Vol. 11, Issue 12

FARM EQUIPMENT's Ag Industry Watch

News, Information & Analysis for the Ag Equipment Marketer

April 15, 2005

Self-Propelled Sprayers Top Equipment Forecasts for 2005

The Assn. of Equipment Manufacturers released its 2005 State of the Ag Industry Outlook on April 6. Manufacturers increased their 2005 forecasts for farm equipment sales compared to the previous 2005 forecast issued in June of 2004, likely in response to stronger-than-expected 2004 retail sales and modestly higher year-to-date demand. All major categories in the U.S. and Canada, with the exception of 4WD tractors, were revised upwards in the latest forecast, with the most noticeable uptick seen in combines (now -5% vs. -16%).

Based on survey responses from 40 farm equipment manufacturers, the results of the survey are found in Table 1. As shown, retail sales of 2-wheel drive tractors are expected to grow 1.4% in the U.S. and 6.2% in Canada, while sales of 4WD tractors are predicted to decline by 8.8% and 5.2%, respectively. Self-propelled combines are also seeing negative retail sales in the U.S. and Canada, with declines of 2.9% and 6.6%, respectively.

"The revised 2005 outlook for farm equipment revealed improved, yet still negative, growth expectations for combines and row crop tractors," says Robert McCarthy, R.W. Baird. "Four-wheel drive tractors are now expected to decline 9% year-year, vs. a previously forecast 7% decline, while utility tractor sales are expected to increase 1% this year, vs. the previously expected 6% decline." He added that the year-to-date data (through March) generally supports the AEM forecast.

Most other categories of farm equipment are expected to see an increase in sales. The strongest growth in the U.S. is predicted for self-propelled sprayers, with an increase of 8.8%, followed by gains in farm loaders (3.9%), field cultivators (3.8%), air seeders/drills (3.2%). The greatest slowdown in U.S. sales is predicted for forage harvesters and rectangular balers, at declines of 4.7% and 4.4% respectively.

In Canada, self-propelled sprayer sales are also expected to lead all

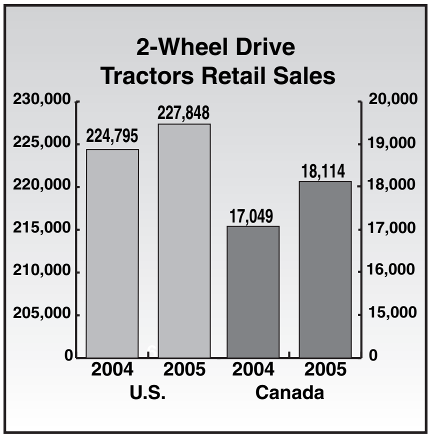
Continued on page 2

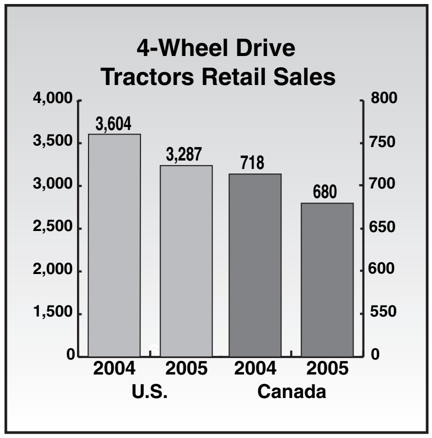
TABLE 1. 2005 AG EQUIPMENT SALES PREDICTIONS FOR THE U.S. AND CANADA

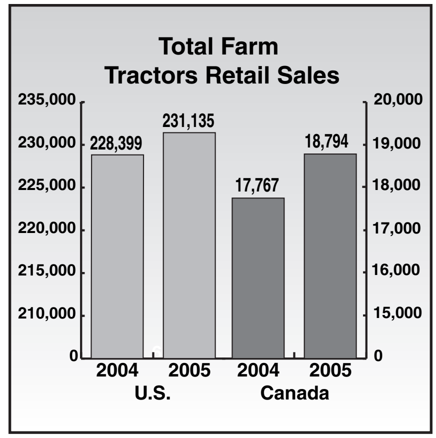
	U.S.	Canada
2WD Tractors	+1.4%	+6.2%
2WD Under 40 PTO	+3%	+9%
2WD 40-100 PTO HP	0	+6%
2WD Over 100 PTO HP	-4.8%	+1.2%
4WD Tractors	-8.8%	-5.2%
Self-Propelled Combines	-2.9%	-6.6%
Rectangular Balers	-4.4%	+7.6%
Round Balers	+0.5%	+5.3%
Forage Harvesters	-4.7%	+3.7%
Planters (all)	-3.1%	+3.5%
Mower Conditioners	-0.5%	+6.2%
Windrowers/Swathers	+0.1%	-4.4%
Field Cultivators (all)	+3.8%	-1.0%
Farm Loaders	+3.9%	+4.3%
Chisel Plows	+1.4%	-7.5%
Disk Harrows (all)	+2.5%	0
Air Seeders/Drills (all)	+3.2%	-2.8%
Self-Propelled Sprayers	+8.8%	+8.5%

