Nufarm

Nufarm Limited ACN 091 323 312
103-105 Pipe Road, Laverton North, VIC Australia 3026
Telephone: (03) 9282 1000 Facsimile: (03) 9282 1111
Postal Address: PO Box 103, Laverton, VIC Australia 3028

September 25, 2008

Preliminary announcement

Full year results for the period ending July 31, 2008

Highlights

- **Group revenues up 41% to $2.49 billion**
- **Tax paid operating profit (exc. non operating items) up 36% to $163.9 million**
- **Operating EBIT up 53%**
- **Earnings per share (for continuing operations) up 18% to 69.7 cents**
- **Full year dividend up 9% to 35 cents**

The directors of Nufarm Limited announced today a tax paid operating profit of $163.9 million for the year ended July 31, 2008, an increase of 36% on the previous year. Reported profit for the period was $137.9 million, after the $26 million after tax impact of non operating losses.

Group revenues increased 41% to $2.49 billion and operating earnings before interest and tax (EBIT) was up 53%, to $308.9 million, over the prior year.

Earnings per share (on an operating basis, excluding discontinued operations) were 69.7 cents, compared with last year's 59.2 cents, an increase of 18%.

The result – a record operating profit for the company – reflects strong performances from all of Nufarm's regional crop protection businesses against a background of positive business conditions for the company and for agriculture in general.

Non operating items

The company's total net profit of $137.9 million included a $26 million after tax loss associated with non operating items.

The major non operating item was associated with a previously disclosed barter trade contract in Brazil that was terminated at an after tax cost of $22.6 million. A thorough review of the company's barter trade practices in Brazil has subsequently resulted in new risk management policies and head office authorisation requirements.

There was also a net non-cash foreign exchange loss of $2.8 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 fully franked final dividend of 23 cents per share, resulting in a full year dividend of 35 cents. This is 9%, or 3 cents, higher than the dividend paid in the previous year.

The final dividend will be paid on November 17, 2008 to the holders of all fully paid shares in the company as at the close of business on October 24, 2008.

The company has previously advised the market that the growth of the company's business outside of Australia – combined with an increase in dividend payments and a higher number of shares on issue – will result in lower franking credit capacity in the future. This dividend is likely to be the final fully franked dividend the company will be in a position to pay.

The level of franking credits on future dividends will depend on the amount of future taxation paid in Australia.

The Directors intend to review the company dividend distribution policy before payment of the next dividend

Dividend Reinvestment Plan

Directors also approved a dividend reinvestment plan (DRP), whereby shareholders will be given the opportunity to reinvest dividend proceeds in Nufarm shares offered at a 2.5% discount to the volume weighted average price calculated over a period and on a basis to be determined by the Board. It is intended that, pending clarification of current changes to ASIC regulations, that the DRP be fully underwritten. Details of the plan and election notices will be mailed to all shareholders.

Business review

The 2008 financial year saw significant progress achieved on the company's strategic growth plan. Nufarm strengthened its position in existing markets and continued its expansion into new markets, securing volume and market share growth and broadening the company's product portfolio.

This progress was achieved against a background of very positive business conditions in the agriculture sector, with farmers securing high prices for their crops and strong demand for agricultural inputs.

While raw material and labour costs increased during the period, the company was able to recover the impact of those cost increases and achieve margin expansion with continued changes to product mix and improved supply chain efficiencies.

Australasia generated $875 million in sales (35% of total sales) but, as a proportion of total sales, continues to decline due to the increasing importance of other regional businesses. North America recorded $631 million in sales (26% of total); South America generated total sales of $431 million (17%); and Europe $555 million (22%).

Australasia

The Australasian business generated $875 million in sales and a Segment profit[1] of $147.6 million in the 2008 financial year. This represents revenue growth of some 28% on the previous year and 44% growth in segment profit over last year's somewhat depressed results due to the prevailing dry conditions that affected most parts of rural Australia.

After several years of severe drought, seasonal conditions in many cropping regions of Australia improved over the course of the financial year. After a slow first quarter, widespread rains in Queensland and New South Wales during December and January saw demand for crop protection products increase sharply in response to favourable summer cropping conditions.

