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Directors' comments – attachment to 4E

September 29, 2004

Preliminary announcement

Full year results for the period ending July 31, 2004

Financial highlights

Group revenues up by 8%

Tax paid operating profit up by 18.6%

Earnings per share up by 14%

Full year dividend increased by 15%

Gearing level 38% lower at 61%

EBIT – Interest cover increases to 4.4 times

The directors of Nufarm Limited announced today a tax paid profit of \$76.2 million for the year ended July 31, 2004, representing an increase of more than 18% on the previous year's net operating profit (\$64.3m).

Total group sales were \$1.58 billion, up by 8% on the 2003 year. The company's core crop protection business represented some 91% of total revenues and achieved a 17% increase in sales to \$1,441 million. The crop protection business also generated stronger profit growth (up by 20%), compensating for a lower contribution from Nufarm's industrial chemicals businesses.

The company achieved stronger sales and profit results in all of its major global crop protection markets except France, where the business is being realigned to achieve additional higher margin branded product sales. Australasia accounted for 48% of total sales; the Americas 28% and Europe 24%.

Higher sales of premium branded products, and enhanced operational efficiencies resulted in stronger margins in most markets. Seasonal conditions were average to good in the various geographies where Nufarm products are sold.



Earnings per share were 47.1 cents, an increase of 14% on last year's 41.3 cents. This was achieved on a higher capital base following the issuing of some 11 million new shares associated with a capital raising in January/February 2004.

The company's balance sheet at year end shows a further substantial reduction in net debt to equity, down by some 38% to 61%. This improvement in the balance sheet builds on the significant gains made in the previous year and reflects strong cash flow (\$202.7 million), an improved working capital position (reduced by \$65m), and the repayment of \$109 million in debt.

Other balance sheet ratios also strengthened. Return on funds employed increased from 13.9% to 15.7% at the EBIT level, and interest cover increased to 4.4 times from 3.4 times.

Non operating items

The net impact of various restructuring initiatives, sale of assets, and other non operating items during the 2004 reporting period was not material.

The major restructuring activity was in France and included the closure and sale of a manufacturing facility in Mulhouse; the sale of the Paris based administration building; and a redundancy program aimed at reducing manufacturing overheads and strengthening marketing and sales functions.

Directors have also taken the opportunity to write-off carrying values associated with a number of non-core or discontinued research and development programs.

The after tax impact of these items was a loss of \$0.4 million.

Final Dividend

Directors have declared a fully franked dividend of 15 cents per share (last year 13 cents per share) resulting in a full year dividend payment of 23 cents per share, an increase of 3 cents (15%) on the previous year.

The increased dividend encompasses a slightly higher payout ratio in respect of the 2004 results, but reflects the company's confidence that retained profits will be utilised to help facilitate the continued profitable expansion of the business.

The dividend will be paid on 12/11/04, to the holders of all fully paid shares in the company as at the close of business on 29/10/04.

Crop protection

Total crop protection sales increased by 17% to \$1,441 million, with profit before tax, interest and head office charges up by 20% at \$161.9 million.

The sales increase was driven by strong organic growth in markets such as the United States, Germany and the UK; plus the addition of new products resulting from the company's registration and acquisition activities, and new distribution arrangements.



Nufarm's acquisition of the market leading phenoxy herbicide brands from BASF – acquired in January 2004 – contributed strongly to the performance of the crop protection business in a number of global markets. Sales of these brands totaled approximately €25 million, and generated a net profit of some \$5 million. Margins achieved on these sales were stronger than those assumed at the time of the acquisition.

This acquisition also contributed to an improvement in the company's methyls business, which grew in both volume and price and incorporated a higher proportion of branded product sales versus lower margin third party technical sales. While further initiatives are required to achieve increased and sustainable profitability from the methyls business, the 2004 result marks a welcome turn-around in its performance.

Australia experienced mixed seasonal conditions, with parts of the country receiving good and timely rains, and other areas – particularly in NSW and Queensland - remaining drought declared. Despite a later than usual autumn rain break in the southern regions, Australian winter crop plantings, overall, were at similarly high levels to the previous year.

The company's Australian crop protection sales increased by almost 15%. This included some \$24 million in sales associated with the BASF range of products, which transferred to Nufarm under a new distribution deal at the beginning of March, and enhanced Nufarm's market penetration in the higher value horticulture segment.

The total Australian glyphosate market saw double digit growth in the 2004 reporting period, with Nufarm maintaining its strong molecule share, in particular in the 'Roundup' branded product range. An increased share of sales under the premium 'Roundup PowerMax' brand – launched the previous year – contributed to stronger margins in the glyphosate business.

Crop Care recorded its first full 12 months of sales since being acquired from Orica in the 2003 financial year (nine months of sales). Sales under the Crop Care brand were up by some 30% year on year. Nufarm's Croplands subsidiary, which supplies chemical application machinery, also generated a stronger sales and profit performance, assisted by an expanded product range, improved brand awareness and broader dealership coverage.

Agricultural chemical sales in New Zealand were also strong during the year, particularly in light of flooding which adversely impacted crops and pastures in several regions. An unbudgeted order for a biological insecticide used in a major urban pest eradication program contributed to the better than expected outcome in this business. The New Zealand based health and sciences division – which contract manufactures products for major animal health companies – reported lower sales and earnings due to reduced livestock numbers in the wake of the Australian drought.

Nufarm products achieved higher market shares in Indonesia and Malaysia and – together with additional sales to Japan – helped the Asian business deliver a stronger sales and profit performance.

