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# Preliminary announcement

## Full year results for the period ending July 31, 2009

### Headline results

- **Group revenues up 7% to $2.68 billion**
- **Reported net profit down 42 % to $79.9 million**
- **EBIT down 44% to $151 million**
- **Net profit after tax (excluding material items) down 3% to $159.7 million**
- **Earnings per share down 52% to 33.5 cents**
- **Full year dividend 27 cents**

The directors of Nufarm Limited announced today a tax paid profit of $79.9 million for the year ended July 31, 2009. The reported profit includes the impact of material items totalling $79.8 million.

Group revenues increased 7% to $2.68 billion and operating earnings before interest and tax (EBIT) was down 44% to $151 million.

Earnings per share were 33.5 cents, compared with last year's 69.7 cents.

This result reflects a very challenging second half for the company, particularly with respect to its glyphosate business which suffered a sharp decline in profitability due to a range of issues that negatively impacted all of the world's leading glyphosate suppliers in the final quarter of Nufarm's financial year. These impacts are discussed in more detail in subsequent sections of this report.

## Material items

The company recorded a $79.8 million after tax loss associated with material items.

The significant material items related to adjustments associated with the company's glyphosate business. The company booked a $40.8 million after tax write-down on the value of glyphosate inventory largely held in the US as at July 31, 2009. The adjusted value of that inventory places the company in a position to generate profits in the 2010 year while selling glyphosate at market competitive prices. The dramatic fall in glyphosate prices in the final six weeks of the financial year meant that the book value of inventory could not be recovered through sales made in the period. Losses of $22.7 million after tax have been classified as an inventory adjustment material item.

The balance of $16.0 million in material items mainly relates to charges associated with restructuring of manufacturing activities in Europe and costs relating to regulatory enquiries dealing with competition impacts of the AH Marks acquisition.

There was also a small net non-cash foreign exchange loss of $0.3 million at July 31 relating to the company's Step-up Securities (NSS). The foreign exchange exposure on the funding utilisation from the NSS has been hedged over the term of the securities and will guarantee a cash gain of $19.6 million on maturity in the 2012 financial year.

## Final Dividend

Directors declared a final unfranked dividend of 15 cents per share, resulting in a full year dividend of 27 cents. The final dividend (which will be classified as 100% conduit foreign income) will be paid on November 13, 2009 to the holders of all fully paid shares in the company as at the close of business on October 16, 2009.

The Dividend Reinvestment Plan will not operate with respect to this dividend.

## Business review

After a buoyant 2008 in which agricultural industries were characterised by strong demand, expanded production and rising prices, business conditions for the crop protection industry were very challenging in 2009.

Following a solid first six months – in which the company achieved its budgeted profit performance - Nufarm’s 2009 financial year was negatively impacted in the second half by pressures relating to the global credit crisis and climate-related declines in demand for various products. However, the principal negative impact on the company’s 2009 profitability involved a range of issues that led to significant deterioration in the volume and profitability of glyphosate sales.

These impacts were especially obvious in the company’s South American; USA and Australian businesses. Nufarm’s European business – which accounts for relatively low sales of glyphosate – performed very strongly during the period.

Nufarm generated sales of $2.68 billion in the 12 months to July 31, representing a 7% increase on the previous year’s total revenues. Australasia generated $850 million in sales (32% of total sales) North America recorded $775 million in sales (29% of total); South America generated total sales of $415 million (15%); and Europe $637 million (24%).

Total glyphosate sales were $833 million - representing about 31% of group revenues - and generating a 14.9% gross margin (pre the impact of adjustments included in material items). This compares with glyphosate sales in the previous year of $909 million (36% of total sales) and a gross margin contribution of 31%.

Nufarm commenced the 2009 financial year with higher than average glyphosate inventory as it transitioned to new supply arrangements. Much of that inventory had been purchased at a high point in the pricing cycle for the key raw material (glyphosate ‘technical’). After a period of strong demand and pricing in 2008, substantial additional capacity of glyphosate ‘technical’ was brought into production in China towards the end of the 2008 period. This surplus of product and low seasonal demand saw prices decline in 2009, with severe price discounting in the final two months of Nufarm's financial year, particularly in the USA.