TABLE 2. FACTORS INFLUENCING FUTURE U.S. SALES 2005

Factor	Significantly Up	Modestly Up	About the Same	Modestly Down	Significantly Down
FINANCIAL					
Credit Availability	3%	39%	59%		
Interest Rates	3%	78%	14%	5%	
Government Programs	3%	22%	50%	25%	
Farm Cash Receipts	6%	44%	11%	39%	
Net Farm Income	3%	44%	14%	36%	3%
CROP PRICES/ACREAGE					
Corn		21%	46%	25%	7%
Soybeans		21%	36%	29%	14%
Wheat		28%	48%	21%	3%
Planted Acreage		21%	69%	10%	
Grain Exports	7%	39%	36%	18%	
LIVESTOCK/DAIRY PRICES					
Beef	3%	39%	39%	19%	
Milk/Dairy Products		16%	56%	28%	
Hogs		21%	55%	21%	3%
FARM EQUIPMENT					
Operator Attitude Toward Purchase	6%	42%	47%	6%	
Prices of New Equipment	33%	56%	6%	3%	3%
Prices of Used Equipment for Sale	14%	64%	14%	8%	
Quantity of Used Equipment for Sale		33%	44%	22%	
Replacement Demand/Need	3%	39%	58%		







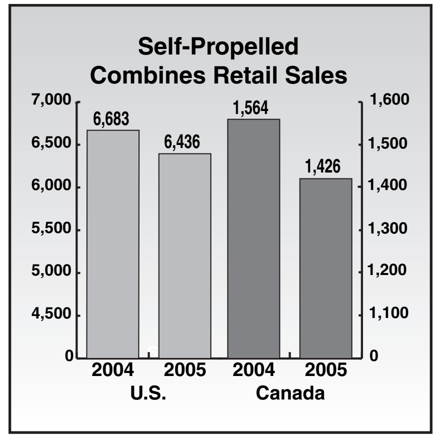
machinery sales with a gain of 8.5%, followed by rectangular balers (7.6%) and mower conditioners (6.2%). Lagging sales are anticipated for chisel plows (down by 7.5%) and windrowers/swathers (down by 4.4%).

Risk Factors — Agricultural equipment manufacturers forecast anticipated changes in 20 factors that have emerged as key influences on the sale of new equipment. Table 2 shows the results. A summary of how manufacturers view these risk factors for the U.S. market is shown in Table 2.

Interest rates are expected to be "modestly up" in the U.S. and Canada, as noted by 78% and 55% of the respondents, respectively. Credit availability is predicted to be about the same in the U.S. and Canada, as noted by 59% of respondents.

For U.S. sales, 44% see farm cash receipts and net farm income as being modestly up, with similar numbers for Canada (45% and 48%, respectively). The majority said planted acreage will be about the same as last year (69% U.S. and 74% Canada). U.S. grain exports are expected to be about the same by 36% and modestly up by 39%, and Canada exports about the same say 52% and modestly up say 35%. The impact of beef prices is expected to have a greater impact on Canadian sales than on U.S. sales (modestly up 39% U.S. and 48% Canada). A total of 94% of the manufacturers expect the attitude toward purchases to make an equal or positive contribution to demand growth in 2005.

The prices of new as well as used



equipment is seen as modestly or significantly up as a factor for U.S. and Canadian sales by the majority of respondents. Less changes are expected for the quantity of used equipment and replacement demand.

Chart Omission

McCormick Tractors pointed out an omission in "U.K. Tractor Sales: Deere Loses Ground, Yet Retains Top Position Over New Holland," which appeared in the March 15, 2005 edition. While the text contained the appropriate figures, the pie chart did not reflect McCormick's 1.1% market share gain in 2003. "In reality, 1,060 McCormick tractors were registered by new owners, representing a 7% market share — not bad in only our third year," says Vikky Morley, McCormick Tractors International Ltd.

President Backs Off Cutting Aid to U.S. Farmers

After two months of fierce resistance from farmers and Congress, the Bush administration dropped an effort to cut government payments to farmers on April 12.

The president asked Congress in February to slash billions of dollars from payments to large farm operations, dropping the maximum farmers are allowed to collect from $360,000 to $250,000 and closing loopholes allowing some growers to obtain millions of dollars. He also proposed to cut all farm payments by 5%.

