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David Bleustein: Ag Equipment Dealers Expect Increased Sales in 2005

According to the 17th semi-annual agricultural dealer survey conducted by UBS Investment Research's David Bleustein, farm equipment dealers believe that full-year 2005 farm machinery sales will improve over 2004. Based on over 630 responses, the level of optimism is somewhat lower than in the last two surveys, but still the third highest since the question was first asked in 1997. Stronger cattle prices and large crops were cited as demand drivers.

"Among risk factors, dealers responded that continued high energy prices may depress sales in 2005," says Bleustein. "Additionally, dealers noted that the benefits of accelerated depreciation in 2004 may have pulled some demand forward from 2005.

Dealers Believe 2005 Retail Sales Will Be Above 2004 Levels

Dealers were asked to project machinery sales for the full year 2005, versus the full year 2004. They were asked to circle the appropriate answer, either "down more than 5%," "down less than 5%," "flat," "up less than 5%," or "up more than 5%."

Of the 634 responses to this question, roughly 53% of dealers responded that sales in 2005 are expected to be either "up less than 5%" or "up more than 5%." Another 25% responded that sales are expected to be "flat" and the remaining 22% responded that sales are expected to be either "down less than 5%" or "down more than 5%."

...roughly 53% of dealers responded that sales in 2005 are expected to be (up)...

"We continue to expect 0%-5% growth in farm machinery sales in the U.S. in 2005 (see table below), as generally lower farm commodity prices are more than offset by record livestock profitability, strong farmer balance sheets, low interest rates, a counter-cyclical farm program and multiple years of weak demand," says Bleustein. AIW

DEALERS' EXPECTATIONS FOR EQUIPMENT SALES IN 2005 VERSUS 2004

Company	Down More Than 5%	Down Less Than 5%	Flat	Up Less Than 5%	Up More Than 5%
AGCO Corporation	6%	10%	30%	37%	17%
Case IH Corporation	8%	16%	22%	39%	15%
Deere & Company	11%	15%	26%	25%	23%
New Holland N.V.	7%	12%	25%	41%	14%
Total	8%	14%	25%	36%	17%

Source: UBS Agricultural Dealer Survey #17

Analysts and OEM Executives Bullish About 2005 Farm Equipment Sales

The following report by Jeremy Grant was posted on Financial Times online, January 6, at http://news.ft.com

Agricultural machinery makers have benefited from 2004's record farm income. Deere & Co, the largest, last month reported a fivefold increase in earnings to record levels.

CNH swung into a profit in its third quarter, ending October on strong revenue growth in the Americas. AGCO reported better-than-expected quarterly earnings.

But can the good times last? Analysts note that in Deere's forecast for 2005, the company predicts a 20-25% increase in sales of tractors, combine harvesters and other farm machinery in the first quarter to January 31. But its full-year forecast for North America was for growth of just 5%.

Joanna Shatney, analyst at Goldman Sachs, says in a report that this is "a little conservative," questioning whether growth in the region's farm equipment has peaked.

Chris Hurt, agricultural economist at Indiana's Purdue University, says a sharp fall in the prices of soybeans and corn in recent months and a "pretty dramatic" rise in fuel and fertilizer prices suggests it has.

He says the size of 2004's harvest was "extraordinary" and is unlikely to be matched. "I think 2005 will be positive, I just don't think the [farm] income

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will be there to maintain the surge [in equipment sales]."

One cause for concern is Asian soybean rust, a disease discovered in the U.S. for the first time in November. The USDA estimates that the cost of spraying fields with retardant fungicides could add $25 per acre to the cost of growing soybeans.

However, Deere is confident in the prospects for farm incomes: "U.S. farmers remain in good financial shape and there are no signs that that's going to change any time soon," it says.

That is partly because global conditions remain favorable for U.S. farmers. These include increased demand for meat in the diets of people in emerging countries, powering demand for grains to feed livestock — and thus demand for tractors and combines.

But U.S. government cash payments to farmers are also helping. Such payments are made under legislation passed in 2002 to compensate farmers for downturns in commodity prices.

Deere expects payments, put by the USDA at $15.7 billion for 2004, to rise substantially this year. By contrast, it forecasts its sales in Europe to be flat to down 5%, in part due to unchanged government payments amid lower grain prices and higher input costs.

Marie Ziegler, Deere's vice-president of investor relations, says such payments are increasingly a part of farmers' budgeting, which supports an optimistic view of machinery demand in North America: "We know now that those payments can be treated as a piece of income that they can count on, and in the past that was not the case."

Steve Bruce, a corn and wheat futures trader for ED&F Man at the Chicago Board of Trade, says: "We know with the farm bill farmers will get $2 a bushel for corn no matter whether they produce more or less. They'll have good income so we expect good machinery sales."