While autumn rainfall varied from region to region, the major winter crop plantings were up on the previous year and growing conditions in many regions remained positive, driving strong sales of crop protection products. However, water storages in Australia remained at very low levels and this continued to negatively impact Nufarm's sales into a number of market segments, particularly horticultural crops in the Murray Darling basin. Cotton and rice plantings also remained down.

Glyphosate prices in Australia – and in other world markets – increased substantially on the back of higher input costs and very strong global demand. Nufarm's leadership position in the Australian glyphosate market ensured the company was well positioned to meet increased demand, particularly in the early part of the season before broader global supply constraints became apparent.

New Zealand crop protection sales were up by some 20% on the previous year, reflecting good volume growth and market share gains. Following a dry autumn, winter conditions were relatively wet and disrupted farming operations including winter weed control in a number of regions.

Sales in Malaysia and Indonesia were also higher than in the previous year, with a corresponding increase in profitability. During the period, Nufarm concluded an agreement with Monsanto to assume management of the 'Roundup' glyphosate brand in Indonesia.

North America

North American sales – at $631 million for the year – were up by 22% in Australian dollars, but increased by just over 30% when measured in local currencies. This continued a very positive trend of revenue growth in this region over a number of years. Segment profit in North America improved by 32% to $84.5 million.

Nufarm's position in the US market – where sales increased by approximately 25% in local currency - continues to strengthen with improved customer relationships; a high level of regulatory activity and new product introductions; and market share growth in core chemistries.

Seasonal conditions were varied leading to timing impacts in some market segments. Widespread flooding through the Midwest late in the reporting period meant sales of both glyphosate and post emergent herbicides were either delayed or lost, resulting in higher year end inventory levels.

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[1] Segment earnings before interest and tax

Despite this, the company generated strong volume growth and saw stronger pricing across most of its US product range. The insecticide portfolio was expanded and a new seed treatment team was established, with initial sales commencing in this high growth segment.

The acquisition of the Etigra business, announced in March, 2008, has substantially strengthened Nufarm's position in specialty crop markets such as turf and ornamentals. The integration of this business is now complete and target earnings contributions for the balance of the 2008 financial year were achieved.

In Canada, higher crop prices led to increased wheat and canola plantings helping to drive strong sales growth for the Nufarm business. A cool, wet spring depressed pre-plant glyphosate volumes, however total glyphosate sales were up as growers planted additional 'Roundup Ready' crops. New co-distribution arrangements with other major suppliers gave the Canadian business access to an expanded product portfolio.

Colombia (also reported as part of the North American segment) saw increased sales and margin expansion during the year.

South America

South American sales totalled $431 million for the 12 months to the end of July. This is the first year South America has been reported as a separate geographic segment. Segment profit was $59.3 million. On a pro-forma basis – assuming the company's Brazil operations were 100% owned and fully consolidated for the full 12 months of the previous year – this compares with 2007 South American sales of $337 million and a segment profit of $49.2 million.

In its first full year as a fully owned and consolidated business, Nufarm's operations in Brazil performed well, achieving some 25% growth in revenue (local currency) and strong growth in operating EBIT.

Total EBIT contribution from Brazil was $51 million. This compares with a contribution of $22.4 million in the previous year, comprised of $14.6 million in earnings for the final two months of the year when the business was consolidated and equity accounted earnings of $7.8 million for the balance of the year. On a pro-forma basis, the comparable 2007 EBIT contribution from Brazil in 2007 (assuming 100% ownership for the full 12 months) was $39.9 million.

The Brazilian crop protection market has recovered strongly from the farm credit crisis that negatively impacted growers and agricultural input suppliers during the previous two years. A more stable currency and higher crop prices, particularly for soybeans, improved the profitability and trading terms for Brazilian growers. Payment collections have been achieved on schedule as a result of the better market conditions.

Nufarm has increased its market share in Brazil, with a stronger position in local distribution, and new product introductions into important crop segments, including sugar and pasture.

Despite some general market disruptions, Argentina sales increased by almost 40% (local currency), driven by stronger volumes and prices. Margins were also higher, with both glyphosate and several new product introductions contributing to improved profitability, however the last quarter of the financial year was negatively impacted by political unrest and farmer demonstrations in Argentina.

Drought conditions in Chile depressed total industry sales in that market. Nufarm saw a small increase in revenues, but higher sales of stronger margin products such as 'Nuprid' (imidacloprid), led to a substantial improvement in gross margins and profit contribution.