The argument surrounds the fact that bigger operations collect too big a share of government payments. According to the Dept. of Agriculture, 8% of producers receive 78% of subsidies.

Agriculture Secretary Mike Johanns told key senators that while spending must be reduced to hold down the federal deficit, he is willing to look elsewhere in agriculture programs for cuts. Republican committee chairmen have suggested reductions in spending on land conservation and nutrition programs, such as food stamps, also run by the Agriculture Dept.

AG INDUSTRY WATCH is published monthly for the farm equipment industry by Lessiter Publications Inc., P.O. Box 624, Brookfield, WI 53008-0624. Please send any address changes as soon as possible to the address shown above.

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French Farm Equipment Sees 5% Growth in 2004

According to a recent report in *Farmer's Weekly*, sales of tractors and farm machinery in France, a 3-billion Euro equipment market and the largest in Europe, were up 5% in 2004.

Specifically, tractors saw a 5% increase to 40,300 units while combines rose 12% to 1,600 units. As in other parts of the world, sales received a shot in the arm by those attempting to place early orders to avoid higher machinery prices as a result of rising steel prices.

Despite lower milk prices, sales of self-propelled forage harvesters and mower conditioners also rose by 9% and 6%, respectively. According to Jean-Paul Papillon of the French Farm Machinery Assn. SYGMA, this trend reflects the growing significance of agricultural contractors as individual farmers try to reduce their machinery costs.

Forecasts for 2005 placed tractor sales down by about 2%, combine sales up by 1% and self-propelled forage harvesters falling by 5%. Even so, initial forecasts concluded that 2004 levels, which represented a 5% increase over 2003, were within reach.

Exports remain a high priority for French machinery makers. In 2003, the total value of exports was 1.5 billion Euros, a 4% increase over 2002. In the first three quarters of 2004, exports were 13% higher than in the same period in 2003. AIW

UAW, CNH Settle on 4-Year Deal

The United Auto Workers union ratified a 4-year contract with CNH Global on March 17, resolving the dispute that kept members off the job since November 3. CNH had used a combination of salaried employees and replacement workers to replace the 600-plus workers at plants in Wisconsin, Illinois, Iowa and Minnesota.

Terms of the deal (UAW rejected CNH's 6-year contract last May) were not disclosed. Benefits and wages for new hires and escalating insurance costs were among the contested issues.

Noting that he has not seen the particulars, Charles Rentschler, Langenberg & Co., says, "My conjecture is CNH was able to cut a really good deal for itself, since it looked as if the two parties had reached a stalemate —in other words, the UAW slunk back, just to get something. CNH's 600-or-so union members are at only four locations and are only about 10% of the union membership at Deere. I bet CNH put the hammer to them," he says.

CNH acknowledged that it underperformed the industry in retail sales of farm and construction equipment in February. Merrill Lynch's Andrew Obin attributed this poor performance partly due to product availability issues. AIW

Shortline Manufacturers Ahead by 14%, Suppliers by 12% YTD

At the April Farm Equipment Manufacturers Assn. in Phoenix, *Ag Industry Watch* polled both equipment manufacturers and suppliers on business conditions relative to last year.

Equipment manufacturers, on average, noted that first-quarter sales were roughly 14% ahead of April 2004. Several noted that sales were ahead of last year by as much as 20-30%, and were constrained by their own production capacity limitations.

Several manufacturers expressed an increasing concern over the rising cost of domestic components. Several small manufacturers indicated that they were, for the first time, actively exploring overseas sources for components, particularly in India and China.

Suppliers to the manufacturers also noted that their farm-related business was up considerably by an average of 11.75% over the same period last year. AIW

FARM MACHINERY TICKER (AS OF 4/13/2005)

Mfr.	Symbol	4/13/05 Price	3/11/05 Price	1-Year High	1-Year Low	P/E Ratio	Avg. Volume	Market Cap.
AGCO	AG	$17.27	$19.82	$23.13	$17.07	10.11	1.33 M	1.56 B
Alamo	ALG	$23.91	$24.80	$29.23	$14.40	17.58	24,400	232.98 M
Art's Way	ARTW	$7.87	$6.58	$11.50	$3.98	8.94	91,000	15.25 M
Caterpillar	CAT	$88.60	$99.00	$99.96	$68.50	15.41	2.64 M	30.38 B
CNH	CNH	$18.26	$18.67	$21.90	$16.18	22.00	80,400	2.42 B
Deere	DE	$64.62	$69.39	$74.93	$56.72	11.20	2.09 M	15.93 B
Gehl	GEHL	$25.24	$29.74	$30.83	$14.85	11.47	38,300	167.71 M
Kubota	KUB	$26.45	$27.85	$28.46	$19.05	64.51	6,200	7.09 B

Distributors Measure the Challenges of Offshore Arrangements

Ag Industry Watch's correspondent at the SIMA Show in Paris in late February noticed the surfacing of several distribution trends among farm equipment manufacturing and distributing personnel, and a few offered novel ideas for expanding globally. A couple relate to what many consider the biggest hurdles in global expansion — namely the language barrier and labor, material and transportation costs.

