PGG Wrightson

News Release
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TRADING RESULTS – YEAR ENDED 30 JUNE 2008

PGG Wrightson has reported a significant improvement in performance in the year to 30 June 2008. Net Profit After Tax (NPAT) was $73.2 million, compared with $40.6 million for the 2007 year.

On a more comparative basis – excluding capital gains, other one-off items and the new stream of earnings from the Group's involvement with NZ Farming Systems Uruguay (NZS) – NPAT was $39.2 million, up 35 percent from the $29.0 million posted in the previous year.

Operating earnings (Earnings Before Interest and Tax – EBIT) were $101.6 million, including the performance fee from NZS of $17.8 million but excluding share price appreciation and one-off items. This was a 69 percent increase from $60.6 million for the previous year.

Chairman Craig Norgate said the results reflected a strong operational performance in a challenging environment and were a real tribute to the leadership of former CEO, Barry Brook. "Performance improvements were achieved by each of our divisions despite the impact of long periods of dry weather, adverse exchange rates and poor returns to sheep and beef farmers.

"The improvement represents 'the jury coming in' on the merger between Pyne Gould Guinness and Wrightson three years ago. It also reflects a difficult first eight months and a strong focus on cost control. Our mission is to help our clients become more productive and profitable, and we believe we have made genuine progress in that regard – both in terms of revenue growth and industry leadership."

Revenue increased from $1.0 billion in the 2007 year to $1.3 billion, with increases in all divisions. Financial Services revenue was up 108 percent, reflecting continued growth in the finance book and the revenues related to NZS. Revenue from Rural Services increased by 14 percent, and from Technology Services by 34 percent

Operating cash flow was $26.3 million, compared with $41.1 million for the previous year as increased sales and the rising cost of inputs affected working capital.

The financial strength of the Group was reflected in the balance sheet, with assets of $1.47 billion (previously $1.18 billion) and liabilities of $991 million (previously $751 million).

Mr Norgate said the year was also notable for the reshaping of the senior management team to introduce new capabilities and ensure resourcing and focus on key priorities. Changes during the year included the appointments of Tim Miles as Chief Executive Officer and Managing Director, Barry Brook as Group General Manager South America, Michael Thomas as Group General Manager Financial Services and the appointments of seven new district managers.

"These changes have further strengthened the Group, positioning us to drive continued improvement in our businesses, to realise opportunities while enhancing the service we provide to our clients."

Dividend

Under the Group's Distribution Plan, shareholders receive distributions in the form of shares (via non-taxable bonus issues), and have the option to direct the Group to repurchase some or all of them for cash.

The Directors have declared a final distribution for the year of 11 cents per share, fully imputed, to be paid on 3 October 2008 to all shareholders registered on 5 September 2008. With the interim distribution of five cents, the total for the year is 16 cents per share (fully imputed), compared to 12 cents for the previous year. This is in line with the increased earnings and also recognises the Group's requirements for the current financial year.

Industry leadership

The Group launched two major initiatives during the year to help drive industry consolidation to improve returns to farmers. These were the formation of a new company in conjunction with woolgrowers to improve wool marketing; and a proposal to invest in the country's largest meat marketer and processor, Silver Fern Farms (SFF), to create an integrated supply chain for the red meat industry.

The formation of The Wool Company (interim name) was completed just after the year's end. The proposal to invest in SFF is subject to a vote by transacting shareholders of that company, due on 8 September.

"As a nationwide provider of a broad range of services and products to farmers, we need to use our resources and capabilities to bring about positive change," Mr Miles said. "Particularly in meat and wool, there has been a clear need to address industry structures that prevent farmers from capturing the intrinsic value of their produce.

"We have had a strongly favourable response to both initiatives, from our own clients and from other farmers involved in these industries," Mr Miles said. "With regard to the meat proposal, we are confident the SFF shareholders will support it at the necessary 75 percent level and thus enable the industry to begin a much-needed consolidation. The alternative is continuation of the status quo, in which farmers are leaving the industry in droves.

"Both the wool and meat industries are failing farmers under the status quo structures at a time when market dynamics should be delivering superior returns. Farmers are rightly questioning the motives of those who are trying to defend such structures."

Outlook

The outlook for agriculture worldwide remains strongly positive, with the structural shift in food markets supporting firm prices and further production growth.

Prices received for New Zealand lamb and beef increased gradually in the latter part of the year, and some further increases appear possible. Wool prices remain low. Dairy commodity prices are expected to remain at or near the recent record levels.

Even with the prospect of some improvement in returns to sheep and cattle farmers the recent trend to dairy conversion is likely to continue, with the consequence of further reduction in livestock numbers.

Agricultural producers also face the less predictable influences of climate and exchange rates. The New Zealand dollar has reduced in value recently against the US and Australian currencies. If maintained, this would improve returns to growers of commodities marketed in those currencies.

Given that operating conditions for the Group's clients appear broadly favourable, this should have a positive impact on performance. Operational changes and the effect of recent acquisitions will continue to exert a positive influence on earnings.

Given the continued improvement in underlying performance across all divisions, the outlook for the current year is substantially above market expectations. Profit for the year is expected to be in a range from $50 million to $55 million, including a $4.2 million performance fee on NZ Farming Systems Uruguay based on a share price of $1.87 for the final quarter of the 2009 year (but excluding any share price appreciation and one-offs).

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