Makhteshim Agan Industries Ltd.

Management Discussion on the State of the Company's Affairs

For the Quarter Ending December 31, 2005

Profile of the Company and its Business Environment

In the past two years, the agrochemical market has grown significantly, and has reached $ 31.3 billion, stabilizing in 2005 at a more moderate rate of growth.

Industry growth coupled with important steps that were taken by the Company, led to significant growth for Makhteshim Agan, and stabilized its status as the leading generic manufacturer in the field of crop protection products. Official publications (Phillips McDougall Agri-Service) ranked the Group seventh in the world for agrochemicals sales in 2004.

Conditions of the Business Environment

Summary of changes in the industry

According to a survey conducted by Phillips McDougall, the agrochemical market rose in 2005 by approximately 1.9% compared with 2004, reaching $ 31.3 billion, following growth of 15.0% in 2004 and 5.9% in 2003. The non-crop market grew by approximately 4.5% in 2005, reaching $ 4.88 billion.

The main factors that affected the agrochemical market in 2005 were: Difficult climactic conditions in Southern Europe, Australia and North America, drought conditions and strengthening of currency in Brazil, high levels of inventory at the beginning of the year and agricultural commodities prices.

Competitors:

See Description of Company Business Chapter

Financial Markets:

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

(Devaluation) / Revaluation

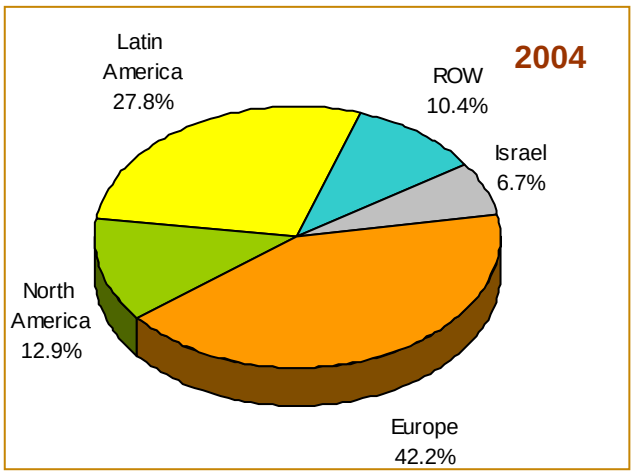
	December 31			Annual Average			Q4 Average		
	2005	2004	Change	2005	2004	Change	2005	2004	Change
Euro	1.183	1.364	(13.3%)	1.243	1.243		1.189	1.243	(4.3%)
Brazilian Real	2.341	2.654	11.8%	2.436	2.926	16.8%	2.251	2.928	23.1%
Shekel	4.603	4.308	(6.9%)	4.497	4.491	0.01%	4.654	4.493	(3.6%)
LIBOR interest for 3 months	4.54%	2.56%		3.57%	1.62%		4.34%	2.3%	

Makhteshim – Agan

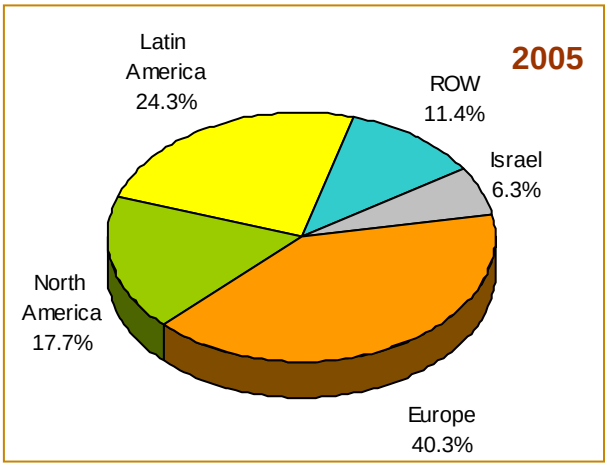
Geographical profile

In 2005, the Company's sales increased and amounted to $ 1,740.7 million, compared with $ 1,539.7 million in the previous year, an increase of 13.1%. The Company's sales to Europe amounted to $ 700.9 million, compared with $ 649.8 million in the previous year, an increase of 7.9%. Sales to North America amounted, this year, to $ 308.8 million, compared with $ 198.0 million in the previous year, an increase of 55.9%. The Company's sales to Latin America amounted to $ 422.8 million, compared with $ 428.6 million in the previous year.

