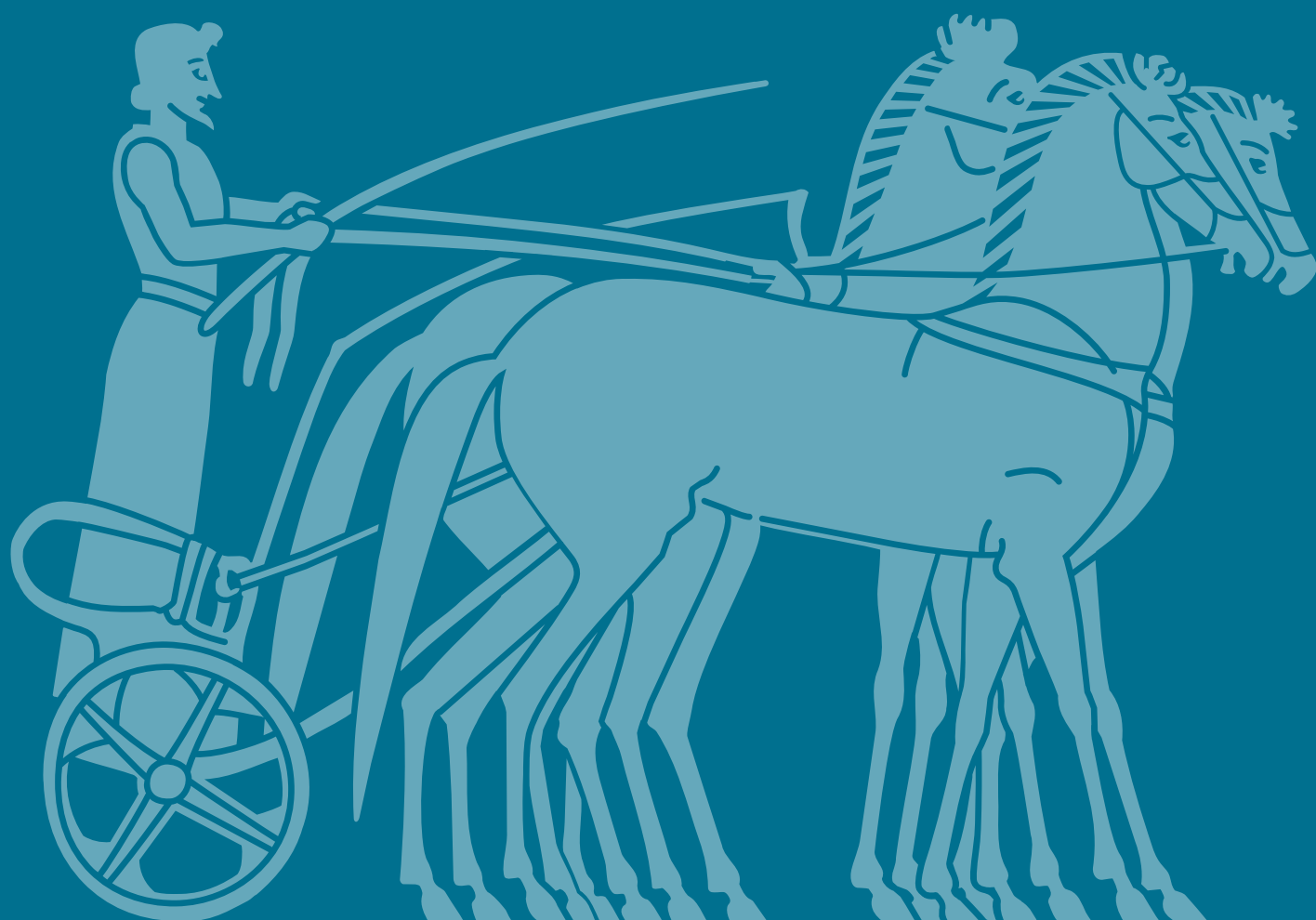


# AURIGA INDUSTRIES A/S



## Auriga Magasinet

May 2008 · 10th volume · No. 1

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**Auriga Industries A/S**

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*Acquiring 50 per cent of the German company Stähler significantly improves Cheminova's platform in Europe.*



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# Paradigm shift in the agricultural debate

Food prices are increasing, and stocks of agricultural products are historically low. The situation is critical, especially for urban populations in poor countries. The need for an efficient farming sector has therefore become an important factor in the public debate as both politicians and the media are starting to take a greater interest in agricultural production. The importance of agricultural production is once again on the agenda.