With ever-increasing labor costs, one French distributor is pursuing licensing arrangements between established farm equipment manufacturers in Europe and up-and-coming manufacturers in China (where the equipment will also be remarketed). While materials and transportation costs can be reduced, he points out several other cost-adding challenges.

The language barrier is the biggest challenge so far for this distributor, with simple communications becoming major obstacles. Phone calls, e-mails and letters all must be translated before they can be useful to either party. Words and terminology often do not exist to describe something very important to the process. In these cases, there is great uncertainty that a level of understanding has occurred.

Quality control is also an area of concern. While the distributor is confident that he ultimately communicated all details necessary for a successful manufacturing arrangement, doubt still remains on whether the products will meet specifications. Monitoring quality is difficult because of the distance between the distributor, the foreign manufacturer and the original licensing manufacturer.

Another U.S. distributor/manufacturer's arrangement complicates things further. He is licensing European-designed equipment to be built in China and shipped to the U.S. While engineering and safety standards are addressed on the production lines when sold in the nation of manufacture, he, as the distributor, must assume responsibility for standards for equipment shipped to the U.S.

What he is finding are three involved parties, in three different parts of the world, speaking three different languages, and using three different sets of engineering and safety standards.

This distributor assumes several responsibilities that are traditionally viewed as the responsibilities of the manufacturer. He must be more actively involved in issues such as translating marketing materials, operator manuals, service manuals and parts books. He also must handle warranty claim handling and reimbursement, due to the lack of representation from the manufacturing company in the distributor's home country.

While the jury is still out on his venture, he cautions others to account for each of these additional responsibilities. While the savings for labor and material may be far less, the additional costs merit careful consideration.

It will be interesting to see the evolution of the role of distributors in the future globalization of farm equipment manufacturing and distribution. Several discussions were heard throughout SIMA that indicated that "anything and everything" is being tossed around and considered to address future farm equipment distribution needs. AIW

Farm Equipment Industry Newsmakers

Agco announced on April 7 that it received formal approval from the Brazilian competition authority for its January 2004 purchase of Finish ag equipment maker **Valtra**. The approval allays concerns over regulatory approval and whether the company could maintain the acquired business without conditions and restrictions, including a partial divestiture. Agco can now move forward in its focus on operations, integration and execution.

Manitoba-based grain handling manufacturer **Ag Growth Income Fund** entered into an agreement to acquire all of the assets of the **Edwards Group** for $20 million. Edwards primary products include drying equipment, aeration fans and low-temperature heaters marketed under Grain Guard, Keho and Rocket names. The firm has two manufacturing facilities in Alberta.

The decades-old relationship between **Ford Motor Co.** and India tractor and utility vehicle maker **Mahindra** came to a close in late March following a stake sale. Ford sold its 5.1% stake (5.98 million shares) in Mahindra while Mahindra relinquished its 15.5% stake in Ford India.

CSI Wireless is purchasing **RHS Inc.'s** sales, marketing and distribution assets associated with the Outback line of GPS guidance products for ag applications. CSI will purchase the Outback assets for $9.6 million in cash, 4.4 million common shares of CSI and the assumption of RHS debt of $1.2 million. The letter of agreement calls for the firms to combine their respective GPS operations to create the world's leading supplier of GPS products for agricultural markets. The Outback business will be combined with CSI's GPS Business Unit to create "Hemisphere GPS," which will market Satloc and Outback branded products with all of CSI's other GPS products. CSI currently manufactures the Outback branded line exclusively for RHS. On a pro-forma basis the combined revenue of CSI's GPS Business Unit and the Outback Business would have been $45 million in 2004.

India-based **Escorts** received a farm equipment order valued at $8.56 million from the government of Ghana.

Caterpillar Inc. acquired minority ownership in **Shandong SEM Machinery Co., Ltd. (SEM)**, one of China's leading wheel loader manufacturers. The firm had pursued SEM for more than a year to leverage its expertise, product quality and market position for expanding Cat's presence in China.

Agri-Products, Inc., York, Neb., moved to a new facility several miles away in late February. The relocation doubles the amount of space for the firm and gets the business under one roof. The firm produces tank mounts, grain handling equipment and tillage equipment for its dealer network throughout the U.S. and Canada.

