

# Half Year Report 2006

FOR THE PERIOD ENDED 31 DECEMBER 2006



**PGG Wrightson**

# To the Shareholders

## HALF YEAR REPORT 2006

PGG Wrightson posted a net profit after tax (NPAT) of \$12.9 million for the six months to 31 December 2006, compared with \$5 million for the December 2005 half year.

Operating profit (Net Operating Profit Before Tax) was \$16.8 million, compared with \$13.9 million for the previous December half year, an increase of 21%. The operating profit does not include one-off gains and losses or amortisation of goodwill. Group sales were \$524 million.

The interim dividend has been maintained at four cents per share, fully imputed, and will be paid on 2 April to shareholders registered on 19 March.

This was an encouraging result given the tough operating environment the business has faced. In general terms the rural sector lost confidence as the first half-year unfolded and the strengthening New Zealand dollar reduced product prices at the farm gate. Increasing costs continue to erode hard won productivity gains on-farm.

A key positive feature was the retention of sales revenue despite the decline in operating conditions and following the merger of Pyne Gould Guinness and Wrightson.

NPAT included non-operating items that were offsetting. One-off gains from the sale of surplus property, including Ceres research farm, totalled \$8 million and goodwill amortisation expense was also \$8 million.

Debt increased to \$347 million, reflecting growth in finance receivables, investment in NZFSU and increased working capital, along with the acquisitions of FECPAK and Alfalfares.

The 2006 result differs from that for the 2005 period in that it includes the full six months' trading of the former Pyne Gould Guinness and Wrightson businesses. As the merger of those companies occurred in October 2005, the result for the

December 2005 half-year included six months' contribution from Pyne Gould Guinness and three months' from Wrightson. The results reported are comparable however, as Wrightson broke even during the three months immediately prior to the merger.

The tough conditions have put real pressure on margins, which makes the improved operating performance particularly pleasing and underlines the fact that the businesses are now executing well after the significant changes brought about by the merger.

With the merger complete and the benefits delivered, the focus of management has now shifted to improving operating performance and creating business growth.

Importantly, our customers have also benefited from lower input prices as a direct result of the creation of PGG Wrightson, with an estimated \$20 million benefit annually across the rural sector.

### **BUSINESS UNITS REORGANISED**

Businesses within PGG Wrightson have been reorganised into three operating groups to improve focus on the key drivers of success. The three groups are Rural Services, Financial Services and Technology Services.

**Rural Services** (Livestock, Wool, Rural Supplies, Fruitfed Supplies, Irrigation & Pumping) had earnings before interest, tax and amortisation (EBITA) of \$15.8 million. While some market share was lost in specific regions in the period following the merger, share is now being regained in the Wool and Rural Supplies businesses. Fruitfed Supplies, which services the horticulture and viticulture sector, had a strong first half.

**Financial Services** (Finance, Real Estate, Insurance, Funds Management) had EBITA of \$8.6 million. The finance loan book grew by \$38.4 million, or 12 percent, to \$370 million.

Market share increased in Real Estate in a market that declined by 20 percent. The business is now the clear leader in rural Real Estate in New Zealand and the newly-established real estate business in Victoria, Australia, has started strongly. Other achievements included the launch of new insurance products via the joint venture with AON New Zealand and the launch of New Zealand Farming Systems Uruguay (NZFSU) to invest in farming in Uruguay, together with the creation of the Funds Management division to provide management services to this company and potentially others.

**Technology Services** (Seeds & Grain, Nutrition, Animal Health, Training & Consultancy, South America) had EBITA of \$13.1 million. The strength of the proprietary product portfolio saw the seed businesses maintain market share in all markets. The focus on innovation underpins this business and this was further strengthened by the formation of the joint venture with AgResearch last year. A good example of the potential of the joint venture is the recent release of the AR37 endophyte technology to the market. AR37 is a symbiotic fungus within the grass plant which protects the plant from insect damage and therefore boosts production.

The Australian seeds business maintained its performance despite the effects of drought in that country. There was continued business unit and sector growth in Uruguay. The training services provided by Agriculture New Zealand experienced further growth in demand.