As suppliers to the global agricultural sector, the entire agrochemical industry is seeing growth as farmers are increasingly interested in expanding their cultivated areas where possible and in protecting their valuable crops. With its plant protection products, Cheminova is making a valuable contribution to boosting the production of agricultural products.

Cheminova's presence with the right products in key markets is therefore a precondition for the company, also in future, being able to make its contribution to meeting the worldwide demand for food.

In this issue of the shareholder magazine,

Auriga Magasinet, you can read about our new global structure as well as our biggest acquisition to date, the purchase of 50 per cent of the Stähler group, which illustrates our growing direct presence in the markets. Moreover, the magazine covers the work involved in developing new products which will be sold through Cheminova's global organisation.

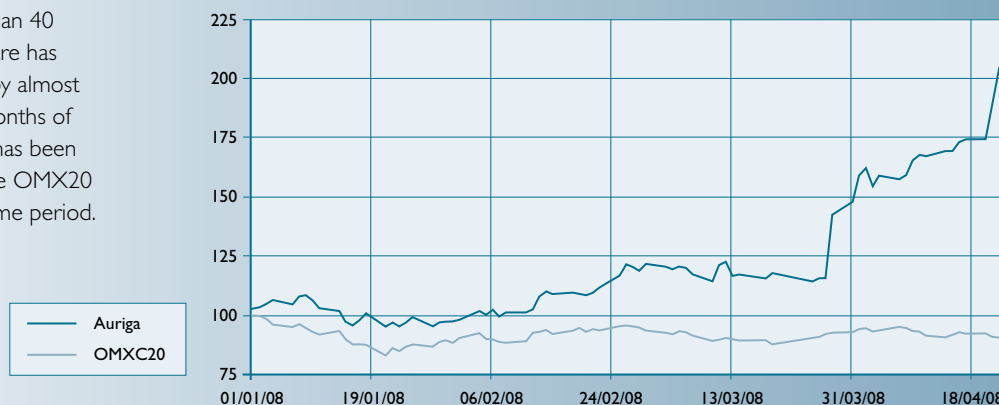
Development activities are covered by our Corporate Social Responsibility policy. This subject is fully described in Cheminova's annual CSR report which was published at the same time as Auriga's annual report, and which I would like to recommend to anyone requiring more detailed information.



**Bjørn Albinus**  
President & CEO

## Indexed price development for the Auriga share

After a price decline of more than 40 per cent in 2007, the Auriga share has rebounded strongly, increasing by almost 100 per cent in the first four months of 2008. This share price increase has been achieved despite a decline in the OMX20 index of 9 per cent over the same period.



# New global organisation

To optimize decision-making and work processes, a new global organisation was established in Cheminova in the beginning of 2008.



Cheminova's Business Plan aims at organic growth based on strengthened presence in all significant markets with the right product portfolio. At the moment, focus is on strategically important introductions of more new generic products on the world market. The product portfolio is being developed based on Cheminova's development portfolio and on acquisitions allowed by the structural rationalisations currently taking place in the industry.