Claas North America has appointed **Russ Green** as executive vice president of sales and business development. Green, who will be responsible for leading both the Claas Hay & Forage and the Lexion combine sales force in North America, previously worked at CNH Global.

No. 4 Claas Continues to Stake its Claim as Big-Leaguer

Claas consolidated its position as the world's fourth largest manufacturer of farm equipment behind Deere, CNH Global and Agco in its 2003-04 fiscal year by lifting ag sector net sales by 32.5% to Euro 1.77 billion ($2.35 billion) and group revenues by 28.9% to Euro 1.92 billion ($2.55 billion).

Much of the growth — which puts the privately owned Claas further ahead of Italian rivals Argo Group and Same Deutz-Fahr with revenues estimated at Euro 830 to 850 million ($1-1.2 billion) — came from its first full-year with Renault Agriculture.

Renault Acquisition — Claas paid Euro 74.7 million ($99 million) in 2003 to acquire a 51% controlling stake in Renault's tractor manufacturing and machinery retailing operations in France. It has an option to buy another 29% of the equity within 3 years of the initial purchase and the balance by 2010.

The tractor business produces over 9,000 tractors a year at the Le Mans plant west of Paris, almost 70% of which have traditionally been sold in France. The stronger international reach of Claas and its distribution network is beginning to shift the balance by improving sales volumes in markets outside France.

"The introduction of the Claas tractor in Europe has been extremely successful," says Rüdiger Günther, CFO. "We've increased production at Le Mans, raised productivity and improved quality and we've increased our position in all regions. In Germany, our market share has tripled."

Having contributed only 5 months' revenue to Claas group figures in the prior year, the Renault tractor operations had a much bigger impact in 2003-04. At Euro 1.4 billion ($1.85 billion), Claas agricultural sales in Western Europe are 37.5% higher than the year before.

In France, sales revenues almost doubled thanks largely to the Renault Agriculture contribution — Claas lifted its share of harvest machinery sales by more than 25%. Market recovery in the U.K., where any effect of switching tractors to Claas branding and distribution will only show up in this year's figures, saw sales up by 21.6%.

These strong gains were offset by continued market weakness in Germany where industrywide combine sales were down 15%. Claas, however, bucked the trend and improved its combine sales by 1.1%.

Outside Europe — Outside Europe, where the effect of the Renault acquisition has less impact, Claas enjoyed a 31% increase in ag equipment sales. Its U.S. companies, Claas of America (hay tools) and Claas Omaha (assembling combines for sale through the Caterpillar dealer network), increased sales by 12.9%, although Claas concedes it benefited only slightly from the rapid growth in the combine market.

Cost Savings — While beginning the process of integrating Renault Agriculture into group operations and seeking out purchasing, engineering and other synergies, Claas has been concentrating on efficiency gains. Investment in a streamlined production facility at the headquarters plant in Harsewinkel, Germany, and easier to assemble combine designs make the company's core product cheaper to produce. These and other initiatives increased gross profit on sales by 19.5% or Euro 78.5 million to Euro 481.8 million ($104m to $637m), while operating income surged 39.5% to Euro 63.1 million ($83.5m).

Outlook 2005 — Claas anticipates moderate growth for itself and the agricultural engineering industry as a whole this year. It agrees with other forecasts in seeing no greater than 5% market growth in North America and flat-to-moderate market growth in Western Europe, which is largely dependent upon an improvement in farm incomes, especially in Germany and the Scandinavian countries.

Heavy rain that spoiled the U.K. grain harvest and weaker farm incomes in France will put a damper on sales growth prospects, while developments in Italy and Spain are expected to be steady.

Persistently high demand for ag machinery in Central Europe and the likelihood of a more rapid pace of change in countries that joined the European Union last year have raised Claas' expectations significantly above those of the previous year.

Similarly, despite growing local competition, the company still sees great potential for Western manufacturers in Eastern Europe, particularly Ukraine and Russia — which is largely why Claas has built a new combine assembly plant in the Russian town of Krasnodar.

