



מכתשים אגן תעשיות בע"מ
Makhteshim Agan Industries Ltd.

Management Discussion for the Quarter Ending 30 September 2005

Profile of the Company and its business environment

In the past two years, the agrochemical market has grown significantly, and has reached a size of \$ 30.7 billion. In 2005, the industry is stabilizing out at a more moderate rate of growth.

The growth in the industry, and the other significant steps being taken by the Company, have 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

The third quarter of this year saw difficult climactic conditions in the USA. According to market survey assessments, 2005 will be a year of growth, with the areas showing a growth trend being North America, Eastern Europe and Asia.

Financial Markets:

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

	30/9			Average First Nine Months		
	2005	2004	Change	2005	2004	Change
Euro	1.202	1.233	(2.5%)	1.262	1.226	2.9%
Brazilian Real	2.222	2.859	22.2%	2.497	2.972	15.9%
Shekel	4.598	4.482	(2.6%)	4.423	4.517	2.0%
LIBOR interest for 3 months	4.07%	2.02%		3.32%	1.40%	

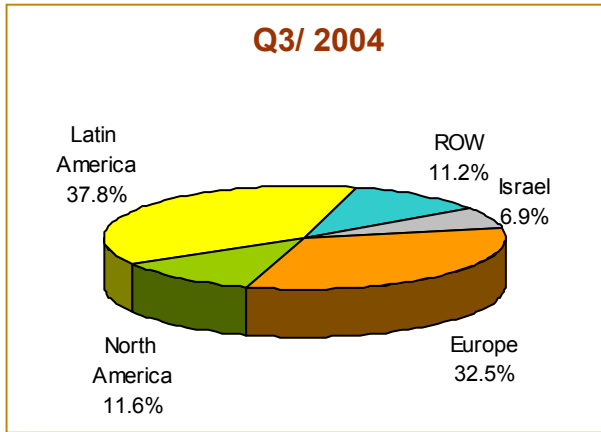
Makhteshim – Agan

Geographical profile

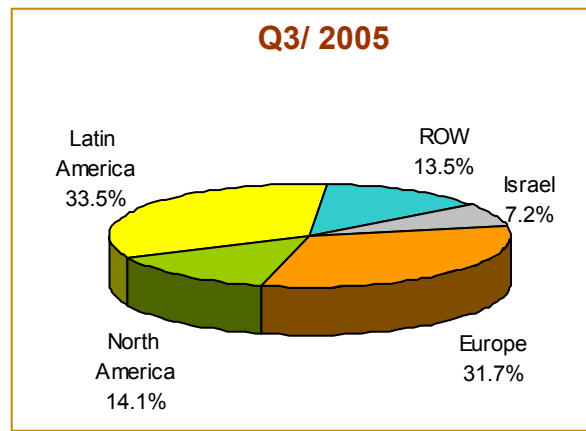
During the third quarter of 2005, the growth in the Group's sales continued, reaching \$ 402.1 million compared with \$ 362.8 in the same quarter last year, an increase of 10.8%. Sales to North America increased by 34.6%, amounting to \$ 56.7 million. Sales to Europe increased by 8% amounting to \$ 127.4 million.

In the first nine months of the year, sales amounted to \$ 1,335.6 million, compared with \$ 1,129.3 million in the same period last year, an increase of 18.3%. The main increase in sales was in North America, where sales reached \$ 241.5 million compared with \$ 144.8 million last year, an increase of 66.8%, and in Europe, where sales grew by 10.8%, amounting to \$ 571.9 million compared with \$ 516.0 million last year.