Farm equipment makers have also pushed through price increases with no dampening effect on demand, argues Andrew Casey, analyst at Prudential Equity Group. "These price increases are likely to at least reduce the negative effect of potentially higher raw material costs in 2005," he says in a report.

Others cite a more fundamental reason for cautious optimism: that 2004's sales of farm equipment indicate that the industry still has room to grow, when compared with the trends in the last two industry cycles.

Andrew Obin, analyst at Merrill Lynch, says last year's sales of large tractors and combines are expected to reach 28,500, well below a peak of almost 40,000 reached in 1997. "Everyone's running around saying the cycle's over. To me that says we are at the midpoint of the cycle." AIW

American Farm Ecosystem Adapting with Disappearing 'Middle' Farmer

In a recent presentation to the Farm Equipment Manufacturers Assn. (FEMA) in Orlando, Fla., Willie Vogt and Arlan Suderman of Farm Progress Companies provided an analysis of the changing demographic of the American farm industry.

Table 1 shows the recent U.S. Census data on the size of U.S. farms as compared to 1997. As seen in the table, the number of 10- to 49-acre farms is growing, as is the very large (2,000-acre and above) farm. Everything else, however, is disappearing.

Their research also examined the employment habits of the principal operator of the farm, as shown in Table 2. From the macrolevel results in this table, it is clear that the more contemporary farmer is less likely to work off the farm than in 1997, with a 15.5% increase among farmers who do not work a single day off the farm. Furthermore, farmers who list agriculture as their primary occupation jumped 17.2% as compared to 1997.

Figures 1-3 show the impact on the number of small, medium and large-sized farms (defined by gross farm income). "The small farms ($1,000 to $10,000 in income) are steadily increasing, as are the large farms ($500,000 to $1 million)," says Suderman. "But the medium-sized farms ($10,000 to $100,000) are disappearing. These numbers are trending significantly lower and means a bumpy ride for all of us. There has been a major change in the last six years."

TABLE 1. SIZE OF FARMS (2002 VS. 1997)

Size of Farms	2002	1997
1 to 9 acres	179,346	205,390
10 to 49 acres	563,772	530,902
50 to 179 acres	658,705	694,489
180 to 499 acres	388,617	428,215
500 to 999 acres	161,552	179,447
1,000 to 1,999 acres	99,020	103,007
2,000 acres or more	77,970	74,426

TABLE 2. PRINCIPAL OPERATOR (2002 VS. 1997)

Principle Operator	2002	1997
Days of work off farm – None	962,200	832,585
Days of work off farm – Any	1,166,782	1,254,537
Days of work off farm – 200 days or more	832,348	870,945
Primary occupation – Farming	1,224,246	1,044,388
Primary occupation – Other	904,736	1,171,488
Average age of principal operator (years)	55.3	54

U.S. Ag Census

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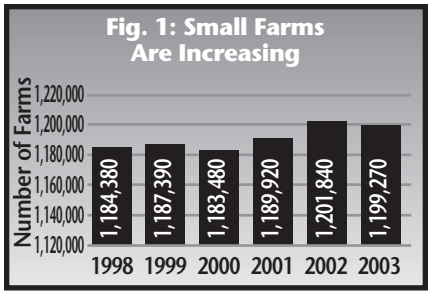

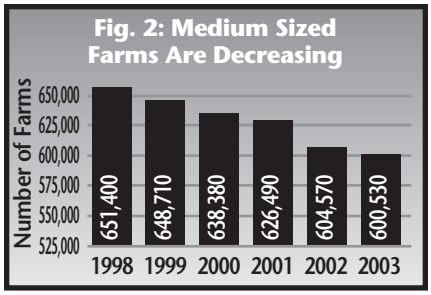

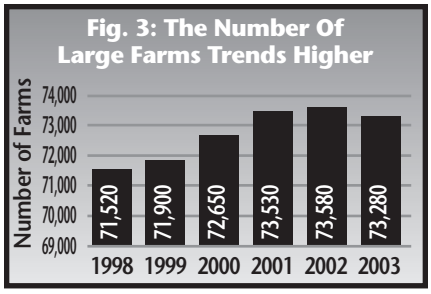

The Emerging Business Farmer

Vogt highlighted some real differences in what he called the "emerging business farmer." In Vogt's definition, the emerging business farmer possesses a can-do, take-charge attitude and believes he is in control of his own destiny. Other traits defining this farmer are that he:

- ✘ Recognizes that time is money.
- ✘ Views problems as opportunities.
- ✘ Benchmarks his operation — as well as suppliers — regularly.
- ✘ Is a business buyer and is web savvy.
- ✘ Is family-oriented and values non-work time.
- ✘ Knows costs and understands profit.