Fears that Claas harvest machinery might suffer through management being distracted by the demands of its new tractor business have not yet materialized. Equally, the firm's determination to become a more significant player in the tractor sector is evident from the quicker-than-planned rolling out of Claas branding and distribution and a 23% increase last year in R&D at the Le Mans plant. AIW

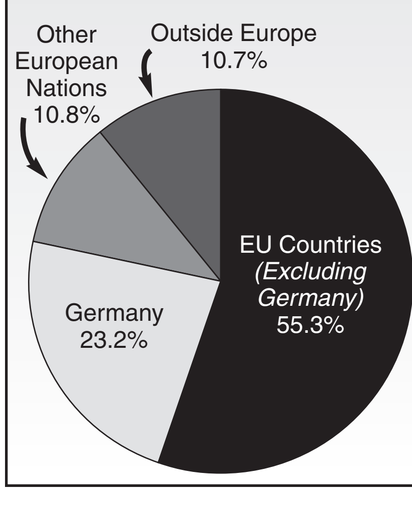
CLAAS FISCAL 2003-04

	Revenue (in U.S. $)	Change
Net sales		
– group	2.55b	+28.9%
– agriculture	2.35b	+32.5%
Net income	28.4m	+20%
EBIT	94.6m	+34%
EBITDA	164.4m	+36.6%

WHAT CLAAS SELLS WORLDWIDE

	Revenue (in U.S. $)	Share of Total Sales
Combines, tractors, hay tools	2,352.8m	92.1%
Automotive/aircraft production engineering	169.9m	6.6%
Driveline/hydraulics components	31.7m	1.3%

WHERE CLAAS DOES BUSINESS



Norway's Kverneland Group Addressing Growing Pains

Norway-based Kverneland Group, one of the industry's biggest farm implement manufacturers, is striving to drive down costs and improve the performance of its vineyard machinery division to halt a slide in profits.

While equipment sales improved in 2004 over the prior year, net profit slumped from a modest Euro 3.9m ($5.2m) in 2003 to a loss of Euro 10.6m ($14.1m) last year.

Profitability of farm equipment operations slipped 15% to Euro 12.4m ($16.5m), while the losses in the vineyard machinery business increased from Euro 0.4m to Euro 4.9m ($0.5m to $6.5m).

The company has charged a total of Euro 15.4m ($20.5m) of infrequent expenses and costs related to change processes in 2004, as well as property sale gains of Euro 1.2m ($1.6m). Restructuring charges were Euro 2.9m ($3.8m).

Excluding these influences eases the vineyard sector's loss to Euro 1.2m ($1.6m) while improving its agriculture sector to a positive Euro 17.9m ($23.9m)

"Major operational improvements are required, particularly at the Klepp factory and within the Vineyard business," says Frode Berg, Kverneland president/CEO. "Improvement initiatives will mainly focus on increasing flexibility and reducing fixed costs. Increased sourcing to Central and Eastern Europe, increased automation, temporary staff and flexible working hours are all necessary to improve performance."

The board will also continue to evaluate the number of production sites operated by the group, most of which came with Kverneland's high-profile acquisitions in the 1990s. This saw the moldboard plow and cultivation equipment company diversify into hay tools with Taarup of Denmark and later, Greenland Industries, owner of the Vicon business. Cultivation and seed drilling manufacturers in Germany (Accord, Becker and Rau) and Italy (Maletti) were also brought into the Kverneland fold.

In the past 5 years, Kverneland has become the world's biggest supplier of vineyard equipment, acquiring grape harvester manufacturers Gregoire of France and UR Machinery (Vinestar) in Australia, along with a handful of vineyard maintenance equipment companies.

Difficult trading conditions in this sector saw 2004 sales rise less than 2% with the poor performance blamed on increased material costs and operational problems at the Gregoire plant in Cognac, France.

"While sales fell 14% in the important German market, Kverneland made significant headway in Central and Eastern Europe with a 9% gain.

Furthermore, a 250% growth in sales was seen among the Central Independent States..."

Agricultural equipment sales — plows, cultivators, drills, sprayers, balers and other hay tools — improved by the same degree but with big variations in individual markets. While sales fell 14% in the important German market, Kverneland made significant headway in Central and Eastern Europe with a 9% gain. Furthermore, a 250% growth in sales was seen among the Central Independent States (CIS).

Kverneland reorganized its operations at the end of last year to strengthen local focus on profitability and improve decision-making by creating four divisions with locally responsible business units within each and centralizing all transaction-based support services.

Manufacturing operations are being made more efficient at farm equipment plants in Norway and Germany as well as throughout the vineyard division, says Kverneland. Substantial changes are also being made to the Australian organization and distribution networks in France, Italy and Spain.

With evidence of an upward trend in sales at the end of 2004 and so far in 2005, Kverneland is cautiously optimistic about its current year performance.

Farmers in the 10 new countries in the European Union have enjoyed a 53% increase in income, according to the company, so prospects in those states are seen as positive as farmers in the region improve their competitiveness. Likewise, the positive trend in Eastern Europe and CIS is expected to continue.