Distribution of Quarterly Sales (%):

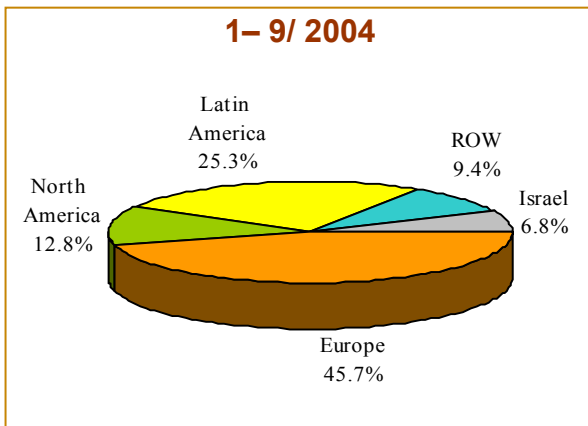


\$362.8M

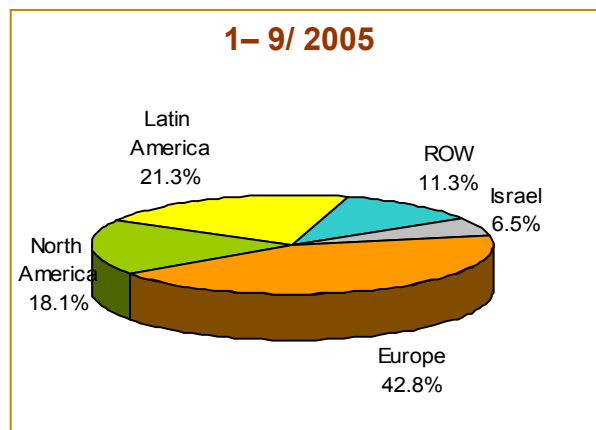


\$402.1M

Distribution of the first nine months (%):



\$1,129.3M



\$1,335.6M

New Products:

Sales of new products in the third quarter of the year reached \$ 121.0 million, compared with \$ 106.0 million last year, an increase of 14.2%. The share of new products out of total crop protection product sales in the third quarter reached 34.5%, compared with 33.2% last year. Sales of new products in the first nine months of the year reached \$ 409.4 million, compared with \$ 349.6 million last year, an increase of 17.1%. The main increase in sales of new products was in North America, where six new registrations were obtained during 2004.

New Registration:

During this quarter, the Company received 31 new registrations for active ingredients, formulations and mixtures. Of note is the license to sell a generic version of the Tebuthiuron weed killer in Brazil. This product is used to control weeds in sugar cane.

Non-Agro:

Non-agro sales in the third quarter of 2005 reached 51.7 million dollars, compared with 43.0 million dollars last year, an increase of 20.2%.

In the first nine months of the year, non-agro sales amounted to \$ 151.7 million, compared with \$ 129.0 million in the same period last year, an increase of 17.6%. Most of this increase stems from an increase in the sales of LycoRed, electrolysis products and hydrogen peroxide.

After the balance sheet date, the subsidiary LycoRed gave notice that it had acquired the assets and operations of Buckton Scott Nutrition, a subsidiary of the Buckton Scott Group of Fairfield, New Jersey. The operations of Buckton Scott Nutrition focus on raw materials for the health food supplements market, a market that is estimated to be around \$ 20 billion in the USA alone. This acquisition will increase LycoRed's operations in this market, in which it already holds a central position as market leader with its principal product, Lyc-O-Mato® and derivatives of it, which is valued as an ethical product and is supported by scientific know-how developed by LycoRed. This product, which is a natural lycopene extract, is produced from tomatoes and is full of biological qualities that contribute to the prevention of chronic diseases.

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 Assraf.

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 30.9.2005 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 August 2005, the board of directors of the Company resolved to pay a dividend for the second quarter in the sum of \$ 15.0 million, to be paid on November 29, 2005.

After the balance sheet date, the board of directors of the Company resolved to pay a dividend for the third quarter in the sum of \$ 14.2 million, to be paid on February 28, 2006.