The US business performed very strongly, with total branded sales up by more than 37% in local currency (up 25% in Australian dollars) over the previous year. Seasonal conditions were generally favourable, although hot and dry weather in California reduced demand for fungicides. Sales of the company's phenoxy herbicides continued to grow, in part driven by the increased use of these products in genetically modified (GM) cropping systems. There was substantial growth in volume sales of glyphosate, however margins on a per unit basis were lower than the previous year due to reduced prices.



In the US turf and vegetative management sector, Nufarm grew sales by more than 50%. An expanding product portfolio was a key contributor to the very strong performance, as Nufarm increased its business with all existing distribution customers.

Sales in Canada were flat year on year, with seasonal conditions not conducive to heavy demand for herbicides. But a more profitable product mix, and close attention to cost controls, resulted in an improved profit performance.

The key South American markets saw increased sales of Nufarm products. The company launched branded 2,4-D and glyphosate in the rapidly growing Brazilian market and generated increased sales in Argentina. Expanded sales, registration and business development resources were put in place to help capture future opportunities in the region.

The European businesses saw an overall increase in sales of 20%. This was largely driven by very strong results in Germany, where the previous year's sales increased by almost 70% to just over \$43 million, and in the UK.

The German business added a number of new products to the portfolio, including several fungicides which have been licensed from BASF, and the former BASF phenoxy herbicide brands. Portfolio expansion, and strong seasonal pressures, were the key drivers to the excellent performance of the UK branded business. Spain also recorded very good results.

As expected, the reorganisation of the French business and a decision to move away from a predominantly third party sales structure, held sales below the previous year. The reorganisation will improve efficiencies in the business and support the company's objective to increase Nufarm's direct distribution of branded products, particularly in the large cereals segment.

Nufarm's global manufacturing facilities achieved record throughput to meet higher sales demand, leading to stronger labour and overhead recoveries and lower unit costs. Changes were made in a number of facilities to facilitate better asset utilisation and improved efficiencies in synthesis, formulation and packaging.

In summary, Nufarm continued to grow both sales and brand share in key geographies and strengthened its global position and market shares in its major core products; including phenoxy herbicides and glyphosate. A very active product registration program resulted in a number of new product launches during the year, and – despite a very competitive pricing environment – the company was able to strengthen margins across the business.

Industrial chemicals

Revenue in this division declined by almost 40% to just over \$135 million during the period. The lower sales, in part, reflected the divestment of the Fernz specialty chemicals business in the previous year when it generated \$51 million in sales for the three months prior to its divestment to Orica Ltd in November 2003.

The West Australian based chlor alkali plants (80% owned) were again the major profit contributors in the industrial chemicals division. Both facilities performed well during the year, with caustic soda prices remaining at around average levels. A new long-term contract was concluded at the expiry of the first 15 year contact for the Kemerton facility.



Sales in the remaining industrial chemical businesses fell by just over 20%. Pre-tax segment profit declined to \$15.3 million from \$23.6 million in the previous year.

Nufarm Specialty Products (South Carolina, USA) generated a lower profit contribution – on slightly lower sales – than in 2003. The loss of a major tolling contract was partially offset by a number of new, smaller contracts.

The French fine and performance chemicals business saw lower sales, with increased competition restricting prices and resulting in an overall contribution which was below expectations. A reorganisation of the production facilities will improve future operating margins.

Sales in the SEAC pharmaceutical intermediates subsidiary (France) were again lower than in the previous period, with a project budgeted for the last quarter deferred until the new financial year. Costs were also up on the prior year.

Subsequent events

The company announced today that it has signed a Memorandum of Understanding to acquire 49.9% of the share capital in the Brazilian crop protection company, Agripec (see separate announcement).

This investment will provide Nufarm with a strong future earnings stream tied to ongoing growth in one of the world's largest markets for crop protection sales. Agripec is a leading locally owned supplier of agricultural chemicals in Brazil with extensive production facilities and a strong sales network.

The proposed equity interest in Agripec involves a total consideration of USD120 million (approx. AUD170 million) and will be debt funded. The transaction is subject to final due diligence and Board approval and is expected to be completed by the end of November.

Directors also confirmed today that the company is in advanced discussions relating to the sale of its pharmaceutical intermediates business (SEAC), and its Nufarm Specialty Products subsidiary.

SEAC, based in France, provides contract synthesis and manufacturing services to major pharmaceutical companies. It generated sales of some \$26 million in 2004 (\$31 million in 2003).

Nufarm Specialty Products is based in South Carolina, USA, and manufactures a range of fine and performance chemicals for other manufacturing companies. 2004 sales were approximately \$50 million.

Total proceeds from these divestments is expected to be in the order of \$80 million and will be used to partially offset the borrowing costs associated with the proposed Agripec investment.

Outlook

Directors believe the 2004 results reflect a number of factors which place the company in a strong position to achieve ongoing profitable growth.



These include the continued expansion of the product portfolio; the ability to successfully compete with other suppliers in large overseas markets; and a focus on driving further efficiencies and subsequent margin improvement in various parts of the business.

While the business will need to absorb higher costs in raw materials in the 2005 reporting period, the company is confident of achieving further growth in sales in both existing markets and developing markets such as South America.

There will be a continued focus on generating improved shareholder returns, and on the efficient use of capital employed in the business.

The company targets a three year average annual net profit growth of approximately 10%, and this looks very achievable in the foreseeable future.

Based on an assumption that the Agripec investment is completed and makes its forecast contribution in the current financial year - and factoring in the expected loss of earnings from non core businesses likely to be divested within the period - 2005 net profit growth is forecast to be at least 15%.

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