"It will be essential for the Kverneland Group to adapt the production set-up to improve profitability from future sales in these markets," says Berg. "The European Union has decided to continue the program of modernizing European vineyards, which we expect to have a positive market effect in 2005, although severe over-production could jeopardize this development." AIW

KVERNELAND GROUP (IN EUROS)

	2003	2004	Change
Group revenues	507.4	502.8	-0.9%
Net sales – agriculture	429.3	437.1	+1.8%
Net sales – vineyard	63.4	64.5	+1.8%

EARNINGS INCLUDING INFREQUENT EXPENSES AND COSTS RELATED TO CHANGE PROCESSES (IN EUROS)

	2003	2004	Change
EBITDA	42.5	19.2	-54.8%
EBIT	17.0	(2.9)	-117%
Group net profit	3.9	(10.6)	-371%
Net profit – agriculture	14.6	12.4	-15%
Net profit – vineyard	(0.4)	(4.9)	-1125%

EARNINGS EXCLUDING INFREQUENT EXPENSES AND COSTS RELATED TO CHANGE PROCESSES (IN EUROS)

	2003	2004	Change
EBITDA	27.6	28.4	+2.8%
EBIT	10.0	14.2	+42%
Net profit – agriculture	14.6	17.9	+22.6%
Net profit – vineyard	(0.4)	(1.2)	-200%

Beware the Ides of March

After better-than-expected sales in February, the farm equipment sales data for March, the first month of the spring selling season, showed disappointing retail tractor sales.

Despite a 3% total sales increase vs. a year ago, the key large farm equipment segments — >100 HP 2WD tractors, 4WD tractors and combines — fell 1%, the first year-over-year decline since February 2004. Specifically, retail demand for 4WD tractors slipped 12% vs. last March, with sales of large tractors falling about 2% after a 5% increase in February.

March sales were lower for small tractors (down 6.2%), row-crop tractors (down 1.7% after a 26.2% increase in March of 2004) and 4WD tractors (down 12%), but were higher for utility tractors (up 24.1%) and combines (up 18.1%).

"March is the third most seasonally important month for row crop tractors, contributing 12% to annual sales over the last 5 years," notes Robert McCarthy, R.W. Baird. Credit Suisse analyst John McGinty adds, "A flat result in March, even against a strong year ago, has to be viewed as disappointing."

Utility Tractors — Sales increased 24.1% in March vs. a 7.9% increase in March '04.

Row-Crop Tractors — Sales fell 1.7% in March vs. a 26.2% increase in March '04. UBS' David Bleustein now expects an annual rate of 17,200 units sold.

Four-Wheel Drive Tractors — Sales fell 12% in March, following a 37.9% increase in March '04.

Combines — Sales increased 18.1% in March vs. a 1.1% decline in March '04.

As far as inventories, stocks of row crop tractors (-4.4%) and combines (-11.2%) are below year-ago levels, while inventories of utility tractors (+7.1%) and 4WD tractors (+4.6%) exceeded last year's levels.

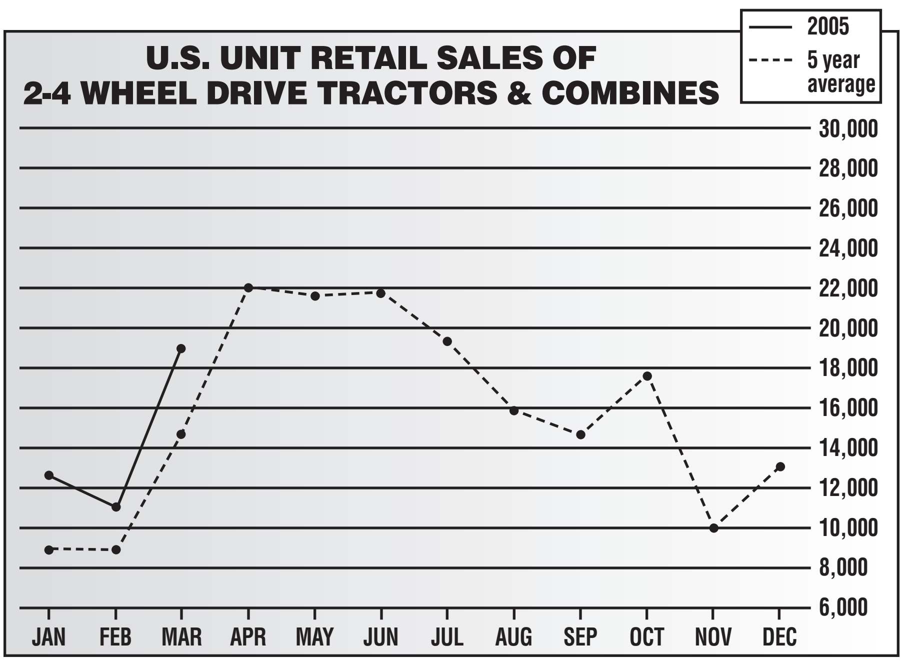
Bleustein still expects 0-5% growth in farm machinery sales in '05, saying generally lower farm commodity prices are being offset by strong livestock profitability, strong farmer balance sheets, lower interested rates, a countercyclical farm program and multiple years of weak demand. AIW