## **GROWTH AND DEVELOPMENT**

Growth and improvement initiatives undertaken during the half-year included:

### Rural Services

- The achievement of substantially improved terms of trade with suppliers to the rural supplies business, providing significant benefits passed on to customers

## Financial Services

- The establishment of a new business in the rural real estate market in Australia
- The opening of seven new real estate offices
- Establishment of full coverage for the PGG Wrightson Aon insurance partnership
- Establishment of the funds management division
- The successful launch of NZFSU to invest in farming in Uruguay, with the completion of an initial public offering raising \$123 million

## Technology Services

- A shift by the Australian seeds business into a new state-of-the-art logistics centre in Victoria
- Acquisition of a controlling interest in the Alfalfares seed business in Argentina
- Acquisition of Dunedin-based animal health business FECPAK International
- Commencement of a joint venture with AgResearch to discover, develop and market forage innovations internationally
- The launch of ryegrass seed with the AR37 endophyte for improved pest resistance
- Establishment of a new manufacturing plant for the Time Capsule animal health business

### **CURRENT FOCUS AND OUTLOOK**

While the operating environment is expected to remain difficult in the second half-year, the group's businesses are executing well.

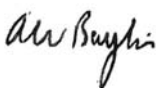
A number of the new initiatives put in place will affect earnings in the future. The current focus in each group is:

- In Rural Services - cost effective delivery to clients of products and services that improve productivity and profitability.
- In Financial Services - achieving continued growth in tighter market conditions, and building on the base established in the dairy sector in Australia.
- In Technology Services - maintaining the flow of innovation and technological development to benefit clients.

While each business group has a particular focus required for success, the overarching approach is to build a high performing culture with a particular emphasis on operational excellence.

Given a continuation of current operating conditions, net profit after tax and before amortisation (NPATA), including one-off gains of \$8 million, is expected to be in the range of \$39 million to \$45 million.

Importantly, with the merger now behind us and normal continuous improvement under way, the business is well placed to benefit when market conditions improve.



**BILL BAYLIS**  
*Chairman*



**BARRY BROOK**  
*Chief Executive Officer*

## STATEMENT OF FINANCIAL PERFORMANCE

	Unaudited For the 6 months ended 31 Dec 2006 \$000	Unaudited For the 6 months ended 31 Dec 2005 \$000	Audited For the 12 months ended 30 June 2006 \$000
Operating Revenue	503,470	357,245	816,345
Interest Revenue	19,670	16,253	31,925
Equity earnings of associates	738	77	439
	<b>523,878</b>	<b>373,575</b>	<b>848,709</b>
Operating surplus before interest and taxation	40,713	22,465	70,170
Interest Expense	(23,291)	(14,503)	(32,887)
<b>Operating surplus before taxation</b>	<b>17,422</b>	<b>7,962</b>	<b>37,283</b>
Taxation expense	(4,522)	(2,933)	(10,269)
<b>Net surplus</b>	<b>12,900</b>	<b>5,029</b>	<b>27,014</b>
Net surplus comprises			
Parent interest	12,935	5,053	26,869
Minority interest	(35)	(24)	145
	<b>12,900</b>	<b>5,029</b>	<b>27,014</b>
<b>Net surplus attributable to parent company shareholders</b>	<b>12,935</b>	<b>5,053</b>	<b>26,869</b>

## STATEMENT OF MOVEMENTS IN EQUITY

<b>Total recognised revenues and expenses</b>			
Net surplus	12,900	5,029	27,014
Movements in foreign currency translation reserve	(1,497)	369	1,799
	<b>11,403</b>	<b>5,398</b>	<b>28,813</b>
Contribution from owners	-	294,047	294,047
Distributions to owners	(17,229)	(9,762)	(21,259)
Other Movements in Equity	-	-	(453)
<b>Movements in equity for the period</b>	<b>(5,826)</b>	<b>289,683</b>	<b>301,148</b>
Represented by:			
Equity at the beginning of the period	415,028	113,880	113,880
Equity at the end of the period	409,202	403,563	415,028
<b>Movements in equity for the period</b>	<b>(5,826)</b>	<b>289,683</b>	<b>301,148</b>

