



HALF-YEAR REVIEW 2004 (6 months to 31 December 2004)

Overview

The December half-year was a turning point for Wrightson, marked by an improvement in underlying earnings performance and a series of strategic initiatives to build a base for long-term earnings.

Barry Brook was appointed Chief Executive Officer in December 2004. He had been Acting Chief Executive since June 2004, and had previously held a number of senior management positions over a 19-year career with the Company.

Net profit after tax (NPAT) was \$7.4 million, compared with \$2.7 million in the previous period. The latest figure includes a gain of \$5.0 million arising from the sale of our insurance broking business into a partnership established with Aon New Zealand. Material one-off items in the December 2003 half-year (the reversal of a surplus property provision) were \$1.3 million.

Excluding material one-off items, NPAT for the December 2004 half-year was \$2.4 million, compared with \$1.3 million to December 2003.

The Company has declared a fully-imputed interim dividend of 3.5 cents per share, to be paid on 31 March. This compares with a dividend of 2.5 cents per share paid in March 2004.

Operating conditions during the half-year were generally good, and comparable with those prevailing in the previous December half-year, with continuing strong demand and prices for most agricultural products. The New Zealand dollar remained relatively high from a historical perspective, but also relatively stable. The unseasonably cold and wet start to the summer months delayed activity in some regions, but this had minimal impact on the first half-year results.

Earnings before interest and tax (EBIT) were \$10.0 million, compared with \$4.6 million in the December 2003 period. After excluding material one-off items and the performance of the Company's equity accounted shareholding in Genesis Research and Development Corporation (a loss of \$0.9 million, compared with a loss of \$0.7 million in the previous comparable period), EBIT was up by approximately 47.5 percent from \$4.0 million to \$5.9 million.

Most areas of the business improved their performance, with the greatest gains achieved by Livestock (underpinned by continued strength in prices and an additional export shipment), and by the Seeds and Grain businesses. The overall gains were offset to an extent by weaker performance in Rural Supplies.

Results for the half-year also reflected improvements made in many parts of the business since the establishment of a new Board following the change in control in June 2004. Wrightson now has a strongly committed cornerstone shareholder, in Rural Portfolio Investments Limited, which has sought actively to encourage initiatives to improve the performance of the Company.

The central pillar of this programme is a very strong focus on the basics of the business – on the needs of our clients, and on making it easier for them to do business with us. Feedback from clients indicates that this approach is valued, and we believe it will continue to have a positive impact on results.

The Company has also implemented a range of initiatives to reduce overheads and improve efficiency in internal processes. These included the disestablishment of the Solutions business, the restructuring of the Consulting business, improvements in central processing and a review of corporate costs. Gains from these initiatives are expected to become more apparent in the second half of the current financial year.

The Company has also undertaken several major initiatives to reshape its operating portfolio and improve the financial performance of the business. Those brought to fruition during the first half-year included the acquisition of a strategic shareholding in Williams & Kettle and the subsequent full takeover offer for that Company (see below), new investment in the Finance operation and the establishment of the Insurance partnership with Aon New Zealand. Since 31 December 2004 the Company has also announced the sale of the Potato Seed business to two former principal employees.

As a consequence of the initiatives taken prior to 31 December 2004 and growth in working capital, the Company's balance sheet increased substantially, with an expansion in debt from \$25.3 million to \$76.7 million and in total assets from \$235.1 million to \$297.4 million. New bank funding lines established during the half-year are comfortably in excess of current and foreseen requirements. The Board considers that the Company is conservatively geared, with a ratio of borrowing to total assets of 26 percent.

Business unit performance

EBIT from Livestock and Wool increased strongly by \$2.0 million to \$0.3 million.

The Livestock business continued to perform strongly. Prices remained high despite the strength of the New Zealand dollar, due to strong world commodity prices across all livestock categories except deer. The Rangiora saleyard live weight selling upgrade – the final step in a project to upgrade nine saleyards around the country – was completed during the half-year. Livestock exports increased as a result of strong demand for dairy cattle in China.

Wool volumes were comparable with those for the previous December half-year. Strong wool prices were higher in US dollar terms, but returns to New Zealand growers were reduced by the strength of the New Zealand currency. Conditions in the fine wool market were even more difficult. The industry initiative to move the sale of New Zealand fine wool to the auctions in Melbourne was supported by Wrightson, and was completed successfully.