"Decisions are being made on profit and loss, not emotion," says Vogt, noting that this type of farmer speaks in terms of asset turnover, capital costs, leasing and depreciation. For manufacturers, this means that "these bigger operators will ask how equipment directly addresses a specific problem in their operation, and how it will save them time and money," says Vogt. "If you can communicate how your equipment and technology will help them, this type of farmer — although he will shop around and cares little about where he buys it — will pay more for products that provide a better return."

The presenters also encouraged manufacturers to consider the following points:

- ✘ Bigger operators require a "fleet mentality" for improved uptime.
- ✘ Downtime is quantified, so reliable equipment is worth more money at purchase time. "The days of farmers shrugging their shoulders and happily heading to the coffee shop when their planter breaks down are ending," says Vogt. "The business farmer knows exactly what that downtime is costing his operation. The opportunity cost of downed equipment is now becoming an issue, and that farmer recognizes that downed equipment represents an extra cost that is hurting yield."
- ✘ Parts support is critical, but may not be delivered in traditional ways.

The Expanding Small Farmer

In their analysis of the small farmer demographic, the presenters discussed the part-time and lifestyle farmer who typically farms on nights and weekends for the lifestyle that it provides. These individuals have an in-town job that finances the farm and treats it as a cash business. According to Vogt, these farmers are no different from any hobbyist who wants "good stuff" to support his hobby. "They will invest in the tractor, mower, scraper and rototiller that they want, as they're spending on the lifestyle that that want," he says.

Like the large business-type farmer, these individuals also tend to be web-savvy and seek solid support for their farm activities, and are willing to pay for it. AIW

2005 U.S. COMMODITY FORECAST

Corn:.....$2.10-$2.50/bushel

Soybeans: .....$4.50-$6.00/bushel

Wheat: .....$3.10-$3.70/bushel

Another year of world weather problems would support sharply higher prices, especially for grain.

FACT:

Nine out of 10 British dairy farmers invested in equipment during the last 4 years. (Business.Scotsman.com)

FARM MACHINERY TICKER (AS OF 1/11/2005)

Mfr.	Symbol	1/11/05 Price	12/13/04 Price	1-Year High	1-Year Low	P/E Ratio	Avg. Volume	Market Cap.
AGCO	AG	$20.24	$21.63	$23.13	$16.11	12.19	1.01 M	1.83 B
Alamo	ALG	$26.51	$22.45	$28.60	$14.40	20.39	27,500	258.15 M
Art's Way	ARTW	$7.45	$5.75	$8.79	$3.98	8.10	15,700	14.44 M
Caterpillar	CAT	$92.30	$92.35	$98.72	$68.50	17.85	2.22 M	31.50 B
CNH	CNH	$18.55	$18.10	$21.90	$15.83	n/a	78,000	2.46 B
Deere	DE	$69.69	$70.75	$74.93	$56.72	12.53	2.05 M	17.27 B
Gehl	GEHL	$23.33	$24.49	$27.90	$13.51	11.78	25,200	152.11 M
Kubota	KUB	$25.60	$22.75	$27.90	$19.05	60.95	5,400	6.86 B

Brazil: The New Gold Rush State For Farm Equipment Manufacturers

In a new report titled *Brazil: Bread-Basket for the World*, industry analyst Charlie Rentschler, Langenberg & Co., cites compelling evidence to suggest Brazil's agricultural economy, already one of the largest in the world, has potential for more explosive growth over the next 5 to 10 years. For starters, he says, Brazilian officials predict 150% growth in tillable acres, an area roughly the size of America's corn belt. We're talking all-new, never-been-tilled acreage.

Farm equipment manufacturers are taking note. Brazil's quest to expand agricultural output rapidly has created a rush among ag equipment makers to create or increase their presence in the country. In 2004 alone, Deere released its plans to build an $80 million tractor plant to complement its combine facility; CNH said it would expand its Brazilian production facilities; AGCO increased by 50% both its manufacturing and dealer presence with the acquisition of Valtra, a move that added one manufacturing plant and 75 dealer outlets to AGCO's existing plants (2) and network of Massey-Ferguson dealers (150). Mahindra & Mahindra announced it was considering construction of a plant in Brazil, too.

As a percentage of revenue worldwide, AGCO generated 38% of its operating income in the first nine months of 2004 from South America. Rentschler estimates Deere's income from Brazil currently at around 10-15% and likely to grow in coming years. Likewise, CNH Global derives 10-15% of its income from Brazilian markets, Rentschler believes.

