



Market Announcement

24 June 2009

## **MARKET UPDATE – EARNINGS OUTLOOK**

The Board of PGG Wrightson [PGW] advises that it has reviewed the group's net operating earnings guidance for the year ending 30 June 2009, based on financial performance and the current outlook and now believes that the net operating earnings are likely to be within the range from \$30 million to \$32 million compared to previous guidance of a range from \$36 million to \$42 million.

The key factor in the revised outlook for the full 2009 year is the impact of the global recession on the rural sector and a significant recent slowdown in dairy activity during our peak trading period. During the first half of the financial year, PGW recorded a strong operating result reflecting the resilience of the agricultural sector. However, earnings are heavily weighted towards the second half year and market conditions both here and overseas have become significantly tougher as the recession deepened and farmer confidence deteriorated. This has been particularly apparent in the current quarter with dairy farmers in both New Zealand and Australia exercising extreme caution in their expenditure commitments.

While the international agricultural sector outlook overall remains robust, the ongoing global recession and Fonterra's recent announcement regarding its reduced payout are dampening farmer confidence restricting spending in the autumn season. In New Zealand this has been compounded this year by the impact of Fonterra's requirement for farmers to 'share up' resulting in discretionary production being artificially curtailed. Accordingly, whilst many of our businesses have performed well, those exposed to dairy, in particular, have suffered both in New Zealand and Australia.

Sheep and beef farm incomes have improved to their best levels in recent years, however this has not yet been reflected in expenditure which has been kept to a minimum given the past poor returns.

As previously reported, net earnings for the year ending 30 June 2009 will also be affected by non-trading items including any further writedown in the value of the 11 percent shareholding in NZ Farming Systems Uruguay Limited [NZS]; the 'marking to market' of interest rate hedges under International Financial Reporting Standards, adjustment of defined benefit superannuation scheme surpluses, and costs associated with the settlement of the partnership agreement with Silver Fern Farms Limited.

Whilst the reduced forecast in earnings is disappointing, good progress is being made on various cost, working capital and other initiatives to improve cashflow. PGW remains on track to achieve scheduled amortisation under its bank facilities and remains compliant with bank covenants.

The Board remains confident that the rural sector will play a significant part in leading New Zealand out of the recession and that the business is performing well in very difficult conditions. The company is focused on further improving its performance and is well-placed to take advantage of improvements in the economic situation when it occurs. Whilst there is significant economic uncertainty at present the Board anticipates the initiatives undertaken

by management will help improve next year's earnings and currently expect net operating earnings to be in a range of \$33 million to \$39 million.

**Further information:**

Tim Miles  
Managing Director  
PGG Wrightson Limited  
021 567 600

James Willoughby  
Corporate Communications Manager  
PGG Wrightson Limited  
027 222 6703