebuconazole in many other parts of the world).

Tebuconazole ("Orius") is a fungicide which is intended to treat a wide variety of diseases in a large number of economically important crops such as cereals, grapes, peanuts, fruit trees and vegetables. But it is important mainly due to its being a leading product, proven to be particularly effective in treating Asian wheat rust in soy plants, which has spread throughout South America. Initial signs of the disease were discovered last season in nine US states. The US EPA has recently approved Tebuconazole for use on soy against Asian wheat rust, in particularly speedy proceedings (section 18), in view of the possibility that there might be an outbreak of the disease in the coming season in the USA.

On April 19, 2005, a wholly owned subsidiary of the Company signed a long term strategic supply agreement with the multinational agrochemical firm, Bayer CropScience ("Bayer"). The agreement relates to the insecticide called **Imidacloprid**, which is protected in most countries around the world by patents owned by Bayer.

Under the agreement, Bayer is to provide the subsidiary with Imidacloprid, in accordance with orders by the subsidiary, in order for the subsidiary and other companies in the Makhteshim-Agan Group to sell it to the Group's customers around the world, in the area of agrochemicals and in other areas. The agreement affords Makhteshim-Agan the right to rely on the licensing files of Imidacloprid, owned by Bayer, in various countries. The date of access to Bayer's licensing data is

different in each country: in some countries access can already be allowed now, while in other countries, it will be available in the future.

Imidacloprid is an insecticide with a broad range of uses on more than 140 different crops, and is one of the most important insecticides currently sold around the world. The product is sold in more than 100 countries. The Company is unable, at this stage, to anticipate the international market share for the product that it may grab, or the expected profits from such, but it estimates that if it is successful in marketing the product, the product might have a substantial effect on its operations.

The execution of this agreement is another step in realization of the Company's strategy of expanding its basket of products, and strengthening its ties with leading multi-national companies in the field of crop protection products.

New Products:

Sales of new products in the first quarter of the year came to about 165.2 million dollars, compared with 136.4 million dollars last year, an increase of some 21.1%.

New Registrations:

During this quarter, the Company received 34 new licenses for active substances, formulations and mixtures. The following licenses should be noted in particular:

- A certificate from the World Health Organization (WHO) to market Novaluron, an original product of the Company (sold as "Rimon" for agricultural use) for the field of sanitation (non-crop).
- Registration to market a pyrethroid insecticide called **Lambda Cyhalothrin** in Israel.
- Registration to market the fungicide **Orius**, containing the active ingredient Tebuconazole, in England.
- Registration to market the fungicide **Odeon**, containing the active ingredient Chlorthalonil, in Romania.
- Registration to market the weed killer **Metazachlor** in Czech and Latvia.
- Registration to market the mixture **Acarin T** mixture, containing Dicofol and Tetradifon, in Ecuador.

Non-Agro:

Non-agro sales in the first quarter of 2005 came to about 50.8 million dollars, compared with 42.4 million dollars last year. The main increase stems from the increase in sales of the subsidiary LycoRed, and from the increase in sales of electrolysis products.

Risk Management:

The Company runs its business in various environments which operate in different currencies. Due to its activities, the Company is exposed to market risks, which mainly involve exchange rate fluctuations, partial adjustment of the prices of produce to the prices of raw materials, and changes in LIBOR 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 makes such transactions only through banking corporations and stock exchanges, which are obligated to meet capital adequacy requirements or to maintain a scenario-based level of collateral. The Company's Market Risk Manager is the CFO, Eli Asrraf.

Currency Risks:

The Group's most substantial exposure is to the Euro, the Brazilian Real and the Shekel. In addition, there are smaller exposure risks to the Pound Sterling and the Argentinean Peso. Currency exposure deriving from foreign currency exchange rate fluctuations is constantly checked against the assets, liabilities and cash flows denominated in foreign currencies. It is the Company's policy to use financial derivatives (options and forward contracts) to hedge against this exposure only when the net exposure from a certain currency is material.

During the quarter, the Company hedged most of its accounting and economic exposure to the Euro, to the Real and to the Sterling Pound.