Percentage Distribution of Annual Sales:



$1,539.7M



$1,740.7M

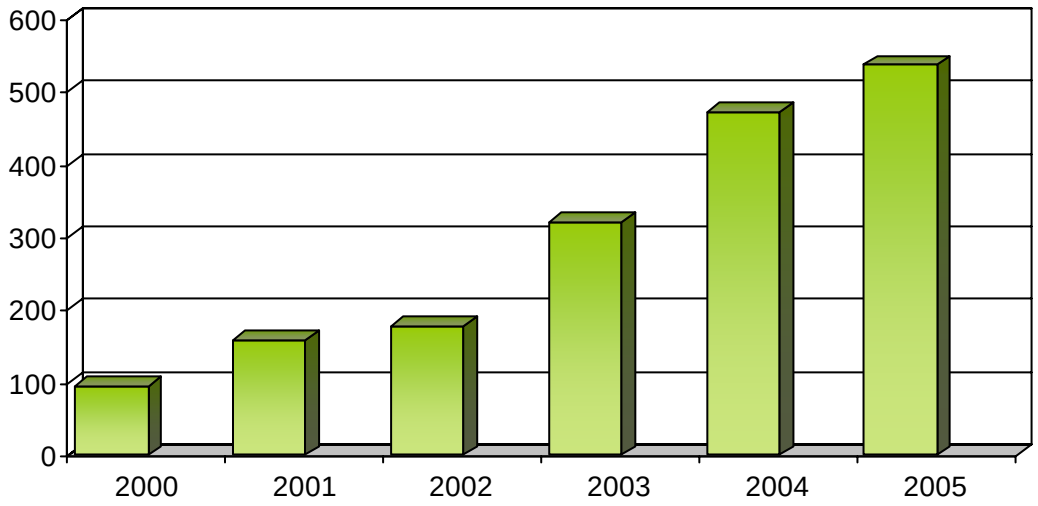
Acquisition of Companies

See Description of Company Business Chapter

New Products:

In 2005, sales of new products amounted to $ 537.2 million compared with $ 473.1 million in the previous year, an increase of approximately 13.6%. In 2005, new products constituted approximately 34.8% of total agrochemical sales, similar to the previous year. In the fourth quarter of the year, sales of new products reached $ 127.9 million, similar to the previous year.

Sales of New Products (Millions of Dollars):



Registrations of Company Products:

In 2005, the Company continued with its process of registering new products, focusing on registrations in the USA for the purpose of increasing its ability to compete on that market. During this year, the Company received 134 new registrations for active ingrediants, formulations and mixtures. The following registrations 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).
- A registration to market the pyrethroid insecticide **Lambda Cyhalothrin** in Israel.
- A registration to market **Orius,** a fungicide containing the active ingredient tebuconazole, in the UK.
- A registration to market **Odeon,** a fungicide, containing the active ingredient chlorthalonil, in Romania.
- A registration to market the **Metazachlor** weed killer in Czech and Latvia.
- A registration to market the **Acarin T** mixture, containing dicofol and tetradifon, in Ecuador.
- A first generic registration to market the **Propiconazole** fungicide in Canada. This product is used mainly to protect field produce, orchards, fruit and vegetables, and ornamental plants.

- A registration to market the Company's original insecticide **Rimon** (novaluron) in India. The approval is a permanent registration for use in cotton, tomatoes and cabbages. The Company is generating data to expand the approval for use in other crops as well.
- In addition, registration to market the Company's original insecticide **Rimon** (novaluron) in Italy, for use on tomatoes. This is the first approval granted to Rimon in a country in the European Union, under the registration procedures of the European Union, and the Company expects that the receipt of this approval will assist in obtaining additional registrations for Rimon in other countries in the European Union.
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- Registration to sell a generic version of the **tebuthiuron** herbicide in Brazil. This product is used to control weeds in sugar cane.
- Registration to sell a generic version of **Triclopyr** in the USA. This product, which belongs to the pyridine carboxylic acid group, is used to treat weeds and trees that are difficult to control, particularly in grazing areas and in other non-crop applications such as forests, fences, drainage channels, etc.
- First time generic registration to sell the **Acetochlor** herbicide for corn in the USA, to be sold under the name "First Act".
- Registration to market an acetochlor and atrazine mixture in the USA for the corn market, to be sold under the commercial name "**Double Team".**
- Registration to sell a mixture of **metolachlor, atrazine and benoxacor** in the corn market in the USA, to be sold under the name: **Parallel Plus**.
- Registration to sell a generic version of the herbicide **clethodim** in Canada. The product is a selective weed killer for cereals in broad leafed crops such as soybean and canola.

Non-Agro:

Non-agro sales in 2005 reached 197.9 million dollars, compared with 181.8 million dollars in the previous year, an increase of 8.8%. In the fourth quarter, non-agro sales came to 46.2 million dollars compared with 52.8 million dollars in the same quarter in 2004.

