

WRIGHTSON HALF-YEAR REVIEW

(To 31 December 2003)

The Wrightson Group's performance for the six months ended 31 December 2003 has been impacted by the very challenging trading and climatic conditions experienced over the period. While disappointed that the result is behind the same period the previous year, the Board and Management said it reflected the difficult sector conditions. Operating performance is consistent with that communicated to the market in December.

The Group's earnings before interest and tax (EBIT) for the six months were \$4.6 million, compared with \$6.8 million in the same period the previous year.

Net profit after tax for the six months was \$2.7 million, compared with \$4.1 million in the previous period.

To allow for comparison, if the \$0.7 million impact of the equity accounted loss from the Genesis Research and Development Corporation Limited investment (made in March 2003) is excluded, the Group's adjusted EBIT for the period was \$5.4 million. This represents a 21 per cent decline on the same period last year.

The period under review was characterised by a combination of a rapidly appreciating New Zealand dollar against the currencies of our major trading partners (the NZ dollar rose 12 per cent against the US dollar over the six months), and challenging climatic conditions. The impacts included some erosion in farm gate returns and farmer confidence. While the sector experienced some resilience in commodity prices for lamb, beef and dairy products, wool prices dropped, and the flow-on effects from bad weather earlier in the season were exacerbated by the late arrival of spring.

The Group's New Zealand operations' after tax profit, excluding the Genesis investment (for comparable purposes), was \$4.1 million, which was 24 per cent down on the corresponding period. This reflected a number of factors, including reduced spending by farmers, changes in trading conditions in Livestock and Wool, the underperformance of our Rural Supplies business, increased competition in the animal feed supplements market, slightly softer demand for seed, and delayed expansion of the Finance business.

Offshore, the Australian net loss after tax was \$0.5 million compared with a loss of \$1 million in the previous period. Our Australian business is well placed for the second half of the financial year, following a good seed harvest, and is well stocked with proprietary products. We expect the usual pattern in our Australian business that sees 85 per cent of sales occurring in the second half.

The Board has declared that a fully imputed interim dividend of 2.5 cents per share will be paid on 31 March 2004. This compares with a dividend of 3.5 cents paid for the same period last year.

Key Financial Data for the Six Months Includes:

- Our Real Estate business performed very strongly over the six months, with a threefold increase in profit contribution compared to the previous period. This reflected an increase in unit sales of 46 per cent, and the value of total sales increasing 34 per cent to \$406 million. This result included particularly strong growth in sales activity in the urban and lifestyle segments.
- Our Rural Supplies business under-performed, partly due to the contraction in rural spending, but also because of business performance issues. We have focused on programmes to improve our sales management skills, to extend the range of benefits of our logistics management project, and to contain costs. Rural Supplies' sales fell 9 per cent from \$181 million to \$164 million, with EBIT reducing from \$2.8 million in the previous period to \$1.7 million. Margins on through-store and direct sales were maintained through strong store focus and management disciplines.
- Our New Zealand animal nutrition businesses, Wrightson Seeds and Agri-feeds, have faced quite different challenges over the period.
 - While our New Zealand Seeds business experienced strong export sales of proprietary varieties, and brassica sales were strong, it faced subdued demand in the spring oversowing market. Merchants had also carried forward some stock from the previous year, which resulted in lower wholesale demand. Despite these challenges, the business performed strongly with EBIT of \$2.3 million, compared with \$3.4 million in the previous period.
 - Our animal feed supplements subsidiary, Agri-feeds, faced strong competition in the molasses market that saw the erosion of margins. In the face of significant pressure on its market position, Agri-feeds held its market share and volumes remained steady. To counter the margin drop, this business currently has a strong focus on cost containment.
- Traditionally, the first six months of the financial year are quiet for our Uruguay Seeds business, however in the second half we anticipate increased levels of activity over previous years, which should see this business continuing its trend of profit improvements.

- Livestock and Wool EBIT reduced from \$1.0 million to negative \$1.7 million in the half year under review. This reduced performance resulted from a variety of factors including the distortion of values and tallies by difficult climatic conditions in a number of areas, with values also being impacted by the flow-on effect of the high dollar.
 - While livestock tallies across many categories were up, sheep tallies reduced. Livestock values were generally weaker, reflecting the New Zealand dollar's appreciation through 2003. The value of beef cattle fell \$60 per head to \$520, while sheep values held steady at \$61, compared with \$60 last year. Deer and velvet prices declined significantly. The Livestock business also experienced an increase in costs, including those related to the strong growth in the Livestock Export business, as well as the costs of increasing staff numbers in key locations.
 - One area of strength was Wrightson's Livestock Export business. Dairy cattle sales were exceptionally strong, driven largely by exports to China and other markets. Tallies for the half year were up 41 per cent and the average price rose 15 per cent reflecting high demand for animals of high quality. Revenue was impacted during the half year by significantly higher infrastructure costs related to growth in this business.
 - Our Wool business was impacted by a decline in volumes (bales handled) as growers responded to declining market prices by withholding volume from sale. The impact of the strong dollar saw prices fall across all wool types, with strong wool prices falling around 20 per cent through 2003, and fine wool prices down 35 per cent or more. The fine wool market downturn impacted on the results of the New Zealand Merino Company, in which Wrightson has a 35 per cent shareholding. The Group's share of earnings from this business was a profit of \$0.3 million, compared with \$0.5 million in the previous period. The loss of the contract to provide logistics services to the New Zealand Merino Company also impacted negatively on the performance of the Wool business in the period under review.
- Group net revenue fell by four per cent from \$79.4 million to \$76.5 million.
- Expenditure reduced \$0.8 million to \$71.9 million, reflecting the ongoing focus on cost control. We have increased the emphasis on cost reductions in the second half.
- Cash flow from operations was negative \$17.6 million compared with negative \$10.9 million in the previous period. While there has been an improvement in inventories, the deterioration in cash flows reflects the decline in earnings and an increase in working capital. We are confident that cash flows will show a significant improvement by year end.
- The Group balance sheet remains conservative with no term debt.