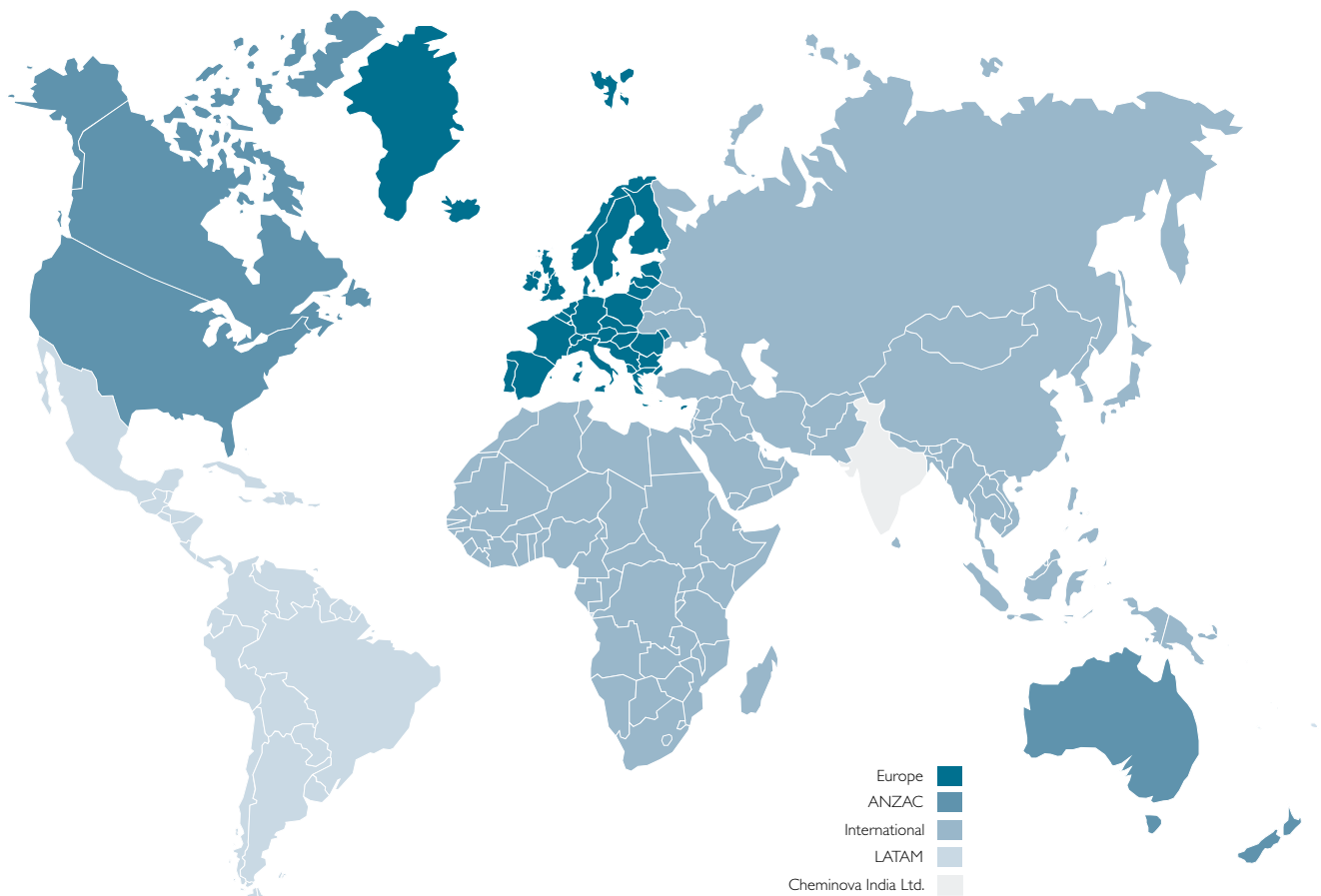
In future, it will be increasingly important for Cheminova to identify the right priorities and to implement development activities in a globalised world.

Consequently, all function areas have been given an independent global responsibility. Another significant element in the new structure involves the management of the increasing number of Cheminova subsidiaries. The subsidiaries are now

gathered in four regions under the management of a regional president who, together with the senior vice presidents, the Vice President for Portfolio Management and the Executive Management make up the top management of Cheminova.

Cheminova's production facility in India, however, is being preserved as an independent subsidiary outside the regions.

As the below map shows, the regions are geographically defined. In addition to countries with subsidiaries, each respective region comprises all markets within the geographical area. However, this does not apply to the ANZAC region, which stands on its own. Due to several significant factors such as crops, cultivation methods and cultural aspects with regard to sales and language etc., Cheminova regards ANZAC as one single region.



# An exciting business partner

The Stähler group has a strong foothold in several markets.

Cheminova's new business partner, the Stähler group, has existed for more than 100 years. The company was established as two family-owned businesses, the first in 1900 and the second in 1913. In 1950, the companies were merged under the Stähler name and the town of Stade, which is located approx. 50 kilometres west of Hamburg on the southern banks of the River Elbe, was chosen as the base for the company headquarters.

