NZ Farming Systems Uruguay Limited
Results for announcement to the market

Reporting Period	Six months ended 31 December 2010
Previous Reporting Period	Six months ended 31 December 2009

	Amount (US$'000s)	Percentage change
Revenue from ordinary activities	18,854	72.3%
Profit (loss) from ordinary activities after tax attributable to security holder.	(4,361)	-28.9%
Net profit (loss) attributable to security holders.	(6,774)	3.2%

Interim/Final Dividend	Amount per security	Imputed amount per security
	$ -	$ -

Record Date	n/a
Dividend Payment Date	n/a

Comments	Refer to results release, presentation and financial statements. Net Tangible Assets per security: Dec 2010 US$0.62, Dec 2009 US$0.67

Market Update – 17 February 2011
Results Announcement
Six months ended 31 December 2010

NZ Farming Systems Uruguay Earnings Improve

NZ Farming Systems Uruguay (NZS) reports earnings ahead of forecast for the half year ended 31 December 2010, due to stronger milk production and prices, despite difficult climate conditions. As a result, the full year earnings are now expected to be better than previously forecast.

Key points for six months to 31 December 2010:
- Revenue increased by 72% over prior comparable period
- Milk prices continued to strengthen, reaching US34 cents per litre at the farmgate in December 2010, with further increases since then
- Milk production increased by 31%
- Operating loss of $US1.6 million, improved on last year's first half operating loss of $US2.5 million
- Farm development advancing with electricity infrastructure and irrigation investments underway, funded by shareholder loan from Olam International Limited (Olam)

Chairman Vivek Verma said "the first half year results reflect strengthening international dairy markets, and the success of the company's feeding strategy implemented in the second quarter. Although the feed changes are only recent, we are very satisfied, in fact the initial results have exceeded our expectations.

The first half performance was despite continuing difficult climate conditions, with initial wet winter and subsequent dry spring / early summer conditions limiting grass growth.

The outlook for the second half is more positive and accordingly we are forecasting improved earnings for the remainder of the 2010/11 year."

Overview of half year results
Revenue increased to $US18.9 million in the first half year, compared with $US10.9 million in the December 2009 half year, an increase of 72%.

Milk production volumes continued to increase rapidly, with milk sales contributing $US17.4 million net of charges (up from $US10.2 million in the previous comparable period), and livestock sales of $US1.1 million (vs $US0.7 million prior comparable period), mainly cull dairy cows.

The operating loss from farming activities before fair value adjustments[1] and other one-off items was $US1.6 million, an improvement on the prior comparable period loss of $US2.5 million.

[1] Fair value adjustments were nil in the December 2010 half year, but previously have included price changes for livestock and farm properties. Other one-off items include gains or losses on farm sales, and the buyout of the PGG Wrightson (PGW) management agreement.

Climate and lack of funding prior to completion of the Olam takeover offer in September were limiting factors, with a wet winter followed by dry spring and early summer. Combined with lack of funding to apply fertiliser, pasture growth was significantly less than expected and required additional supplementary feeding.

Olam has dedicated significant resources to NZS since becoming majority shareholder, with a shareholder loan facility of up to $US50 million providing support for development and payment of outstanding amounts due to PGG Wrightson Limited (PGW), and strong operational input, including changes to the feed regime to incorporate a higher level of concentrates to animal diet.

NZS has now established its own internal management team, with Managing Director / CEO David Beca appointed this month and transition from services previously provided by PGW under the management agreement. As previously announced, NZS paid a termination fee of $NZ4.6 million, equivalent to $US3.4 million, and paid the remaining outstanding amounts due to PGW in respect of the previously incurred performance fee, management fees and re-charged expenses.

Operating performance
Milk production for the first half year was 55.1 million litres, an increase of 31% on the 42.1 million litres produced to December 2009. Average milk price received was US32.9 cents per litre, compared with US25.0 cents in the prior comparable period. Milk prices strengthened during the period to US34 cents in December, with further increases since then.

The milking herd peaked at 24,400 cows in October, with 22,300 cows milking as at the end of December and producing an average of 13.3 litres per day.

