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Commentary on NZ Farming Systems Uruguay Ltd ('NZS') Results for Preliminary Announcement to the Market for Year Ended 30 June 2011

The commentary below relates to the preliminary announcement of NZ Farming Systems Uruguay's ('NZS') unaudited results for the full year ended 30 June 2011, released on 29 August 2011. NZS' full audited financial statements will be released on 5 September 2011.

The results show an unaudited loss for the year ended 30 June 2011 of USD 8.7m. For the same period last year (2010), the audited loss was USD 7.9m.

This 2011 result includes *Loss Before Interest and Finance Costs* of USD 4.3m compared to a loss of USD 2.8 in 2010.

Revenue increased by 91% from USD 22.5m in 2010 to USD 43.0m in 2011 primarily due to an increase in milk production from 68.0m litres to 105.3m litres, and an increase in average milk price from 28.3 cents/litre to 38.1 cents/litre.

Change in Fair Value of Livestock increased from USD 8.1m in 2010 to USD 21.0m in 2011. In addition to Births and Deaths, this included USD 5.5m of category changes (USD 1.7 in 2010), USD 8.1m in herd improvement (USD NIL in 2010), and USD 7.5m in fair value adjustment (USD 6.12m in 2010). Category changes relate to evolution of livestock into older/heavier categories. Herd improvement relates to the increase in concentrate feeding levels implemented during the year, which resulted in a significant lift in milk production, pregnancy rates and body condition in 2011, and is expected to lead to further lifts in milk production and pregnancy rates in 2012. Fair value adjustment relates to changes in livestock values between the start and end of the year.

Livestock numbers increased during the year from 56,153 to 62,483 at the end of the year. This increase came from a combination of purchases of livestock to populate the 7 new dairies that are coming on line in spring 2011, plus increasing numbers of livestock resulting from natural increase in the herd.

Farm Operating Expenses increased from USD 20.9m in 2010 to USD 47.0m in 2011. The largest contributor to this increase was *Cropping and Feed Costs* (increasing from USD 6.1m in 2010 to USD 21.1m in 2011), with concentrate costs being the major component of this (increasing from USD 3.3m in 2010 to USD 18.2m in 2011). A substantial contributor to this increase was the decision to increase concentrate feeding rates to the milking cows on an ongoing basis. Other major contributors were the drought conditions experienced across the country (especially in the central regions where the drought lasted six months) and an increase in all purchased feed prices in Uruguay.

The trends evident above (increasing milk production and revenue, and increasing expenses) are expected to continue in the 2012 year. However under normal seasonal conditions (no drought) and given the herd improvements outlined above, revenue is expected to increase at a significantly faster rate than expenses. For 2012 this is presently forecast to result in both positive earnings before interest and tax (EBIT) and a net profit after tax, with further improvements in financial performance forecast for 2013 and beyond.

Earnings per share is a loss of USD 3.56 cents compared to a loss of USD 3.24 cents in 2010.

There were no returns to shareholders via distributions or buy backs during the year.

Total Assets at 30 June 2011 were USD 290.1m, up from USD 229.2m at 30 June 2010. This includes an increase in the valuation of property, plant and equipment from USD 161.7m at 30 June 2010 to USD 173.9m at 30 June 2011.

Total Liabilities at 30 June 2011 were USD 134.2m, up from USD 71.7m at 30 June 2010. This includes a short term loan from Olam International Ltd of USD 70.0m.

As noted above, this report is based on financial statements that are in the process of being audited. We expect the audit opinion to be unqualified.

There were no major significant changes in the business subsequent to 30 June 2011.

There were no other material unrealised gains / losses during the year to 30 June 2011.

