

Cheminova A/S

Cheminova's main activity is development, production and marketing of plant protection products. The company is a leading supplier of insecticides and an important supplier of herbicides and fungicides.

Cheminova is represented with subsidiaries or representative offices in the following countries: USA, Canada, Mexico, Colombia, Brazil, Uruguay, Argentina, Great Britain, Switzerland, France, Spain, Italy, Bulgaria, Romania, Hungary, Poland, Ukraine, Russia, India, China, Taiwan and Australia. Cheminova has approx. 800 employees in Denmark and 800 employees abroad.

In January 2008, Cheminova acquired a 50% stake in the German Stähler group.

Cheminova offers 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, imidacloprid and abamectin.
- Herbicides based on the active ingredients glyphosate, metsulfuron, tribenuron, thifensulfuron, nicosulfuron, diflufenican, fenoxaprop-p and clodinafop.
- Fungicides based on the active ingredients flutriafol, fluazinam, tebuconazole, epoxiconazole, fenpropidin and fosetyl-al.

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

Income statement		
DKKm	2007	2006
Revenue	4,361	4,032
Production costs	3,257	2,991
Other costs	980	1,039
Other operating income	35	16
Operating profit	160	18
Net financials	(69)	(89)
Profit/loss before tax	91	(71)
Tax	25	69
Minority interests' share	6	7
Net profit/loss for the year	60	(147)
Assets		
Non-current assets	1,010	1,062
Inventories	1,120	1,177
Receivables	1,612	1,575
Cash and cash equivalents	248	189
Total assets	3,990	4,003
Equity and liabilities		
Equity	1,537	1,608
Non-current liabilities	554	742
Current liabilities	1,899	1,652
Total equity and liabilities	3,990	4,003
Key figures		
Working capital	1,729	1,750
Cash flow from operating activities	268	30
Available cash flow	120	(176)
Profit margin (EBIT)	3.7%	0.4%
ROIC	4.4%	0.5%

Board of Executives



Bjørn Albinus
President and CEO



Kurt Pedersen Kaalund
Executive Vice President

Senior Vice Presidents



Niels Morten Hjort
Senior Vice President
Operations & Logistics



Allan Skov
Senior Vice President
Development & Registration



Søren Vedel
Senior Vice President
Finance & Support

Management's review for Cheminova A/S

Objectives and strategy

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

Cheminova's strategy is to optimise and develop the 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.

In the period 2008-2010, revenue and earnings must be increased through introduction of new products, through improvements (lean) in operations and all other functions and through active participation in the expected structural consolidation process in the industry. The target is, through organic growth alone, to increase revenue to DKK 5.5 billion by 2010, with an EBIT margin of 10 per cent.

Market developments

After several years of low or zero growth, the industry saw renewed growth within conventional plant protection products in 2007. Growth within genetically modified seed and biotechnology continued, as the areas planted with genetically modified maize and soybeans increased in North and South America and especially in Brazil, where the introduction of glyphosate-resistant soybeans has been delayed due to lack of approvals.

The growth in conventional plant protection products is driven by higher prices of agricultural crops, which makes farmers invest more to improve yields and farm more land, where possible. Prices of the most important agricultural crops have reached record levels as stocks are historically low. Demand for agricultural crops is increasing in step with increasing standards of living in newly industrialised countries such as China and India, and as a result of increasing use of crops to produce biofuels. The favourable conditions for farmers are expected to continue in the near future.

Sales and distribution

Cheminova gained market share in 2007. Calculated in Danish kroner, revenue increased by just over 8 per cent despite the negative development in the USD exchange rate. Growth has primarily been driven by new products. Two new generic products were introduced during the year, and market penetration continued for several new products, the most important being imidacloprid, abamectin, tebuconazole, diflufenican and metsulfuron. Several new products will be introduced in 2008 and in the coming years to ensure continued growth.

In 2007, glyphosate, which is a key product used to control weeds in genetically modified crops, saw an increase in demand, while supply from Chinese suppliers declined. In the second half of the year, this resulted in increasing prices in the market, which has had a positive impact on earnings from sales of glyphosate produced by Cheminova in Denmark.

Sales of pyrethroids increased as market penetration by gamma-cyhalothrin continued. The acquisition of the acrinathrin business outside Europe was followed by a considerable increase in revenue compared to 2006 when Cheminova only held the product rights in Europe.

Sales of flutriafol, the most important fungicide in the portfolio, did not develop as expected. The development of the Asian soybean rust fungal disease in the USA was not sufficient to warrant control measures, and flutriafol's profitability in Brazil was reduced due to a change in the competitive situation with new products in the market. The product has developed as expected in other segments and markets.

The traditional organophosphorous insecticides continue to account for a declining share of sales. In 2007 sales thus accounted for 21 per cent of total revenue. The phasing-out of class I products is progressing according to plan.