Feed costs have increased faster than the milk price, to around double the original budget feed prices. This increase, together with unfavourable climate, lack of fertiliser and the decision to increase the level of concentrates fed, led to a very significant increase in farm operating expenses. The change in feed regime is expected to lead to ongoing milk production gains, improvements in pregnancy rates and in young stock weight gain. Milk production in January and February 2011 reflects this expectation.

External Auditor
As outlined in previous communications, PricewaterhouseCoopers (PwC) have given notice to the Company under section 196(3A) of the Companies Act 1993 that they are resigning as auditor with effect from 31 January 2011. PwC have not commenced any audit work on the financial statements for the year ended 30 June 2011, and are resigning due to the Company's new subsidiary status and consolidation into Olam International Limited's financial statements which are audited by Ernst & Young as the global auditor of Olam International Limited. PwC have advised the Company that there are no matters in connection with PwC's decision to resign that they consider should be brought to the attention of shareholders.

The NZS Board now confirms the appointment of Ernst & Young from 1 February 2011 under section 196(4) of the Companies Act 1993 to fill the casual vacancy created by the resignation of PricewaterhouseCoopers. The appointment of the Group's External Auditor will be an agenda item for the 2011 Annual Shareholders' Meeting.

Full Year Forecast to June 2011
Milk production has continued to lift very pleasingly since the end of December 2010. The full year forecast milk production is now raised to around 100 million litres, from the previous guidance of 85-90 million litres.

Milk prices are very strong, with current price in February at US37 cents per litre, equivalent to $NZ7.15 per kilogram of milksolids at current NZD:USD exchange rate of 76 cents. The price looks to be well supported for the coming months, although we expect ongoing volatility.

Feed prices are currently around double the budgeted price, and whilst we were able to purchase some quantities forward at better prices, a negative impact is anticipated over the remaining months.

Recent rain in the west and east of Uruguay has led to improved pasture conditions, however the Centre region remains very dry on non-irrigated areas. Pasture growth is therefore forecast to remain lower than originally expected.

The Earnings Before Interest and Taxation (EBIT) forecast for the 2010/11 year is for a loss of $US11-12 million. This is before the management agreement termination payment. The forecast previously announced in November 2010 expected an EBIT loss of $US16 million prior to the termination payment. The improvement of $US4-5 million is due to higher milk production and prices, and further gains in livestock body condition, partly offset by additional feed costs.

Livestock prices are trending upwards and are likely to result in an increase in livestock valuations at June 2011. Based on current milk price, the livestock valuation uplift could exceed $US5 million, which is not currently factored into the forecast. However as in previous years any change in livestock valuations will be treated as a non-operating item in the Income Statement.

Funding
As previously announced, NZS was required to obtain bond-holder and bank syndicate approval to the change in control and internalisation of management. Bond-holder approval was obtained in December 2010, and bank syndicate approval has now been obtained in February 2011.

NZS agreed with bond-holders to modify certain terms and conditions of the $US30 million of bonds outstanding. The variable interest rate will now be in a range of 9-11%, effective 1 October 2010, instead of the original 5-15%. In addition NZS has agreed to eliminate the early repayment option, which was to have been available from 2018. These changes are expected to result in a very slight increase in the overall average interest rate over the life of the bonds.

Bond-holders and the bank syndicate have reserved the right to demand repayment of the respective funding in the event they do not agree with the updated business plan, to be provided to them now it has been approved by the Board. Approval is required by 31 March 2011.

Funding for immediate capital expenditure requirements and to repay PGW was provided via a shareholder loan facility of up to $US50 million from Olam. To date, $US30 million has been drawn, with the remaining $US20 million expected to be drawn over the next few months to fund both farm development and working capital requirements.

NZS has a covenant in its bank syndicate funding requiring cashflow to be at least 1.2 times debt servicing, with this covenant to apply for the first time at June 2011. Given that farm development is still in progress, NZS expects to require a waiver to this covenant and has accordingly initiated discussions with the bank syndicate. An update will be provided in due course.

The Don Pepe farm, previously used for rice and dry stock, was contracted for sale in May 2010, with the sale settled in October.