NZ Farming Systems Uruguay Limited
Results for announcement to the market

Reporting Period	Year ended 30 June 2011
Previous Reporting Period	Year ended 30 June 2010

	Amount (US$'000s)	Percentage change
Revenue from ordinary activities	43,007	90.8%
Profit (loss) from ordinary activities after tax attributable to security holder.	(8,694)	-10.0%
Net profit (loss) attributable to security holders.	(8,694)	-10.0%

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

Record Date	n/a
Dividend Payment Date	n/a

Comments	Refer to results release, Consolidated Statement of Comprehensive Income, Consolidated Statement of Changes in Equity, Consolidated Statement of Financial Position Consolidated Statement of Cash Flows and Other Significant information. Net Tangible Assets per security: June 2011 US$0.64, Jun 2010 US$0.65

NZ Farming Systems Uruguay Limited

Consolidated Statement of Comprehensive Income

For the year ended 30 June 2011

	Other Significant Information	Unaudited Group 2011 US$000	Audited Group 2010 US$000
Revenue	1	43,007	22,535
Change in fair value of livestock	2	20,955	8,146
Livestock and cropping cost of sales		(2,459)	(3,653)
Employee benefits expense		(7,528)	(4,225)
Farm operating expenses	3	(46,957)	(20,917)
Management fee		(3,592)	(2,211)
Depreciation and amortisation expense		(1,878)	(1,710)
Gain on property sales		(340)	253
Farm land fair value adjustments		(655)	1,095
Other operating expenses		(4,858)	(2,161)
Loss before interest and finance costs		**(4,305)**	**(2,848)**
Discount on VAT receivable		1,056	-
Net interest and finance costs		(5,659)	(5,155)
Loss before income tax		(8,908)	(8,003)
Income tax credit/(expense)		214	101
Loss for the year		**(8,694)**	**(7,902)**
Other comprehensive income			
Revaluation of property, plant and equipment		7,122	(3,664)
Movement in deferred tax on revaluation of property, plant and equipment		(16)	276
Other comprehensive income for the year, net of income tax		7,106	(3,388)
Total comprehensive income for the year		**(1,588)**	**(11,290)**
Loss attributable to:			
Shareholders of the Company		(8,694)	(7,902)
Loss for the year		**(8,694)**	**(7,902)**
Total comprehensive income attributable to:			
Shareholders of the Company		(1,588)	(11,290)
Total comprehensive income for the year		**(1,588)**	**(11,290)**
Earnings per share			
Basic and diluted earnings per share (USD)	4	(0.04)	(0.03)

NZ Farming Systems Uruguay Limited

Consolidated Statement of Changes in Equity

For the year ended 30 June 2011

GROUP	Share capital US$000	Fair value reserves US$000	Accumulated losses US$000	Total equity US$000
Balance at 1 July 2009 (audited)	197,081	25,810	(54,096)	168,795
Loss for the year	-	-	(7,902)	(7,902)
Movement in fair value of property, plant and equipment, net of tax	-	(3,388)	-	(3,388)
Balance at 1 July 2010 (audited)	197,081	22,422	(61,998)	157,505
Loss for the year	-	-	(8,694)	(8,694)
Movement in fair value of property, plant and equipment, net of tax	-	7,106	-	7,106
Movement from Reserve to Retained Earnings due to sale of farm	-	(1,004)	1,004	-
Total comprehensive income for the year	-	6,102	(7,690)	(1,588)
Balance at 30 June 2011 (unaudited)	**197,081**	**28,524**	**(69,688)**	**155,917**

NZ Farming Systems Uruguay Limited

Consolidated Statement of Financial Position

As at 30 June 2011

	Other Significant Information	Unaudited Group 2011 US$000	Audited Group 2010 US$000
ASSETS			
Current			
Cash and cash equivalents		13,897	5,671
Trade and other receivables		25,650	11,447
Income tax receivable		1,832	284
Assets held for sale		3,775	6,860
Consumable supplies and feed		9,748	3,735
Total current assets		54,902	27,997
Non-current			
Other receivables		3,719	4,647
Livestock	5	57,575	34,833
Investments		-	-
Intangible assets (software)		66	21
Property, plant and equipment	6	173,852	161,710
Total non-current assets		235,212	201,211
Total assets		**290,114**	**229,208**
LIABILITIES			
Current			
Loans and borrowings due within one year	7	77,500	11,154
Accounts payable and accruals		23,096	13,654
Total current liabilities		100,596	24,808
Non-current			
Long-term loans and borrowings	7	32,690	46,000
Deferred tax liability		911	895
Total non-current liabilities		33,601	46,895
Total liabilities		134,197	71,703
EQUITY			
Share capital		197,081	197,081
Reserves		28,524	22,422
Accumulated losses		(69,688)	(61,998)
Total equity		155,917	157,505
Total liabilities and equity		**290,114**	**229,208**