The Stähler family has managed the business during all these years. Today, the management consists of the third generation of the family – Gisela and Ernst-August Stähler – and the fourth generation, which is represented by the brothers Olaf, Alexander and Ralph Stähler. During 2008, a business succession plan will be implemented, and the management of the Stähler group will

be joined by Jens Thorsen from Cheminova Denmark.

In 2007, the Stähler group recorded revenue of approx. DKK 600 million and had about 160 employees working at the Stähler production plants in Germany and Italy and in sales companies in Germany, Austria, Switzerland, France, Italy and Bulgaria.

## Products

Over the years, the Stähler group has collaborated with Japanese manufacturers of plant protection products, and today has an extensive portfolio of products for the agricultural sector.

The portfolio includes several herbicides for cereals, but also fungicides and insecticides for controlling pests in many of the most important crops on the German market. These are products such

as the herbicide Herbaflex (bflubutamid) for wheat, the herbicide Caliban (mixing agent) for grain, Successor (pethoxamid) for maize, as well as the product Kanemite (acequinocyl) used against mites in fruit and vegetables.

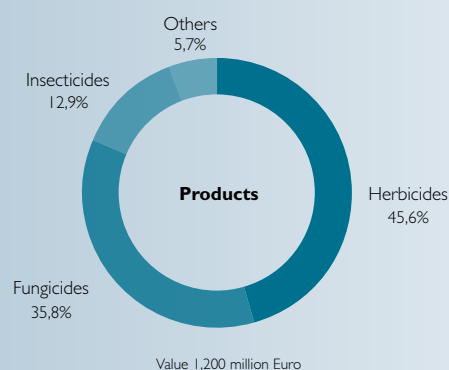
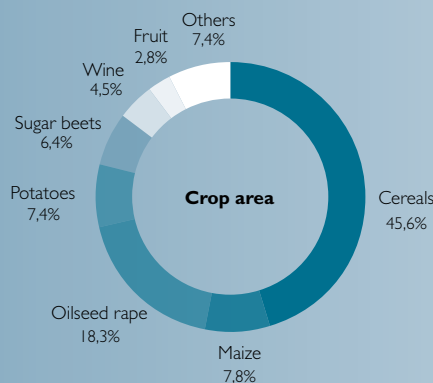
The products are newly developed and patented, and Stähler has been responsible for market development and registration in most of the European markets.

At the same time, the Stähler group is working with other new products from Japanese suppliers, and it is expected that some of these will be launched in Europe in the coming years.

## Production

The Stähler group has two production plants – in Stade in Germany and in San Colombano near Milan in Italy. The two

## The German market distributed on crops and products





*Stähler's production capacity is based on considerable experience and expertise at manufacturing e.g. suspension concentrates.*

plants have about 70 employees.

A wide range of products are mixed and filled at the plants for Stähler's own subsidiaries and for external customers.

#### Markets

Stähler Germany is a sales company with about 45 employees marketing and selling a wide range of products for both private and cooperative wholesale companies throughout Germany, maintaining close contact with end-users.

Stähler has a market share of almost 4 per cent of the German market for plant protection products. This is Europe's second-largest market with a total value of EUR 1.2 billion. The market is dominated by three large companies, while Stähler is the only medium-sized company which has not been acquired by multinational businesses.

The product portfolio consists of products which Stähler has registered and products

registered by international manufacturers.

In the German market, Stähler also has a large product portfolio for the home and garden segment, and these products are sold under the name of Dr. Stähler's Gartenapotheke.

Stähler employs about 20 people in Austria. Stähler acquired an Austrian distributor in 1998, and the Austrian subsidiary is selling and marketing own products as well as third party products. In Austria, Stähler has a market share in excess of 10 per cent.

In Switzerland, Stähler established its own subsidiary through the purchase of a local distributor in 2000. About 30 people are employed and Stähler has a market share of about 20 per cent, making it one of the three biggest players in the Swiss market.

Moreover, Stähler has offices in France, Italy and Bulgaria.



#### The Stähler family

*Throughout its long history, the Stähler family has successfully managed and developed the company into what it is today, a modern enterprise and an attractive partner for Cheminova.*



## Synergies for both companies

The purchase of 50 per cent of the Stähler group represents Cheminova's biggest acquisition to date.

In January this year, Cheminova's purchase of half of the Stähler group became a reality, laying the foundation for a strong partnership between the two companies. It is Cheminova's biggest single investment to date, running into a three-digit million figure.

