PGG Wrightson

29 August 2011

A ‘defining year’ for PGG Wrightson

Key events

- Sale of NZ Farming Systems Uruguay and settlement of its performance and management fees in December

- Appointment of a new Managing Director, George Gould, in February and new key roles identified in AgriServices

- Continued expansion of AgriTech businesses in New Zealand and Australia, and progress in new South American markets including Brazil

- Successful completion of Agria’s partial takeover in May

- Re-commitment to our wool broking business in June following the unsuccessful capital raise by Wool Partners International

- In June we also confirmed the sale of our 50% stake in New Zealand Merino for $7.6 m to grower owners, and most recently,

- We entered into an agreement for the sale of PGG Wrightson Finance to Heartland New Zealand. Further to that we have every expectation that the transaction will be fully concluded in the near future following treasury approval this week.

The financial results of PGG Wrightson (NZX: PGW), New Zealand’s leading rural services company, were broadly in line with expectations for the year ending 30 June 2011. Earnings before interest, tax, depreciation and amortization (EBITDA) were $49.4m from operating revenue of $1,243.4m for the year. For the 2011 accounts PGG Wrightson Finance has been excluded from the Group results. Factoring in the revaluation of the company’s wool interests and supply contract provisions with Silver Fern Farms and other one-off and fair value adjustments totaling $47m, resulted in a NPAT loss of $30.7m.

Sir John Anderson, PGG Wrightson Chairman said while both the livestock and rural supplies businesses performed well and benefited from improved returns at the farmgate, the group results reflected the impact of extreme wet spring and summer conditions in Australia, the Canterbury earthquakes and a number of restructuring costs.

“We can take a number of positives out of the performance. The balance sheet is strengthened from the divestment of certain non core assets while the successful conclusion of the partial takeover by Agria provides certainty to the business moving forward.

“Further, we have worked to refocus the group on its key businesses across New Zealand, Australia and South America, ensuring the company has the right people in the right places, while reinforcing our reputation and brand in our core markets.”

In the past 12 months PGG Wrightson sold its stake in NZ Farming Systems Uruguay (NZFSU) and NZ Merino. The settlement of NZFSU’s performance and management fees and internalization of its management agreement saw parent bank debt reduced to $124.5m at end June 2011 (2010: $177.9m). The sale of NZ Merino for $7.6m was settled before year end.

Sale of PGG Wrightson Finance

On 13 June 2011 a sale and purchase agreement was entered into between PGG Wrightson Limited and Heartland New Zealand Limited (Heartland) for the sale of all of the shares in PGG Wrightson Finance Limited (PWF) from PGG Wrightson Limited. This transaction is approaching the final approval stage and progress has been in line with the timetable we have between Heartland and PGG Wrightson. More details will be made available once the transaction is concluded.

PGG Wrightson Wool

During 2010 Wool Partners International (WPI) entered into a conditional sale and purchase agreement with Wool Partners Co-Operative Limited (WPC). The subsequent unsuccessful capital raise by WPC resulted in WPI reverting to full PGG Wrightson ownership under the new name, PGG Wrightson Wool. PGG Wrightson has since recognized fair value changes related to PGG Wrightson Wool as a fully consolidated subsidiary. Accordingly the preference shares and loan, a net investment of $33.4m in PGG Wrightson Wool, has been restated to $14.9m.

Supply contract with Silver Fern Farms

In 2009 the company entered into a 10-year supply contract for the supply of livestock to Silver Fern Farms (SFF). To the extent that the company is unable to meet the annual agreed level of supply, in certain circumstances it is required to make a payment to SFF related to the shortfall. Due to the level of supply and current livestock market trends a provision of approximately $9.6m has been made, representing the best estimate of PGG Wrightson's expected liability for shortfall payments over the remaining contract term. The company is actively working to fulfill the terms of the agreement.

Other Items

In addition to the SFF provision and restatement of WPI, there were a number of further one-time transactions that are largely non-cash in nature. We incurred $8.5m of restructuring costs (a further $3.2m since December), brought forward bank facility fee costs of $4.1m, and have written down the carrying value of software by $3.1m. With the formation of the special purpose vehicle there is a net provision of $6.7m created on the balance sheet against the loans being retained.

Banking Covenants

As at 30 June 2011 PGG Wrightson was compliant with all banking covenants.

