NZ Farming Systems Uruguay Limited

Half Year Results Announcement

Six months ended 31 December 2010

www.nzfsu.co.nz

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Briefing Outline

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Overview

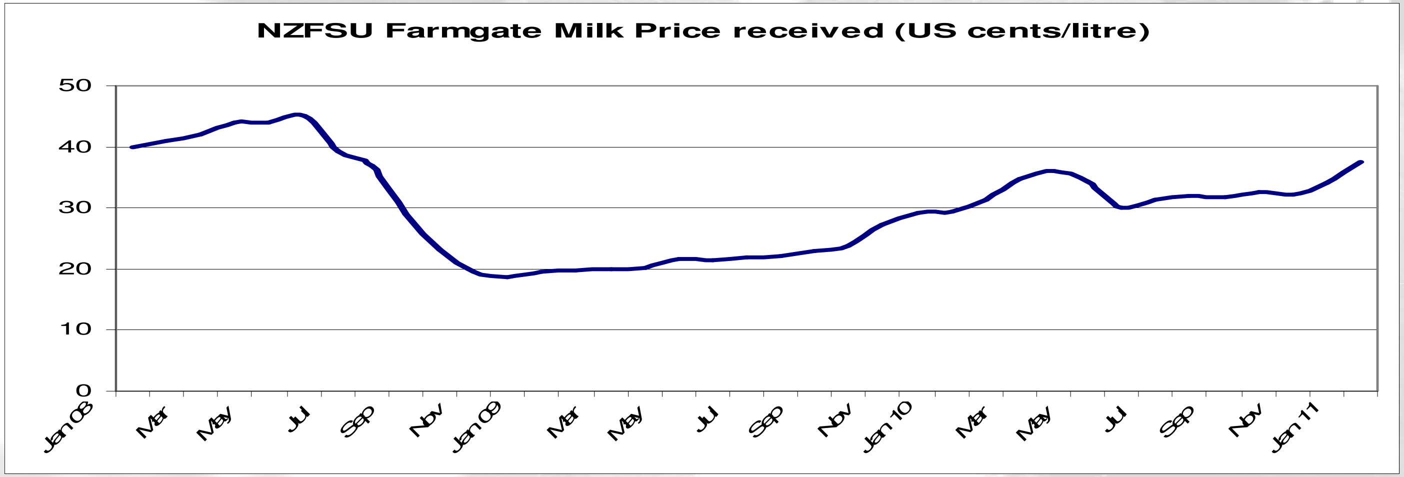
- Earnings ahead of forecast due to higher milk production and higher milk price partially offset by higher feed costs.
- Revenue 72% higher, with milk prices up by 32% and production by 31%
- Operating loss prior to one-off items $US1.6 million
- Difficult climate with wet winter then dry spring / early summer
- Concentrate feed regime while incorporated only in the 2nd quarter has already begun to have a very positive impact on milk production
- Steady development progress with one further milking shed, further irrigation and electricity infrastructure underway
- Management internalised with PGW management agreement terminated
- Funding provided by shareholder loan from Olam, allowing payment of outstanding amounts to PGW

Management , Funding & Farm Development Status

- Management agreement Internalized and approved by bond holders and banks.
- Strong support from Olam via shareholder loan facility of up to $US50 million with about $US 30m utilised for PGW payments and immediate Capex
- PGW repaid outstanding amounts for performance fee, management fees and re-charged expenses, as well as $NZ4.6m management agreement termination fee
- One extra milking shed completed in first half year, taking total to 32 (30 owned / 2 rented)
- High Tension electricity project almost complete in East, now underway in Centre
- Irrigated area now 3,000 hectares, with additional pivots ordered

Market conditions

- International dairy prices have continued to lift strongly, as with all commodities
- Average price of US32.9c/litre in first half year compared with US25.0c/litre in prior comparable period, with price at US34c in December 2010 and subsequently increased