The partnership with Stähler gives access to the important German market for existing Cheminova products as well as new products currently being introduced by Cheminova. As Stähler also has companies in Austria and Switzerland, the partnership also opens up possibilities for Cheminova in these markets. Cheminova's market share in the three German-speaking countries has been limited because of a narrow product programme.

"We have been selling insecticides in Germany through Stähler for many years, and after Cheminova's launch of the herbicide glyphosate in the 1990s, Stähler has become an even more important distributor for us. Soon, Cheminova will start launching several herbicides and fungicides, and almost all these new products are important for the three above-mentioned countries," says Cheminova's CEO Kurt Pedersen Kaalund.

### Good combination

There are several advantages to the two companies working together:

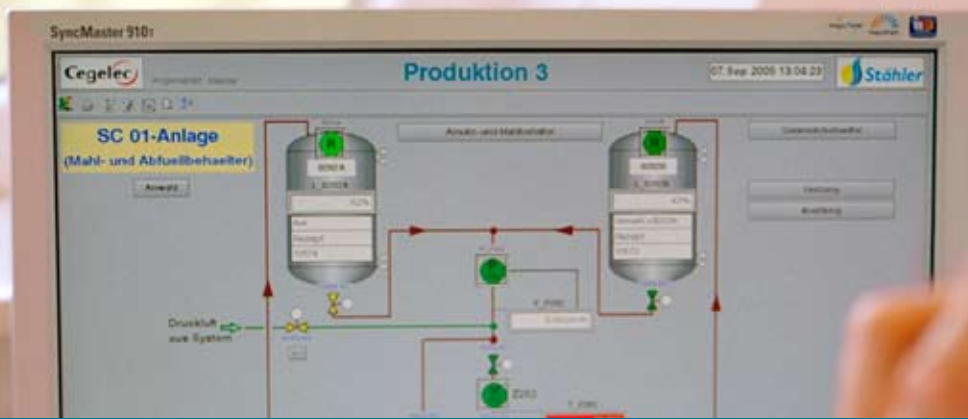
The Stähler group will benefit from Cheminova's sales organisation in several

European countries such as France, Spain, UK, Scandinavia, Romania, Bulgaria, Hungary, Poland, Ukraine and Russia, enabling Stähler to access the market with its current product portfolio, while Cheminova, on the other hand, is ensured access to three important markets for plant protection products as well as several interesting niche areas.

"In this context, it is important to note that Stähler has strong sales organisations in Germany, Austria and Switzerland. The German market is very important in Cheminova's Business Plan as the second-largest market for plant protection products in Europe – surpassed only by the French market," adds Kurt Pedersen Kaalund.



*"Cheminova has distributed its plant protection products through Stähler in the German market for many years. Now we have succeeded in establishing a real partnership, and already after the first quarter we can see the positive effects of the partnership and synergies between the two companies," says Kurt Pedersen Kaalund, CEO in Cheminova.*



Production management and quality control is carried out at Stähler with thoroughness.

One of the niche areas is within formulations. Stähler has developed technologies used for seed dressings, technologies that will be useful for several Cheminova products.

Similarly Cheminova has developed various types of formulations which will be used for several Stähler products.

Finally, it will be attractive for Cheminova to use Stähler as a toll manufacturer for several formulations. Cheminova's and Stähler's technologies supplement each other very well.

#### New opportunities

Both in and outside Europe, the partnership opens up new perspectives for Cheminova.

"We can strengthen our position in other important markets by supplying our well-established subsidiaries with new attractive products from Stähler, which strengthens Cheminova's portfolio. Similarly, the position of the two companies is strengthened by the fact that Cheminova's many new products are being launched in markets where Stähler has a strong network of distributors," says Kurt Pedersen Kaalund.

Stähler has – like Cheminova – invested considerable resources in having several products for the European market registered and approved. For some of these products, global rights have been acquired.

"Stähler is currently introducing new products in almost every agricultural country in Europe. At the same time, Stähler is working on a variety of new formulations in order to meet farmers' needs for advanced products designed for specific purposes. Here too, both Stähler and Cheminova can look forward to considerable benefits," states Kurt Pedersen Kaalund.



