



News release
26 February 2007

Trading results – six months ended 31 December 2006

PGG Wrightson has 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, compared with \$374 million previously.

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

Chairman Bill Baylis said: "This was an encouraging result given the tough operating environment the business has faced. In general terms the rural sector has lost confidence as the 2006-07 year has unfolded and the strengthening New Zealand dollar has 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."

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 Chief Executive Officer, Barry Brook, said: "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 just over a year ago.

“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.”

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, Fruited 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. Fruited 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%, 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, creation of the funds management division and the successful launch of New Zealand Farming Systems Uruguay (NZFSU) to invest in farming in Uruguay.

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.

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.

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 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 of products and services to clients 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 underway, the business is well placed to benefit when market conditions improve.

Ends

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