Revenue and earnings to 30 June 2011 (excluding PGG Wrightson Finance)

Audited	June 2011 $m	June 2010 $m
Revenue	1,243.4	1,091.4
Cost of sales	(967.2)	(827.2)
Gross profit	276.2	264.2
Earnings before interest, tax, depreciation and amortisation (EBITDA)	**49.4**	**57.2**
Depreciation and amortisation expense	(10.1)	(7.1)
Results from operating activities	**39.3**	**50.1**
Equity accounted earnings of associates, non-operating items and fair value adjustments	(47.0)	8.3
Net interest and finance costs	(28.1)	(36.5)
Income tax (expense)/income	0.6	(6.6)
Profit from continuing operations	**(35.2)**	**15.3**
Profit/(loss) from discontinued operations (net of income tax)	4.5	8.0
Profit for the period	**(30.7)**	**23.3**

Operating performance

AgriTech

June 2011 NZ$m	2011		2010	
	Revenue	EBITDA	Revenue	EBITDA
Seeds and Grain	268.3	28.4	255.5	31.7
Agri-feeds	55.7	5.4	43.6	5.2
South America	95.7	4.2	85.5	3.8
AgriTech	**419.7**	**38.0**	**384.6**	**40.7**

Seeds and Grain

The September earthquake collapsed pallet racking at the newly commissioned Rolleston distribution and coating facility, significantly disrupting operations for several weeks. Profits from the Australian seeds business were impacted by an unusually wet year which saw the eastern region of the country experiencing significantly higher than normal rain falls.

Agri-feeds, the leading importer of liquid feed supplements for the dairy sector, saw improved sales volume on the back of the advance dairy payout.

The South American business reported a positive result built on excellent pasture seeds growth driven by high commodity prices.

AgriServices

June 2011 NZ$m	2011 Revenue	2011 EBITDA	2010 Revenue	2010 EBITDA
Livestock	139.6	16.4	87.3	12.6
Rural Supplies & Fruitfed	566.4	24.2	541.7	22.2
Other	114.9	(10.2)	66.2	(8.0)
AgriServices	**820.9**	**30.4**	**695.2**	**26.8**

Confidence on the back of commodity price improvements saw Rural Supplies report a 4% improvement in revenues built on increased sales of fertiliser and fuel. Fruitfed revenue was up 6.3% through sales into the kiwifruit market and market share gains in apples and vegetables. Grape growers continue to face challenges by high debt levels and the wine surplus.

The Livestock sector experienced challenging weather conditions during the first half of the year and reduced lamb numbers, impacting the number of stock available in the market. Motivated by strong demand from meat processors and exporters, record second half price increases for both sheep and beef gave the necessary confidence to farmers to sell store stock and lock in returns.

Finance

June 2011 NZ$m	2011 Revenue	2011 EBITDA	2010 Revenue	2010 EBITDA
PGG Wrightson Finance	**54.2**	**5.4**	**58.7**	**13.3**

PGG Wrightson Finance recorded a positive result for the year, albeit with a lower NPAT as the company responsibly focused on reshaping its asset base. During the year the asset base reduced by nearly $100m, and the business incurred higher costs as a result of being in the Extended Crown Guarantee Scheme.

Outlook

George Gould, Managing Director said the results tell a story about a company that has taken stock of its position and moved on – not just operationally, but also in the form of one off write downs and divesting from businesses such as Finance and merino where an ownership position is no longer a pre-requisite.

“We are refocusing on getting the basics right – ensuring that we build on our leading brand and tap into the expertise that we’ve built up over more than 100 years of providing services and products to New Zealand and international farming businesses.

“Our focus in these results was about the performance of our core businesses, the ones that are the cornerstone of our business. But it is equally our aligned businesses – and these include Real Estate, Irrigation and Pumping, Insurance, Agriculture New Zealand and Livestock Export that hold the potential for substantive growth in the coming years.”

Mr Gould said the company was also awake to the potential opportunities afforded by expanding our seeds business in core southern hemisphere markets such as Australia and Brazil, and in growth agricultural economies such as China.

The Board and Management will continue to work towards the goal of long term profitability and sustainable returns on behalf of its shareholders and employees. While the company is conscious of volatility in the wake of the emerging global fiscal crisis, we are nevertheless planning for improved earnings for the coming financial year.

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