Hardi International A/S

Hardi develops, manufactures and markets sprayers and spraying equipment for efficient and responsible plant protection. The company is the leading supplier of highly efficient precision sprayers for all crop segments.

Hardi has subsidiaries in 9 countries (the USA, Canada, Norway, Sweden, the UK, Germany, France, Spain and Australia). The company has approx. 1,050 employees.

Hardi has an extensive product range comprising:

- Conventional and air-assisted sprayers - self-propelled sprayers, trailed sprayers and tractor-mounted sprayers.
- Mistblowers - trailed sprayers and tractor-mounted sprayers.
- Smaller sprayers - park and motorised sprayers as well as knapsack and hand-operated sprayers.
- Sprayer electronics and components for precision spraying.

The products are marketed under the brand names Hardi, Evrard, Ilemo, Pommier and Cooper Pegler.

Income statement		
DKK million	**2006**	2005
Revenue	**906**	1,033
Cost of sales	**681**	755
Other costs	**238**	244
Other operating income	**16**	4
Operating profit	**3**	38
Net financials	**(32)**	(22)
Profit/loss before tax	**(28)**	16
Tax	**3**	11
Minority interests' share	**2**	2
Net profit/loss for the year	**(33)**	3
Assets		
Non-current assets	**303**	441
Inventories	**366**	396
Receivables	**338**	380
Cash	**31**	48
Total assets	**1,038**	1,265
Liabilities		
Equity	**312**	346
Non-current liabilities	**258**	349
Current liabilities	**468**	570
Total liabilities	**1,038**	1,265
Key figures		
Working capital	**497**	576
Cash flow from operating activities	**62**	(22)
Available cash flow	**158**	(39)
Profit margin (EBIT)	**0.3%**	4%
ROIC	**0.3%**	1%

Board of Executives

Niels-Jørn Rahbek,
President and CEO

Sten Kjelstrup,
Executive Vice President,
Sales and Marketing

Jens Daugbjerg,
Executive Vice President,
Finance

Management review for Hardi International A/S

Objectives and strategy

It is Hardi's objective to be the professional farmer's preferred supplier of sprayers globally. Hardi's core competences are development, application know-how, marketing and assembly. Strategically, Hardi will develop and market products which create considerable added value for end-users.

Market development

2006 was an unusual year for farmers in general. In many of the large agricultural countries the season was characterised by unfavourable climatic conditions, and as the prices of several major crops were at the same time low and did not improve until the second half of the year, investments in agricultural machinery were generally low.

Throughout the year, Europe and CIS (Russia, the Ukraine and Belarus) were affected by a very cold spring, a dry and extremely hot summer and a rainy harvest period. The season started late in the USA, resulting in considerable nervousness about harvest yields, and Australia experienced the worst drought ever.

These factors meant that harvest yields were much below average worldwide. However, the economic outlook improved significantly towards the end of the year thanks to the increasing crop prices. Growing optimism in the agricultural sector thus resulted in normalised levels of investment in the fourth quarter.

It is estimated that the market for agricultural machinery in Europe has declined by 6 per cent and in the USA by 10-12 per cent (sales to dealers were down 25-30 per cent), and in Australia sales have declined by more than 25 per cent. The only growth market was CIS, which saw significant increases in sales.

Sales and distribution

For Hardi, the very difficult year for the agricultural machinery industry meant that sales in the large markets in Europe, the USA and Australia did not live up to expectations. With revenue of DKK 906 million, sales were DKK 127 million lower than in 2005, primarily due to a decline in sales in North America of 32 per cent and in Australia of 26 per cent.

The lower revenue affects all product segments with the exception of self-propelled sprayers where the introduction of the new Alpha VariTrack boosted the growth in sales to this segment. The contribution ratio increased in 2006 relative to the year before, but the decline in revenue reduced Hardi's contribution margin by DKK 49 million.

Towards the end of the year, the outlook for the agricultural sector improved considerably as a result of increasing crop prices. This has had a positive effect on investments, and in the fourth quarter Hardi's order book was up more than 20 per cent relative to last year. At the end of December, the order volume was up 18 per cent on the order volume at the end of last year.