See linkage balances and derivatives position table as at 31.3.2005 in the appendix.

Risks in raw material prices (in source currency):

In order to reduce exposure to changes in the prices of raw materials, the Company customarily enters into long-term purchase contracts for major materials wherever possible. When making such long-term production contracts, the selling prices are adjusted, *inter alia*, to changes in the prices of the raw materials.

Interest Risks:

The Company is exposed to changes in the LIBOR interest rate on the US dollar, since most of its short- and long-term liabilities are in that currency and bear a variable LIBOR rate. The Company prepares a quarterly summary of its exposure to changes in the LIBOR rate. At this stage, the Company has decided not to hedge this risk. The Company has prepared an interest-rate hedging plan which will be activated at the appropriate time.

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 Company maintains the level of exposure on a weekly basis. The Board of Directors is updated once every quarter on market risks and their management. The Company is keeping watch on market movements and changes causing changes in the composition of the hedging portfolio.

Dividend

In March 2005, the board of directors of the Company resolved to pay a quarterly dividend in the sum of \$ 12.7 million to be paid on June 1, 2005. After the balance sheet date, the board of directors of the Company resolved to pay a dividend for the first quarter of 2005 in the sum of \$ 18.3 million, to be paid on September 1, 2005.

Update of Strategic Plan

In 2004, the Company published an immediate report regarding the adoption of a commercial-strategic plan for the Company for a period of five years, up to and including 2008. The Company's assessment, under the commercial-strategic plan, was that its sales turnover in 2008 would amount to some 1.8 billion dollars, and its net profit would be around nine to ten percent of its turnover.

The Company examines its long term plan from time to time, and every so often makes a reassessment and update of its goals for the coming five years, where necessary, in accordance with the conditions in place at the time.

In the course of the examination, assessment and update of the Company's commercial-strategic plan for the coming five years, the Company gave notice, in April 2005, that the board of directors had resolved to raise its five year goals such that its sales turnover in 2009 would reach an annual sum of 2.7 billion dollars, and that its net profits would amount to ten to eleven percent.

The Company is pleased to give notice hereby that in setting the main goals (sales turnover and rate of profits) which the Company reported on April 12, 2005, the Company also took the following goals into account: Return on Capital Employed (ROCE) – 16% to 18%, gross profit – 37% to 38%, and EBITDA – 21% to 22%.

The Company's strategy is directed at exercising its goals and vision. The main data and factors that served as a basis for the Company's assessments and adoption of the goals may be divided

into estimates and presumptions relating to macro-economic data and data relating to the field as a whole, and estimates relating to the Company's capabilities.

As part of the presumptions and assessments of the market and the field as a whole, we may note the following: forward-looking assessments as to the future size of the crop protection products market in general, and genetic engineering products in particular; forward-looking assessments regarding the size of patent-protected crop protection products compared with generic crop protection products; forward-looking assessments regarding competition in the field; assessments regarding future opportunities for acquisition of companies and/or products (in this regard, the Company has no concrete resolutions regarding acquisitions);

The following factors should be noted in the context of the presumptions and assessments relating to the Company's capacity: Rates of growth and profitability to date; the composition of the basket of products, and the ability to produce new products; proven abilities of acquisition and good integration into the existing organizational array of products and companies; assessments regarding future development of yields and capacities to market over and above production capacity, which will provide the Company with access to new customers and markets; assessments regarding increase of rates of sales on stable markets; good management of the Company; cautious and professional risk management policy together with a good operational ability enabling efficient production; assessments regarding development of sales in the areas of non-crop and food ingredients.

The goals set are forward-looking and are based, to a substantial extent, on future expectations and assessments. In light of the fact that the realization of these developments also depends on factors which, by their very nature, are not within the Company's control, the Company is uncertain as to the realization of this vision and the extent to which the goals will be achieved.

The Company intends to continue examining the long term plan and to reassess its five-year goals every so often. If there are any other substantial changes, the Company shall update its plans and shall report such.