Sales of fine chemicals, intermediates, mining chemicals and other fine chemicals are stagnant and accounted for 10 per cent of total revenue in 2007.

Subsidiaries in local markets account for an ever greater share of sales of plant protection products. In 2007, the share reached 85 per cent, and the share is expected to increase in the coming years as the acquisition of a 50 per cent stake in Stähler gives direct access to the markets in Germany, Austria and Switzerland.

During 2007, the new subsidiary in Hungary was integrated into the group and achieved the expected results. The European subsidiaries have generally benefitted from improved market conditions to increase sales and strengthen their market position. Following years of unsatisfactory results, the subsidiaries in France and Italy are now being restructured under new local managements.

The North American subsidiaries have benefitted from improved market conditions for glyphosate to increase sales and earnings. However, conventional insecticides continue to decline in the US market following a considerable reduction in the cotton acreage.

In Latin America, the subsidiaries in Brazil, Argentina, Mexico and Columbia have benefitted from improved market conditions for glyphosate and have introduced several new products. The higher crop prices have strengthened the financial positions of farmers, and it has been possible to revert some of the provisions made in Brazil in previous years.

The position in the CIS markets (Russia, the Ukraine etc.) has been strengthened, sales have increased, and results have been very satisfactory.

In Australia, first half of 2007 was negative due to drought, but the situation improved in second half. The local subsidiary has benefitted from improved market conditions for glyphosate, introduced several new products and has thereby strengthened earnings and its position in the market.



Occupational health and safety are important focus areas for Cheminova. The production facilities in Denmark have been certified in accordance with ISO 14001 environmental management standard and OHSAS 18001 occupational health and safety standard.

Production and investments

Production at the factory in Denmark was satisfactory in 2007, except for the loss of production in connection with a twelve-day strike in the spring. The factory in India was affected by brief stoppages in 2007 in connection with the start of its own CHP unit (Combined Heat and Power) and replacement of process computers.

As regards investments, most resources went into establishing a multi-purpose plant for the production of, among other things, the fungicide flutriafol, and installing an energy-saving hydrogen plant which uses waste hydrogen to produce steam. In 2007, investments in property, plant and equipment and intangible assets amounted to DKK 148 million against DKK 206 million in 2006.

With the assistance of external consultants, considerable scope for improving operations in Denmark has been identified. In 2008 and 2009, several projects will be implemented to realise the identified improvements.

Product development

The review of Business Plan 2010 carried out in 2007 meant that the extensive programme for development and registration of new products was confirmed.

According to plan, considerable resources were invested in 2007 in developing processes for new active ingredients, new formulations and in product registrations in relevant markets.

With the new active ingredients and the portfolio of development and registration projects, the target set out in the Business Plan of introducing three new active ingredients a year will be fulfilled. Additionally, local subsidiaries will continue to introduce new products.

To enable a high level of development activity, collaboration is increasingly being established with external companies. For several products and product groups, joint production activities are based on production technology developed by Cheminova. In 2007, the commercial production of several sulfonylurea herbicides commenced in collaboration with an external partner. The products will be marketed among others in the USA and Europe in future. At the same time, production at several companies based in Asia is being developed, including the production of a major insecticide based on Cheminova technology.

Cheminova develops own formulations based on modern formulation technology for all new active ingredients. The objective is to develop products with improved efficiency and improved safety for users and the environment. 2007 saw the development of more new formulations than in any other year and twice as many as in 2005.

Given the high level of development activities in recent years, a record number of registrations were obtained in 2007, paving the way for increased sales of new generic products.

Corporate Social Responsibility (CSR)

Cheminova's first CSR report was published in connection with the annual report for 2006. In the past year, Cheminova has gained its first experience with the new way of working with "responsible conduct", in which the CSR reporting is an element. It has proved beneficial because it ensures a systematic approach as well as being a good communication tool.

In the CSR report for 2006, a number of objectives were identified within the areas of product stewardship, production and supply management. The CSR report for 2007 provides a detailed description of the status of the work.

In relation to product stewardship, the primary objective is for Cheminova to discontinue sales of WHO class I products in all countries except the USA, Canada, Australia, Japan and the EU in the period 2007-2010. In 2007, three class I products were phased out, i.e. methomyl in Mexico, carbofuran in Columbia and methyl parathion in Taiwan.

At the factory in India, a natural gas-fired CHP unit has been established, which ensures efficient energy use and reduces emissions of CO₂. At the factory in Denmark, a plant has been commissioned using hydrogen from a processing plant, resulting in energy savings and a considerable reduction in emissions of CO₂. The energy savings correspond to electricity consumption of 7,000 households or energy used to heat 1,750 households.

A supplier code of conduct has been prepared and sent out to relevant suppliers.

The four main themes of the CSR report for 2007 are development and innovation, human resources, occupational health and safety and the EU's new chemicals regulation.

