

Management's review for Auriga Industries A/S

Objectives and strategy

Auriga's overall strategic objective is to ensure long-term value creation for the benefit of shareholders, employees and other stakeholders.

During second half 2007, the two subsidiaries Hardi International and Skamol were divested.

In future, value creation will be focused on development of Cheminova. Based on Cheminova's technological platform, massive efforts are currently going into developing and registering new generic products with considerable potential. This will form the basis of sound and strong organic growth. Moreover, the company will contribute to the value creation by playing an active role in connection with the expected structural consolidation within the agrochemical industry.

Auriga's financial target is a stable growth in revenue and an EBIT margin of at least 10 per cent.

Discontinued operations

Skamol

Subject to an agreement signed on July 2, 2007, Skamol A/S was sold to the Danish equity fund Polaris at a price based on an enterprise value of DKK 257 million. Up until the divestment, Skamol contributed net revenue of DKK 134 million in 2007 against DKK 246 million in 2006 and a profit before tax of DKK 14 million in 2007 against DKK 12 million in 2006.

The divestment took effect on July 13, 2007, and Skamol's 49.3 per cent stake in Damolin A/S was transferred to Auriga.

The net proceeds from the sale of Skamol amounted to DKK 76 million.

Hardi International

Hardi was sold to Exel Industries for takeover on November 30, 2007. Exel Industries is a French listed company and leading supplier of spraying equipment. Up until the divestment, Hardi contributed net revenue of DKK 913 million in 2007 against DKK 906 million in 2006 and a profit before tax of DKK 5 million in 2007 against a loss before tax of DKK -28 million in 2006.

The sales price for Hardi is based on a price of DKK 290 million for the shares, corresponding to an enterprise value of approx. DKK 745 million. The calculated net loss from the sale of Hardi amounts to DKK -192 million, including the amortisation of consolidated goodwill of DKK 169 million.

Continuing operations

Cheminova

After a decline of 4 per cent in 2006, the agrochemical industry saw growth in 2007 at an estimated rate of 9 per cent when calculated in USD. The growth is driven by high prices of agricultural crops caused by an increasing demand in newly industrialised countries such as China and India and by the increased use of crops for production of biofuels.

Cheminova increased its market share in 2007 and revenue increased by just over 8 per cent to DKK 4,361 million. The increase was especially due to strong sales of new generic products and glyphosate. Sales of the new insecticides



gamma-cyhalothrin and acrinathrin also developed positively, whereas sales of flutriafol were disappointing in Brazil, where the competitive situation has changed following the introduction of several new products.

The local subsidiaries account for about 85 per cent of Cheminova's sales of plant protection products. This share will increase further following the acquisition of 50 per cent of the German Stähler group which has direct access to the markets in Germany, Austria and Switzerland. During 2007, the new subsidiary in Hungary has been integrated into the group and has achieved the expected results.

In 2007, production costs were impacted by increasing raw materials and energy costs. Development and registration costs remain high, accounting for 5 per cent of revenue.

EBITDA increased by DKK 154 million to DKK 338 million in 2007, corresponding to an EBITDA margin of 7.8 per cent against 4.6 per cent in 2006. After depreciation and amortisation of DKK 178 million, an operating profit of DKK 160 million was realised, corresponding to an EBIT margin of 3.7 per cent against 0.4 per cent in 2006.

Last year Cheminova published its first CSR (Corporate Social Responsibility) report setting out clear objectives within production and supply management as well as the phasing-out of class I products. The CSR report for 2007 presents a status for the objectives set out in last year's report as well as four new main themes: development and innovation, human resources, working environment and the EU's chemicals regulation REACH. The CSR reporting

ensures a systematic approach to the efforts related to "responsible conduct" and is also a good communication tool.

On January 1, 2008, Cheminova introduced a new global organisation based on four regions: Europe, ANZAC (Australia, New Zealand, the USA and Canada), Latin America and International.

Together with the Executive Management, the senior vice presidents and the Vice President for Portfolio Management, the four regional presidents make up Cheminova's top management.

On May 1, 2008, Executive Vice President Kurt Pedersen Kaalund takes over as President of Cheminova from Bjørn Albinus, who will continue as President and CEO of Auriga until the end of 2008.

Foreign exchange

Most of the commercial transactions are settled in foreign currencies. The foreign exchange risk is reduced through hedging by means of forward exchange and option contracts with a term of up to 24 months.