Can Brazil Overtake the U.S. in Corn and Soybean Production Within the Next 10 Years?

The short answer is yes. It's possible, maybe even probable, says Rentschler. Here's why. Brazil already ranks No. 1 in production of coffee, sugar cane and orange juice, and No. 2 in beef, soybeans, corn and poultry. In 2003, agriculture accounted for 34% of Brazil's GDP. Brazil is one of only three countries with land surface area exceeding 3 million sq. kilometers, population exceeding 100 million people and GDP exceeding $500 billion. (The other two are China and the U.S.)

Brazil consists of 27 states, with most agricultural producion occuring in the central and southern portion. Rentschler's report centers on Bahia, a large state just 800 miles below the equator. The western half of Bahia has an elevation of 9,000 feet and averages 80 to 90 inches of rainfall annually.

Cerrados Gold Fields

Much of western Bahia consists of cerrados, or uncleared brushland, as they are officially defined by the government of Brazil. Not confined just to Bahia, cerrados stretch across the country from the northeast to southwest through portions of 8 or 9 states. Official estimates of cerrados that will be opened up over time could reach 225 million acres (versus 156 million acres currently under cultivation). The additional farm ground is roughly the equivalent of the Corn Belt of the Midwest U.S.

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The Bahia cerrados region, south of Brazil's famous rainforest, contains soil of about 25% clay content, not naturally of high fertility. However, Embrapa, the Brazilian Agricultural Research Institute, has demonstrated that soil fertility in the region can be quickly boosted and sustained by correcting acidity, fertilizing and using crop rotation techniques. Farmers working the land using these prescribed methods are converting cerrados land into productive farm land in just 4 to 5 years time.

Uncleared cerrados land is cheap, selling at $30 to $40 per acre, with cultivated land priced in the $600 to $700 range. With the prospect of growing soybeans, corn and cotton profitably and in relatively short time, a veritable land rush is occurring in Bahia. Rentschler visited the thriving city of Luis Eduardo Magalhaes, population 40,000. Just 8 years ago, all that existed there was a remote cross road and a filling station.

Clearing cerrados involves removing short, scruffy trees and bushes and applying 2 tons-per-acre of lime and a half-ton-per-acre of gypsum. Then growing crops of soybeans-corn-cotton-cotton, in that order, over 4 years, a farm ought to be quite productive. Cotton especially thrives in Bahia soil. One John Deere dealer told Rentschler that 10% of the world's cotton pickers were sold last year in Bahia.

No-Till Practices and GPS Technology Flourishing

During his visit to Bahia last year, Rentschler was impressed with the sophistication of the farmers he met. They all practiced crop rotation and no-till farming in an effort to avoid moldboard plowing and chiseling, which compacts the soil. Global-positioning systems are also commonplace. A Massey-Ferguson dealer reported to Rentschler that all 30 self-propelled chemical sprayers he had sold in 2004 had GPS.

By employing these up-to-date farming methods, Brazil's farm productivity has shot up dramatically, with the government reporting output at 2.783 kilograms/hectare in 2003-2004, up from 2.189 kilograms/hectare in 1997-1998 — a 27% increase in just 5 years.

Another interesting fact about Brazilan farmers is their rapid adoption and use of genetically modified seeds. Following the lead of U.S. growers, one farmer told Rentschler that he routinely mixes genetically modified seeds with regular beans, seemingly indifferent to the requirements of Brazil's big European customers who have a ban on genetically modified produce.

Farm Equipment Manufacturers Quietly, Surely Staking Claims

John Deere Brasil S.A. has been investing heavily in Brasil, adding a $30 million paint facility in 2003 to enhance its factory capabilities in Horizontina, and announcing the construction of a new facility in Montenegro, Rio Grande do Sul, scheduled to begin production of farm tractors in 2006.

The Horizontina factory now manu-

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facturers several models of combines for the U.S., South American and European markets, and 600 series cutting platforms and 90 series corn heads.The latter two product lines have strict local content goals, according to a company release. Supporting the Horizontina factory is a Deere foundry operation in nearby Santo Angelo, Rio Grande do Sol, and a sugarcane harvester manufacturing plant in Cameco do Brasil, Catalao.There are 103 John Deere dealer outlets in Brazil.

In the past two months, CNH has introduced two newly designed products: a new sprayer with more power and better weight distribution, and a newly designed cotton picker with enhanced monitoring and seviceability features. Not surprisingly, these two pieces of equipment currently are in great demand in Brazil.

