



מכתשים אגן תעשיות בע"מ  
Makhteshim Agan Industries Ltd.

March 13, 2007

## **Makhteshim Agan updates its strategic direction, launches a change and efficiency improvement plan, and reports its financial results for 2006**

- *The Company's new strategic direction focuses on completing its shift from production- to market-led decision-making, continuing the development of a comprehensive and attractive product portfolio, and maintaining a lean and flexible cost structure.*
- *The change plan empowers regional managements and increases their commercial latitude, integrates overlapping areas of operations across the Company's headquarters and subsidiaries Makhteshim and Agan, and improves purchasing and production processes.*
- *Company's sales grew by more than 2%, amounting to 1.78 billion dollars, in spite of challenging global AgChem market conditions and a decrease in sales of approximately 4% world-wide.*
- *The Company's net profit amounted to 139 million dollars (excluding one-time provisions). The decline vs. previous year is due to an erosion of prices driven by difficult weather conditions causing increased competition, a tough commercial environment in the Brazilian AgChem market, and increased costs of raw materials.*

**Makhteshim Agan**, the world's leading generic company for crop protection products and 7th in the world's AgChem market, has today updated its strategic



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direction, launched a change and efficiency improvement plan, and reported its 2006 results.

**Strategic Direction Update**

Makhteshim Agan has updated its strategic direction following a change in the composition of its management team and board of directors. The Company intends to focus on reinforcing its status as leader of the global generic AgChem market, by continuing to develop a product portfolio that provides a comprehensive, competitive and reliable solution for customers. The Company will complete the shift from production- to market-led decision-making, and maintain a lean and flexible cost structure. The Company currently benefits from a robust capital structure which supports its continued growth, both organically and by way of product and company acquisitions.

**Change and Efficiency Improvement Plan**

To implement the updated strategic direction, the Company's board of directors approved a change and efficiency improvement plan.

The change plan increases the commercial latitude of the Company's main regions of Europe, North America, Brazil and the rest of the world. Overlapping areas of operation across the Company's headquarters and subsidiaries Makhteshim and Agan will be integrated, and a group-wide supply organization will be established to optimize the processes of procurement, production and logistics from end to end. The Company has for the first time appointed a global leadership group, comprised of directors of its main areas of operations as well as regional directors, the purpose of which will be to review the group's strategic aspects.

On the efficiency enhancement front, the Company will be implementing a series of steps, some of which are already underway, so as to increase its operational flexibility and reduce costs, mainly in the fields of purchasing, integration of functions across headquarters, Makhteshim and Agan, improvement in supply chain management, production, and energy cost savings. The efficiency improvement plan is not, for the most part, driven by



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headcount reduction, especially not with respect to production employees of Makhteshim and Agan.

The Company's operating profit and EBITDA margins declined in 2006 by some 5 percentage points compared with previous years, and the Company's efficiency improvement plan is intended to allow the Company to regain some of these eroded margins and attain ratios similar to those of leading companies in the sector.

The board of directors has instructed the Company to commence implementing the program immediately, and it is expected to affect the Company's results towards the end of 2007, with most of the effect during 2008 and full realization in 2009.

## **2006 Results**

### **Sales' Growth**

Makhteshim Agan concluded 2006 with 1.78 billion dollars in sales, an increase of 2.2% compared with 2005. The increase in sales stems mainly from the North American market, in which sales amounted to 349 million dollars, an increase of 13%. Another increase was recorded in Latin America, where sales amounted to 430 million dollars compared with 423 million dollars in 2005.

### **Profit Erosion**

On January 16, 2007, the Company released an immediate report in which it announced a decline in the Company's expected year-end results stemming from weak AgChem market conditions and additional factors. Accordingly, the Company made several one-time adjustments and provisions in a total sum of approximately 55 million (post tax).

**Gross profit** this year amounted to 610 million dollars (excluding one-time provisions) compared with 681 million dollars in the previous year. The margin decreased from 39.1% in the previous year to 34.3% this year. The reduction in gross profit and gross margin was due mainly to difficult weather conditions in Europe and North America, and challenging



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market conditions with which Brazilian farmers need to cope. These conditions caused a reduction in demand for crop protection products, which increased competition and brought about a reduction in prices. In addition, gross profit eroded due increase in prices of raw materials, transportation and energy driven by an increase in oil prices.

**Operating profit** amounted to approximately 223 million dollars (excluding one-time provisions), constituting 12.5% of sales, compared with 330 million dollars, constituting 19.0%, in the previous year, a decrease of 107 million dollars. **EBITDA** amounted to approximately 281 million dollars (excluding one-time provisions), 15.8% of sales, compared with 377 million dollars, 21.7%, in the previous year, a decrease of 96 million dollars.

**Net profit** in 2006 amounted to 139 million dollars (excluding one-time provisions), 7.8% of sales, compared with 205 million dollars in the previous year, 11.8% of sales, a decrease of 66 million dollars. The decrease in net profit and in net profit margin stemmed from the erosion of gross profit and an increase in operating expenses.

**Referring to the results, Avraham Bigger, Chairman of the board of directors and CEO of Makhteshim Agan, said:** “the Company’s sales’ growth of 2% in a market that has contracted by 4% underlines the Company’s ability to continue outperforming the market both in good and challenging market conditions. Looking forward, and in light of the new strategic direction and the change and efficiency improvement plan, I view 2007 as a turning point in the Company’s development, in which it simplifies the structure of its operations, improve its cost position and gradually increase its profits. Makhteshim Agan has successfully completed raising approximately 550 million dollars in long-term debt, and intends to file shelf registration for potential further capital raising. These actions increase the Company’s financial flexibility to fund its continued growth as well as future acquisitions”.

**Ran Maidan, CFO of Makhteshim Agan, noted that:** “The board of directors has decided to change the policy of paying dividends from a pre-designated proportion of profits to the board examining from time to time the merit of paying dividend in accordance with the



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Company's investment plans and financial needs." He also mentioned that "a decision had been made to list for public trading the bonds issues in December to institutional investors".

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