

Management review for Auriga Industries A/S

Objectives and strategy

It is the objective of Auriga to ensure long-term value creation for the benefit of shareholders, employees and other stakeholders. Whereas the value creation so far has taken place through the operation of three independent companies, the group has now – in accordance with its strategy announcement in October 2006 – decided to concentrate its resources on Cheminova, which represents the company's core activity. Consequently, a decision has been made to investigate the possible divestment of Hardi and Skamol. Danske Markets has been chosen as financial consultants for Hardi, while Atrium Partners is chosen for Skamol.

Auriga's overall financial objective is a stable growth in revenue and an EBIT margin of 10 per cent.

Developments in subsidiaries

Cheminova

For the agrochemical industry, 2006 was a very difficult year with a decline in the global market of plant protection products of approx. 4 per cent to approx. USD 30 billion. Unfavourable climatic conditions, high energy prices and a considerable decline in the Brazilian market were the primary reasons for the unsatisfactory developments in 2006.

Despite a decline in sales in Brazil of more than DKK 200 million, Cheminova's revenue for 2006 totalled DKK 4,032 million, which is largely unchanged relative to 2005. In 2006, the average USD settlement rate was DKK 6.14.

Sales of organophosphorous insecticides declined as expected, partly due to low levels of insect infestation and partly on account of a continued decline in the use of malathion for the US programme for the eradication of boll weevils in cotton. Sales of new insecticides and the herbicide glyphosate saw a satisfactory increase, whereas sales of the fungicide flutriafol declined significantly as a result of the difficult market conditions in Brazil.

In connection with the closing of the year, an extraordinary item of DKK 100 million was expensed in respect of debtors and product liability claims in Brazil. Complaints and claims concerning the inefficacy of a fungicide used for the control of Asian rust are considered as being covered by Cheminova's product liability insurance. However, Cheminova's insurance company has not yet accepted covering.

An EBITDA of DKK 184 million was realised, corresponding to 4.6 per cent. After depreciation and amortisation of DKK 166 million, an operating profit of DKK 18 million was realised, corresponding to an EBIT margin of 0.4 per cent against 11 per cent in 2005.

In December 2006, Cheminova made an agreement with Bayer CropScience concerning the acquisition of the global rights of the insecticide acrinathrin. In 2002, Cheminova acquired the acrinathrin sales rights in Europe, and this acquisition opens up the prospect of sales to the rest of the world, including the important Japanese market. In the coming years, applications will be made for registering acrinathrin in a number of new markets.

Cheminova will continue to invest significantly in development and introduction of new products, in line with its Business Plan 2010. The implementation of this plan requires considerable investments in development, registrations and marketing, which will put earnings under pressure during the initial part of the period. Cheminova will pursue all attractive acquisition opportunities which may present themselves during the plan period.

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Shunting tractors transport large volumes of chemicals in tankers round the extended railway network on the Danish production facilities of Cheminova.



Hardi

Because of unfavourable climatic conditions in 2006, harvest yields fell short of the normal averages worldwide. Thus, most major agricultural countries have seen a declining market for agricultural machinery.

Hardi's revenue declined in 2006 by DKK 127 million to DKK 906 million. In North America, the season started late, and Hardi's revenue declined by 32 per cent relative to the year before. Australia saw the worst drought ever, and revenue declined by 26 per cent. The decline in revenue affected all product segments with the exception of self-propelled machinery. The new Alpha VariTrack was successfully introduced.

An EBITDA of DKK 45 million was realised, corresponding to 5 per cent. After depreciation and amortisation of DKK 42 million, an operating profit of DKK 3 million was realised, corresponding to an EBIT margin of 0.3 per cent against 4 per cent in 2005.

The production economy at Hardi's factory on Falster was affected by the decline in demand throughout the year. Production at the French factory and Pommier, which manufactures aluminium booms, has been satisfactory.

Hardi's high-technology trailed sprayer, New Commander, was successfully launched in both Australia and North America in 2006. Moreover, the Ranger trailed series, which represents the economy segment, was introduced in North America and towards the end of the year also in Europe.

Towards the end of the year, the outlook for the agricultural sector improved significantly as a result of increasing crop prices. This had a positive impact on investments, and at the end of 2006 Hardi's order book was up approx. 18 per cent relative to last year.

Skamol

Skamol generated revenue of DKK 246 million in 2006, corresponding to growth of more than 20 per cent relative to 2005.

Skamol's largest business area is the primary aluminium industry, which is currently undergoing growth. The demand for aluminium

The Commander trailed sprayer is available in several variants with tank sizes of up to 9,000 litres and boom widths of up to 36 metres.



is increasing by approx. 5 per cent a year, and price levels are historically high. In 2006, Skamol's sales to the aluminium industry were up just under 30 per cent, primarily because of sales of new projects, but also for ongoing maintenance work. High levels of economic activity globally and high growth rates in the new economies have boosted demand for insulation products for new facilities for production of, e.g., steel, cement, paper and glass. Moreover, a considerable increase has been seen in deliveries to manufacturers of fireplaces and wood-burning stoves in Europe. The introduction of fire doors and panels progressed more slowly than expected.