The company Rentschler believes to be in the best position to benefit from developments in Brazil is AGCO. He points out that AGCO's Massey-Ferguson and Valtra brands command over half the tractor market.These businesses have been in Brazil for many years and have extensive coverage with 225 dealers between them. Also, AGCO commands approximately half of the worldwide market for chemical sprayers, primarily through its Ag-Chem brand, and is uniquely positioned to advance on that front, too. Finally, Rentschler believes that AGCO's belted Challenger tractors would be ideal in the cerrados.

There should be no losers in the rush to serve the burgeoning Brazilian farmer class. Always the bellweather, Deere exemplifies Brazilian potential. In the past five years, the number of employees at Deere's Horzontina factory has doubled; production volume has tripled. In the *John Deere Journal* (August, 2004) Paulo Herrmann, John Deere Brasil's director of marketing for South America says forecasts indicate that Brazil's farmers will add about 2 million hectares a year to farmland. Most interestingly, farmers can get up to three harvests a year because of climate and altitude.

Even though Brazil is the most industrialized nation in Latin America, the agricultural sector and its related businesses now account for 37% of the nation's jobs, 40% of its exports and 27% of its gross domestic product. Agriculture enjoys a predominant role in the emerging nation.

Concludes Hermann, "All that productive capacity means a great demand for machinery—and great demands on the machinery." AIW

Deere Cultivating Russian Markets

Russian farmers can now lease John Deere equipment under an agreement announced Dec. 21, 2004 by Deere & Company. Deere said that Deere Credit, Inc. and Rosagroleasing of the Russian Federation have agreed to a Credit Facility Agreement guaranteed by the Export-Import Bank of the U.S. According to a company release, this agreement provides up to $25 million for leasing of John Deere agricultural equipment by Russian customers.

"The Credit Facility will be used by Rosagroleasing to supply John Deere equipment, including high horsepower tractors, implements, seeding equipment and combines to customers throughout Russia with loans of up to five years," said Elena Skrynnik, General Director of Rosagroleasing. "This will help many Russian farms to replace their aging fleets and will increase their productivity."

David C. Everitt, president of Deere & Company's Agricultural Equipment Division for Europe, Africa and South America, said, "This agreement is consistent with our efforts to grow our business around the world. It provides an opportunity for Russian farmers to improve their operations through increased productivity."

This is the first time that Rosagroleasing has borrowed money for the purchase of foreign made agricultural equipment, reflecting improvements in the Russian economy and the country's enthusiasm for John Deere agricultural equipment.

Rosagroleasing was established in 2001 by the Russian Government and is an Open Stock Company under supervision of the Russian Ministry of Agriculture that had previously offered leasing programs exclusively for agricultural equipment made in Russia. Rosagroleasing is the largest leasing company working in the Russian agricultural sector with a leasing portfolio over $850 million. AIW

CNH Wants UAW Out, Says Rentschler

When CNH America LLC, a wholly owned subsidiary of CNH Global N.V. declined the UAW's return to work offer last November saying the company does not believe that it would be in the best interests of the company, its customers and dealers, we wondered about the impact of the strike on other ag equipment manufacturers. So we asked analyst, Charlie Rentschler, who has been watching the situation closely.

"It seems to me that Case is trying to rid itself of the last vestiges of the UAW in its U.S. manufacturing operations and it looks like the 650 "hourlies" at Burlington (Iowa) and Racine (Wisconsin) played right into their hands. Not a stand-alone event, Case's stance here is part of a multi-year program to consolidate and rationalize manufacturing in this country, which has been costly and time-consuming for CNH. It appears that Case now may have a labor-cost advantage over arch-rival Deere, which not only is so heavily UAW with 7,700 of its workers, but also is so very vertically-integrated in the U.S., with its foundry, two engine plants, etc.Then, too, Deere has been very generous to its workers on the medical and pension fronts, so that its 'legacy costs' are enormous," says Rentschler.

"In short, Case's refusal to negotiate with the UAW last fall needs to be considered as a piece of an evidently well-conceived, well-executed multi-year manufacturing strategy. Now Case can focus on its products and distribution system."

In total, approximately 650 of the company's 10,000 North American employees are represented by the UAW, with nearly all working at the two manufacturing locations in Racine Wisconsin and Burlington Iowa. CNH operates 41 manufacturing centers worldwide of which 14 are located in North America. AIW

Bühler Finishes 36th Consecutive Year of Profit and Equity Increase

Canadian farm equipment manufacturer Bühler reports 2004 revenue of $206 million, an increase of 14% over 2003 (see Fig. 1). Tractor sales accounted for most of the increase, while the core farm equipment products continue to experience sales increases in areas not as affected by BSE (Mad Cow Disease).

Says John Bühler, chairman and CEO, "Last year's challenges of the Mad Cow Disease and the strong Canadian dollar did not go away, but were compounded this year by steel-price increases of a magnitude never before seen. As we were unable to recover a large portion of the steel price increases, we are reporting the lowest gross margin percentage in the history of the company.