The company's non-glyphosate revenues increased by 16% to $1.84 billion.

Total herbicide sales were down on the previous year, but when glyphosate is excluded from that calculation there was an increase in other herbicide sales of almost 14% to $1.08 billion. Phenoxy herbicide sales, in which Nufarm is a global leader, were $554 million and similar to the previous year.

The company generated increased sales of insecticides (up 21%) and fungicides (up 10%) in 2009, reflecting product development and portfolio expansion activity focused on those segments.

A number of new seed treatment products were introduced in 2009, providing a strong platform for future growth in this high value segment.

**Australasia**

The Australasian business generated $850 million in sales and a segment profit[1] of $118 million in the 2009 financial year. This represents a drop in revenue of about 3% on the previous year and a 20% decline in segment profit. Glyphosate represented approximately 31% of total sales in this region.

Despite average crop plantings and reasonable climatic conditions following the planting activity in most parts of Australia, demand for crop protection products was unusually low with Nufarm's major distribution customers looking to de-stock and growers only purchasing minimum requirements. Crops in many regions were planted in relatively dry conditions reducing the need for herbicide applications, particularly glyphosate.

Volume sales of glyphosate in Australia were substantially down on the previous year and – combined with weaker pricing and lower margins – were the major contributor to a poorer profit performance from the Australian business.

Seasonal conditions improved in many regions after crops were sown and this generated strong sales of a number of products other than glyphosate, with phenoxy herbicide sales and sales into segments such as horticulture generating an improved return on the previous year.

Nufarm's Croplands division (manufacturer and supplier of spray equipment) increased sales to $46.6 million, an improvement of more than 30% on the previous year.

New Zealand crop protection sales were down by some 16%, impacted by a depressed dairy sector and lower margin glyphosate sales.

Nufarm's Asian sales grew strongly in 2009, with the company's businesses in Malaysia, Indonesia and Japan all posting higher revenues driven by additional product registrations and improved access to local distribution. The company's first full year of 'Roundup' brand distribution rights in Indonesia also boosted sales.

[1] Segment earnings before interest and tax

**North America**

North American sales increased by almost 23% on the previous year ($775 million v $631 million). Segment profit ($8.4 million) was substantially down, with a significant decline in US glyphosate earnings being the major contributor. Glyphosate represented 42% of sales in the North American region.

US sales were up in Australian dollars but were similar to the previous year's sales when reported in local currency. This is despite US glyphosate sales being 20% down. Excluding the glyphosate business, US sales increased by more than 17%.

The gross profit generated by US glyphosate sales dropped by $77 million from the previous year, with 2009 sales recording a loss of $22 million. Excess supply, additional competition and lower seasonal demand for glyphosate saw prices soften throughout the year, with a very sharp deterioration in pricing towards the end of the season. Nufarm's cost position and high starting inventory resulted in glyphosate sales generating losses as the business sought to retain market share positions. These impacts were also felt by other major suppliers of glyphosate in the US market.

In other areas of the business, Nufarm was able to grow revenues by some 17% and gross margins by 32% (both calculated in local currency).

Non-glyphosate sales into the crop segment grew by about 6%, despite a relatively poor season for phenoxy herbicides. Insecticides, fungicides and seed treatment products were all stronger.

Nufarm's position in the US turf and ornamental segment and the industrial vegetative management segment improved on both a revenue and gross margin basis, helped in part by the contribution of the Etigra business, which was acquired in May of 2008. Additional product registrations and new product introductions in these segments helped strengthen the company's distribution relationships.

In Canada, Nufarm benefited from a broader product portfolio to record a 30% increase in sales. Colombia (also reported as part of the North American segment) saw a small increase in sales but margins were down on the previous year.