Increasing sales have resulted in significant improvements in capacity utilisation at the company's factories, where production was satisfactory in 2006.

An EBITDA of DKK 29 million was realised, corresponding to 12 per cent. After depreciation and amortisation of DKK 18 million, an operating profit of DKK 11 million was realised, corresponding to an EBIT margin of 5 per cent. The associated company Damolin again achieved satisfactory results for 2006.

Corporate governance

Auriga is managed on the basis of corporate governance principles with focus on long-term value creation for the benefit of the company's shareholders and other stakeholders. Auriga wants to contribute to promoting responsible conduct, and with

Maize is the second-largest crop in the world. In addition to its role as food and feed, it is also important for bioethanol production.



Agronomists and chemists work side by side to develop new plant protection products at the laboratories.



Cheminova's plan for the phasing-out of Class I products and the preparation of the Corporate Social Responsibility report, the company has made an important contribution to ensuring this. The company complies with the most recent recommendations from the Copenhagen Stock Exchange concerning corporate governance, but has chosen a different practice in a few areas.

Foreign exchange

Auriga is an international company, which is why a considerable share of the group's transactions is settled in foreign currencies. Foreign exchange risks are countered by means of forward exchange and option contracts with terms of up to 2 years.

Following an increase of just over 15 per cent in 2005, the exchange rate of the main currency (USD) declined by just over 10 per cent in 2006, the year ending with an exchange rate of DKK 5.66. In 2006, Auriga realised an effective USD settlement rate of approx. DKK 6.14.

The budget rates for 2007 have to a very large extent been hedged in the form of hedging of the expected net positions in the most important currencies. Thus, just under 60

per cent of the group's net income in USD has been hedged at a rate of approx. DKK 6.00.

Income, balance sheet and cash flow

Figures in brackets are the figures for 2005

Auriga's revenue declined by 1 per cent to DKK 5,184 million (DKK 5,250 million), primarily as a result of unfavourable climatic conditions and the problems in Brazil.

In connection with the closing of the year, an extraordinary item of DKK 100 million Cheminova expensed in respect of debtors and product liability claims in Brazil. An EBITDA of DKK 250 million was realised (DKK 724 million). After depreciation and amortisation of DKK 228 million (DKK 242 million), operating profit totals DKK 22 million (DKK 482 million).

Financial expenses increased to DKK 118 million (DKK 111 million), while profit after tax from associates amounted to DKK 5 million (DKK 4 million).

A loss before tax of DKK 92 million was realised (DKK 376 million). The result is unsatisfactory and considerably lower than expected both after the first half of the year and after the third quarter of 2006.

The loss after tax totalled DKK -163 million (DKK 258 million) and was negatively impacted by a calculated tax figure of DKK 71 million. This high tax figure is primarily attributable to the non-capitalisation of the tax value of a number of losses in foreign subsidiaries.

On December 31, 2006, the balance sheet totalled DKK 5,642 million (DKK 5,865 million). Net assets amounted to DKK 4,167 million (DKK 4,298 million), while net debt increased to DKK 1,757 million (DKK 1,565 million).

Cash flow from operating activities was DKK 124 million (DKK 18 million). After investments of DKK 244 million (DKK 235 million), available cash flow was DKK -120 million (DKK -217 million).

Outlook 2007

For Cheminova, the beginning of 2007 will be affected by the difficult situation in Brazil as well as by high inventory levels in the distribution systems in many markets. However, the global market for plant protection products is expected to be more positive than in 2006.

A considerable increase is expected in sales of Cheminova's new generic products, while sales of the fungicide flutriafol are also expected to develop positively.

In accordance with Cheminova's Business Plan, 2007 will also see an increase in costs related to development, registration and marketing of new generic products.

For 2007 as a whole, Cheminova expects an increase in revenue to approx. DKK 4.3 billion, an EBIT margin of 5-6 per cent and

a profit before tax of approx. DKK 165 million.

For 2007 as a whole, Hardi expects an increase in revenue to approx. DKK 995 million, an EBIT margin of 5-6 per cent and a profit before tax of approx. DKK 30 million.

For 2007 as a whole, Skamol expects an increase in revenue to approx. DKK 260 million, an EBIT margin of approx. 8 per cent and a profit before tax of approx. DKK 20 million.

For 2007 as a whole, the Auriga group expects an increase in revenue to approx. DKK 5,550 million, an EBIT margin of 5-6 per cent and a profit before tax of approx. DKK 200 million.

Cash flow from operating activities is expected to improve relative to 2006.



IN FUTURE, **AURIGA** HAS DECIDED TO CONCENTRATE RESOURCES ON CHEMINOVA, WHICH REPRESENTS THE COMPANY'S CORE ACTIVITY. THE POSSIBLE DIVESTMENT OF HARDI AND SKAMOL IS BEING INVESTIGATED.