"Given all of these setbacks, management was still able to achieve an EBITDA (Earnings Before Interest, Taxes, Depreciation, and Amortization) of $20 million or 10% of revenue, down from last year's 12%. Without the $2 million gain from the sale of assets, the EBITDA would have been $18 million or 9% of revenue."

Gross profit decreased to 37.6 million (18.2% of revenue) compared with $41.2 million (22.8% of revenue) last year (see Fig. 2). The drop in gross profit is a combination of the continuing weak U.S. dollar and the increases in the price of steel. While a steel surcharge offset a portion of these additional costs, the company expects that its price increases will have a negative impact on revenue, thus making it difficult to forecast the outcome. Therefore, predictions for gross margins are that they will continue to range between 16-18% for the next four quarters.

Operating income of $21.3 million is down from last year's $25.1 million (see Fig. 3). The loss in income can be directly attributed to three causes: 1) the decreased gross margin brought on by the sudden increase in the cost of steel; 2) the reduced sales in Canadian territories owing to the BSE crisis; and 3) the lingering effects of the weakened U.S. dollar.

The company is forecasting that income from operations will remain flat or lower until all of the above issues have been resolved.

Net Earnings

Net earnings increased by 3.6% to $12 million ($0.50 per share on an average of 24.3 million shares) compared with $11.6 million ($0.51 per share on an average of 23 million shares) last year (see Fig. 4). Net earnings include $2.0 million earned from the sale of three properties that were no longer used for company operations. As history shows, the company typically experiences a gain on disposal of assets. In the last 6 years, the company has averaged in excess of $500,000 gain per year. This year was somewhat exceptional in that it had $2 million gain. Therefore, in actual fact, income from the manufacturing operations is lower by about $1.5 million.

The recent unprecedented steel price increases (in some cases exceeding 100%) will continue to have a negative impact on earnings. The company is forecasting flat earnings for next year and earnings will likely remain flat until such time that the BSE crisis is settled and the company is able to recoup more of the steel-price increases.

EBITDA of $20 million is down from last year's $21.9 million, but ahead of the 5-year average of $19.7 million (see Fig. 5). Last year the company projected an increase in EBITDA, however it was not able to achieve this. This year's EBITDA was supported by $2 million from the gain on sale of capital assets, therefore, the company is forecasting lower EBITDA for 2005.

EBITDA as a percentage of revenue now stands at 10%, down from last year's 12% and below the 5-year average of 11%. The company had its sights set on reaching 15%, but now with the reduction in gross margin, it will need to be satisfied with a lower percentage, as it will be difficult to improve on this number for next year.

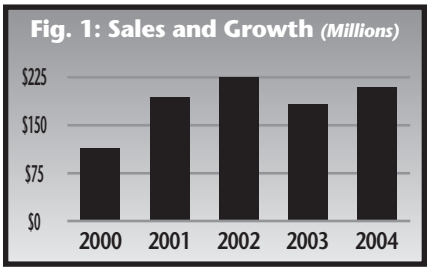
Looking Back, Looking Forward

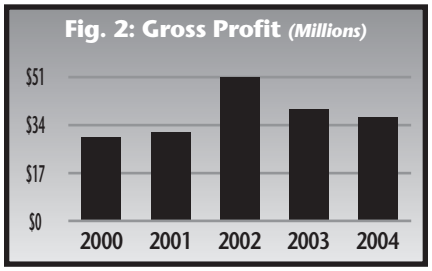
Says Craig Engel, president, "The various operations of our company maintained our strategy of 'slow and steady' growth, which has proven to be profitable and sustainable over the long term."

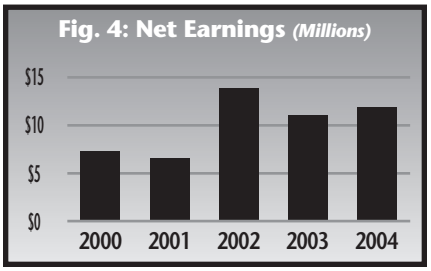
Bühler Industries Inc. was established in 1933 and, today, operates 10 manufacturing plants and 7 distribution centers totaling more than 1.5 million sq. ft. of facilities and employing 800 people. The company manufactures a wide range of agricultural equipment marketed throughout North America under the brand names Bühler, Allied, Farm King, Inland and Bühler Versatile.