Condensed profitability data (in millions of Dollars)

Annual Data:

	2002	% Chg	2003	% Chg	2004	% Chg
Sales	890.9	0.2%	1,177.3	32.1%	1,539.7	30.8%
EBITDA	172.8*	8.9%	243.9	41.1%	323.9	32.8%
EBIT	117.8	5.4%	173.3	47.1%	245.4	41.6%
Net Income	66.2*	10.0%	102.8	55.2%	165.5	61.1%
ROCE	10.1%		13.2%		17.6%	

Quarterly Data:

	1-3/2001	1-3/2002	1-3/2003	1-3/2004	1-3/2005	Change %
Sales	236.0	236.1	325.1	414.5	517.0	24.7%
EBITDA	46.7	49.2	67.8	94.0	119.5	27.1%
EBIT	36.7	36.8	51.3	74.0	94.6	27.8%
Net Income	20.6	20.7	32.1	45.2	61.1	35.3%
ROCE	10.1%	9.9%	10.8%	14.6%	18.4%	

* Results of operations without the effect of special expenses for Argentina (2001-2002).

Condensed Profit and loss statements

(a) Profit and Loss Statements for First Quarter:

	1-3/2005	1-3/2004	Change	% Change
Revenues	517.0	414.5	102.5	24.7%
Gross profit	205.1 39.7%	158.2 38.2%	46.9	29.7%
R&D SG&A Expenses	95.1 18.4%	72.8 17.6%	22.3	30.6%
Operating profit	110.0 21.3%	85.4 20.6%	24.6	28.8%
Financing expenses	5.4 1.0%	7.4 1.8%	(2.0)	(27.5%)
Pre-Tax Profit	91.2 17.6%	66.5 16.0%	24.7	37.2%
Net profit*	61.1 11.8%	45.2 10.9%	15.9	35.3%
EBITDA	119.5 23.1%	94.0 22.7%	25.5	27.1%

* Net profit, excluding the effect of Accounting Standard 19, amounted to 63.1 million dollars.

(b) Quarterly Profit and Loss Statements:

	1-3/2005	10-12/2004	7-9/2004	4-6/2004	1-3/2004
Revenues	517.0	410.4	362.8	352.1	414.5
Gross profit	205.1 39.7%	160.2 39.0%	144.2 39.7%	133.3 37.9%	158.2 38.2%
R&D SG&A Expenses	95.1 18.4%	89.8 21.9%	75.7 20.9%	68.4 19.4%	72.8 17.6%
Operating profit	110.0 21.3%	70.4 17.2%	68.5 18.9%	64.9 18.4%	85.4 20.6%
Financing expenses	5.4 1.0%	7.5 1.8%	6.8 1.9%	5.9 1.7%	7.4 1.8%
Pre-Tax Profit	91.2 17.6%	51.3 12.5%	52.5 14.5%	48.6 13.8%	66.5 16.0%
Net profit	61.1 11.8%	42.5 10.4%	37.3 10.3%	40.6 11.5%	45.2 10.9%
EBITDA	119.5 23.1%	80.4 19.6%	76.2 21.0%	73.3 20.8%	94.0 22.7%

Analysis of Quarterly Results:**Income by Region:**

	1-3/2005		1-3/2004		Change	
	\$ Millions	%	\$ Millions	%	\$ Millions	%
Israel	28.8	5.6%	25.5	6.3%	3.3	12.7%
North America	95.3	18.4%	48.7	11.7%	46.6	95.8%
South America	77.6	15.0%	73.2	17.7%	4.4	6.1%
Europe	269.1	52.1%	234.6	56.6%	34.5	14.7%
Rest of World	46.2	8.9%	32.5	7.8%	13.7	41.8%
Total	517.0	100.0%	414.5	100%	102.5	24.7%

In the first quarter of 2005, the Company's sales increased by 24.7% and reached 517.0 million dollars, compared with 414.5 million dollars last year. The increase in sales stems from the first time consolidation of the companies acquired during 2004, a quantitative increase in sales, and a strengthening of principal commercial currencies.

In Europe, an increase of 34.5 million dollars (14.7%) compared with last year, the Companies sales to Europe amounting to 269.1 million dollars for the quarter, compared with 234.6 million dollars last year.