Vivek Verma
Chairman

Graeme Wong
Director

NZ Farming Systems Uruguay Limited

Consolidated Statement of Cash Flows

For the year ended 30 June 2011

	Unaudited Group 2011 US$000	Audited Group 2010 US$000
Cash flows from operating activities		
Cash was provided from:		
Receipts from customers	37,506	21,292
Income tax received	-	1,150
Net interest received	-	-
	37,506	22,442
Cash was applied to:		
Payments to suppliers and employees	(72,992)	(42,149)
Net interest paid	(3,791)	(3,422)
Income tax paid	-	(226)
	(76,783)	(45,797)
Net cash flow from/(to) operating activities	**(39,277)**	**(23,355)**
Cash flows from investing activities		
Cash was provided from:		
Proceeds from sales of property, plant and equipment	6,860	15,770
	6,860	15,770
Cash was applied to:		
Acquisitions of property, plant and equipment	(12,393)	(14,289)
Other Investments	-	
	(12,393)	(14,289)
Net cash flow from/(to) investing activities	(5,533)	1,481
Cash flows from financing activities		
Cash was provided from:		
Funds raised through new borrowings	5,000	28,918
Funds advanced from related parties	70,000	-
	75,000	28,918
Cash was applied to:		
Repayment of borrowings	(21,964)	(5,000)
Funds advanced to subsidiaries/related parties	-	-
	(21,964)	(5,000)
Net cash flow from/(to) financing activities	53,036	23,918
Net (decrease)/increase in cash held	8,226	2,044
Opening cash and cash equivalents	5,671	3,627
Cash and cash equivalents	**13,897**	**5,671**

NZ Farming Systems Uruguay Limited

Other Significant Information

For the year ended 30 June 2011

1 Revenue

	Unaudited Group 2011 US$000	Audited Group 2010 US$000
Milk sales	40,423	19,230
Charges against milk sales	(838)	(473)
Cattle sales	2,784	2,420
Other income	638	1,358
	43,007	**22,535**

2 Change in Fair Value of Livestock

	Unaudited Group 2011 US$000	Audited Group 2010 US$000
Livestock - category changes	5,506	1,722
Livestock - births	1,796	1,393
Livestock - deaths	(1,890)	(1,138)
Livestock - herd improvement	8,054	-
Livestock - fair value adjustment	7,489	6,169
	20,955	**8,146**

Livestock category changes reflect the increase in the fair value of livestock as a result of natural growth and an improvement in body condition of the herd. Herd improvement reflects and increase in value of the herd compared to previous years due to an improvement in body condition of the livestock. Livestock fair value adjustment reflects the increase in value of the herd due to an increase in market values.

3 Farm Operating Expenses

	Unaudited Group 2011 US$000	Audited Group 2010 US$000
Pastures	(8,347)	(5,367)
Farm repairs and maintenance	(3,319)	(1,722)
Farm management	(539)	(931)
Animal health, breeding & calf rearing	(4,209)	(2,931)
Cropping and feed costs	(21,187)	(6,098)
Other farm expenses	(9,356)	(3,868)
	(46,957)	**(20,917)**

The Company in New Zealand has agreed to underwrite start-up losses incurred by the Uruguayan operating subsidiaries during the initial years of operation as the Group develops its farms to NZ-style intensive dairy farming. These farming practices are intended to eventually generate an above average level of profitability in Uruguay. The Company anticipates in future to receive a royalty payment for provision of farming intellectual property to the Uruguayan operating subsidiaries. The underwrite via a guaranteed return payment has no impact on financial performance or the financial position at a Group level.