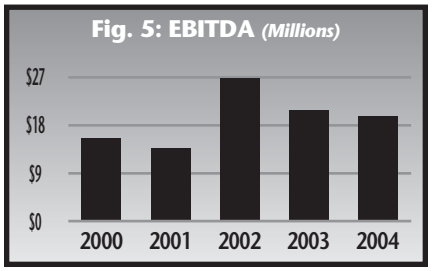
In 2000, the company purchased the only tractor manufacturing plant in Canada. Ranging from 145 hp to 425 hp, the tractors complement the company's portfolio of shortline equipment, including grain augers, 3-point hitch attachments, front-end loaders and haying equipment.

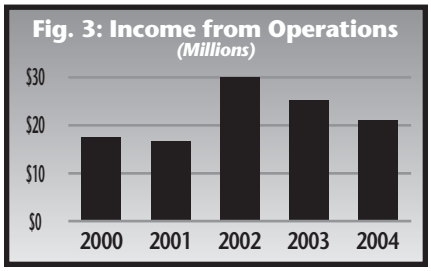
"Our tractor organization completed its 4th year of operation," says Engel. "We plan to continue to take our niche tractor products to the next level in North America. We are also contemplating markets outside North America and will select territories of interest." AIW











Mahindra Purchases 80% Share of Chinese Tractor Company

Mahindra & Mahindra Ltd. signed an agreement with the Jiangling Motor Company Group (JMCG) of China to acquire 80% of Jiangling Tractor Company (JTC). JTC has a current capacity of 12,000 tractors.

The deal will provide M&M with a strong manufacturing base in China, an existing distribution network and a complementary product range. Mahindra will also acquire the Feng-shou brand under which JTC tractors are sold and which has very good brand equity for reliable quality, according to a Mahindra release.

Speaking on the occasion Mr. Anand Mahindra, Vice Chairman & MD, M&M said, "We're happy to have formed this joint venture with a partner like JMCG, which shares our philosophy of good quality tractors at value for money prices. The joint venture will provide us quick entry into China and also provide us a low cost manufacturing base. We see excellent possibilities for using the joint venture to make further inroads into new and existing markets."

Mr. Anjanikumar Choudhari, president of the Farm Equipment Sector at M&M, added his comments: "The tractor industry in China is poised for rapid growth. The Government is giving very high priority to the development of the rural economy and providing attractive incentives for farm mechanization. Our joint venture will help us participate in this growth. The Feng-shou range of tractors is complementary to the M&M range. We will therefore have a very balanced product portfolio for China. Additionally, the JV will help us develop our overseas business in the U.S. and other markets."

The Jiangling Tractor Company (JTC) is a wholly owned subsidiary of the USD 700 million Jiangling Motor Company Group (JMCG). JMCG is a leading group in tractors and automotive business in Nanchang, Jianxi province of China. JMCG already has JVs with auto majors like Ford and Isuzu for their automotive business.

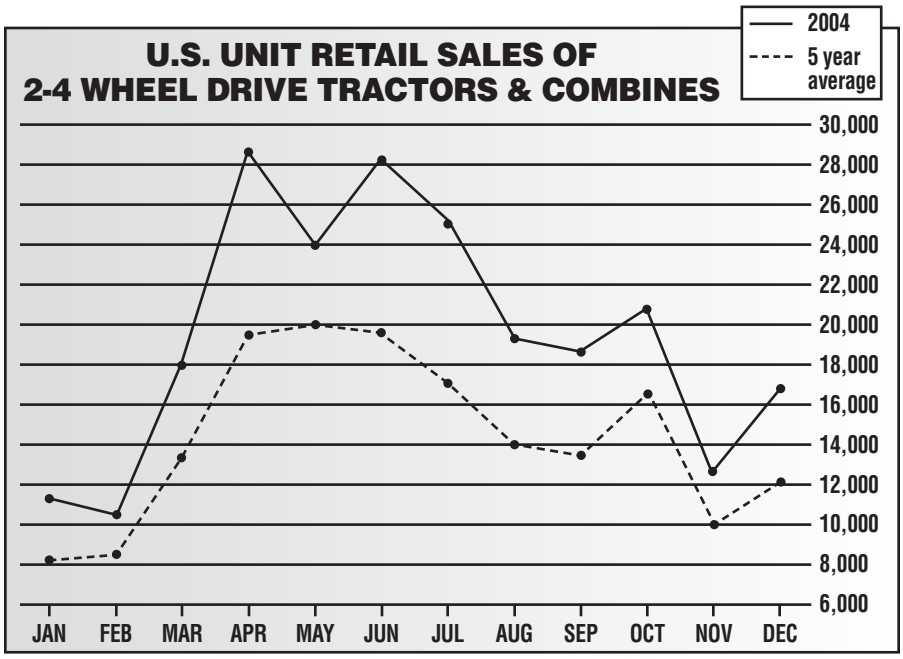
Mahindra & Mahindra Ltd. is the market leader in the Indian Tractor Industry with 27% market share. AIW

