

Risk management

Auriga's overall strategic risk management is based on the following principles:

- Corporate governance, which lays down the guidelines for the group's management structure.
- Corporate Social Responsibility, which describes the code of business principles and norms to which all the company's employees conform no matter where in the world they are.
- Internal policies, which concern rules and procedures for relevant risk areas.

Financial risks

The group has adopted a finance policy which lays down the guidelines for the management of several financial risks such as, e.g., foreign exchange risks, interest rate risks, liquidity risks and credit risks. The finance policy, which also includes a description of approved financial instruments and risk thresholds, is administered by the Auriga finance function. Below follows a description of the most important financial risks. Further details can be seen in the notes.

Foreign exchange risk

Owing to Auriga's many international activities, most of the group's sales are settled in foreign currencies, primarily USD, EUR, BRL, CAD, AUD and INR, while a large share of the production and development costs are settled in DKK. The purpose of foreign exchange risk management is primarily to reduce the impact of foreign exchange fluctuations on the financial results. Exposure in the most important currencies is hedged through forward exchange and option contracts with a

term of up to 24 months. Hedging is based on expectations with regard to future developments in foreign exchange rates with an ongoing assessment of the efficiency of the measures. The foreign exchange risk relating to intra-group loans to subsidiaries is often hedged by means of currency swaps.

At the end of 2007, hedging of the USD, CAD and AUD exchange rates applied in the budget has been in the form of partial hedging of the foreign exchange risk attaching to the expected exposure in 2008. At the end of the year, the market value of all currency contracts, was DKK 935 million (DKK 1,041 million at the end of 2006). The contracts have an average term of approx. 4 months with the due dates being tailored to the hedged transactions. Most of the currency contracts are classified as hedge accounting. The continuous adjustment to the fair value of the contracts is therefore included in equity and not entered in the income statement until the hedged transaction is realised. As at the balance sheet date, forward exchange and option contracts hedging future transactions resulted in a gain of DKK 10.2 million (DKK 24.8 million in 2006), which is recognised in equity.

In a sensitivity calculation which does not take account of the hedging of foreign currency transactions, a 5 per cent change in the exchange rate of the group's main currency (USD) would affect revenue by approx. DKK 51 million (approx. DKK 49 million in 2007) and EBIT by approx. DKK 22 million (approx. DKK 26 million in 2007).

Based on the balance sheet at the end of 2007, a 5 per cent decline in all foreign currencies relative to DKK would result in an increase in the value of financial instruments of DKK 9 million, cf. Note 24.



The financial instruments included in the calculation are the group's interest-bearing net debt, accounts receivable, trade payables, non-current and current financial investments, forward exchange contracts and currency options hedging a transaction risk. In addition, interest rate and currency swaps are included. Expected foreign currency transactions, investments and non-current assets are not included.

Auriga's investments in foreign subsidiaries are only hedged occasionally as these investments are long-term in nature.

Interest rate risks

Fluctuations in interest rate levels pose a risk to interest-bearing assets and liabilities. The interest rate risk is to some extent managed by means of interest rate swaps, and regular assessments are made of the distribution between fixed-rate and variable-rate debt. Interest-bearing net debt declined by DKK 1,056 million to DKK 701 million at the end of the year (DKK 1,757 million). The market value of all interest rate swaps, the nominal value of which is DKK 200 million (DKK 250 million), which have an average term of 4.9 years, totalled DKK 2.4 million at the end of the year (DKK -2 million). At the end of the year, the average term of the group's financial instruments was 4.2 years. The combined interest rate sensitivity in case of a 1 per cent change in interest rates is DKK 3.7 million, cf. Note 24.

Liquidity risk

The purpose of the group's financial planning is to ensure an optimum capital structure and the presence of adequate financial resources, while at the same time minimising capital costs. Liquidity is controlled through the use of short-term overdraft facilities combined with long-term, fixed credit facilities with a number of well-known financial institutions. At the end of the year, unutilised drawing facilities stood at DKK 819 million (DKK 691 million).

Credit risk

The most important primary financial instruments are trade receivables, other receivables and deposits with banks. The carrying amounts of these balance sheet items reflect the maximum credit risk. The credit risk attaching to accounts receivable is not unusual, but concerns primarily Brazil. Money market deposits and derivative financial instruments are only placed with financial institutions with high credit ratings.

Market and business risks

Via established policies and procedures, risks are identified, and the purpose of risk management is to counter, limit or hedge the risks which may be influenced and which are of particular significance to the company.

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

Customers and suppliers

For the parent company and the subsidiaries, the group undertakes continuous assessment of customer creditworthiness and has in the past, with the exception of



Chemino's ability to develop and introduce new products is a key driver for future growth.

2006, suffered relatively few and limited bad debts. The risk of bad debts is reduced through the use of secure terms of payment, credit insurance coverage, mortgages secured on harvests etc.

At the end of the year, trade receivables amounted to DKK 1.3 billion (DKK 1.6 billion), and approx. 75 per cent (50 per cent) of these receivables are secured through credit insurance cover, letters of credit or other types of security. The group's policy on provisions for bad debts is based on specific assessments of credit risks, including credit terms and economic conditions in the individual markets.

In Brazil, the economic situation in the agricultural sector improved relative to 2006, and it has been possible to reduce provisions. Provisions still correspond to more than 70 per cent of overdue receivables.

Auriga values long-term relations with suppliers, and in so far as possible, the group has secured supply of critical raw materials via contracts and agreements, often with a number of suppliers in different regions.

Insurance

As an integrated part of 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 tailored to the risk profile and are reviewed regularly in collaboration with external advisors. The group may be held liable under product liability legislation for use of its products. No major new product liability lawsuits were filed against the group in 2007.

Employees

The objective is to be an attractive workplace for employees. The group supports the desired development by offering challenging, exciting jobs and work environments, 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.