Cheminova has recently launched the fungicide Rubric. The product has a very large market in cereals in EU, and Rubric is being marketed in Denmark as the first country. The synergy with Stähler in this project is illustrated by the fact that the product was filled and packed at Stähler's plant in Germany.





## Full ownership of Pytech and the world's best pyrethroid

Cheminova will acquire full ownership of its joint venture company Pytech, and thereby sole ownership of the world's best pyrethroid, the insecticide gamma-cyhalothrin.

In 2001, a joint venture company was established between Cheminova and Dow AgroSciences. The two parties each acquired half of the company Pytech Chemicals GmbH, which is based in Switzerland. The purpose of the new company was to register, develop and distribute the pyrethroid gamma-cyhalothrin globally. The interest in the company should be seen in light of the fact that, back then, Cheminova had fairly limited access to key markets around the world.

### Active ingredient and formulation

The molecule and the production process for gamma-cyhalothrin have been developed by Cheminova, and the active ingredient is manufactured at Cheminova's production plant in Denmark. The process is based on the latest chemical technology, similar to that used by pharmaceutical companies to produce optically clean products that contain precisely the right configuration. The production process uses natural raw materials such as turpentine.

The formulation – the ready-to-use product – is also developed by Cheminova. It is an advanced micro encapsulated formulation which gives the product ideal properties to protect crops.

### Sales and market development

Today, gamma-cyhalothrin is registered as a plant protection product throughout most of the world apart from the EU, and revenue amounts to a triple-digit million figure. Dow AgroSciences has been Pytech's principal distributor, while Cheminova has only handled a small proportion of sales.

However, since the joint venture company was established, Cheminova has significantly strengthened its position in all key markets, and the situation today is quite different. Cheminova is today able to handle global sales and registration and to continue the growth and development of gamma-cyhalothrin.

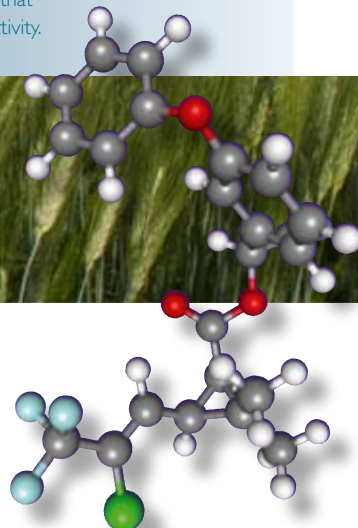
Cheminova will buy Dow AgroSciences shares, and Pytech is becoming a wholly

owned Cheminova subsidiary. The company will be managed from Switzerland by the Regional President for Cheminova's region "International", Mats Edh.

### Pyrethroids

Pyrethroids make up a significant part of the insecticide market. In 2006, sales of pyrethroids accounted for about 18 per cent of the global insecticide market. Originally, cotton was the most important crop, but today pyrethroids are used to control pests in all primary crops of the world.

The chemical structure originates from the flowers of the chrysanthemum plant. In the past, the dried flower heads were used to combat insects in households. The active ingredient is pyrethrin which, however, is unstable in sunlight. The first stable synthetic pyrethroids were introduced in the 1970s. Since then, developments have continued with several new and increasingly active pyrethroids. The ultimate addition is Cheminova's gamma-cyhalothrin, which consists only of one molecular form that carries all the activity.



*The gamma-cyhalothrin molecule has taken Cheminova to the forefront of developments as far as pyrethroids are concerned.*



## Growth rests on new products

*The work in Cheminova's laboratories has resulted in a significant pipeline of new generic products for launching in the coming years.*

Cheminova's Business Plan assumes that new products introduced are growing, and that new products continuously are developed and introduced.

Cheminova is present in most of the main markets with its products. This provides the necessary platform for Cheminova to introduce new products every year, while also enabling it to grow products already introduced. It normally takes three to five years for a product to reach maturity.

### Growth from new products

The biggest new products which Cheminova has introduced in recent years are the insecticides imidacloprid and abamectin, the fungicide tebuconazole as well as the herbicides metsulfuron and diflufenican. The world market for these five products is worth about USD 1.6 billion. Cheminova's share is still modest, but earnings from these products are already contributing to the bottom line.