Summary of financial 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%	

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

Quarterly Data:

	7-9/2002	7-9/2003	7-9/2004	7-9/2005	Change %
Sales	217.3	279.0	362.8	402.1	10.8%
EBITDA	46.2	59.7	76.2	83.7	9.8%
EBIT	33.1	41.5	58.4	58.3	-0.1%
Net Income	13.5	23.2	37.3	47.1	26.3%

Nine Month Data:

	1-9/2002	-9/20031	1-9/2004	1-9/2005	Change %
Sales	670.9	883.7	1129.3	1335.6	18.3%
EBITDA	138.9	185.8	243.5	296.6	21.8%
EBIT	98.5	133.7	186.4	224.3	20.3%
Net Income	48.8	78.8	123.0	158.4	28.7%
ROCE	10.6%	11.8%	16.6%	19.0%	

Condensed Profit and Loss Statements

a. Profit and Loss Statements for Third Quarter:

	7-9/2005	7-9/2004	Change	% Change
Revenues	402.1	362.8	39.3	10.8%
Gross profit	153.8 38.2%	144.2 39.7%	9.6	6.7%
R&D and SG&A expenses	84.5 21.0%	75.7 20.9%	8.8	11.7%
Operating Income	69.3 17.2%	68.5 18.9%	0.8	1.2%
Financing expenses	8.8 2.2%	6.8 1.9%	2.0	29.2%
Pre-Tax Profit	49.3 12.3%	52.5 14.5%	-3.2	-6.1%
Net profit	47.1 11.7%	37.3 10.3%	9.8	26.3%
EBITDA	83.7 20.8%	76.2 21.0%	7.5	9.8%

b. Nine Month Profit and Loss Statements:

	1-9/2005	1-9/2004	Change	% Change
Revenues	1,335.6	1,129.3	206.3	18.3%
Gross profit	524.1 39.2%	435.6 38.6%	88.5	20.3%
R&D and SG&A expenses	259.4 19.4%	216.8 19.2%	42.6	19.7%
Operating Income	264.7 19.8%	218.8 19.4%	45.9	21.0%
Financing expenses	26.6 2.0%	20.1 1.8%	6.5	32.4%
Pre-Tax Profit	202.2 15.1%	167.6 14.8%	34.6	20.6%
Net profit	158.4 11.8%	123.0 10.9%	35.4	28.7%
EBITDA	296.6 22.2%	243.5 21.6%	53.1	21.8%

c. Quarterly Profit and Loss Statements:

	7-9/2005	4-6/2005	1-3/2005	10-12/2004	7-9/2004
Revenues	402.1	416.5	517.0	410.4	362.8
Gross profit	153.8 38.2%	165.2 39.7%	205.1 39.7%	160.2 39.0%	144.2 39.7%
R&D and SG&A expenses	84.5 21.0%	79.8 19.2%	95.1 18.4%	89.8 21.9%	75.7 20.9%
Operating Income	69.3 17.2%	85.4 20.5%	110.0 21.3%	70.4 17.2%	68.5 18.9%
Financing expenses	8.8 2.2%	12.4 3.0%	5.4 1.0%	7.5 1.8%	6.8 1.9%
Pre-Tax Profit	49.3 12.3%	61.7 14.8%	91.2 17.6%	51.3 12.5%	52.5 14.5%
Net profit	47.1 11.7%	50.2 12.0%	61.1 11.8%	42.5 10.4%	37.3 10.3%
EBITDA	83.7 20.8%	93.4 22.4%	119.5 23.1%	80.4 19.6%	76.2 21.0%

Analysis of Results:

Income by Region:

a. Third Quarter:

	7-9/2005	%	7-9/2004	%	Change	% Change
Israel	28.8	7.2%	25.1	6.9%	3.7	14.9%
North America	56.7	14.1%	42.1	11.6%	14.6	34.6%
Latin America	134.8	33.5%	137.0	37.8%	(2.3)	-1.7%
Europe	127.4	31.7%	118.0	32.5%	9.4	8.0%
Rest of World	54.4	13.5%	40.6	11.2%	13.8	34.0%
Total	402.1	100.0%	362.8	100.0%	39.2	10.8%

b. Nine Months:

	1-9/2005	%	1-9/2004	%	Change	% Change
Israel	86.7	6.5%	77.0	6.8%	9.7	12.7%
North America	241.5	18.1%	144.8	12.8%	96.7	66.8%
Latin America	285.0	21.3%	285.6	25.3%	(0.6)	-0.2%
Europe	571.9	42.8%	516.0	45.7%	55.9	10.8%
Rest of World	150.5	11.3%	105.9	9.4%	44.6	42.1%
Total	1,335.6	100.0%	1,129.3	100.0%	206.3	18.3%

In the third quarter of 2005, the Company's sales increased by 10.8% and reached 402.1 million dollars, compared with 362.8 million dollars last year. Most of this increase was in North America, Europe and Australia (see details below).