## STATEMENT OF FINANCIAL POSITION

	Unaudited As at 31 Dec 2006 \$000	Unaudited As at 31 Dec 2005 \$000	Audited As at 30 June 2006 \$000
<b>EQUITY</b>			
Shareholder funds	408,806	403,253	414,510
Minority interests	396	310	518
<b>Total equity</b>	<b>409,202</b>	<b>403,563</b>	<b>415,028</b>
<b>LIABILITIES</b>			
Trade creditors	122,081	103,440	121,547
Total accruals and other liabilities	57,460	80,577	64,956
Client Deposits and Current Accounts	87,817	118,212	110,039
Secured debentures	107,675	57,206	79,049
Bank borrowings	346,641	244,915	253,210
Bank mortgages	13,062	-	-
<b>Current liabilities</b>	<b>734,736</b>	<b>604,350</b>	<b>628,801</b>
<b>Non-current liabilities</b>	<b>71,660</b>	<b>78,706</b>	<b>80,329</b>
<b>Total liabilities</b>	<b>806,396</b>	<b>683,056</b>	<b>709,130</b>
<b>Total liabilities and equity</b>	<b>1,215,598</b>	<b>1,086,619</b>	<b>1,124,158</b>
<b>ASSETS</b>			
Trade debtors	174,943	155,146	159,229
Other receivables	33,957	15,673	23,050
Client debtor accounts	51,302	40,209	37,861
Finance Receivables	218,158	159,545	233,921
Inventories	151,817	139,497	150,137
Other	11,605	10,854	12,265
<b>Current assets</b>	<b>641,782</b>	<b>520,924</b>	<b>616,463</b>
Property, Plant and Equipment	75,051	113,867	86,368
Finance Receivables	144,443	118,408	96,022
Investments	60,547	27,742	24,490
Goodwill	279,605	289,893	286,277
Other	14,170	15,785	14,538
<b>Non-current assets</b>	<b>573,816</b>	<b>565,695</b>	<b>507,695</b>
<b>Total assets</b>	<b>1,215,598</b>	<b>1,086,619</b>	<b>1,124,158</b>

PGG WRIGHTSON LIMITED AND SUBSIDIARIES  
STATEMENT OF CASH FLOWS

	Unaudited For the 6 months ended 31 Dec 2006	Unaudited For the 6 months ended 31 Dec 2005	Audited For the 12 months ended 30 June 2006
Note	\$000	\$000	\$000
<b>Net cash flows from:</b>			
Operating activities - Inflows	491,764	397,674	860,675
- Outflows	(528,432)	(409,197)	(848,256)
5	(36,668)	(11,523)	12,419
Investing activities - Inflows	12,763	773	44,031
- Outflows	(63,093)	(21,872)	(105,418)
	(50,330)	(21,099)	(61,387)
Financing activities - Inflows	12,725	5,985	33,086
- Outflows	(19,303)	(9,762)	(28,854)
	(6,578)	(3,777)	4,232
Net (decrease) in cash	(93,576)	(36,399)	(44,736)
Opening (bank borrowings)/ cash	(253,210)	(46,538)	(46,538)
Net cash from acquisition of businesses	-	(161,936)	(161,936)
Effect of exchange rate change on cash	145	(42)	-
<b>Closing (bank borrowings)</b>	<b>(346,641)</b>	<b>(244,915)</b>	<b>(253,210)</b>
Comprises:			
Cash and deposits	15,900	70,119	51,935
Bank borrowings	(362,541)	(315,034)	(305,145)
<b>Closing (bank borrowings)</b>	<b>(346,641)</b>	<b>(244,915)</b>	<b>(253,210)</b>

## NOTES

### 1 Financial Statements

The financial statements have been prepared in accordance with Financial Reporting Standard No. 24 Interim Financial Statements and generally accepted accounting principles and should be read in conjunction with the 30 June 2006 annual financial statements.

### 2 Accounting Policies

The accounting policies of the PGG Wrightson Group have been applied on a basis consistent with those of the previous year and as disclosed in the audited 2006 annual financial statements.