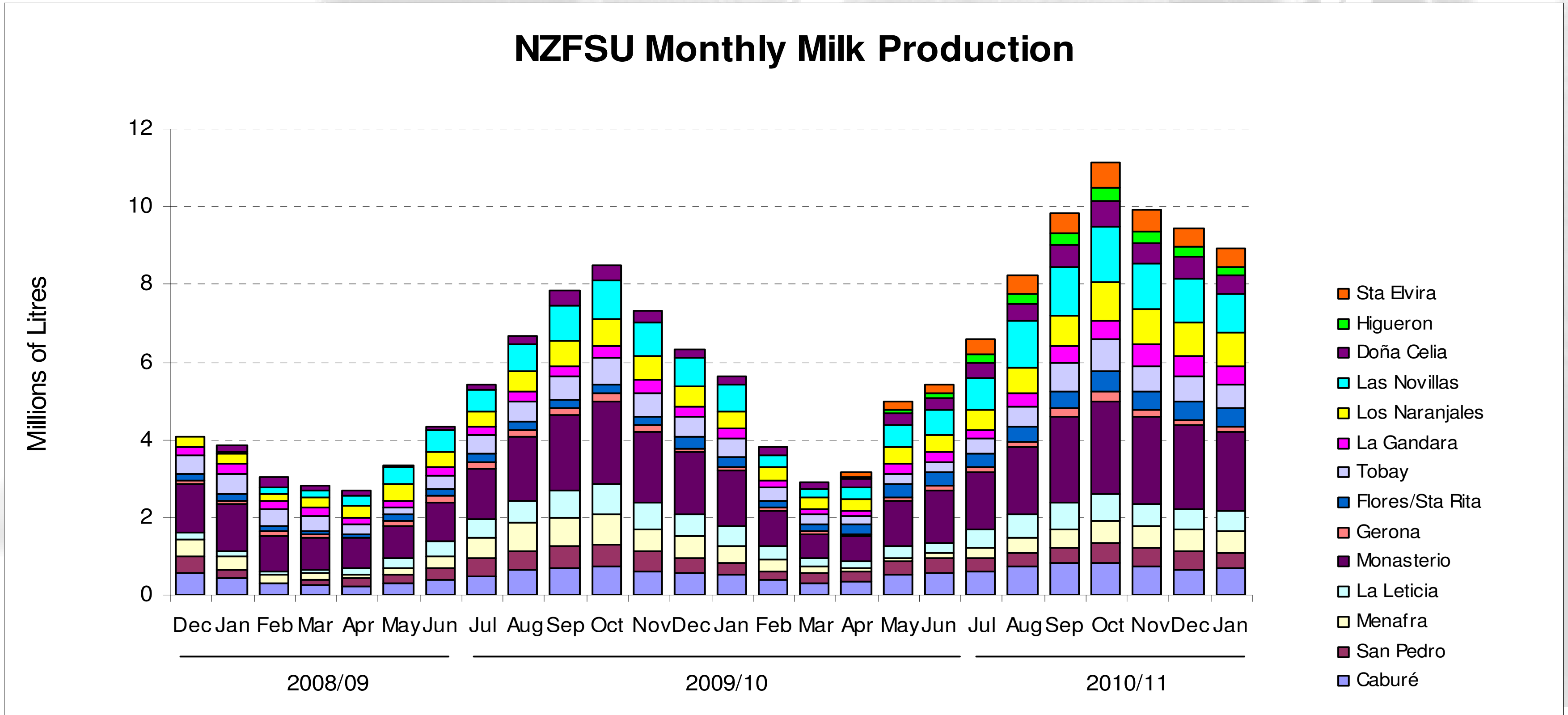
- However prices of feed e.g. corn etc have outpaced dairy prices and are near historic highs.
- Dairy prices expected to stay firm in the short to medium term on account of good demand and a reduced supply response on account of high feed prices as well weather issues in NZ/Australia

Operating conditions

- Climate has been difficult with a wet winter, followed by a very dry spring and early summer. While overall still somewhat dry, recent rains in the West and East have helped. The Centre is still very dry.
- Lack of funding prior to completion of Olam takeover offer limited fertiliser application – will be corrected in autumn
- Decision to increase level of concentrates in feed although implemented too late to significantly boost the spring peak has led to milk production holding up much better than previous years. Expected to continue to lift milk production, and improve in-calf rates and young stock weight gain
- The near doubling of feed prices compared to historic levels, together with the change in feed regime and dry conditions have significantly increased farm operating expenses over the prior comparable period
- Milking herd peaked at 24,400 cows in October 2010; at end of December 22,300 cows milking, producing 13.3 litres per cow / day average

Milk production

- Production up from 42.1m to 55.1m litres for the half year – slightly above forecast, with latest months tracking significantly better
- Slower decline in production into summer, due to concentrates regime
- Spring peak of 11.1m litres in October, and 24,400 milking cows in November



Key financials – P&L

	6 mths ended 31 Dec 2010 $USm	6 mths ended 31 Dec 2009 $USm
Revenue [1]	18.9	10.9
Livestock natural growth [2]	2.8	0.8
Livestock cost of sales	1.2	0.8
Farm operating expenses	19.5	9.8
Mgmt fee / depreciation / other expenses	2.6	3.6
Operating loss from farming activities [3]	**(1.6)**	**(2.5)**
Gain due to farm sales	1.0	(0.9)
Management agreement buyout	3.4	-
Interest / finance costs	2.6	3.8
Tax (benefit) / expense	0.2	(0.2)
Net profit after tax (NPAT)	**(6.8)**	**(7.0)**

(1) Milk revenue $17.4m, livestock sales $1.1m, other $0.3m
(2) Livestock natural increase generated income
(3) Before price movements in Livestock and Property