"Cheminova's current global development projects are resulting in the launch of an average of three new products per year. To this can be added subsidiaries' own

development and acquisition of sales rights to third-party products," says Allan Skov, Senior Vice President, Development & Registration.

### Products in the pipeline

The new products in Cheminova's pipeline have been chosen on the basis of their market potential and how well they fit into the overall business development plan. The product pipeline is very diversified, and this will ensure future growth. For example, we are introducing several new herbicides which can be used as single products or as mixing partners with other products enabling Cheminova to challenge markets currently dominated by patented products.

### New formulations

In addition to launching new products, Cheminova has been able to develop new formulations that enhance the properties of the product. These new plant protection

products represent attractive alternatives for farmers and distributors.

"This development also takes the environment into account. Improved formulations quite often mean that the products have plant oil or water as a solvent or are in a dry form such as granulate," says Allan Skov. "The development of environmentally sound and highly effective formulations is central to Cheminova's innovation activities."

Until 2010, Cheminova's development is focused on herbicides and fungicides. There are several products which strategically fit in well and which have the potential to ensure continued growth.

Cheminova increased its market share in 2007. The increase is primarily attributable to growth in sales of new generic products. The latest products launched include imidacloprid, abamectin, diflufenican, metsulfuron and tebuconazole.





# Strong growth in Q1 2008

## – upward adjustment of outlook for the year

Better market conditions, acquisition of Stähler and a good start to the year in most of the world have led to better than expected results for Cheminova, and thereby Auriga.

- Revenue for the Auriga group for Q1 2008 increased 33 per cent to DKK 1,430 million after strong growth in Cheminova. Operating profit was DKK 122 million, and profit before tax was DKK 109 million.
- The acquisition of a 50 per cent stake in the German Stähler group, which is pro rata-consolidated, contributed to the increase in revenue and earnings after a good start to the season with introduction of new products. The underlying growth in revenue was more than 20 per cent.
- A good start to the year in most of the world meant that pre-season purchases by the distribution channels were higher than normally due to fear of product shortages.
- Introduction of new products and better market conditions for glyphosate contributed to the improved contribution ratio.
- Good conditions for the agricultural sector with high prices for most crops and higher prices for many products, including glyphosate, are expected to continue through 2008.
- Auriga is making an upward adjustment of the outlook for the year to revenue of just over DKK 5.2 billion and an EBIT margin of 7-8 per cent, with expectations of a pre-tax profit of DKK 260-310 million for the year:

### Financial highlights

DKKm	Q1 2008	Q1 2007
Revenue	1,430	1,078
Operating profit (EBIT)	122	38
Net financials	(14)	(14)
Profit before tax of continuing operations	109	26
<b>Profit after tax and minority interests</b>	<b>71</b>	<b>31</b>
Balance sheet total	4,951	6,009
Equity	2,171	2,283
<b>Net interest-bearing debt</b>	<b>1,262</b>	<b>2,157</b>
Cash flows from operating activities	(224)	(293)
Cash flows from investing activities	(304)	(37)
<b>Available cash flow</b>	<b>(528)</b>	<b>(330)</b>
Profit margin (EBITDA)	12%	8%
Profit margin (EBIT)	9%	3%
Debt ratio	36%	48%
Profit in DKK per share of DKK 10 (EPS):		
Continuing operations	2.90	0.64
Continuing and discontinued operations	2.90	1.26
<b>Share price/equity value</b>	<b>1,64</b>	<b>1,75</b>

The total financial statement can be seen on [www.auriga-industries.com](http://www.auriga-industries.com).

### Streamlined structure

Following the sale of Hardi and Skamol, Auriga's balance sheet total has been reduced by DKK 1.2 billion to DKK 4,442 million at the end of 2007. The net interest-bearing debt improved by DKK 1,056 million to DKK 701 million, corresponding to

a gearing of 2.1 (net interest-bearing debt:EBITDA).

The improved balance sheet structure strengthens Cheminova's capacity for making acquisitions in connection with a possible new round of consolidations within the agrochemical industry.



# Auriga's general meeting

*The annual general meeting was attended by 136 shareholders, who listened with interest to the speech of the Chairman of the Board of Directors*

One hundred and thirty-six shareholders made their way to Cheminova's offices to attend Auriga's annual general meeting on April 21.