**South America**

South American sales in 2009 were $414 million, down 4% on the previous year's $431 million. The region recorded a loss of $41 million as a segment operating result.

The global credit crisis had a dramatic impact on business in Brazil with many growers unable to source credit or provide acceptable security to cover purchases of crop inputs. Competition between suppliers for lower risk business was intense with margins dramatically impacted.

Nufarm took a conservative position in response to these pressures and did not fill sales orders considered to involve an unacceptable credit risk. Discounts were also offered to secure earlier collections.

Nufarm's sales revenues in Brazil were down by 13 % on the previous year when reported in local currency. While glyphosate sales were similar to the previous year, margins generated from those sales were substantially lower. Glyphosate represented approximately 42% of total sales in South America in 2009.

In other product segments, the Brazil business performed strongly on a revenue basis with new offerings in pasture and sugar cane strengthening Nufarm's position in those important markets.

On an operating basis Brazil generated a small EBIT loss for the full year, with second half overheads and relatively low sales eroding the $25 million EBIT posted at January 31. This was consistent with expectations and guidance provided at the half year.

Argentina sales were slightly higher in 2009 but the profitability of the business was also impacted by credit related pressures and lower glyphosate margins. Drought conditions also persisted throughout the year, with cereal plantings down by some 40%.

In Chile, where Nufarm has a more balanced portfolio not dominated by glyphosate, the business generated an above budget profit result.

**Europe**

European sales were up by 15% year on year to $637 million, with a substantial improvement in segment profit ($100.6 million versus $56.2 million in 2008). Glyphosate represented 14% of total European sales in the period.

Nufarm's UK branded business improved margins on sales which were in line with the previous year, despite poor autumn weather and a sharp decline in demand for glyphosate. Again, new product introductions helped offset lower sales of some existing products.

The AH Marks business – acquired in March of the previous year – performed strongly and delivered an earnings contribution ahead of assumptions made at the time of the acquisition. This business was operated on an independent basis to the local Nufarm business due to ongoing enquiries by the UK regulatory authority (see comments later in this report). This meant that anticipated synergies could not be realised in the 2009 period.

Sales in France were up 5% on the previous year. While seasonal conditions were generally not favourable, the company generated excellent results from its corn herbicide campaign and made important gains in the amenities (non-crop applications) market. A rationalisation of production activity in France was also instigated during the year and this will result in improved efficiencies in future years.

The German business was slightly down on the previous year with sales into the spring market for wheat herbicides down by some 20% due to seasonal conditions. This was offset, however, by the successful introduction of several new products.

Nufarm's businesses in Italy, Spain, Portugal and the relatively new operations in Romania and Hungary all generated very strong results. When reported in local currencies, these results were even stronger. A new subsidiary was also established in Greece with important product registrations already secured in a number of market segments.

## Seeds

Nufarm made substantial strides in the expansion of the seed and traits business within the past year. The business finished ahead of budget with a small operating profit despite challenging environmental conditions prior to the canola season in Australia.

The Nufarm seed business, branded as Nuseed, has expanded in product range to offer sunflower and sorghum hybrids to both the Australian and global markets. This expansion has been facilitated by the acquisition of Queensland based Lefroy Seeds in September of 2008. Lefroy Seeds specializes in hybrid breeding, production and commercialisation activities in sunflower and sorghum. The acquisition delivered established registrations, sales and commercial partnerships in Australia, Argentina, South Africa, China, Pakistan, Thailand, and various countries in Europe.

New South Wales and Victoria planted their second year of biotech canola (using Roundup Ready® canola) with a four-fold expansion in the sown area. The Monola® specialty canola business continued to gain momentum as consumers in Australia and overseas increased their demand for healthier foods. Monola® delivers a functional, healthy alternative to high saturated and trans-fats. Nuseed collaborates with the supply chain from breeding to final oil customer.

## Subsequent events

### Acquisition of Richardson Seeds and MMR Genetics

On August 5, 2009, Nufarm acquired Texas based Richardson Seeds Ltd and MMR Genetics Ltd.