In North America, an increase of 46.6 million dollars compared with last year, sales amounting to 95.3 million dollars, compared with 48.7 million dollars last year. This increase stems mainly from the first time consolidation of the companies acquired: Control Solutions, Farm Saver and RiceCo, which were acquired during 2004; and from the launched of new agrochemical products.

In Latin America, an increase of 4.4 million dollars compared with last year.

In Israel, an increase of 3.3 million dollars.

In the Rest of the World, an increase of 13.7 million dollars compared with last year. The increase stems mainly from sales to Australia (first time consolidation of Farnoz).

Gross Profit:

The gross profit for the quarter amounted to 205.1 million dollars compared with 158.2 million dollars last year, an improvement of 46.9 million dollars. The margin increased from 38.2% last year to 39.7% this quarter.

The improvement in gross profit stemmed mainly from:

- First time consolidation of acquired companies
- An increase in the quantities of both new and old products.
- Strengthening of principal commercial currencies.
- Slight increase in sales prices

Operating Profit:

Overhead expenses in this quarter were 18.2% of total sales, compared with 17.6% last year.

R&D Expenses – amounted to 4.8 million dollars in this quarter, compared with 4.2 million dollars last year.

Selling Expenses – rose from 50.8 million dollars last year to 70.8 million dollars for this quarter. The increase stems from the first time consolidation of the companies acquired, and from organizational growth in sales. The percentage of sales expenses out of total sales increase to 13.7% in the quarter, compared with 12.3% last year.

General and Management Expenses – this quarter amounted to 19.5 million dollars (3.8% of sales) compared with 17.8 million dollars (4.3% of sales) last year.

Operating profit this quarter increased by 24.6 million dollars (28.8%) and reached 110.0 million dollars, constituting 21.3% of sales, compared with 85.4 million dollars (20.6%) in the same quarter last year.

EBITDA:

EBIDTA came to 119.5 million dollars this quarter (23.1%) compared with 94.0 million dollars (22.7%) last year, an increase of 25.5 million dollars (27.1%) stemming from an improvement in gross and operating profit.

Financing:

Financing expenses in the quarter amounted to 5.4 million dollars, compared with 7.4 million dollars in the same quarter last year. The reduction in financing costs stems from a reduction in credit partially offset by interest costs.

Convertible Debentures:

- Of a series of private convertible debentures issued in March and April 2004 (150.0 million dollars), 10.5 million dollars have been converted into shares as at the date of this financial statement. The balance of debentures on the balance sheet as at March 31, 2005 amounts to 139.5 million dollars.
- Of a series of convertible debentures issued in November 2001 and January 2002, the total sum of 56.7 million dollars has been converted into shares as at the date of this financial statement. The balance of debentures on the balance sheet as at March 31, 2005 amounts to 34.4 million dollars.
- Out of the options issued to the public in November 2001, the total sum of 15.5 million dollars has been converted into shares as at the date of this financial statement.

Other Income and Expenses:

Other expenses amounted to 13.4 million dollars this quarter, compared with 11.5 million dollars last year. This item also includes expenses that relate to the receivables securitization plan which amounted to 1.7 million dollars this quarter, compared with 0.9 million dollars last year.

Taxes on Income:

Tax expenses this quarter amounted to 26.1 million dollars, constituting 28.3% of pre-tax profits, compared with 21.4 million dollars last year – 32.2% of pre-tax profits.

Net Profit:

Net profit for the quarter increased by 39.8% and reached 63.1 million dollars (12.2%) compared with 45.2 million dollars last year (10.9%), an increase of 41.8% (19.0 million dollars). The accumulated effect of accounting standard 19 for the beginning of the year was a reduction of 2.0 million dollar from the net profit.

Cash Flow from Current Operations

This quarter, amounted to 12.4 million dollars compared with 3.4 million dollars last year, the main increase in cash flow stemming from an increase in securitization, offset by increase customer credit and inventory as a result of growth in sales.