Europe

European sales were up by 26% year on year to $555 million, with segment profit improving substantially ($56.2 million versus $36.8 million in 2007).

Sales and profit contributions were up in all of Nufarm's European businesses. Seasonal conditions were generally positive, with a recovery from drought in Spain and Portugal helping drive overall growth in crop protection sales in those markets. Farmer confidence was also aided by higher crop prices and this encouraged stronger demand for farm inputs. And changes to the European Union's 'set-aside' policy saw additional acreage come into production during the year.

Nufarm's businesses in France, Spain and Portugal saw more than 30% increases in sales of branded products. Higher value glyphosate sales, new product introductions, and improvements in logistics/supply chain all combined to boost both revenues and profit.

In Italy, Nufarm completed its first full year of ownership of the former Agrosol business (acquired October 2006). Annual revenues at the time of acquisition were some €6 million. In the year just completed, Italy generated more than €17 million in sales.

Strong profit growth in Germany (EBIT up 25% in local currency) and in the UK (EBIT growth of almost 50%) reflected successful launches of new cereal fungicides and herbicides.

The company continued its expansion into central and eastern European markets. Sales growth was again strong in Romania and Nufarm established a direct operating presence in Hungary with excellent first year results. These markets continue to see increased investment in farming technology, leading to significant growth in crop protection sales.

Nufarm's European based manufacturing facilities operated to near full capacity and with improved efficiencies during the year, enhancing overhead recoveries and contributing to gross margin expansion.

Nufarm announced in March that it had acquired UK based AH Marks, a phenoxy herbicide manufacturer and third party supplier. The acquisition will consolidate Nufarm's position as the leading global supplier of phenoxy herbicides and delivers important synergies in the areas of manufacturing efficiency; product development; regulatory resources and product distribution.

Seeds

Nufarm continued to develop its strategic position in seeds and this business remains in a development phase.

Improved seasonal conditions in Australia resulted in an increase in sales from Nufarm's seed businesses. As Australia's leading breeder and supplier of canola seed, the company capitalized on stronger plantings of canola throughout the country.

A number of new varieties were successfully launched, including Nuseed's 'Roundup Ready' canola. This technology was enthusiastically received by growers in a limited initial commercial release and indications to date are that it is performing strongly at this stage of the growing season. Other conventional varieties also established strong positions. The specialty Monola™ canola crop – a variety bred to produce oil with improved cooking and health properties and produced under a closed loop marketing system – is also looking positive.

Seed breeding and development work continued in relation to several crop varieties. Two new canola varieties were commercially launched in Argentina based on genetics developed in Nuseed's Australian pipeline.

The seeds business generated a small loss for the financial year, in line with forecast.

Subsequent events

Acquisition of Lefroy Seeds

On 24 September 2008, Nufarm signed an agreement to acquire Lefroy Seeds Pty Ltd, based in Toowoomba, Queensland.

Lefroy Seeds specializes in hybrid breeding, production and commercialisation activities in sunflower and sorghum. The company has established registrations, sales and commercial partnerships in Australia, Argentina, South Africa, China, Pakistan, Thailand, and various countries in Europe.

The acquisition of Lefroy Seeds further supports the Nuseed strategy of building genetic strength in key crops, developing global partnerships, and creating value from crop outputs.

Combined with the advancement of Monola™ germplasm, the addition of the Lefroy business means Nuseed is now well positioned as a global partner to produce healthy vegetable oils in multiple countries. High oleic canola and sunflower are quickly becoming the world standard for food companies and restaurants committed to the reduction of transfat and saturated fats from their food labels and menus.

The acquisition involves total consideration of $11.5 million, the majority of which will be paid in Nufarm equity.

UK Commerce Commission

As announced by the company on September 1, 2008, the UK Competition Commission has initiated an investigation into possible competition concerns that might arise as a result of the AH Marks acquisition. The review is expected to be complete by mid February, 2009. Combined Nufarm and AH Marks UK annual sales of the main products under investigation amount to £4 million, with AH Marks sales of those products totalling less than £1.5 million. Nufarm is co-operating fully with the Competition Commission in an effort to clarify and address any such concerns. Regulators in other jurisdictions are also reviewing aspects of the acquisition. Certain restructuring proposals for the business have been delayed pending completion of the UK review.