Farm development

Development has continued during the first half year, with one further milking shed commissioned to bring the total to 32 now in operation. Further irrigation pivots were installed, with just under 3,000 hectares now irrigable. The high tension electricity line in the East of Uruguay is nearing completion, with the line connected since October.

Funding provided by the shareholder loan from Olam has allowed further irrigation pivots to be ordered, and the high tension electricity line in the Centre of Uruguay to be initiated. Some capital fertiliser was applied in the spring, although all farms will receive further fertiliser this autumn.

Business plan

A review and update of the business plan commenced shortly after the completion of Olam's takeover offer. The updated business plan has now been reviewed and approved by the Board.

In summary there are no major changes in land holding or in regional distribution of the farms. However there are significant changes in the operational strategy, from the previous plan in the 2010 Target Company Statement.

Effective dairy area is expected to be around 16,000 hectares, or 20% less than previously planned. Irrigated area is expected to be around 7,000 hectares, which represents approximately 44% of the total dairy area (50% previously). NZS expects to continue full dairy development of farms with 18 new milking sheds to be constructed, for a total of 50 milking sheds.

Pasture harvest expectations are around 20-30% lower than previously planned, but with higher nitrogen applications. A higher level of concentrates fed per cow has been incorporated into the plan, to compensate for lower energy density of pasture as compared to New Zealand, and to ensure sound milk production per cow. This is typical for less temperate climates such as Uruguay and has been benchmarked with other similar latitude countries.

Milk production is expected to increase rapidly from the current year's 100 million litre forecast to close to 300 million litres over the next two years, due to both an increase in milking herd to around 48,000 cows at steady state, and an increase in the litres produced per cow to over 6,000 litres per cow annually (equivalent to 430 kgs milksolids per cow versus 360-390 kgs previously). This is higher than the previous plan due to a higher level of concentrates being fed. Milk price is expected to be US32 cents per litre long-term for 7.00% milksolids components (US$4.57 per kg milksolids) which is similar to the price used previously.

Operationally the updated plan expects concentrates to make up around 35% of milking cows' diet. This is expected to lead to higher levels of milk production per cow, better in-calf rates and improved animal health.

The updated plan calls for slightly smaller dairy areas than previously expected, due to a higher proportion of the diet being concentrates, and with replacement stock alongside the dairies where possible. A continuation of the current leasing of land for other support stock is expected.

Overall the updated business plan incorporates a faster ramp up to steady state levels of performance with these attained in 3-4 years rather than the 5-10 years previously. This is in large measure due to a reassessment of the farming system and the changes to concentrate feeding levels to suit both the existing dairy herd and the climatic conditions.

Cost of production is expected to fall to around US23 cents per litre (US$3.30 per kg milksolids) compared to US15-16 cents/litre (US$1.85-$1.95 per kg milksolids) in the previous business plan. The present expectation of around US23 cents/litre is considered realistic by the Board and there are not anticipated to be any significant opportunities to reduce the cost of production further other than through exceeding the pasture harvest and/or milk production predictions that underpin the business model, or through decreasing the cost of supplementary feed per ton.

Total capital expenditure in the updated plan is expected to be approximately $US69 million, around $US15 million higher than the previous plan. This capital is required to complete development of the farms, purchase cows and additional machinery, and complete a number of productivity-related capital improvements such as feed mills, in-shed feeding systems and feed pads.

NZS expects to raise capital within the next six to twelve months to fund the updated business plan capital expenditure and repay the Olam shareholder loan. This will require a capital raising of $US100-110 million.

The updated plan is expected to generate a positive EBIT level in the 2011/12 year, and a positive Net Profit After Tax (NPAT) level in the 2012/13 year. Performance is then expected to improve further in future years to reach a steady state result that includes an EBIT of around $US25 million.

The updated plan will require a substantial improvement in the performance of all aspects of the business from current levels. While this financial performance is less than half the performance predicted in the previous business plan, it is considered realistic by the Board.

NZS will monitor performance against the updated business plan, and may accelerate or slow development according to actual results.

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