

Cheminova A/S

Cheminova's main activity is the development, production and marketing of plant protection products and fine chemicals. The company is a leading supplier of insecticides and a significant supplier of a range of herbicides and fungicides.

Cheminova has subsidiaries in 17 countries (the USA, Canada, Mexico, Colombia, Brazil, Uruguay, Argentina, the UK, France, Spain, Italy, Russia, Poland, Bulgaria, India, Taiwan and Australia) and representative offices in the Ukraine and China. The company has approx. 1,600 employees.

Cheminova supplies a wide range of plant protection products, the most important being:

- Insecticides based on the active ingredients malathion, chlorpyrifos, dimethoate, methyl parathion, acephate, phosalone, gamma-cyhalothrin, acrinathrin, deltamethrin, abamectin and imidacloprid.
- Herbicides based on the active ingredients glyphosate, imazethapyr, chlorimuron, metsulfuron, fenoxaprop and diflufenican.
- Fungicides based on the active ingredient flutriafol, tebuconazole and fenpropidin.

Cheminova's product range also includes a number of intermediates and flotation agents for the mining industry.

Income statement

DKK million	2006	2005
Revenue	4,032	4,017
Cost of sales	2,991	2,715
Other costs	1,039	862
Other operating income	16	18
Operating profit	18	458
Net financials	(89)	(88)
Profit/loss before tax	(71)	369
Tax	69	107
Minority interests' share	7	6
Net profit/loss for the year	(147)	256
Assets		
Non-current assets	1,062	1,043
Inventories	1,177	1,144
Receivables	1,575	1,750
Cash	189	300
Total assets	4,003	4,237
Liabilities		
Equity	1,608	1,914
Non-current liabilities	742	652
Current liabilities	1,652	1,671
Total liabilities	4,003	4,237
Key Figures		
Working capital	1,750	1,821
Cash flow from operating activities	30	83
Available cash flow	(176)	(128)
Profit margin (EBIT)	0.4%	11%
ROIC	0.5%	11%

Board of Executives



Bjørn Albinus,
President and CEO



Kurt Pedersen Kaalund,
Executive Vice President

Management



Jesper Kirkeby Hansen,
Vice President,
Sales and Marketing



Niels Morten Hjort,
Vice President,
Operations



Allan Skov,
Vice President,
Development



Søren Vedel,
Vice President,
Finance and Support

Management review for Cheminova A/S

Objectives and strategy

It is Cheminova's objective to be the best innovative global supplier of generic products within the agrochemical industry.

It is Cheminova's strategy to optimise and develop the company's five core competences: to identify, develop, register, manufacture and market known plant protection products better and at lower costs than any other company in the industry.

Market development

2006 was an unusually difficult year for the plant protection industry. It is estimated that the global market for conventional plant protection products declined by almost 4 per cent to approx. USD 30 billion against approx. USD 31.2 billion in 2005.

Many of the large markets were affected by unfavourable climatic conditions. Spring arrived late in Europe resulting in a weak demand. Spain was the only major European market with an increase in demand after the drought in 2005. The North American market was negatively impacted by lack of rain, low levels of insect infestation, the continued advances of GMO crops and high energy prices. In Australia and India, markets were equally affected by unfavourable climatic conditions.

However, a very important reason for the difficulties experienced by the industry in 2006 was Brazil. The Brazilian market for plant protection products grew strongly in the 2002-2004 period, but then declined by almost 10 per cent in 2005 on account of drought, low prices for major crops and the revaluation of the Brazilian currency against USD. In 2006, the situation worsened, and a crisis hit large parts of the Brazilian agricultural sector. It is estimated that the Brazilian market declined by approx. 15 per cent in 2006 (Source: Phillips McDougall).

Sales and distribution

In 2006, Cheminova's sales were largely unchanged relative to 2005.

Sales of Cheminova's organophosphorous insecticides declined and accounted for approx. 24 per cent of total revenue against 26 per cent in 2005. The decline is attributable to generally low levels of insect infestation and to the continued decline in the demand for malathion for the US boll weevil eradication programme. The programme is coming to a successful completion and is expected to be scaled down to a maintenance project in a few years' time.