Cash flows used in investment activities

Investments amounted to 19.4 million dollars this quarter, compared with 22.6 million dollars last year. Investments in fixed assets amounted to 14.3 million dollars this quarter, compared with 10.9 million dollars in the same quarter last year. Investment in product licensing and marketing rights amounted, in this quarter, to 4.5 million dollars, compared with 6.0 million dollars last year.

Free Cash Flow:

Free cash flow (cash flow from current operations less cash flow from investment operations) in the quarter was negative at 7.0 million dollars, compared with a negative cash flow of 19.2 million dollars last year.

FINANCIAL CONDITION:**Current Assets:**

Total current assets as at March 31, 2005 amounted to 1,100.2 million dollars, compared with 962.8 million dollars on March 31, 2004 and 949.3 million dollars on December 31, 2004.

Investments in Fixed Assets:

See Cash Flow chapter above.

Cash, Current Undertakings and Long-Term Loans:

The Company's credit (bank credit and convertible debentures) amounted, on March 31, 2005, to 451.2 million dollars, of which 41.4% is short term, compared with 622.5 million dollars on March

31, 2004 (26.0% being short term) and 430.7 million dollars on December 31, 2004 (32.5% being short term).

Cash and short term investments balances as at March 31, 2005 amounted to 57.6 million dollars compared with 161.8 million dollars on March 31 last year, and 42.0 million dollars on December 31, 2004.

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

Shareholders' Equity:

As at March 31, 2005, amounted to 944.3 million dollars, compared with 740.3 million dollars for the same period last year.

Financial Ratios:

	<u>As at</u>		<u>As at</u>
	<u>March 31,</u>		<u>December</u>
	<u>2005</u>	<u>2004</u>	<u>31,</u>
			<u>2004</u>
Ratio of current assets to current liabilities (current ratio)	1.43	1.70	1.42
Ratio of current assets excluding inventory, to current liabilities (acid-test ratio)	0.80	1.14	0.73
Fixed assets (net) out of total balance sheet	21.1%	23.0%	22.6%
Financial liabilities out of total balance sheet	21.1%	33.5%	21.8%
Shareholders' equity out of total balance sheet	45.0%	40.0%	45.3%
Ratio of financial liabilities to shareholders' equity	46.8%	83.8%	48.1%
Earnings per share (in dollars)	0.13	0.11	0.39
ROCE	18.4%	14.6%	16.6%

Danny Biran
Chairman of the Board of Directors

Shlomo Yanai:
CEO

May 9, 2005, Tel Aviv

Report Per Linkage Bases as at 31.03.05 (in \$ '000s):

	Currency	Foreign Currency				Other Items	Total
	NIS	Dollar	Real	Euro	Other		
Assets:							
Cash and cash equivalents	642	13,009	4,092	28,240	10,467		56,450
Short-term investments		1,061			152		1,213
Customers	15,609	160,929	114,862	138,233	58,137		487,770
Other receivables and debit balances	14,980	6,623	11,176	7,775	5,112	28,527	74,193
Inventory						480,586	480,586
Long-term investments, loans and debit balances	2,719	233	15,352	306	1,323		19,933
Fixed assets						443,063	443,063
Other assets						534,789	534,789
Total Assets	33,950	181,855	145,482	174,554	75,191	1,486,965	2,097,997
Liabilities:							
Credit from banking corporations and other credit providers	3,701	119,149	6,393	24,235	6,023		159,501
Suppliers and Service Providers	41,100	127,616	33,620	108,912	36,790		348,038
Other payables and credit balances	46,015	96,170	20,504	56,751	16,018	246	235,704
Loans from banking corporations (including current maturity loans)	-6,962	103,703		7,834	3,870		108,445
Convertible debentures.		5,714	3,509				9,223
Other long term liabilities (including current maturity loans).		173,991					173,991
Net deferred taxes						67,600	67,600
Employee severance benefits, net	26,234	11	324	483	117		27,169
Total Liabilities	110,088	626,354	64,350	198,215	62,818	67,846	1,129,671
Difference	-76,138	-444,499	81,132	-23,661	12,373	1,419,119	968,326