MARCH U.S. UNIT RETAIL SALES

Equipment	March 2005	March 2004	Percent Change	YTD 2005	YTD 2004	Percent Change	February 2005 Field Inventory
Farm Wheel Tractors-2WD							
Under 40 HP	10,110	10,778	-6.2	21,168	21,549	-1.8	62,759
40-100 HP	6,105	4,918	+24.1	14,426	11,977	+20.4	29,208
100 HP Plus	1,891	1,924	-1.7	5,217	4,889	+6.7	5,925
Total-2WD	18,106	17,620	+2.8	40,811	38,415	+6.2	97,892
Total-4WD	336	382	-12.0	762	766	-0.5	984
Total Tractors	18,442	18,002	+2.4	41,573	39,181	+6.1	98,876
SP Combines	313	265	+18.1	917	647	+41.7	1,151

MARCH CANADIAN UNIT RETAIL SALES

Equipment	March 2005	March 2004	Percent Change	YTD 2005	YTD 2004	Percent Change	February 2005 Field Inventory
Farm Wheel Tractors-2WD							
Under 40 HP	399	375	+6.4	835	836	-0.1	3,786
40-100 HP	360	355	+1.4	949	960	-1.1	2,363
100 HP Plus	247	228	+8.3	578	495	+16.8	1,433
Total-2WD	1,006	958	+5.0	2,362	2,291	+3.1	7,582
Total-4WD	51	66	-22.7	89	143	-37.8	199
Total Tractors	1,057	1,024	+3.2	2,451	2,434	+0.7	7,781
SP Combines	60	52	+15.4	165	130	+26.9	415



—Assn. of Equipment Manufacturers

Canadian Farmers to See $1 Billion in Aid

Canadian farmers hard hit by the closing of the U.S. border to cattle and other difficulties will get $1 billion more in income support, Canada's Federal Agriculture Minister Andy Mitchell announced in late March.

Of the total, $300 million will be set aside for cattle ranchers who have been devastated by the U.S. border closure. Another $480 million will go to farmers in the hard-hit grains and oilseeds sectors, with an additional $150 million for farmers of other field crops. The government is asking the provinces to share some of the costs in the aid package, but provinces won't be forced to contribute.

"We are actually seeing negative farm income from the Canadian marketplace," says Mitchell, "and 2005 is likely to be the third consecutive year that such a situation exists."

Weather problems, poor commodity prices and border issues ($7 billion lost in the 22 months that the border has been closed to live cattle) have all contributed to the problems facing Canadian farmers, he says.

"We believe the subsidies Canadian farmers will receive could support farm equipment sales in Canada," says David Bleustein, UBS. "Following the discovery of mad cow disease in Canada in May 2003 and the subsequent ban on live cattle imports from the country, industry row crop tractor sales in Canada declined roughly 3% in the second half of 2003 and 9% in 2004." AIW

USDA PROSPECTIVE PLANTING SURVEY (3/31/05)

Soybeans ......73.9 million acres (-2%)

Corn ....81.4 million acres (+0.6%)

JCB Announces Aggressive Growth Plans Following Record Sales Year

JCB announced new expansion plans in mid-March. The British-based firm, which has a wide range of construction equipment as well as an agricultural tractor line, has acquired land in Pudong, south of Shanghai, which will become JCB's Chinese manufacturing headquarters. The firm is also expanding in India, with a second factory in Pune that will produce fabricated and machined components.

This global expansion is in addition to plans announced last year for a new JCB Heavy Products factory in Uttoxeter, Staffordshire, and the new dedicated JCB Power Systems factory at Church Broughton, Derbyshire. The two recent announcements bring the number of JCB plants in the UK to 10, with a further 5 worldwide.

The growth comes on JCB's most successful sales year in history, reaching 37,260 machines in 2004. JCB's worldwide market share rose from 8.2% to 8.6% and the company retained world market leadership with the backhoe loader line. JCB's sales turnover rose to record levels to over £1 billion while the company retained its position as the world's fifth largest manufacturer of construction equipment.

The firm has now launched a total of 18 products. "With the new products we are unveiling, we now have a range which can help us achieve even stronger sales growth across the world," says John Patterson, managing director and CEO. AIW