Sales of new insecticides showed satisfactory growth, even though sales of pyrethroids disappointed due to low levels of insect infestation in important markets.

Sales of herbicides saw an increase thanks to glyphosate, which achieved satisfactory growth in the USA and Europe. However, glyphosate prices were under constant pressure throughout 2006.

Sales of fungicides declined considerably due to the difficult market conditions in Brazil where Cheminova's fungicide flutriafol plays an important role in the control of the Asian rust fungal disease in soya.

Sales of fine chemicals, intermediates and flotation agents accounted for 11 per cent of revenue in line with 2005.

Cheminova's sales of plant protection products through own subsidiaries accounted for 75 per cent of revenue in 2006. In 1996, the share was 47 per cent.

The four new subsidiaries, CropTech in Colombia, Ospray in Australia, Cheminova Poland and Cheminova Bulgaria, were well integrated into the company structure and develop satisfactorily, although earnings have been modest. Sales in Australia have, however, disappointed due to the extreme drought which has hit the country for the past two years.

Sales in Europe started late due to the late arrival of spring. Nevertheless, Cheminova's subsidiaries in the UK, Russia and

The R&D department's synthesis laboratories use state-of-the-art electronic equipment to optimise processes.





Insects and other harmful elements are carefully monitored for optimum eradication.

Spain succeeded in increasing sales and market share. On the other hand, sales in France and Italy were disappointing.

In North America, the USA and Canada, Cheminova achieved satisfactory sales of the herbicide glyphosate, while sales of insecticides disappointed due to low infestation levels.

Cheminova's Mexican subsidiary did well with a significant increase in revenue.

In Brazil, Cheminova's revenue declined by just under 30 per cent, corresponding to more than DKK 200 million. The decline in revenue is attributable both to a decline in sales volumes and declining prices and has affected all product groups, but especially fungicides.

Production and investments

Production at Cheminova's factories in Denmark and India was satisfactory throughout 2006. The high oil prices have resulted in increasing raw material and energy prices, which have not been matched by increasing market prices. The systematic optimisation of logistics has, however, to some extent compensated for the increases.

In 2006, investments in property, plant and equipment and intangible assets amounted to DKK 206 million against DKK 211 million in 2005.

Corporate Social Responsibility (CSR)

A number of environmental issues relating to Cheminova's business activities were debated in the Danish media in 2006, primarily sales of Class I products (highly hazardous) in India and Brazil. The main issue debated has been whether Cheminova displays sufficient corporate social responsibility in these areas.

Selling Class I plant protection products in developing countries involves weighing up the beneficial effects of the product in the form of protecting crops in these countries – where the ability to feed their people can by no means be taken for granted – against the risk of those handling the product being intoxicated. Cheminova has addressed these issues for many years and believes that the company meets the required levels of corporate social responsibility.

Accordingly, the share of Cheminova's sales of Class I products has been reduced from 30 per cent to 5 per cent over the past ten years. Towards 2010, marketing of Class I products in developing countries will be phased out in accordance with the plan announced by Cheminova.

The public debate in Denmark has called for more insight into Cheminova's activities within these areas. Hence, a decision has been made to prepare a detailed annual report on corporate social responsibility, also known as a CSR report. The report covers sales, production and the purchasing of goods and services. Each year, particular attention will be devoted to one or more topics. This year, the main topics are sales of toxic plant protection products in developing countries and the production facilities in India and Denmark. For further information, please see the report which will be published on the Cheminova website on April 12, 2007.

In December 2006, the EU adopted a new chemicals regulation known as REACH (Registration, Evaluation, and Authorisation of Chemicals). The fundamental principle behind the regulation is that manufacturers must verify that their chemicals can be marketed safely through a special registration system. Thus, the burden of proof now rests with the manufacturers. Approx. 90 per cent of Cheminova's revenue is generated from plant protection products which are already subject to a registration scheme, and the new system will have no bearing on such products. Approx. 10 per cent of revenue stems from intermediates and industrial chemicals (primarily flotation agents), which will be affected by the regulation. Registration in accordance with REACH will be introduced gradually over the next eleven years with chemicals sold in big volumes being registered first. In the period up until 2010, Cheminova's total expenses are expected to be in the range of DKK 5-10 million, to which should be added non-quantifiable expenses incidental to a number of raw materials.