The annual increase in non-agro sales stems from an increase in the sales of LycoRed, an increase in the sale of aroma products via InnovAroma (the joint venture with Firmenich), and an increase in the sale of hydrogen peroxide.

In November 2005, the Company gave notice that its subsidiary, LycoRed, had purchased the assets and operations of Buckton Scott Nutrition, a subsidiary of the Buckton Scott Group of New Jersey. The operations of Buckton Scott Nutrition are focused on the market for raw materials for the health food supplements market.

Also, In December 2005, the Company gave notice that LycoRed, received another approval from the FDA in the USA to use its product Lycopen, as a food colorent. The approval was given based on LycoRed's unique production process which is protected by patent, a process which gives LycoRed a significant advantage over its competitors.

The approval enables LycoRed to sell Lycopen, which is produced from a special variety of tomatoes, as a colorant for the American food market. The product is sold under the brand name Tomat-O-Red ®.

Five-Year Strategy:

See Description of Company Business Chapter

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 include 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 Israeli Shekel. In addition, there are lesser exposures to other currencies as well. The concentration of 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 to a certain currency is material.

During the year, the Company hedged most of its accounting and economic exposure to the various currencies.

See linkage balances in Note 22 to the Financial Statements, and the table of positions on derivatives as at December 31, 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.

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 causing changes in the composition of the hedging portfolio.

Directors with Accounting and Finance Skills:

Pursuant to a resolution of the board of directors of March 8, 2004, the minimum number of directors who have accounting and finance skills is to be two. In determining this, the board of directors of the Company relied on the following grounds:

- Senior management of the Company is comprised of professionals, and the recruitment of manpower into management is effected on the basis of the candidates' professional experience matching the complexity and scope of operations of the Company in its various markets. Accordingly, a considerable proportion of members of senior management of the Company have a background of accounting and financing skills and expertise. In light of that, the Company is of the opinion that setting such a minimum number of two directors with accounting and financial skils will enable proper supervision and control of management's professional operations.

- The Company has a culture of meetings and sessions with external auditors, and these are not merely quarterly meetings to present financial statements. This culture provides for an increased level of control and a more fundamental understanding by the board of directors, and for that reason as well, this minimum number is appropriate.

- Setting the minimum number at one director might not be sufficient if that director is unable to act. Setting the desired number at two will enable the two directors to overlap and complement each other.

As at the date of publication of this report, the Company has eight directors who fulfill the required conditions: Danny Biran, Prof. Avishay Braverman, Michael Walden, Ran Maidan, Oswaldo Pitol, Prof. Dov Pekelman, Aaaron Zuker and Jonathan Kolber, who, by their education and professional expertise, fulfill the required conditions.

Operations of Internal Auditor:

(a) Identity of Internal Auditor

Mr. Bnayahu Shemesh, CPA (Isr.), was appointed as internal auditor of the Company, and commenced working for the Company on October 17, 2004 as a member of the Company's staff.

Mr. Bnayahu Shemesh replaced Mr. Amos Schitzer, CPA (Isr.), who had held that position up until October 16, 2004.

(b) Employment of Internal Auditor

Bnayahu is employed as a full-time salaried employee.

(c) Employment of Audit Team

Two accountants, a chemist and permanent external personnel report to Mr. Shemesh professionally as auditors. The audit work on the overseas subsidiaries is done mainly by Deloitte Touche. The international audit work is supervised by Deloitte Touche in Brussels.

(d) Audit Plans

The audit plans are set out by the internal auditors of the subsidiaries, in coordination with the board of directors, and with its approval, under the supervision of the CEO and the CFO, and with the approval of the Company's audit committee. The guiding considerations in setting up the plan are based on matters seen as requiring in-depth examination, with the aim of finding defects, of making systems more efficient, or ensuring protection of Company assets, and of ensuring the performance of the Company's procedures and compliance with the laws of the countries in which it operates.

The annual audit work plan also includes follow up audits of implementation of the recommendations of the auditor and the audit committee by Company management. The Company's long-term work plan aims to cover a whole variety of audit issues, once every few years, in each subsidiary.

(e) Audit of Substantially Held Corporations

See clause (d) above.

(f) Guiding Professional Standards in Conducting Audit

The internal auditor and the team of employees that report to him perform their audit work in strict compliance with the criteria necessary to conduct professional, reliable audits that are independent of the party being audited. The audit reports rely on the findings of the audits and on documented facts.

(g) Identity of Auditor's Superior

The internal auditor reports to the CEO and to the Company's audit committee.

