

## **COMPANY ANNOUNCEMENT**

14 July, 2010

### **Nufarm Limited Trading Update & Revision of Guidance**

Nufarm Limited today provided an update on trading conditions and revised its 2010 year-end profit guidance for the 12 months ending on July 31.

The final quarter (May-July) of Nufarm's financial year is typically the key sales and profit generating period, reflecting significant agricultural activity in markets such as Australia, North America and Europe. Therefore, any material change in market conditions in this period has a dramatic impact on Nufarm's full year result.

A preliminary review of June trading results indicates that previous assumptions relating to sales and margin expectations for the May to July period have not and cannot be met and the company is revising its forecast net operating profit for the full year. The company now expects to generate a net operating profit (excluding non-operating items) of between \$55 million and \$65 million.

Unfavourable climatic conditions – particularly in North America and Europe – have contributed to poor demand for crop protection products. This has had a compounding negative impact on the business, with distribution customers able to operate with unusually low inventory levels and additional competition for fewer sales resulting in price and margin pressure in key markets.

#### **North America**

In North America, a severe and late winter delayed the start of cropping activity with a consequent expectation that Nufarm's final quarter would generate strong 'catch-up' sales. However, a faster than usual 'burn-down' period (the process of clearing vegetation on farming land ahead of sowing the new crop) meant a limited window for herbicide usage during that period and follow-up sales in May and June on a range of products have been lower than anticipated. Unusually wet conditions through large areas of the north eastern corn belt have also had a dampening effect on demand.

US distribution is operating on unusually low inventory levels, with some continued uncertainty around future pricing for key products such as glyphosate. The combination of both lower volume demand and softer pricing is having a substantial impact on final quarter earnings in the US.

In Canada, there has been a major impact on product demand due to very wet conditions in the major cereal growing regions in the west of the country. Unprecedented rainfall in May and June has resulted in sales being some 20% down on previous forecasts, with an estimated 8 million acres not seeded and a further 2 million acres lost to excess rains.

## Europe

Like North America, Europe experienced a later and colder than normal winter. After a slow start, Nufarm had expected its final quarter sales to be strong in Europe but climatic conditions have been cooler and drier in key markets such as France, Germany and the UK, especially during the key buying period for crop protection products. This has restricted the need for spring fungicide applications and has reduced demand for herbicides, with June sales considerably down on budget in a number of European markets.

Heavy rainfall in some Eastern European markets in June – particularly Poland and Hungary - has also interrupted cropping activity in those areas and this has placed further downward pressure on demand for crop protection products.

Economic pressures in a number of European countries are also impacting sentiment in the agriculture sector and this, together with lower crop prices, is having a dampening effect on both demand and pricing for crop protection products. Nufarm's business in France is being significantly impacted, where it is estimated that the market value of crop protection sales is down by some 20% on the previous year, with French farmer incomes down by an estimated 30%.

The lower than anticipated volume of sales will unfortunately have a flow-through impact on overhead recoveries in Nufarm's European based manufacturing facilities. As reported at the half year, harsh winter conditions had contributed to production disruptions in those facilities but these impacts were expected to be reversed as anticipated volumes were achieved in the last quarter of the financial year. The lower than expected overhead recoveries are now expected to have a material negative net profit after tax impact on the final year result.

## Australia

Pricing for crop protection products in Australia is extremely competitive. While price increases have been implemented on some products, the extent of those increases is well below pricing assumptions made in the company's forecasts.

While climatic conditions in the Eastern and Southern States have been generally positive and provided a good start to the season, Western Australia – a major cropping region – has experienced a late start to the planting of winter crops and this will push back sales of some post emergent herbicides, cereal fungicides and insecticides into the new financial year. In the past month, Southern NSW has experienced unusually wet conditions.

Australian distribution customers are now operating with very low stocking levels and attempting to service the market on a 'hand-to-mouth' basis, a position Nufarm believes is unsustainable in the long term. Australian growers are being negatively impacted by relatively low crop prices and tight cash-flows and this is influencing their purchase behaviour.

These factors have contributed to a substantial reduction in demand in June and a downwards revision for July forecast sales.

While volume demand for glyphosate in Australia has been generally strong, particularly in the eastern States following good rainfalls over the late summer and autumn months, the total value of those sales is well down. Nufarm is, however, meeting market share

expectations, with 'Roundup' branded products performing strongly.

## General

Nufarm Managing Director, Doug Rathbone, said the lower than expected forecast result is extremely disappointing.

"As we said at the time, our previous guidance assumed at least average seasonal conditions in major markets and it is unusual to have those conditions turn against us to the extent they have. Adverse climatic conditions have a dramatic flow-on impact in terms of volume demand and pricing, with increasingly intense competition for the same potential sale."

Mr Rathbone said the substantial change in the company's profit outlook is unsatisfactory.

"These impacts are largely seasonal and cyclical in nature and are impacting all companies operating in the sector. But we need to be concerned with the impact on Nufarm's business and our ability to identify and react to changed market conditions as early as possible. We are now revisiting the systems we have in place to achieve that."

Mr Rathbone said the lower than anticipated sales and delayed timing of sales will impact the company's year-end working capital, with net debt now estimated to be approximately \$450 million (previously expected to be approximately \$350 million).

Nufarm's Chairman, Mr Donald McGauchie, said the Board is now giving a high priority to a comprehensive review of Nufarm's strategic direction and, where necessary, will adjust the direction and shape of the business to ensure Nufarm is on a solid platform to restore earnings and drive sustainable profit growth in future years.

"The business still has very good growth prospects, but our challenge now is to achieve those targets from a lower base," said Mr McGauchie.

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Further information: Robert Reis  
Corporate Affairs  
☎ (61 3) 9282 1177