Richardson Seeds is a major producer and marketer of sorghum seed hybrids, with a leading market share in the US and expanding market positions in Mexico, South America, Europe, Japan and the Middle East. The company was founded over 50 years ago and has processing capabilities of 10,000 bags of sorghum seeds per day.

MMR Genetics – previously 47% owned by Richardson Seeds – is a global leader in the development of elite sorghum germplasm, used by many of the world's top seed companies.

The additional scale and reach resulting from the acquisitions will deliver significant growth to Nufarm's seeds business and will be complementary to the company's existing sorghum operations that were secured via the previous year's acquisition of Queensland based Lefroy seeds.

### AH Marks

On September 10, 2009, the UK Competition Commission notified Nufarm that the company had fulfilled its obligations in relation to remedies associated with the AH Marks acquisition (completed March, 2008).

The resolution of this matter allows the company to proceed with the full integration of the AH Marks business.

## Treasury

Net debt to equity improved from 69% in 2008 to 57% at July, 2009, despite net debt marginally increasing by $38 million to $938 million.

The increase in working capital – driven by a decrease in payables at year end – utilised the cash raised from the new equity issue undertaken in May. The reduction in payables reflected a decrease in purchasing activity in the last two months of the year as it became apparent that sales would be below earlier expectations. A significant decrease in working capital is expected in 2010 in response to more normal patterns of sales and purchasing.

The group recorded a foreign exchange loss of $27.5 million, primarily in Brazil. Approximately half of this loss is a non cash mark-to-market adjustment on a US dollar banking facility due to be renewed in the 2011 financial year.

Cash from operations has marginally improved to $76 million, constrained by the working capital increase. Net operating cash outflow was $53 million, a $74 million improvement on the prior year.

## Outlook

While market conditions remain challenging in certain areas of the company's business, management expects to see growth in group profitability in the 2010 financial year, with an improved operating environment in Brazil; a more competitive position in glyphosate; and continued revenue and margin expansion across other product positions being the major contributors to that growth.

Seasonal conditions in key markets such as Australia and the US saw reduced demand for crop protection products in the 2009 period. If seasonal influences return to more average conditions in 2010, grower demand is expected to improve. Similarly, credit pressures impacted the buying patterns of distribution customers in 2009, with many of those customers not prepared, or not able, to purchase and carry average levels of inventory. An improvement in the credit environment is likely to result in a re-stocking of distribution channels as the major selling seasons approach.

Credit restrictions in Brazil have eased and the company expects to generate higher sales and stronger margins in this market over the 12 month period. While risk management will continue to be given close attention, the business is forecast to generate a positive operating result.

The company has taken measures to ensure its glyphosate business will be competitive and profitable in 2010. Inventory levels at the manufacturing level (total industry) are estimated to be high, especially in the US market, and this will result in aggressive competition and relatively low prices. With an adjusted cost base and strong market access, Nufarm is well placed to capture an appropriate share of glyphosate sales across its regional businesses. The company is forecasting a return to acceptable profitability in its glyphosate business in 2010.

New, higher margin product introductions and increased sales in higher value segments (insecticides, fungicides, seed treatment, seeds) together with expanded market penetration in a number of regional locations will also generate higher earnings in the current financial year.

The 2010 year will also see the beginning of integration-related benefits associated with the AH Marks acquisition and improved manufacturing efficiencies resulting from the rationalization of some production activities in Europe.

While the 2009 year saw a substantial reduction in group profitability, the company was able to generate strong sales revenues and maintain or grow market share positions on both a geographic and product basis. With the expected improvements in earnings in a number of areas of the business – and more favourable market conditions – there is confidence that Nufarm's 2010 financial year will generate much improved results.

In summary, Directors are confident that the 2010 year will see an improvement in the quality of earnings and believe the company is well positioned to resume its strong profit growth.

D.J. Rathbone.

**D J Rathbone**
**Managing Director**