(h) Audit Committee Meetings during 2005:

Nine meetings were held during 2005, at which 12 audit reports and 2 recommendation follow-up reports were presented and discussed.

The CEO received the audit reports and was present at all meetings of the audit committee. The chairman of the board of directors of the Company also received all of the reports and received a report from the chairman of the audit committee, summarizing the discussions at the audit committee.

(i) Independence and Status of Auditor

The internal auditor of the Company has free access to the Company's information systems, and has an independent status. The scope of the position was determined based on the needs of the audit plan, and is not limited by the party being audited. The audits are conducted based on the plan, supervised by the internal auditor and coordinated, based on developments and findings that become apparent during the course of the audit.

Dividend

As part of the Company's dividend policy, upon approval of the annual financial statements, an annual dividend of $ 71.0 million was declared, of which the sum of $ 47.5 million was declared in 2005. The sum of $ 57.2 million was paid in 2005 (of which $23.9 million in respect to 2004), $ 14.2 million was paid in February 2006 and the remaining $ 23.5 million is to be paid on May 31, 2006

Donations:

Makhteshim Agan has a deep-seated commitment to the betterment and advancement of the community in Israel. Makhteshim Agan has set down a general policy which sets out a clear system under which the Company makes donations. Activities for the community are done with the involvement of employees, whilst instilling values of social responsibility and environmental protection.

The involvement of Makhteshim Agan in the community is an expression of basic values for the Company's operations:

- Corporate responsibility
- Sensitivity and large-scale involvement in the local communities in which the Company operates.
- Commitment to environmental protection
- Investment in future generations
- Excellence in industry and education

- Employee involvement and commitment to corporate responsibility and environmental protection

The Company's commitment to the community is expressed in the operations of three entities in Israel – the Company's management headquarters, Makhteshim Chemical Work Ltd. and Agan Chemical Manufacturers Ltd.., and in the operations of Milenia Agro Ciencias S.A. in Brazil.

Makhteshim Agan and the Society for the Protection of Nature in Israel have joined forces to promote the project: "Quality of Life and Environment – From Slogan to Way of Life", which actively expresses their commitment to issues of environmental protection, education and the community.

The aims of this project are to raise environmental awareness, and to direct and motivate environmental action for the good of the community, to reinforce the connection and pride in the city and its neighborhoods, and to increase awareness of the city and its environment, and to develop social leadership and to take personal and group responsibility for the whole of society and the environment.

The project has been very successful in a number of ways which integrate the formal education system and the community: personal commitment, green council, community events, etc. The project's main focuses are: hands-on nature and environment experience for pupils, deepening of connection to community and local environment, providing an experience of successful achievement, resulting in a reinforcement of their personal abilities. In 2006, some 1,200 pupils will take part in this environmental-educational project.

In September 2005, International Clean Up Day was held, on which tens of thousands of people went out to clean up their cities and the open spaces around where they live. As part of its operations in promoting environmental protection, Makhteshim Agan joined the Jewish National Fund, the Ministry of the Environment, and the Australian Pratt Foundation, as principal sponsor of this day.

Its subsidiaries, Makhteshim, located in Beer Sheva, and Agan, which operates in Ashdod, concentrate their contributions on the local geographical area near to them, and are sensitive to and involved in the local needs and in generating pride and involvement on the part of employees.

The contributions of subsidiaries are concentrated into two main areas:

a. Areas of interest relating to the Company's operations: Environmental protection, chemistry, agriculture.
b. Important social issues on the public agenda: The needy, education, children and youth in distress and danger, disabilities, family violence, health issues, etc.

Makhteshim employees are also involved in providing assistance to the community, such as the administrative assistance provided by the Company's management staff to the Beer Sheva Sinfonietta, and giving of their time to provide the children of employees with a variety of activities in Beer Sheva. The Company has also chosen to support an environmental education project for pupils at schools in the south of the country. The employees of Agan give donations as part of a fundraising campaign for the community and every employee assists in this either with respect to an organization close to their heart or to their place of residence.

The Brazilian subsidiary, Milenia, has a corporate responsibility project which focuses on education, environmental protection and encouragement of employment. In this context, Milenia is involve in number of things:

- Projects to encourage employment and generation of income
- Educational and professional programs for low-income youth
- Assisting government projects, cultural projects and projects to support children and youth
- Distribution of community information pamphlets

In 2005, the Makhteshim Agan Industries Group donated a total of $ 729,000 compared with $ 497,500 in 2004 (an increase of 46.5%).

Environmental Issues:

See Description of Company Business Chapter.