DECEMBER U.S. UNIT RETAIL SALES

Equipment	December 2004	December 2003	Percent Change	YTD 2004	YTD 2003	Percent Change	November 2004 Field Inventory
Farm Wheel Tractors-2WD							
Under 40 HP	7,431	7,347	1.1	133,775	125,728	6.4	49,940
40-100 HP	6.550	5,316	23.2	71,135	60,322	17.9	27,769
100 HP Plus	1,816	1,346	34.9	19,885	14,234	39.7	6,318
Total-2WD	15,797	14,009	12.8	224,795	200,284	12.2	84,027
Total-4WD	361	263	37.3	3,604	2,823	27.7	1,060
Total Tractors	16,158	14,272	13.2	228,399	203,107	12.5	85,087
SP Combines	623	561	11.1	6,683	4,631	44.3	1,126

DECEMBER CANADIAN UNIT RETAIL SALES

Equipment	December 2004	December 2003	Percent Change	YTD 2004	YTD 2003	Percent Change	November 2004 Field Inventory
Farm Wheel Tractors-2WD							
Under 40 HP	423	290	45.9	7,004	5,612	24.8	3,056
40-100 HP	608	473	28.5	6,568	6,518	0.8	2,531
100 HP Plus	305	260	17.3	3,477	3,816	-8.9	1,538
Total-2WD	1,336	1,023	30.6	17,049	15,946	6.9	7,107
Total-4WD	85	59	44.1	718	673	6.7	204
Total Tractors	1,421	1,082	31.3	17,767	16,619	6.9	7,311
SP Combines	158	124	27.4	1,564	1,231	27.1	351



—Assn. of Equipment Manufacturers

Equipment Dealers Caught in the Crossfire of U.S.-Canadian Beef Dispute

The U.S. border has been closed to all live cattle, and many other forms of beef, since a case of bovine spongiform encephalopathy (BSE), or mad cow disease, was discovered in an Alberta cow in May, 2003. A second case was reported in Dec. 2004.

Last month, the U.S. government announced it would allow the shipment of live Canadian cattle under 30 months of age into, and through, the country as of March 7.

Canadian dairy and cattle farmers are not holding their breath. Many are convinced that the U.S. government will not necessarily re-open the border on time because of resistance from certain special-interest groups in the U.S.

One such group — the Ranchers Cattlemen Action Legal Fund (R-CALF) — has threatened legal action against the U.S. government if the border is re-opened as planned.

Conversely, other groups representing American meat packers have threatened to do the same should the border remain closed.

One thing is certain: The consequences to the beef industry in Canada has been estimated at more than $5 billion. Ag equipment dealers in Canada's cattle country are certainly feeling the pinch. Says John Schmeiser, executive vice president of Canada West Equipment Dealers Assn. (CWEDA), "Dealers have been seriously impacted by the border closure, and the sale of all types of equipment have been affected. Certainly dealers retailing 2WD tractors and haying equipment have been most affected. We have also heard of many instances where farmers were going to cull their herds and use the proceeds to purchase a combine or 4WD tractor. But because their cattle was worth a lot less, herds were not culled and these sales were cancelled."

Says Beverly Leavitt, executive vice president of the Ontario Retail Farm Equipment Dealers Assn. (ORFEDA), "The extent of the BSE impact has depended a lot on where dealers are located. Areas where beef production is high have been almost decimated in both farm numbers and dealership numbers. Areas where other commodities are the higher ag production sources have not been hit nearly as hard, but all areas of Ontario have been impacted to some extent."

Schmeiser says that once the U.S. border reopens to Canadian live cattle, he does not expect a huge increase in the short-term. In the long-term, as the North American market is once again integrated, dealers will benefit. AIW

Industry Newsmakers

Harvesting equipment distributor **Degelman Industries**, Minot, N.D., has bought **WFC-Geringhoff**, a similar company based in Minnesota and is moving its operations to North Dakota. Degelman Industries distributes harvesting equipment for a variety of crops, ranging from wheat and soybeans to alfalfa. WFC-Geringhoff distributes harvesting equipment for corn.

Miller-St. Nazianz, Inc., of St. Narianz, Wis., parent company of **Miller Application Technologies**, **Miller Pro** and **Badger Farm Systems**, has purchased the operating assets of **Ag-Bag International Limited**, an Oregon-based company. Ag-Bag is a leader in the horizontal feed storage industry with its bagging machines and storage bags. The environmental division of Ag-Bag also brings to Miller its in-vessel composting technology in the organics waste recycling industry.