### 3 Operating Surplus before Interest and Taxation

The following significant items effect the operating surplus before interest and taxation:

- (a) Included in the current period are gains on the sale of properties of \$10,299,000 (\$47,000 in the six months to 31 December 2005, \$11,938,000 in the year to 30 June 2006).
- (b) The comparatives, for the 6 months ended 31 December 2005, include restructuring costs of \$2,338,000 incurred by the Company relating to the merger with the former Wrightson Limited which were written off as expenses
- (c) As a consequence of the merger and amalgamation of Wrightson Limited on 7 October 2005 the comparatives, for the 6 months ended 31 December 2005 and for the 12 months ended 30 June 2006, include the financial performance and cash flows for the activities of the former Wrightson Limited Group from 7 October 2005.

### 4 Material Commitments

There are non-cancelable operating lease commitments in place with expected future minimum rental payments of \$54.6 million (31 December 2005 \$26.4 million, 30 June 2006 \$60.8 million).

### 5 Reconciliation of Surplus after Taxation with Net Cash Flow from Operating Activities

	Unaudited For the 6 months ended 31 Dec 2006 \$000	Unaudited For the 6 months ended 31 Dec 2005 \$000	Audited For the 12 months ended 30 June 2006 \$000
Surplus after taxation	12,900	5,029	27,014
Add/(deduct) non-cash items	(499)	10,927	12,845
Add/(deduct) movement in working capital items			
Inventories	(1,680)	1,100	(9,540)
Net receivable/payables	(48,049)	(19,462)	(5,620)
Other	660	(9,117)	(12,280)
<b>Net cash flow from/(used in) operating activities</b>	<b>(36,668)</b>	<b>(11,523)</b>	<b>12,419</b>

**6 Interim Dividend**

Directors, by resolution of the Board on 26 February 2007, have declared a fully imputed interim dividend of 4 cents to be paid on 2 April 2007.

**7 Unaudited Financial Statements**

These interim financial statements have not been audited.

**8 International Financial Reporting Standards**

In December 2002 The New Zealand Accounting Review Board announced that International Financial Reporting Standards (IFRS) will apply to all New Zealand entities for periods commencing on or after 1 January 2007. Entities will also have the option for early adoption of the new standards for the periods beginning on or after 1 January 2005.

Since this date New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) have been issued. In complying with these, New Zealand entities will be in compliance with IFRS.

Analysis of the potential impacts from the conversion to NZ IFRS commenced in August 2004. The company has considered the impacts of NZ IFRS implementation, both from a reporting and an operational perspective. The objective of the company is to ensure the conversion to NZ IFRS occurs within agreed and required timelines (under the Financial Reporting Act 1993), ensuring:

- Minimal operational impact on the Group; and
- All relevant parties are consulted.

The Group will adopt NZ IFRS and report for the first time under these standards for the year ending 30 June 2008. Upon adoption of NZ IFRS, comparative information presented in the financial statements will be restated to conform to the requirements of the new standards, and the financial impact of that adoption will be disclosed.

Only one key difference in accounting policies has been identified to date as follows:

**Accounting for goodwill**

- Under NZ IFRS 3 goodwill will no longer be amortised. However, it will be subject to regular reviews for impairment.
- Currently the Group records goodwill at cost less amortisation over periods not exceeding 20 years.

Known or reliably estimable information about the impacts on the financial report, had it been prepared using NZ IFRS, have not yet been determined.

The actual impact of adopting NZ IFRS may vary from the information presented, and the variation may be material.

## CORPORATE DIRECTORY

### BOARD OF DIRECTORS

Bill Baylis (Chairman)  
Craig Norgate (Deputy Chairman)  
Sir Selwyn Cushing  
Richard Elworthy  
Murray Flett  
Brian Jolliffe  
Sam Maling  
Baird McConnon  
Keith Smith  
Bill Thomas

### LEADERSHIP TEAM

Barry Brook	Chief Executive Officer
Mike Sang	Chief Financial Officer
Kate Peterson	General Manager Human Resources
Hugh Martyn	Group General Manager Rural Services
Paul Tocker	Group General Manager Technology Services
Stuart Cooper	General Manager Real Estate
Peter Engel	General Manager Finance
John McKenzie	General Manager Seeds & Grain
John McWhirter	General Manager Rural Supplies
Nigel Thorpe	General Manager Livestock
Ian Walsh	General Manager Key Accounts
Kevin Winders	General Manager Wool
Dave Parker	Company Secretary

### AUDITORS

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### SHARE REGISTRY

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