Critical Accounting Estimates

The preparation of financial statements based on accepted accounting principles requires management of the Company to make assessments and estimates which affect the reported values for assets, liabilities, income and expenses, and disclosure regarding contingent assets and liabilities.

Management bases its assessments and estimates on past experience and on other factors which it views as relevant, taking into account the circumstances of the case.

Actual results might be different from these estimates, under other presumptions or conditions. The Company has identified the most critical assessments and estimates which require the most substantial discretion when preparing the consolidated financial statements. These estimates and assessments are critical because any change in the assessments and presumptions could substantially affect the financial statements.

Estimated Life of Intangible Assets (Including Goodwill):

Intangible assets are amortized over their useful life, in a methodical manner. The amortization period reflects the best estimate of the period in which future economic benefits can be expected to derive to the Company. Employing other presumptions might bring about a different estimate of the period in which future economic benefits are expected to be received. The Company methodically examines the possibility of a reduction of the value of assets in accordance with accounting standard no. 15. (For more on this, see Notes 2, and 10 of the financial statements).

Allotment of Surplus Cost of Purchase of Acquired Companies to Various Asset Items:

Based on accounting disclosure no. 57, the Company is required to allocate the surplus cost generated upon purchasing companies to its various asset items, where possible. The surplus cost that cannot be allocated is ascribed to goodwill and amortized accordingly (see above). The surplus cost ascribed to the various asset items is reduced according to the rate of amortization of the relevant asset. Ascription of the surplus cost to the various asset items might bring about a different amortization period.

Auditors Pear Review: :

The board of directors of the Company has given its consent to conduct a peer audit review, the purpose of which is to ensure a proper audit of accounts, and to give such audit greater depth by creating supervisory mechanisms, and the board is prepared to cooperate in the implementation and promotion of such peer review.

The aforementioned consent is subject to assurance being given to management of the Company, to its satisfaction, that the peer review auditor will have no conflict of interests with the Company, and that confidentiality of the Company's information, which is not in the public domain, and which may be disclosed to the peer review auditor, will be maintained by way of an undertaking to the Company from the peer review auditor, to

maintain such confidentiality, and in the event that the peer review auditor seeks to provide information disclosed to him during the review to the Institute for Peer Review, this may be done only subject to an assurance as to confidentiality of the information, and subject also to the Peer Review Institute's

Auditors Fees:

2005 auditors fees and related tax and audit fees amounted to 3,827 thousand dollars, other professional expenses amounted to 610 thousand dollars. The total Auditor fee amounted to 4,437 thousand dollars.

Condensed profitability data (in millions of Dollars)

Annual Data:

	2003	**% Chg**	**2004**	**% Chg**	**2005**	**% Chg**
Sales	1,177.3	32.1%	1,539.7	30.8%	1,740.7	13.1%
EBITDA	243.9	41.1%	323.9	32.8%	377.5	16.5%
EBIT	173.3	47.1%	245.4	41.6%	282.0	14.9%
Net Income	102.8	55.2%	165.5	61.1%	205.5	24.1%
ROCE	13.2%		17.6%		18.5%	

Quarterly Data:

	10-12/2003	**10-12/2004**	**10-12/2005**	**Change %**
Sales	293.6	410.4	405.1	-1.3%
EBITDA	58.1	80.4	80.9	0.6%
EBIT	39.6	59.0	57.8	-2.1%
Net Income	24.0	42.5	47.1	10.9%

Condensed Profit and Loss Statements

A. Annual Profit and Loss Statements:

	2005	2004	Change	% Change
Revenues	1,740.7	1,539.7	201.0	13.1%
Gross profit	681.0 39.1%	595.8 38.7%	85.2	14.3%
R&D and SG&A Expenses	349.9 20.1%	306.6 19.9%	43.3	14.1%
Operating Income	331.1 19.0%	289.2 18.8%	41.9	14.5%
Financing expenses	34.6 2.0%	27.6 1.8%	7.0	25.4%
Pre-Tax Profit	252.3 14.5%	218.9 14.2%	33.4	15.3%
Net profit	205.5 11.8%	165.5 10.8%	40.0	24.1%
EBITDA	377.5 21.7%	323.9 21.0%	53.6	16.6%

B. Profit and Loss Statements – Fourth Quarter:

	10-12/2005	10-12/2004	Change	% Change
Revenues	405.1	410.4	-5.3	-1.3%
Gross profit	156.9 38.7%	160.2 39.0%	-3.3	-2.1%
R&D and SG&A Expenses	90.5 22.3%	89.8 21.9%	0.8	0.9%
Operating Income	66.3 16.4%	70.4 17.2%	-4.1	-5.8%
Financing expenses	8.0 2.0%	7.5 1.8%	0.4	5.9%
Pre-Tax Profit	50.1 12.4%	51.3 12.5%	-1.2	-2.4%
Net profit	47.1 11.6%	42.5 10.4%	4.6	10.9%
EBITDA	80.9 20.0%	80.4 19.6%	0.5	0.7%