Key financials – farm operating expenses

	6 mths ended 31 Dec 2010 $USm	6 mths ended 31 Dec 2009 $USm
Labour	2.6	2.0
Pasture expenses (mtce fert, urea)	2.0	1.1
Farm repairs & mtce	1.2	0.7
Farm management	1.1	0.3
Animal health, breeding, calf rearing	2.2	1.5
Cropping and feed (forage crops, supplementary feed)	7.9	2.3
Other farm expenses	2.5	1.9
TOTAL	**19.5**	**9.8**

- Expenses up particularly in cropping and feed, with current prices being double the budget prices, and increased use due to concentrates feeding regime and lack of pasture growth
- Expect the additional feed costs to be more than compensated by higher milk production.

Key financials – balance sheet

	As at 31 Dec 2010 $USm	As at 30 Jun 2010 $USm	As at 31 Dec 2009 $USm
Property, Plant & Equipment	165	169	171
Livestock	38	35	27
Cash and other assets	37	25	36
Liabilities	90	71	72
Equity	150	158	162
Net Tangible Assets (US cps)	62c	65c	67c
Net Tangible Assets (NZ cps)	82c	85c	88c

- Property slightly lower due to farm sales
- Livestock increase in value at June 2010 valuation, and better condition
- Shareholder loan during period increased liabilities

Full Year Forecast

- Forecast outlook is revised upwards with milk production now expected to be ~ 100m litres (previous forecast 85-90m)
- Milk price expected US37c per litre for remainder of year (previously 32c)
- Feed costs continue to increase, with prices rising strongly, decision to change feed regime to incorporate concentrates as approx 35% of the diet, and dry conditions prompting greater use of feed.
- EBIT loss for year ending June 2011 now expected to be $US 11-12 million before fair value adjustments and one–off items (previously $US16 million loss)
- Improvement due to milk production and price, further gains in livestock weight gain / condition, partly offset by increased feed cost and usage.
- Risks to the forecasts could be from adverse climate conditions continuing, and feed costs going further up from current historic high prices. Upsides could be from further increases in milk production from the new feeding regime as well as a possible significant increase in livestock valuations.

Business Plan Review

- Business plan review commenced immediately after Olam takeover offer completed. Plan now approved by Board.

- No major change in land holding or regional distribution

- However significant changes in operational strategy from earlier plans:
  - Effective area under dairying lower by about 20% at 16,000 hectares.
  - Irrigated area as a percentage of total dairying area reduced from 50% to about 44% taking effective irrigated dairying area to approx 7,000 ha.
  - Expect to continue full dairy development of farms with 18 new milking sheds to be developed for a total of 50 milking sheds.
  - Pasture harvest reduced from the earlier ambitious plan by about 20%-30% but with higher nitrogen applications.
  - Higher level of concentrates fed per cow to compensate for lower energy density of pasture as compared to New Zealand and to ensure sound milk per cow. This is typical for less temperate climates as in Uruguay and has been benchmarked with other countries at similar latitudes.
  - Milk production increasing rapidly from 100 million litre forecast in 2010/11 current year, to close to 300 million litres in steady state with 48,000 milking herd and over 6000 litres per cow annually equivalent to about 430 kgs MS versus 360-390 kgs MS in earlier plan.

Business Plan

- Significant increase in Capex by about USD 15m taking total capital spend required to USD 69m based on the following changes:
  - Reduction in irrigated area and reduced capital fertiliser: (9.5m)

  Additional Capex
  - Not considered but required for improved productivity and efficiency: 9.8m
  - On account of cost increases in planned irrigation and electricity: 4.5m
  - Introduced to reduce feed wastage and support conc regime: 9.4m

- However large change in total funding requirement going up to over USD 100m from about USD 55-60m anticipated earlier on account of:
  - About 15m capex increase
  - About 12m increase on account of lower earnings and interest
  - About 10m on account of PGW payments which were to be paid through partial equity issues
  - About 10m of prior year capex commitments, and reduction in overdue creditors
  - Some land sales which have not been currently factored in

Business Plan

- Some changes in financial assumptions:
  - Next year milk price maintained at average of current year price
  - Long term price maintained at US32 c/litre
  - Long term feed costs maintained at slightly lower than current very high prices

- Resulting in:
  - Positive EBIT in financial year 2011/12 and positive net PAT in year 2012/13
  - Total cost of production at steady state of around US23 c/litre (US$3.30/kgMS) versus an extremely ambitious projection earlier of US15 to 16 c/litre (US$1.85-$1.95/kgMS)
  - Total EBIT at steady state of approx USD 25 m which is about half the steady state EBIT of the earlier plan but considered more realistic

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Briefing on Half Year Results

Six months ended 31 December 2010

THANK YOU