Business Initiatives

During the six months, Wrightson has made progress on various business initiatives. These include:

- Our Solutions activities continue to expand, with key Solutions now embedded as a normal part of the business. We are continuing to focus on sales of our On-farm Solutions, Integrated Farm System and Whole Crop Silage, and are confident sales targets will be met by year-end. Our Industry Solution, Integrated Livestock Management has also experienced strong demand. However, we are still not satisfied with the pace of progress achieved across our Solutions activities and are conducting a strategic and operational review of the business.
- A number of actions have been taken in response to the underperformance of our Rural Supplies business. These include strategies to improve revenue through a more focused approach to selling core retail categories, and a reduction in staff numbers across our nationwide network of stores to ensure staffing levels more closely match revenue generation and client demand. In addition, a restructure of the Senior Management Team has been undertaken to improve the focus on rural merchandising.
- The scaling up of our Finance business has been slower than anticipated, pending discussions with Rabobank regarding arrangements beyond our alliance that ended in November 2003. These issues have now largely been resolved and activity is underway to capitalise on strong demand for our finance products, and to grow this business beyond the \$24.9 million of loan approvals as at 31 December 2003. The Senior Management Team restructure was also designed to support the growth of the Company's finance business.
- The Company's Livestock Export business is experiencing strong growth, made possible by the Company's finishing and quarantine operation at Otamatea Station, near Taupo. This property enables us to significantly increase the number of animals we export, optimise the use of Wrightson proprietary grasses, and have more control over the dairy heifer supply chain.
- Significant progress is being made with forging research partnerships and alliances, particularly those related to biotechnology. One recently formed collaboration with AgResearch and Agricom involves the development and commercialisation of new ryegrass endophytes. A number of other partnerships aimed at leveraging Wrightson's world-leading intellectual property (IP) in forage-related biotechnology are close to finalisation.

- Wrightson retains its focus on developing initiatives to reduce infrastructure costs in our Wool business.
- Eurogrow Potatoes, our successful seed potato business, has expanded through the acquisition of a competitor business. The acquisition will build on Eurogrow's export and local sales growth, and extend the product range offered to grower and processor clients.

Company Strategy

We continue to focus on the quiet reshaping of Wrightson from a traditional stock and station agency into a modern agri-solutions business. Our key objectives are to grow the sustainable earnings base, and to further develop the ability to sustain the Group's earnings in declining commodity markets, although we recognise this as a medium to longer-term task.

As farmers and markets, both local and international, become more discerning and demanding, New Zealand agriculture is moving beyond traditional commodity production into new business models, and new, more valuable products. Wrightson is at the heart of that transition with our two-pronged strategy of cost leadership in our more traditional commodity businesses, as well as our Solutions strategy and commitment to biotechnology research and development (R&D).

To improve earnings over the long term, the Group will have to grow in scale, develop in new areas, and make more effective use of shareholders' funds. While New Zealand farmers will always be at the core of our business, we also need greater offshore scale to get better leverage from our world-leading products and IP.

The Company also remains committed to its leadership role on issues that are critical to New Zealand agriculture. This includes issues such as the need for increased Government recognition of agriculture's key role in the economy, the environmental sustainability of the sector, climate change, biotechnology, and the need for more collaboration in R&D.

Outlook

Looking ahead to 30 June 2004, the rural economy is expected to continue to feel the impact of the strength of the New Zealand dollar against the US dollar, as well as the extreme climatic conditions being experienced across large parts of the country.

Farm profitability is expected to decline further in the next six months. In late December, Meat and Wool Innovation's Economic Service forecast the average sheep and beef farm profitability before tax would drop 16 per cent from \$90,800 in 2002/3, to \$75,900 in 2003/4. The short-term outlook for dairy farmers however, is more positive, with a forecast payout of \$4.15 per kilo of milk solids for the current season, compared with \$3.60 last season.

The seasonal nature of Wrightson's business means that traditionally, we earn a larger proportion of our net profit in the second half of the financial year, and we expect the same pattern this year. Based on the combination of factors above, and performance to-date for the second half, we anticipate our full year result will continue this trend.

Management priorities for the remainder of the financial year are to grow Solutions revenue, regain lost ground in Rural Supplies, further reduce cost structures, and to mitigate, to the extent possible, the impact of the unseasonal weather conditions being experienced across the country.

We expect the second half to be as challenging as the first.