Following a decline of just over 10 per cent in 2006, the exchange rate of the main currency (USD) declined by an additional 10 per cent in 2007, the year ending with an exchange rate of DKK 5.07. While the average listed price for USD in 2007 was DKK 5.44, Cheminova realised an effective settlement rate of DKK 5.80 against DKK 6.14 in 2006.

At the end of 2007, hedging of the USD, CAD and AUD exchange rates applied in the budget was carried out in the



The Board of Directors is convinced that Cheminova has the necessary strength and competences to tackle the future challenges and to expand its market position.



Due care and responsible handling of plant protection products go hand in hand with thoroughly efficient plant care.

form of partial hedging of the foreign exchange risk. Thus, just over 40 per cent of Cheminova's expected 2008 exposure in USD has been hedged at an exchange rate of DKK 5.25.

Consolidated profit/loss

The results of Auriga Ejendomme A/S and the associate Damolin A/S are recognised in the consolidated results of Auriga.

Auriga's revenue was up just over 8 per cent in 2007 at DKK 4,368 million (DKK 4,032 million) and was in line with the announced outlook at the beginning of the year (exclusive of Hardi and Skamol).

Increasing raw material and energy costs as well as remaining high development and registration costs have impacted production and capacity costs.

Administrative expenses were down DKK 75 million relative to 2006 when administrative expenses were impacted by, among other things, extraordinary provisions for bad debts in Brazil.

Despite growth in Brazil, earnings were under pressure due to the competitive situation for flutriafol and an increase of 17 per cent in the Brazilian real (BRL) relative to USD.

EBITDA increased in 2007 to DKK 327 million (DKK 175 million). After depreciation and amortisation of DKK 182 million (DKK 168 million), operating profit (EBIT) totalled DKK 145 million (DKK 7 million).

Financial expenses declined to DKK 67 million (DKK 87 million) after a positive development in liquidity and lower financing costs in Brazil. A net profit of DKK 5 million (DKK 5 million) from the associate Damolin A/S has been recognised.

Profit before tax of the continuing operations was DKK 83 million (DKK -75 million), which is slightly higher than expected after third quarter 2007.

At DKK -96 million, the loss before tax of the discontinued operations was higher than expected, due to disappointing results by Hardi.

A consolidated loss before tax of DKK -13 million was thus realised (DKK -92 million).

A net loss for the year of DKK -52 million was realised (DKK -163 million).

As at December 31, 2007, balance sheet total was down DKK 1,220 million at DKK 4,422 million (DKK 5,642 million). Working capital improved and now amounts to 40 per cent of revenue against 58 per cent in 2006. Following the divestment of Hardi and Skamol, net interest-bearing debt was reduced by DKK 1,056 million to DKK 701 million (DKK 1,757 million). At the end of the year, this corresponds to a gearing (net interest-bearing debt relative to EBITDA) of 2.1 (10.1).

Cash flow for the year of continuing operations developed positively with cash flow from operating activities amounting to DKK 274 million (DKK 45 million). Following the divestment of Hardi and Skamol, cash flow from investing activities was positive at DKK 369 million (DKK -217 million), with a realised available cash flow of DKK 642 million (DKK -172 million). Cash flow from discontinued operations was DKK 87 million (DKK 69 million).

Outlook 2008

The positive trend for plant protection products is expected to continue in 2008. Cheminova expects a considerable increase in revenue, primarily due to growth in sales of glyphosate and new generic products, but also due to the acquisition of a 50 per cent stake in the German company Stähler, which will be consolidated pro rata.

Costs of developing and registering new generic products are expected to be maintained at a high level. Further restructuring costs have been included in the 2008 budget.

For 2008 as a whole, Cheminova expects an increase in revenue to just over DKK 5 billion, an EBIT margin of 6-7 per cent and a profit before tax of DKK 200-250 million. Significant uncertainty factors are market prices for glyphosate and availability and prices of key raw materials.

For 2008 as a whole, the Auriga group expects revenue of just over DKK 5 billion, an EBIT margin of 6-7 per cent and a profit before tax of DKK 210-260 million.

In 2008, cash flow from operating activities is expected to improve relative to 2007.



Cheminova's products help improve living conditions in many countries worldwide. The objective is to be the best innovative global supplier of generic products within the agrochemical industry.