Product development

In line with the Business Plan, Cheminova devoted considerable resources to the development of new generic products in 2006. The development projects, which typically involve cross-organisational activities, focus on more than 20 new active ingredients. To this should be added an even larger number of formulations of both new generic products as well as products in the existing portfolio.

Cheminova obtained several new registrations in 2006. A major achievement was a provisional approval in the USA of the fungicide flutriafol for the control of Asian rust in soya. Cheminova's abamectin, an insecticide introduced in a number of markets over the past three years, was also approved in the USA at the beginning of 2007.

In December 2006, Cheminova signed 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 registration of acrinathrin in a number of new markets.

Income, balance sheet and cash flow

Figures in brackets are the figures for 2005

Despite unfavourable climatic conditions and a considerable decline in sales in Brazil, Cheminova's revenue of DKK 4,032 million (DKK 4,017 million) for 2006 was largely unchanged relative to 2005.

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 instances of inefficacy of a fungicide used for the control of Asian rust are considered as being covered by Cheminova's product liability insurance. However, the company's insurance company has not yet accepted covering.

EBITDA was DKK 184 million (DKK 639 million) corresponding to 4.6 per cent (16 per cent) of revenue. After depreciation and amortisation of DKK 166 million (DKK 181 million), Cheminova's operating profit (EBIT) was DKK 18 million (DKK 458 million), corresponding to an EBIT margin of 0.4 per cent (11 per cent).

Disregarding the extraordinary expense of DKK 100 million, which corresponds to a reduction of the EBIT margin for 2006

The company meets many interested students when visiting education fairs in the largest towns and cities.



by 2.5 per cent, Cheminova's Brazilian subsidiary reduced the consolidated EBIT by DKK 87 million, or just over 2 per cent.

Financial expenses were DKK 89 million (DKK 88 million) after increased financing costs in Brazil, and for the first time in several decades, the group returned a loss before tax of DKK -71 million (profit before tax of DKK 369 million).

The balance sheet total declined by 6 per cent to DKK 4,003 million (DKK 4,237 million), of which DKK 119 million was attributable to exchange rate adjustments. Working capital declined to 43 per cent (45 per cent) of revenue. Net interest-bearing debt was up DKK 194 million at DKK 1,139 million (DKK 945 million).

Cash flow from operating activities was DKK 30 million (DKK 83 million). Investments in property, plant and equipment and intangible assets amounted to DKK 206 million (DKK 211 million), with an available cash flow of DKK -176 million (DKK -128 million).

Outlook 2007



After a decline of just under 4 per cent in the global plant protection market in 2006, a more positive trend is expected in 2007, among other things because of increasing crop prices. The beginning of the year will, however, be affected by the difficult situation in Brazil and by large inventories in the distribution systems in many markets.

In 2007, Cheminova expects a continued decline in sales of malathion to the US programme for the eradication of boll weevils in cotton as well as continuing strong competition in all important markets. Global sales of flutriafol are expected to increase relative to 2006, partly following the normalisation of the situation in Brazil, and partly because the product has now also been approved for marketing in the US market. Sales of Cheminova's new generic products

introduced within the past few years are expected to increase.

Cheminova expects to see an increase in revenue of 7 per cent in 2007 relative to the year before. About 60 per cent of the parent company's expected net position in USD has been hedged by means of forward exchange and option contracts at a price of about DKK 6.00. The average settlement price for USD in 2006 was DKK 6.14.

As assumed in the Business Plan, the significant efforts within development, registration and marketing of new generic products are expected to intensify further in 2007.

For 2007 as a whole, Cheminova expects revenue of approx. DKK 4.3 billion, an EBIT margin of 5-6 per cent and a profit before tax of approx. DKK 165 million.