An important theme in Cheminova's development activities is new formulations which reduce undesired side-effects of the products. In this connection, reducing the toxic effects for humans and animals is an important focus area.

The employees play a decisive role in a modern, knowledge-based company such as Cheminova. Therefore it is important that the employees share the same views on what is important for the company. A code of business principles has, therefore, been developed and implemented.

Occupational health and safety, emphasising the handling of chemicals, is an important focus area for Cheminova. The production facilities in Denmark have been certified in accordance with ISO 14001 environmental management standard and OHSAS 18001 occupational health and safety standard.

EU's new chemicals regulation REACH (Registration, Evaluation and Authorisation of Chemicals) came into force on June 1, 2007. The regulation requires manufacturers and importers of chemicals to document the possible harmful effects of the chemicals for humans and the environment. If harmful effects are observed, the authorities can restrict or ban the use of a chemical. Pursuant to REACH, Cheminova has given notification of several chemicals which are important for operations and sales.

The CSR report for 2007 has been verified by independent auditors. The main purpose is to document that the stated data are correct, and to verify the extent to which Cheminova has fulfilled the objectives set out in the CSR report for 2006.

Organisation and management

With the purpose of optimizing decision-making and work processes, a new global organisation was established on January 1, 2008.

The most important changes are:

- Four regions have been established: Europe, ANZAC (Australia, New Zealand, the USA and Canada), Latin America and International, and four regional presidents have been appointed, and they all report to the group's Board of Executives.
- Together with the senior vice presidents, the Vice President for Portfolio Management and the Executive Management, the four regional presidents make up Cheminova's top management.

A three-year incentive scheme has been introduced for Cheminova's 20-strong global management group based on the economic value added (EVA) in the period 2008-2010. No annual pay adjustments will be made for this group during the period.

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

Outlook 2008

The global market for plant protection products grew in 2007 by approx. 9 per cent when measured in USD, among other things due to a dramatic increase in demand for biofuels and high crop prices. This positive trend is expected to continue in 2008.

In 2008, Cheminova expects to see a continued increase in demand for glyphosate at high prices following shortage of supply and increasing raw materials costs. Following the introduction of several new products, sales of fungicides are expected to develop positively. A number of new products, including several sulfonylurea herbicides, will be introduced and are expected to make a positive contribution to revenue and earnings already in 2008.

Sales of new insecticides, the pyrethroids, imidacloprid and abamectin, are expected to continue to grow, while sales of organophosphorous insecticides,

including malathion, are expected to continue to decline due to the reduced programme for the eradication of boll weevil in cotton in the USA.

The costs of developing and registering new generic products are expected to be maintained at a high level, while restructuring costs have again been included in the 2008 budget. Just over 40 per cent of the expected net position in USD has been hedged by means of forward exchange contracts at a price of DKK 5.25. In 2007, the average settlement price was DKK 5.80.

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 access to and prices of key raw materials.

Income, balance sheet and cash flow

Revenue was up just over 8 per cent in 2007 at DKK 4,361 million (DKK 4,032 million) and thereby lived up to the outlook announced at the start of the year.

Significant increases in raw material costs together with increasing energy prices led to an increase in production costs. Production costs were also impacted by non-recurring expenses related to improvement measures.

Development and registration costs were also at a high level in 2007, corresponding to about 5 per cent of sales.

EBITDA increased by DKK 154 million to DKK 338 million (DKK 184 million), corresponding to an EBITDA margin of 7.8 per cent (4.6 per cent). After depreciation and amortisation of DKK 178 million (DKK 166 million), operating profit (EBIT) was DKK 160 million (DKK 18 million), corresponding to an EBIT margin of 3.7 per cent (0.4 per cent).

Despite growth in Brazil relative to 2006, earnings were under pressure due to the competitive situation for flutriafol and a strong Brazilian real (BRL), which increased by 17 per cent relative to USD in 2007. However, the financial situation for the farmers has generally improved making it possible to reduce provisions for bad debts.

Financial expenses declined to DKK 69 million (DKK 89 million) after a generally better development in liquidity and lower financing costs in Brazil. Profit before tax was then DKK 91 million against a loss of DKK -71 million in 2006.

Balance sheet total was down DKK 13 million at DKK 3,990 million (DKK 4,003 million). The working capital declined to 40 per cent (43 per cent) of revenue, and net interest-bearing debt increased by DKK 11 million to DKK 1,150 million (DKK 1,139 million). At the end of the year, this corresponds to a gearing (net interest-bearing debt relative to EBITDA) of 3.4 (6.2).

Cash flow developed positively, with a cash flow from operating activities of DKK 268 million (DKK 30 million). After investments in property, plant and equipment and intangible assets of DKK 148 million (DKK 206 million), available cash flow was positive at DKK 120 million (DKK -176 million).