In the first nine months of the year, the Company's sales increased by 18.3% and reached 1,335.6 million dollars, compared with 1,129.3 million dollars in the same period last year.

In Europe, there was an increase this quarter of 9.4 million dollars (8.0%) compared with last year, the Company's sales to Europe amounting to 127.4 million dollars for the quarter, compared with 118.0 million dollars last year. In the first nine months of 2005, sales to Europe amounted to \$ 571.9 million, compared with \$ 516.0 million in the corresponding period last year, an increase of 10.8%.

In North America, sales in the quarter reached \$ 56.7 million, compared with \$ 42.1 million last year, an increase of \$ 14.6 million (34.6%), stemming from growth in sales following the launch of new products and growth of acquired companies. In the first nine months of the year, sales grew by \$ 96.7 million (66.8%) and reached \$ 241.5 million compared with \$ 144.8 million during the corresponding period last year.

In Latin America, sales amounted to \$ 134.8 million, a reduction of \$ 2.3 compared with last year. In the first nine month of the year, sales amounted to \$ 285.0 million, which is similar to the corresponding period last year.

In Israel, sales in the quarter amounted to \$ 28.8 million, compared with \$ 25.1 million last year. In the first nine months of the year, sales increased by \$ 9.7 million compared with the corresponding period last year, amounting to \$ 86.7 million.

In the rest of the world, there was an increase this quarter of \$ 13.8 million compared with last year (from \$ 40.6 million to \$ 54.4 million). In the first nine months of the year, sales increased by \$ 44.6 million, compared to the corresponding period last year. The most prominent growth countries were South Africa, Japan, India and Australia (following the first time consolidation of Farmoz).

Gross Profit:

The gross profit for the quarter amounted to 153.8 million dollars compared with 144.2 million dollars last year, an improvement of 6.7%.

The increase in gross profits stems mainly from a quantitative increase partially offset by the erosion of sales prices and the increase in prices of raw materials and energy. These changes explain the fall in gross profitability for the quarter to 38.2% compared with 39.7% in the corresponding quarter last year.

Its gross profit in the first nine months of the year amounted to \$ 524.1 million, compared with \$ 435.6 million during the same period last year, an improvement of 20.3%. The increase in gross profit stems

from a quantitative increase, a first-time consolidation and change in the geographical mix. Gross profits in the first nine months rose to 39.2% from 38.6% in the corresponding period last year.

Operating Profit:

Overhead expenses in this quarter were 21.0% of total sales, compared with 20.9% last year. In the first nine months of the year, overhead expenses amounted to 19.4% compared with 19.2% in the corresponding period last year.

R&D Expenses – amounted to \$ 4.8 million in this quarter, compared with \$ 5.2 million last year. In the first nine months of 2005, R&D expenses amounted to \$ 14.5 million, compared with \$ 13.7 million during the same period last year.

Sales Expenses – rose from \$ 56.8 million last year to \$ 65.7 million for this quarter. The percentage of sales expenses out of total sales reached 16.3% in the quarter, compared with 15.6% last year. In the first nine months, sales expenses amounted to \$ 197.6 million (14.8%), compared with \$ 156.6 million (13.9%) during the period last year. Most of the increase in sales expenses in the quarter and in the nine month period stems from the effect of the first time consolidation of acquired companies, an increase in transportation costs (both in quantity and price) and an increase in product registration expenses.

General and Administrative Expenses – this quarter reached 14.0 million dollars (3.5%) compared with 13.8 million dollars (3.8%) last year. In the first nine months, general and administration expenses amounted to \$ 47.3 million (3.5%), compared with \$ 46.6 million (4.1%) during the same period last year.