The shareholders almost filled the auditorium, demonstrating their high level of interest in Auriga.

The general meeting followed the usual agenda with the Chairman of the Board of Directors, Ole Steen Andersen, presenting the Board's review of the annual report followed by a review by President & CEO Bjørn Albinus of the financial statements for 2007 and the results for Q1 2008.

The Aarhus University Research Foundation and ATP stated their support for both the report and the proposals presented by the Board of Directors for adoption at the general meeting, including the proposal that a dividend of DKK 4.00 be paid per share of DKK 10.

## Turning point

As stated in the annual report for 2007 and the comments regarding Q1 2008, the general meeting marked a positive turning point in Auriga's development. During 2007, Auriga had to reduce its outlook as regards the profit, while the interim announcement for Q1 2008 represents a distinct upward adjustment. The Chairman explained that the reason for the positive outlook is the generally favourable conditions that currently exist for agriculture, with high prices for most crops and higher prices being obtained for glyphosate and other products.

## CSR

There were favourable comments from both the major shareholders and from the Chairman of the Board concerning

Cheminova's Corporate Social Responsibility report which, as last year, was published at the same time as the annual report. Attention was drawn to the fact that the CSR report largely fulfils the wish for open communication which has previously been expressed by shareholders. Moreover, it was noted that the 2007 report provides a thorough follow-up on the targets presented in the 2006 CSR report, and that the new report sets out specific targets for the future.

## New members of the Board of Directors

Following a proposal by the Board, Ole Steen Andersen, Povl Krogsgaard-Larsen, Johannes Jacobsen, Jan Stranges and Karl Anker Jørgensen were re-elected to the Board of Directors. Moreover, Torben Skriver Frandsen was newly elected to the Board of Directors, while Ernst Lunding had decided not to stand for a new period.

Deloitte was reappointed as Auriga's auditors.

To conclude the general meeting, Ernst Lunding, the departing member of the Board of Directors, was praised for his work over the years.

The Board of Directors held its first meeting after the general meeting, at which Ole Steen Andersen was elected Chairman of the Board of Directors and Povl Krogsgaard-Larsen was elected Deputy Chairman.



New member of Auriga's Board of Directors:

## Torben Skriver Frandsen

- Born:** 1945
- Education:** MSc in Economics (cand oecon.), University of Aarhus 1973.
- Honorary positions:** Chairman of the Board of Directors of Avaleo ApS, member of the Board of Directors of Symbion Capital I A/S, Dansk Data Display A/S, ServiceGruppen for Hardware A/S and WindowMaster A/S.



# Corporate Social Responsibility

Cheminova has published its second CSR report concurrently with the publication of Auriga's annual report.

It has been a good experience for Cheminova to deal with "responsible behaviour" as a management discipline. The CSR report reflects how this work is being carried out.

There are two significant dimensions to CSR reporting. The first is as a management tool for the specific targets which Cheminova sets regarding "responsible behaviour". The second is as a communication tool vis-à-vis the general public, where the company describes what it is doing, and presents specific targets and reports on the extent to which they are being fulfilled.

As the report is extensive, a summary of the most important topics has also been published this year.

### Status: CSR targets for 2007

In the CSR report for 2006, a number of targets were identified within the areas of product stewardship, production and supplier 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 EU in the period 2007-2010. In 2007, three class I products were phased out in three countries.

At the factory in India, a natural gas-fired CHP unit has been established, which ensures efficient energy use and reduces emissions of CO<sub>2</sub>. At the factory in Denmark, a plant using hydrogen, a by product, has been commissioned, resulting in

energy savings and a significant reduction in CO<sub>2</sub> emissions.

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

### CSR report – main themes

Four main themes have been defined in the CSR report which Cheminova will address in 2008: development and innovation, human resources, occupational health and safety, and EU's new chemicals regulation.

An important theme in Cheminova's development activities is new formulations which reduce undesired side-effects. In this context, 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. It is important to have the right employees, and it is essential that they share the same views on what is important for the company. A code of business principles has therefore been prepared and implemented.

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

EU's chemicals regulation REACH came into force in 2007. The regulation requires manufacturers and importers of chemicals to document the possible harmful effects of the chemicals for humans and the environment. Cheminova has given notification of a number of chemicals.



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

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