C. Quarterly Profit and Loss Statements

	Q4/2005	Q3/2005	Q2/2005	Q1/2005
Revenues	405.1	402.1	416.5	517.0
Gross profit	156.9	153.8	165.2	205.1
	38.7%	38.2%	39.7%	39.7%
R&D and SG&A Expenses	90.5	84.5	79.8	95.1
	22.3%	21.0%	19.2%	18.4%
Operating Income	66.3	69.3	85.4	110.0
	16.4%	17.2%	20.5%	21.3%
Financing expenses	8.0	8.8	12.4	5.4
	2.0%	2.2%	3.0%	1.0%
Pre-Tax Profit	50.1	49.3	61.7	91.2
	12.4%	12.3%	14.8%	17.6%
Net profit	47.1	47.1	50.2	61.1
	11.6%	11.7%	12.0%	11.8%
EBITDA	80.9	83.7	93.4	119.5
	20.0%	20.8%	22.4%	23.1%

Analysis of Annual Results:

Income by Region:

	2005	%	2004	%	Change	% Change
Israel	110.2	6.3%	103.0	6.7%	7.2	7.0%
North America	308.8	17.7%	198.0	12.9%	110.8	55.9%
South America	422.8	24.3%	428.6	27.8%	(5.9)	-1.4%
Europe	700.9	40.3%	649.8	42.2%	51.1	7.9%
Rest of World	198.0	11.4%	160.2	10.4%	37.8	23.6%
Total	1,740.7	100.0%	1,539.7	100.0%	201.0	13.1%

In 2005, the Company's sales reached 1,740.7 million dollars, compared with 1,539.7 million dollars in the previous year.

In Europe, there was an increase of 51.1 million dollars compared with the previous year. Sales to Europe amounted to $ 700.9 million, compared with $ 649.8 million in the previous year. The main increase stemmed from an increase in sales in Eastern Europe, from a quantitative increase in new and old products, and from consolidation of acquired companies (Mabeno, Biomark).

In North America, there was an increase of 110.8 million dollars (approximately 56%) compared with the previous year. The Company's sales to North America amounted to 308.8 million dollars. This increase stemmed from internal growth (partly from the new products that were launched) and partly from the completion of first-time consolidation of the companies that were acquired in 2004.

In South America, sales amounted to 422.8 million dollars, compared with 428.6 million dollars last year, a decrease of 5.9 million dollars. This decrease is principally due to a decline in sales in Paraguay and Ecuador.
Sales in Brazil retained stability notwithstanding difficult market conditions.

In Israel, there was an increase of 7.2 million dollars compared with the previous year, stemming mainly from a quantitative increase in sales of electrolysis products, polyester and hydrogen peroxides.

In the rest of the world, there was an increase in sales of 37.8 million dollars compared with last year, mainly in Australia and South Africa.

Gross Profit:

Gross profit this year amounted to 681.0 million dollars compared with 595.8 million dollars in the previous year. The margin increased to 39.1% compared with 38.7% in the previous year. The increase in gross profit and in the profitability stem from a quantitative increase in both new and old products, the first-time consolidation of the companies acquired and from a revaluation of principal trading currencies. These improvements were partially offset due to the increased cost of raw materials purchased, and a minor erosion of sales prices.

Operating Profit:

R&D Expenses – in 2005 amounted to 20.6 million dollars, compared with 19.5 million dollars in the previous year.

Sales Expenses – rose from 220.2 million dollars in the previous year to 267.9 million dollars this year. The increase in sales expenses stems from (1) the growth in sales which increased variable sales expenses (mainly transportation and advertising), (2) expantion of direct marketing, (3) first-time consolidation of acquired companies and (4) an increase in expenses for product registrations.

Management and General Expenses – declined from 66.9 million dollars in the previous year to 61.4 million dollars this year. The percentage of management expenses out of total sales decreased to 3.5% this year, compared with 4.3% in the previous year.

Operating profit – increased by 14.5% and reached 331.1 million dollars, constituting 19.0% of sales, compared with 289.2 million dollars constituting 18.8% in the previous year, an increase of some 41.9 million dollars.

EBITDA:

EBITDA this year amounted to 377.5 million dollars (21.7%) compared with 323.9 million dollars (21.0%) in the previous year, an increase of 53.6 million dollars.