Quarterly operating expenses amounted to \$ 69.3 million, constituting 17.2% of sales, compared with \$ 68.5 million (18.9%) in the same quarter last year. Operating profit in the first nine months of the year amounted to \$ 264.7 million, constituting 19.8% of sales, compared with \$ 218.8 million (19.4%) in the period last year.

EBITDA:

EBITDA in this quarter amounted to \$ 83.7 million (20.8%) compared with \$ 76.2 million (21.0%) last year. EBITDA for the first nine months of the year reached \$ 296.6 million (22.2%) compared with \$ 243.5 million (21.6%) in the corresponding period last year, an improvement of 21.8%.

Financing:

Financing expenses in the quarter amounted to 8.8 million dollars, compared with 6.8 million dollars in the same quarter last year. The increase in financing expenses stems mainly from the increase in LIBOR interest (see Financial Condition Chapter below).

Financing expenses in the first nine months of the year amounted to \$ 26.6 million compared with \$ 20.1 million last year, an increase of \$ 6.5 million.

The Company has an undertaking towards certain banks to maintain financial criteria. The Company is in compliance with its undertaking.

Convertible Debentures and Options:

- Of a series of private convertible debentures issued in March and April 2004 (150.0 million dollars), 133.6 million dollars have been converted as at the date of this report. The balance of debentures on the balance sheet as at September 30, 2005 amounts to 16.4 million dollars.
- Of a series of convertible debentures issued in November 2001 and January 2002, the total sum of approximately 57.9 million dollars has been converted into shares as at the date of this financial report. The balance of debentures on the balance sheet as at September 30, 2005 amounts to 33.8 million dollars.
- Out of the options issued to the public in November 2001, a total of 9.5 million options have been converted into shares, for which consideration of \$ 22.5 million has been received, as at the date of this financial statement. The balance of options not yet converted into shares on the balance sheet as at September 30, 2005, is 8.4 million options. The balance of these options is due to expire on November 20, 2005.

Other expenses:

Other expenses amounted to 11.2 million dollars this quarter, compared with 9.2 million dollars last year. These expenses included reduction of goodwill for acquisition of companies and new products, and expenses for the securitization program.

In the first nine months of the year, other expenses amounted to \$ 35.9 million compared with \$ 31.2 million last year.

Taxes on Income:

Taxation expenses in the quarter amounted to \$ 2.4 million, constituting 5.0% of pre-tax profits, compared with \$ 14.4 million in the corresponding quarter last year, constituting 27.4% of pre-tax profits last year. The one-time effect of the tax rate reduction is a reduction in tax expenses on income, by approximately \$ 5.6 million. After neutralization of the one-time effect of the reduction of company tax rates in Israel, tax expenses this quarter amounted to \$ 8.0 million, 16.2% of pre-tax profits.

Tax expenses in the first nine months of the year amounted to \$ 37.3 million (18.4% of pre-tax profits) compared with \$ 43.3 million (25.8% of pre-tax profits) last year. Neutralizing the one-time effect of the reduction of tax rates in Israel, tax expenses this year amounted to \$ 42.9 million, and in 2004 they amounted to \$ 38.8 million. For the change in the company tax rate in Israel see Note 3(8) to the financial statements.

Net Profit:

Net profit in the quarter increased by 26.3% and reached \$ 47.1 million (11.7%) compared with \$ 37.3 million last year (10.3%), an improvement of \$ 9.8 million.

Net profit in the first nine months of the year amounted to \$ 158.4 million (11.8%) compared with \$ 123.0 million last year (10.9%), an increase of \$ 35.4 million.

Cash Flow from Current Operations

The quarterly current cash flow was negative, at \$ 49.3 million, compared with a positive cash flow of \$ 53.2 million last year. The reduction in cash flow stemmed from an increase in the Company's operating capital needs (inventory and trade receivables).

In the first nine months of the year, cash flow from current operations amounted to \$ 95.8 million compared with \$ 226.7 million in the corresponding period last year.