The Seeds and Grain businesses performed well, with sales growth and business improvement initiatives resulting in increased revenue and earnings. EBIT increased from \$2.3 million to \$4.2 million.

The launch of Extreme Ryegrass to dairy farmer clients was successful, with a very strong initial sales performance. The Pasture Partners™ campaign, launched in June 2004 to increase farmers' knowledge of the benefits of successful pasture renewal using Wrightson proprietary seeds, also made good progress.

Our animal feed supplements subsidiary, Agri-feeds, achieved a slight improvement on results for the previous December half-year. Favourable spring growth conditions put pressure on volumes in the molasses market, but margins were steady across the business.

Results from the Seeds business in Uruguay were positive with the introduction of summer crops this half-year. This is an example of our continuing development of this business.

EBIT from the Rural Supplies business was \$0.7 million - \$1.0 million lower than for the previous December half-year. The main reason for the decline was a reduction in margin on fertiliser sales as a result of intense competition in that part of the business. Margins were improved in other areas. The Company remains committed to Rural Supplies and is undertaking several strategies to improve results. These include improving the front-line sales capability by increasing on-farm sales representation and implementing a new sales planning process. We have also introduced direct selling on-line and via catalogue.

Good progress was made on the re-growth of the Finance business. A prospectus was issued for debenture stock and unsecured deposits, and \$3.1 million was received under the terms of the prospectus. Total lending rose from \$17.5 million to \$27.0 million, and several key staff were recruited. Our focus remains on growth in this business.

In the Insurance business, Wrightson and Aon New Zealand agreed to establish a partnership to improve the range of products and services available to rural New Zealand. The insurance broking business now operates under the Wrightson/Aon brand. The collective strength of Wrightson and Aon will enable the creation of a more competitive offering, with a view to increasing the number of Wrightson clients doing insurance business with the Company. The sale of the existing business to the partnership resulted in a net gain on sale of \$5.0 million.

Market conditions for Real Estate were generally buoyant, with strong domestic demand offsetting a slight easing in interest from overseas buyers. The real estate business opened several new offices and made key appointments including a National Manager and 25 agents. The business also introduced an on-line marketing tool. These initiatives assisted the overall performance of the business.

The Forestry business continued to struggle as customers reduced their harvest levels in response to market conditions, increased shipping costs and the impact of the strong New Zealand dollar. Revenue was reduced, but the business also reduced its costs and increased margin per tonne.

Earnings from Agriculture New Zealand Training continued to grow due to increased demand for training services and the success of initiatives undertaken with Telford Polytechnic and the Farmsafe consortia. The consulting business was refocused on fee-paying work, as distinct from the previous focus on solutions development and internal support.

Takeover offer for Williams & Kettle

The offer to acquire Williams & Kettle is founded on Wrightson's strong view that rationalisation is required amongst the many entities involved in rural services – to improve the economics of the industry and to provide a better base for initiatives to improve the productivity and profitability of our farmer clients.

The industry is currently fragmented, with a small number of corporate participants and an array of smaller, specialised competitors. Without rationalisation, the industry will find it difficult to deliver the specialist services the rural sector will need to combat the increasingly competitive agricultural industries of other nations. A company combining the brands and operational strengths of Wrightson and Williams & Kettle will be in a position to drive the future development of the industry in a positive direction.

The initial investment in Williams & Kettle was made on 10 December 2004 via a stand in the New Zealand equity market. An offer to acquire all the remaining shares was foreshadowed on Monday 13 December 2004, and the formal offer documents were mailed to Williams & Kettle shareholders on 28 January 2005. The report by the independent expert appointed under the Takeovers Code, Grant Samuel & Associates, stated that the offer of \$4.70 per share is fair, being above its assessed value range of \$3.91 to \$4.35 per share.

The closing date for the offer is 28 February 2005.

Outlook

International agricultural commodity prices are likely to remain strong, underpinning the operating conditions for our business. Results will be influenced by any material change in the value of the New Zealand dollar.

Weather conditions will also play their part and the wet early summer has already delayed the seed and grain harvest and boosted feed conditions in normally drier areas. This has resulted in farmers finishing a higher proportion of livestock in these areas.

Our focus for the second half of the year is on continuing the improvement in business unit performance, and on achieving further progress with the strategic repositioning of the Company. In particular, if the takeover offer for Williams & Kettle is completed successfully, integration of both companies' operations will involve considerable attention from senior management.

As is the case in each year, results for the full-year will be strongly influenced by performance in the second half, which normally contributes around 75 percent of earnings.

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