



## **Report to shareholders 6 months ended January 31, 2006**

March 28, 2006

Nufarm Limited has generated a tax paid profit of \$34.2 million for the half year period ending January 31, 2006. The reported profit includes a net gain of \$1.5 million from non-operating items. The company's \$32.7 million interim operating profit compares with an operating result of \$36.2 million for the same period last year (both results calculated on the basis of AIFRS accounting methods).

After incurring an additional \$3.2 million after tax interest charge in the period, Nufarm's 49.9% interest in Brazilian crop protection company, Agripec, contributed a net profit of \$14.9 million. This investment contributed \$22.2 million in the first six months of 2005.

Excluding Agripec, Nufarm generated a 30% year on year increase in net operating profit on its core business in the first half. A strong emphasis on improving the quality of earnings in the business is reflected in this outcome.

Operating earnings per share were 19.3 cents, compared to 21.5 cents for the six months to January 31, 2005.

Sales for the period were \$640 million, slightly down on the \$659 million achieved in the first half of 2005 for continuing businesses.

53% of revenues were generated in Australasia (56% in first half 2005); 24% in the Americas (22%); and 23% in Europe (22%).

The interim dividend has been increased from 9 cents to 10 cents (fully franked) and will be paid on April 28 to all holders of ordinary shares in the company as of April 7.

Net working capital at January 2006 was \$591 million, a \$140 million increase over the prior year. This increase reflects the impact of acquisitions (\$10m) and an intentionally higher inventory position in the USA (\$44m). The receivables balance at January 31 was higher due to January 2006 sales being some \$35 million higher than the prior year; and the reclassification of a receivable relating to the capital notes on issue (as a current asset) had a further impact of \$43 million on net working capital.

Gearing improved slightly from 127% to 121%, with July levels forecast to be below the July 2005 figure of 78%. Operating cash flow is consistent between years and reflects the build up in working capital in the first half.

## Review of operations

Crop protection revenues were \$609 million (95% of total revenues), slightly down on the \$629 million generated in the first half of last year.

Operating profit was \$53.3 million, an increase of 22% on the 2005 interim result.

Sales in Australia were approximately 5% lower after adjusting for 2005 first half sales associated with the Nuturf business (sold in August 2005). A very late winter cereals planting generated record July sales for the company in 2005 and this contributed to higher stock levels in distribution in the early months of the new financial year. Seasonal conditions were positive leading up to Christmas and this facilitated strong summer cropping activity. In the Eastern states, conditions deteriorated over the remainder of the summer with hot and dry conditions prevailing in NSW, Victoria and parts of South Australia.

While competitive pressures on broadacre products remained very strong in the first six months, a combination of strict cost controls and a well above-budget performance in summer horticulture enabled the business to recover and strengthen margins.

An early and favourable spring in New Zealand created strong demand for crop protection products and underpinned the successful launch of new 'Roundup Transorb', a proprietary glyphosate formulation. This was offset by some margin reduction due to competitive pricing pressure and rising costs. New Zealand sales were slightly higher compared with the same period last year.

Asian sales were more than 10% ahead of last year. An improved profit contribution from the Indonesian business also helped lift overall profitability for the region.

In North America, Nufarm generated higher sales and an improved profit performance. Some sales were delayed in the USA due to dry weather in the southern states and distribution customers deferring purchase commitments after Nufarm increased prices on its core product range. This is a timing issue that is correcting over the early part of the second half. US margins and total profit contribution were ahead of the same period last year.

Canada sales were significantly higher (more than 50%) than the corresponding period, with a new product launch – 'Assert' (grass herbicide used in cereal crops), purchased from BASF – helping drive an excellent result for the six months in this market.

Sales in the South American markets of Argentina, Chile and the Andean region were also stronger, however margin pressure on glyphosate sales in Argentina adversely impacted the profit contribution from the region.

Much of Europe experienced a longer and more severe winter and this has delayed cropping and associated sales activity in those markets. Branded sales in Germany and the UK were, however, ahead of the same period last year, with sales in France being in line with the first six months of 2005. Increased sales of higher margin products and manufacturing efficiencies resulting from recent restructuring initiatives helped generate an improved operating profit from the European crop protection businesses.

A further social plan (redundancy program) was implemented in France, aimed at reducing head office costs. This resulted in a one-off after tax cost of some \$4.6 million in the period.

## **Agripec**

Nufarm's 49.9% interest in Brazilian crop protection company Agripec generated a net profit contribution of \$14.9 million for the six months to end January 2006. This compares with a net contribution from Agripec of \$22.2 million for the same period last year.

After recognising the additional interest charge in the 2006 interim period, profit contribution from Agripec was down 18% on an operational basis.

Agripec operates on a calendar based financial year. Measured in local currency, most estimates have total industry crop protection sales in Brazil in 2005 down by some 23% on the previous year. In US dollars, industry estimates show a fall of 7% (US\$4.1 billion v US\$4.4 billion).

Agripec's 2005 full year net sales were down by approximately 20% on 2004 net sales (local currency). US dollar net sales were \$181 million, down by 6% on the previous year.

The 2005 calendar year was characterized by drought conditions in some key Brazilian growing regions in the first half, and by the various impacts of the stronger local currency. These impacts included lower relative returns for Brazilian farmers and a tightening of credit throughout the farm inputs industry.

While the currency impacts remain relevant, growing conditions in the major season (November – December) were generally positive.

## **Industrial chemicals**

Industrial chemical revenues were \$30.3 million (\$31.6m in 2005), with operating profit up by some 50% to \$4.7 million.

Revenues from the company's two chlor alkali plants (80% owned) in Western Australia were stronger compared to last year, with higher sales of chlorine and a flow through benefit associated with a higher world indicator price for caustic soda.

The balance of Nufarm's industrial chemicals sales – mostly byproducts of crop protection manufacturing activities in Europe – generated a small profit contribution.

## **Divestments / non operating items**

The net impact of one-off items, at January 31, is a gain of \$1.5 million. The company booked a profit of some \$6.3 million on the sale of the Australian based Nuturf business. After tax non operating costs included restructuring programs in France (\$4.6m) and the UK (\$0.2m).

## Outlook

Selling activity has accelerated through February/March as the business approaches the key cropping seasons in Australia and North America. Winter conditions persist in some of the larger European markets and warmer weather will be required to facilitate positive selling opportunities.

Competition remains strong in Nufarm's major markets, but the company expects to improve net margins through a combination of cost controls; increased sales of higher margin products (such as fungicides); and the benefit of higher pricing aimed at recovering the impact of higher costs in the business over the past 12 months.

As indicated at the company's Annual General Meeting in December, the Agripec investment in Brazil is forecast to make a full year contribution some 10-20% below that achieved in 2005. The balance of Nufarm's 2006 financial year is a relatively quiet selling period in Brazil, but business conditions should be stronger than in the drought affected corresponding period of last year.

With the lower contribution from Agripec, Nufarm's businesses in Australia, North America and Europe must perform strongly in order for the company to meet its full year profit guidance.

Directors believe increased sales and stronger margins driven by an expanded product portfolio and improved access to distribution will facilitate a strong performance for the full year.

Given average to good seasonal conditions in the company's major crop protection markets, Directors believe Nufarm remains in a position to achieve its forecast net profit growth of approximately 10% on last year.

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