International financial crisis

No company will be immune from the current international financial crisis. There is the potential for increased interest costs and widely fluctuating exchange rates which could have a detrimental impact on the future performance of a broad range of businesses.

The instability in global finance markets is causing difficulties for several significant overseas financial institutions. Nufarm has no facilities with any of these financial institutions.

Nufarm is involved in a highly seasonal business and, as such, maintains significant short term financing lines with its relationship banks. Many of these lines have annual review points primarily in the October to December period. Discussions with key relationship banks have reaffirmed their support of Nufarm and, subsequent to balance date, Nufarm has increased its facilities with some financiers.

The Directors believe that the business fundamentals in agriculture remain very strong and the current instability in financial markets is not anticipated to have any material impact on the company's performance or projected guidance.

Treasury

Net debt to equity was 69% at July 31, 2008. This compares with a gearing level of 57% the previous year, calculated on a pro-forma basis and inclusive of the debt associated with acquiring the balance of Agripec late in the 2007 financial year.

In the 2007 accounts, trade and other payables included $219 million related to the final payment in the acquisition of Agripec (Brazil). Adjusting for this amount, net working capital has increased by $215 million on the previous year. Higher inventory levels and the working capital associated with the two acquisitions completed late in the 2008 year were the major contributors to this increase.

Given the strong demand outlook for glyphosate and a tightening in availability of supply, the company took measures to secure additional supplies of glyphosate late in the financial year. Glyphosate is the company's largest selling product and management is forecasting strong volume related growth in glyphosate sales over the medium term as Nufarm consolidates its position as the second largest global supplier of this key product. The value of glyphosate intermediate increased substantially over the 12 months to July 31, 2008 and this is reflected in the high inventory costs at that date.

Lower than forecast sales in the US in June/July, due to the impact of widespread flooding, also contributed to higher than expected stock levels at year end.

The higher working capital requirements impacted cash flows, with cash flow from operations at $57 million and total net operating cash flow at July 31 being a negative $127.4 million.

Outlook

The company remains strongly focused on its geographic and product portfolio expansion strategy and is in an excellent position to again achieve strong revenue and earnings growth in the current 2009 financial year. The company is forecasting an after tax operating profit of between $220 million and $230 million in the current year.

Additional sales of existing core products, including glyphosate and phenoxy herbicides, will result from both demand driven volume expansion and market share growth, particularly in Nufarm's businesses in the Americas and Europe. The company expects to strengthen its position in distribution in markets such as the US, Canada, Brazil, France and Germany and continue to build on relatively new market positions such as those in Italy and Eastern Europe.

A significant number of new products are scheduled for regulatory approval and launch in the current financial year. These product introductions will strengthen Nufarm's position in the valuable cereal fungicide and herbicide segments in Europe, and will facilitate entry to the global seed treatment market, the industry's fastest growing segment.

The current year will also be the first full year where the company has had product portfolio offerings in segments such as pasture and cotton in the US and Brazil as well as a new citrus position in Brazil, which is the world's largest producer of orange juice.

Volume growth in existing products and new product introductions will contribute to strong underlying growth in the Nufarm business over the course of the year. In addition, structural changes to Nufarm's glyphosate supply position is expected to result in improved profitability. The company recently entered into a new global supply contract with Monsanto and established partnerships with several glyphosate producers in China. These partnerships will allow Nufarm, for the first time, to share in manufacturing margin.

Acquisitions completed in the 2008 financial year are also expected to contribute strongly to earnings growth in 2009 and beyond. Consistent with previous guidance provided by the company, those acquisitions (The Etigra business and AH Marks) are expected to contribute some $24 million on a net profit after tax basis.

Nufarm's forecast profit growth for the current year assumes average seasonal conditions in the company's major markets. Global demand for agricultural produce is expected to remain strong, although commodity prices may well soften below the highs achieved over the past 12 months. In general, Nufarm sees continued changes to farming practices that facilitate yield improvement, particularly in developing agricultural markets. Those changes will see the use of a range of farm inputs optimised, including crop protection products.

Directors believe the company is very well positioned to continue its positive growth momentum over the medium term and is ideally placed to capitalise on new expansion opportunities as they arise.

D.J. Rathbone.

D J Rathbone
Managing Director