

Business risks

Financial risks

The group has adopted a finance policy which lays down the overall guidelines for the management of the company's financial risks. Financial risk management is undertaken by Auriga's central finance function, the primary purpose being to minimise the negative effects of fluctuations in foreign exchange and interest rates as well as changes in liquidity on the financial results.

Foreign exchange risk

Most of the company's commercial transactions are settled in foreign currencies. The foreign exchange risk is countered in that net positions in the most important currencies are hedged through the conclusion of forward exchange and option contracts with a term of up to 24 months and, to a lesser extent, through the arrangement of loans in foreign currencies.

As regards the currencies USD, CAD and AUD, partial hedging of the expected exposure in 2007 has been undertaken at the budgeted exchange rates. At the end of the year, the market value of all currency contracts, including currency swaps, was DKK 1,246 million with an average term of 3 months. Most of the currency contracts are classified as hedge accounting. The continuous adjustment to the fair value of these contracts is therefore included in equity and not entered in the income statement until the hedged underlying transaction is realised. As at the balance sheet date, contracts hedging future transactions resulted in a gain of DKK 24.8 million (DKK -22.5 million), cf. note 23.

Disregarding the hedging of foreign currency transactions arranged for 2007, a 5 per cent change in the exchange rate of the group's main currency (USD) would affect results by DKK 35 million.

Auriga's investments in foreign subsidiaries are hedged selectively as these investments are far more long-term in nature.

Interest rate risk

The interest rate risk relates primarily to interest-bearing liabilities as interest-bearing assets over and above cash and cash equivalents of DKK 250 million comprise only investments of DKK 6 million, cf. note 23. The group's interest-bearing net debt increased by DKK 194 million to DKK 1,757 million at the end of the year. The average term of the debt is 2.2 years, and the combined interest rate sensitivity was estimated at approx. DKK 8 million with a 1 per cent increase in interest rate.

The interest rate risk is to some extent managed by means of derivative interest-rate hedging instruments, including interest rate swaps and forward rate agreements. The market value of all interest-rate hedging contracts with a nominal value of DKK 250 million, which have an average term of 5.5 years, totalled DKK -2 million at the end of 2006.

Liquidity risk

The group's financial planning must ensure an optimum capital structure and the presence of adequate financial resources, while at the same time minimising capital costs. The liquidity is controlled through the use of short-term overdraft facilities combined with long-term, fixed credit facilities with a number of well-known banks and credit institutions. At the end of the year, unutilised drawing facilities stood at DKK 691 million against DKK 710 million the year before.

Credit risk

The most important primary financial instruments are trade receivables and deposits with banks. The carrying amounts of these balance sheet items reflect the maximum risk.

The conclusion of financial contracts involves a risk of the other party failing to fulfil its obligations on the due date.

The group minimises the credit risk inherent in such contracts by choosing only to collaborate with acknowledged financial institutions with a satisfactory credit rating.

As an international market player operating worldwide, the group conducts transactions in many currencies, the most important being USD and EUR.



” Auriga's finance policy contains the overall guidelines for the management of financial risks. Commercial risks are identified and assessed on the basis of established policies and procedures.

Commercial risks

Given Auriga's wide-ranging international activities, the group is at all times exposed to a large number of commercial risks. Established policies and procedures must ensure that risks are identified and assessed. By means of active risk management, the intention is to counter, limit or hedge any risks which are deemed to be of particular importance to the company.

Market and competition

The group's earnings are affected by levels of economic activity, including developments in raw materials and energy prices as well as the prices of agricultural crops and climatic conditions. Other risk factors include the company's ability to introduce new products, stricter statutory requirements, patents and the competitive situation in important markets.

Customers and suppliers

For both the parent company and the subsidiaries, the group undertakes the continuous assessment of customer creditworthiness and has in the past suffered relatively few and limited bad debts. In so far as is possible, the risk of bad debts is reduced through the use of secure terms of payment, credit insurance cover, mortgages secured on harvest etc.

At the end of the year, the group's trade receivables amounted to DKK 1.6 billion against DKK 1.8 billion the year before. Of total trade receivables, approx. 50 per cent have been covered by credit insurance, letters of credit or other forms of guarantees. The group's policy on provisions for bad debts is based on specific assessments of credit risks, including credit times and the economic conditions in the individual markets.

The certification of Cheminova in Denmark also covers the external environment with the ISO 14001 approval.



In Brazil, provisions increased significantly in 2006 as a result of increased risk exposure due to the tight liquidity situation for many farmers.

Auriga attaches the highest priority to fostering and maintaining good and long-term relations with its suppliers. In so far as is possible, the group has secured the supply of critical raw materials via contracts and agreements, often with several suppliers.

Insurance

As an integrated part of the group's risk management activities, a comprehensive insurance programme has been established comprising, among other things, all risks, operating loss and commercial and product liability insurance. The insurance programmes are regularly adjusted to match changes in the companies' risk profiles and are reviewed regularly in collaboration with external advisors.

The group may be held liable under product liability legislation for the use of its products. Over and above the product liability cases in Brazil mentioned in the review, no major new product liability cases have been brought against the group. A description of individual lawsuits can be seen in Note 28.

Employees

The objective is for Auriga to be an attractive workplace for the group's employees. The group supports the desired development by offering challenging and exciting jobs and work environments in the companies, thereby ensuring that Auriga can continue to retain and attract competent key employees who can guarantee future innovation. The group endeavours to offer competitive terms of employment.