Product development and production

In the trailed segment, New Commander was launched in both Australia and North America. In the light of the difficult market situation in both markets, the launch was satisfactory and has further boosted Hardi's image in these markets. A limited number of the intelligent Commander "i" sprayers were introduced in Europe and Australia for test purposes. The tests went well, and commercial sales can start at the beginning of 2007.

May 2006 saw the introduction of the Ranger trailed product line in North America. Ranger represents the economy trailed segment with a design which follows naturally from the New Commander family. Ranger was introduced on the European continent at the end of 2006 and replaces the TR 2000 trailed line.

Hardi's trailed sprayers are becoming ever more important for the product programme and the global competition.

Mist-spraying of vineyards often involves vertical sprayer booms suspended high up on very small tractors.

The production economy at Hardi's Danish factory on the island of Falster was negatively affected by the decline in demand.

Production at the French factory in Beaurainville was satisfactory. Production was also satisfactory for Pommier, which manufactures aluminium booms.

The assembly factory in Canada (London, Ontario) closed down at the end of 2006, and all activities relating to the production of field sprayers for both the USA and Canada have now been moved to the factory in Davenport, Iowa. The regional centralisation of the assembly activities entails improvements in production economy, while at the same time increasing delivery performance.

A number of projects have been launched with a view to reducing break-even revenue. These projects will cut capacity costs, while outsourcing will convert fixed costs into variable costs. In this context, a decision has been made to outsource the injection-moulding of plastic components and the turning and milling of metal components. At the same time, investments are being made in robot welding systems for chassis and other central components at the Danish factory on Falster.

Environment

The Danish factory on Falster underwent a comprehensive environmental approval procedure in 2005/2006. Environmental approval of the entire factory was obtained in the second half of 2006.

Income, balance sheet and cash flow

Figures in brackets are the figures for 2005

Revenue declined in 2006 by 12 per cent to DKK 906 million (DKK 1,033 million). EBITDA was DKK 45 million (DKK 81 million) corresponding to 5 per cent (8 per cent) of revenue. In 2006, depreciation and amortisation amounted to DKK 42 million (DKK 43 million). EBIT was then DKK 3 million (DKK 38 million) corresponding to an EBIT margin of 0.3 per cent (4 per cent).

Financial expenses amounted to DKK 32 million (DKK 22 million). Whereas exchange rate adjustments were positive in 2005, the opposite was the case in 2006.

Loss before tax was DKK -28 million (DKK 16 million), which is considerably lower than expected at the beginning of the year and after the first six months. The decline is primarily attributable to the decrease in revenue.

Balance sheet total was reduced by 18 per cent to DKK 1,038 million (DKK 1,265 million). The reduction is attributable to a reduction in property, plant and equipment in connection with the sale of the Danish property in Taastrup to Auriga as well as a reduction in both inventories and debtors.

On account of a reduction in working capital, cash flow from operating activities amounted to DKK 62 million (DKK -22 million). Disposal of property, plant and equipment less acquisitions totalled DKK 96 million (DKK -17 million), available cash flow being DKK 158 million (DKK -39 million).

Outlook 2007

The outlook for 2007 for the agricultural sector is characterised by optimism in many markets due to increasing crop prices.

Assuming normal climatic conditions, Hardi expects to see an increase in revenue of 10 per cent relative to 2006.

With the outsourcing measures introduced and continued improvements of the operating economy, an EBIT margin of 5-6 per cent is expected.

For 2007 as a whole, revenue of approx. DKK 995 million and a profit before tax of approx. DKK 30 million is expected. Cash flow is also expected to be positive in 2007.

CHEMINOVA DEVELOPS, PRODUCES AND MARKETS PLANT PROTECTION PRODUCTS AND FINE CHEMICALS. **HARDI** DEVELOPS, MANUFACTURES AND MARKETS SPRAYING EQUIPMENT FOR EFFECTIVE AND RESPONSIBLE PLANT CARE.