Cash flows used in investment activities

Investments this quarter amounted to \$ 17.1 million and included investments in fixed assets in the sum of \$ 11.8 million, investments in product licensing and marketing rights in the sum of \$ 6.6 million, compared with investments last year in the sum of \$ 18.2 million, including investments in fixed assets in the sum of \$ 9.4 million and investments in product licensing and marketing rights in the sum of \$ 5.8 million. In the first nine months of the year, investments amounted to \$ 64.3 million compared with \$ 123.9 million in the corresponding period last year (including investment in the acquisition of companies).

Free Cash Flow:

Free cash flow (cash flow from current operations less cash flow into investment operations) in the quarter was negative at approximately \$ 66.4 million, compared with \$ 35.0 million last year. In the first nine months of the year, the free cash flow amounted to \$ 31.5 million compared with \$ 102.8 million last year.

Financial Condition:

Current Assets:

Total current assets as at September 30, 2005 amounted to \$ 1,104.8 million, compared with \$ 874.9 million on September 30, 2004 and \$ 949.3 million 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 to \$ 312.6 million on September 30, 2005 (66.1% being short term), compared with \$ 454.3 million, of which 30.3% is short term, on September 30, 2004 and \$ 421.4 million on December 31, 2004 (33.2% being short term).

Cash and deposit balances on September 30, 2005 amounted to \$ 61.3 million compared with \$ 103.1 million on September 30, 2004 and \$ 42.0 million on December 31, 2004.

Shareholders' Equity:

As at September 30, 2005, amounted to \$ 1,137.7 million, compared with \$ 819.3 million for the same period last year.

Financial Ratios:

	30/09/2005	30/09/2004	31/12/2004
Ratio of current assets to current liabilities (current ratio)	1.50	1.47	1.42
Ratio of current assets excluding inventory, to current liabilities (acid-test ratio)	0.76	0.83	0.73
Fixed assets (net) out of total balance sheet	21.7%	23.3%	22.5%
Financial liabilities out of total balance sheet	14.8%	24.4%	21.8%
Shareholders' equity out of total balance sheet	54.0%	44.1%	45.2%
Ratio of financial liabilities to shareholders' equity	27.4%	55.4%	48.1%
Earnings per share (in dollars)	0.34	0.29	0.39
ROCE	19.0%	16.6%	17.6%

Danny Biran

Chairman of the Board of Directors

Shlomo Yanai

CEO

November 14, 2005, Tel Aviv

Report Per Linkage Bases as at September 30, 2005 (in \$ '000s):

Assets:	Israeli	Dollar	Real	Euro	Other	Other Items	Total
Cash and cash equivalents	3,969	28,834	5,901	15,177	6,132		60,013
Short-term investments	847			441			1,288
Trade receivables	15,839	104,818	147,782	81,545	72,608		422,592
Other receivables and debit balances	14,180	6,381	17,049	7,073	5,942	28,321	78,946
Inventory						541,966	541,966
Long-term investments, loans and debit balances	3,142	883	16,742	945	809		22,521
Fixed assets						456,692	456,692
Other assets						522,443	522,443
Total Assets	37,977	140,916	187,474	105,181	85,491	1,549,422	2,106,461
Liabilities -							
Credit from banking corporations and other credit providers	1,598	113,538	27,500	18,942	21,947		183,525
Suppliers and Service Providers	37,766	134,915	38,565	87,541	10,220		309,007
Other payables and credit balances	41,255	93,672	24,966	40,367	22,345		222,605
Loans from banking corporations (including current maturity loans)	1,939	67,385		5,899	3,723		78,946
Other long-term liabilities			4,640		129		4,769
Convertible Debentures		50,173					50,173
Net deferred taxes						67,621	67,621
Employee severance benefits, net	25,437	4	290	488	235		26,454
Total Liabilities	107,995	459,687	95,961	153,237	58,599	67,621	943,100
							-
Difference	-70,018	-318,771	91,513	-48,056	26,892	1,481,801	1,163,361