Financing:

Financing expenses this year amounted to 34.6 million dollars, compared with 27.6 million dollars in the previous year. The increase in financing expenses stems mainly from an increase in LIBOR interest, and a revaluation of the Brazilian Real, which were set off by a decrease in credit utilized.

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

Other expenses:

Other expenses amounted to 44.2 million dollars this year, compared with 42.7 million dollars in the previous year. The sum of depreciation of goodwill included under this item amounted to 21.4 million dollars, compared with 24.6 million dollars in the previous year. This item also includes expenses that relate to the customer portfolio securitization plan

which amounted to 7.0 million dollars this year, compared with 6.2 million dollars in the previous year. See also Note 3 to the financial statements.

Taxes on Income:

Tax expenses amounted this year to 40.0 million dollars, which constitute 15.8% of pre-tax profits. Last year, tax expenses amounted to 52.3 million dollars, which constituted 23.9% of pre-tax profits. (The one time effect of a reduction of company tax in Israel in 2005 amounted to 5.6 million dollars, in addition to the reduction in 2004 in the sum of 4.5 million dollars).

Net Profit:

Net profit in 2005 increased by 24.1% and reached 205.5 million dollars (11.8%) compared with 165.5 million dollars (10.8%) in the previous year. Before the one-time effect of Standard 19, net profit amounted to 207.5 million dollars (11.9%).

Cash Flow (millions of dollars):

	2005	2004	2003
Cash flow from current operations	183.2	215.7	249.2
Cash flow from Investment activities			
Acquisition of fixed assets, net	(49.1)	(38.1)	(31.7)
Acquisition of companies and inority share	(9.9)	(73.2)	(3.3)
Acquisition ofnNew products and investments in licensing	(38.2)	(33.7)	(71.3)
Others	0.5	2.0	(0.7)
Total Investment activities	(96.8)	(143.0)	(107.0)
Free cash flow	86.4	72.7	142.2

Cash Flow from Current Operations

Amounted this year to 183.2 million dollars compared with 215.7 million dollars in the previous year. The decline in cash flow stems from an increase in operating capital needs. For additional details, see Description of Company Business Chapter

Cash flows used in investment activities

Investments this year amounted to 96.8 million dollars, compared with 143.0 million dollars in the previous year. See details in table above.

Analysis of Q4 Results

Income by Region:

	Q4/2005	%	Q4/2004	%	Change	% Change
Israel	23.4	5.8%	26.0	6.3%	(2.6)	-9.9%
North America	67.3	16.6%	53.2	13.0%	14.1	26.5%
South America	137.8	34.0%	143.0	34.9%	(5.3)	-3.7%
Europe	129.0	31.8%	133.8	32.6%	(4.9)	-3.6%
Rest of World	47.6	11.7%	54.3	13.2%	(6.7)	-12.4%
Total	405.1	100.0%	410.4	100.0%	(5.3)	-1.3%

In the fourth quarter of 2005, sales reached a total of 405.1 million dollars, compared with 410.4 million dollars in the same quarter in the previous year.

In Europe, there was a decrease of 4.9 million dollars in sales during the quarter. The Company's sales amounted to 129.0 million dollars compared with 133.8 million dollars in the same quarter in the previous year. The decrease stems mainly from erosion of the Euro, which was partly set off by a quantitative increase in sales.

In North America, there was an increase of 14.1 million dollars (26.5%) compared with the previous year. This increase stems mainly from continued direct marketing and from the increase of the Company's holdings in Control Solutions, from 45% to 60% (first time consolidation).

In South America, there was a decrease in sales from 143.0 million dollars last year to 137.8 million dollars this quarter (principally in Ecuador and Paraguay). There was an increase in sales in Brazil compared with the same quarter in the previous year.

In Israel, there was a reduction of 2.6 million dollars, and sales this quarter amounted to 23.4 million dollars.

In the Rest of the World there was a reduction in sales of 6.7 million dollars compared with the previous year.

Gross Profit:

Gross profit in the quarter amounted to 156.9 million dollars compared with 160.2 million dollars in the previous year. The margin decreased from 39.0% in the previous year to 38.7% this year.

Gross profit and the ratio of it were affected by a reduction in sales, erosion of sales prices, a weakening of the Euro, an increase in the prices of raw materials (mainly as a result of an increase in the cost of petroleum products), which was set off by the effect of first-time consolidation.

Operating Profit:

R&D Expenses – amounted to $ 6.1 million in this quarter, compared with $ 5.8 million in the same period last year.

Sales Expenses – rose from 63.6 million dollars in the same quarter in the previous year to 70.3 million dollars this quarter. The increase in sales expenses stems from an increase in transportation, from increased direct marketing and from the first time consolidation of acquired companies, and from a reduction in costs of registrations.

Management and General Expenses – a decrease from 20.3 million dollars in the previous year to 14.1 million dollars this quarter. This decrease stems from a reduction in current expenses (mainly professional consultation), and from a reduction in provisions for doubtful debts this quarter.

Operating profit for the quarter amounted to 66.3 million dollars, constituting 16.4% of sales, compared with 70.4 million dollars (17.2%) in the previous year, a reduction of approximately 4.1 million dollars.

EBITDA:

EBITDA in this quarter amounted to $ 80.9 million (20.0%) compared with $ 80.4 million (19.6%) in the previous year, a reduction of 1.9%.

Financing:

Financing expenses increased this quarter, amounting to 8.0 million dollars compared with 7.5 million dollars in the previous year, as a result of an increase in LIBOR interest.

Other Expenses:

Other expenses amounted to 8.3 million dollars this quarter, compared with 11.6 million dollars last year. The sum of depreciation of goodwill included under this item amounted to 6.2 million dollars, compared with 6.7 million dollars in the previous year.

Taxes on Income:

Tax expenses amounted this quarter to 2.7 million dollars compared with tax of 9.0 million dollars in the previous year.

Net Profit:

Net profit this quarter amounted to 47.1 million dollars (11.6%) compared with 42.5 million dollars (10.4%) in the previous year, an improvement of 4.6 million dollars.

Cash Flow from Current Operations

Quarterly cash flows from current operations amounted to 87.4 million dollars compared with a negative cash flow in the sum of 10.8 million dollars in the same quarter last year, an improvement of 98.1 million dollars. The improvement in cash flow stemmed mainly from a reduction of operating capital in the present quarter, compared with the same quarter last year.

Cash flows used in investment activities

During this quarter, the Company invested 10.7 million dollars in net fixed assets compared with 8.4 million dollars in the previous year. Current investments in product registrations amounted, this quarter, to the sum of 16.7 million dollars compared with 16.9 million dollars in the previous year.

FINANCIAL CONDITION:

Current Assets:

Total current assets as at December 31, 2005 amounted to 1,108.6 million dollars compared with 949.3 million dollars on December 31, 2004, an increase of 159.3 million dollars.

Investments in Fixed Assets:

See Cash Flow chapter above.

Shareholders' Equity:

As at December 31, 2005, amounted to 1,135.1 million dollars compared with 874.5 million dollars in the previous year.

Convertible Debentures:

- In March and April 2004, the Company raised 150.0 million dollars in an international private issue of convertible debentures. For details, see Note 15 to the financial statements. As at the date of the financial statements, 135.7 million dollars have been converted into shares. The balance of debentures on the balance sheet as at December 31, 2005 amounts to 14.3 million dollars. As at the date of publication of this report, the balance of debentures on the balance sheet is 1.3 million dollars.
- Of a series of convertible debentures issued in November 2001 and January 2002, the total sum of 65.4 million dollars have been converted into shares as at the date of this financial report. The balance of debentures on the balance sheet as at 31.12.05 amounts to 26.1 million dollars. As at the date of publication of this report, the balance of debentures on the balance sheet is 26.0 million dollars.
- On November 20, 2005, the options issued to the public in November 2001 expired. Prior to expiry, all of the options had been converted into shares.

Share Buy-Back:

In November 2005, the Company gave notice of adoption of a policy to buy back its shares at up to 150 million dollars (this sum complies with the test for permitted distributions under the Companies Law). For additional details, see Description of Company Business Chapter.

The issued and paid-up capital of the Company as at December 31, 2005: 452,918,621 and fully diluted: 474,029,268.

Financial Ratios as at December 31:

	2005	2004	2003
Ratio of current assets to current liabilities (current ratio)	1.39	1.42	1.41
Ratio of current assets excluding inventory, to current liabilities (acid-test ratio)	0.68	0.73	0.75
Fixed assets (net) out of total balance sheet	21.8%	22.5%	25.7%
Financial liabilities out of total balance sheet	15.2%	21.8%	29.5%
Shareholders' equity out of total balance sheet	53.4%	45.2%	41.7%
Ratio of financial liabilities to shareholders' equity	28.6%	48.1%	70.6%
Earnings per share (in dollars)	0.44	0.39	0.26
ROCE	18.5%	17.6%	13.2%

Danny Biran
chairman of the Board of Directors

Shlomo Yanai:
CEO

March 8, 2006, Tel Aviv