4 Earnings Per Share and Net Tangible Assets

Number of shares	Unaudited Group 2011 US$000	Audited Group 2010 US$000
Weighted average number of ordinary shares	244,236	244,236
Number of ordinary shares at June	244,236	244,236

Net Tangible Assets	Unaudited Group 2011 US$000	Audited Group 2010 US$000
Total Assets	288,565	229,208
Total Liabilities	(134,196)	(71,703)
less Intangible assets	(66)	(21)
less Deferred tax	911	895
	155,214	158,379

	Unaudited Group 2011 US$	Audited Group 2010 US$
Net tangible assets per share at June	0.64	0.65
Earnings per share	(0.04)	(0.03)

The calculation of basic earnings per share at 30 June 2011 was based on the loss attributable to ordinary shareholders of $8,694,000 (2010: $7,902,000) divided by the weighted average number of shares, 244,236,495 (2010: 244,236,495). There are no dilutive shares or options (2010: Nil).

5 Livestock

	Unaudited Group 2011 Number	Audited Group 2010 Number	Unaudited Group 2011 US$000	Audited Group 2010 US$000
Dairy cattle	58,502	52,867	56,780	34,360
Beef cattle	3,042	2,579	234	175
Other livestock	939	707	561	298
	62,483	56,153	57,575	34,833

Livestock value at start of year	34,833	26,376
Livestock purchases	4,035	2,677
Change in the value of livestock		
Livestock category changes	5,506	1,722
Birth of animals	1,796	1,393
Livestock deaths	(1,890)	(1,138)
Livestock - herd improvement	8,054	-
Livestock - fair value adjustment	7,489	6,169
	20,955	8,146
Livestock available for sale or production	59,823	37,199
Book value of livestock sold	(2,248)	(2,366)
Livestock value at end of year	**57,575**	**34,833**

Livestock is measured at fair value net of estimated point-of-sale costs. Fair value is defined as the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction. The value of each class of livestock has been assessed on a per head basis. The values assessed have been derived from comparison with recent livestock sales that have occurred in Uruguay. Livestock disposal costs incorporate three elements, being commission payments depending on the class of livestock, value added tax (VAT) on the commission, and City Council contribution on the sale price.
Crighton Anderson Limited (Crighton Anderson) has been engaged to undertake a valuation review to provide an independent judgement in considering the work of another valuer and to ensure the valuation has been carried out in accordance with international and New Zealand professional standards. Crighton Anderson has sourced and independently contracted the Uruguayan firm of valuers Escritorio Dutra Ltda to undertake separate valuations of all livestock held by the Group. Crighton Anderson has confirmed that in their opinion, the valuation undertaken by Escritorio Dutra Ltda in Uruguay is a fair reflection of the fair value net of point-of-sale disposal costs of the livestock held by the Group as at 30 June 2011. Crighton Anderson has also confirmed that this valuation is suitable for inclusion within the 2011 financial statements of the Group and is in accordance with the requirements of NZ equivalents to International Accounting Standards.

6 Property, Plant and Equipment

	Farm land, buildings and improvements subject to revaluation US$000	Farm plant and equipment US$000	Office fixtures and fittings US$000	Group Total US$000
Cost				
Balance at 1 July 2009	160,860	13,980	96	174,936
Additions	5,435	8,233	273	13,941
Disposals	(13,787)	(1,694)	(4)	(15,485)
Transfer to assets held for sale	(6,860)	-	-	(6,860)
Revaluation	(2,798)	-	-	(2,798)
Balance at 30 June 2010 (audited)	**142,850**	**20,519**	**365**	**163,734**
Balance at 1 July 2010	142,850	20,519	365	163,734
Additions	6,041	5,943	98	12,082
Disposals	(58)	(721)		(779)
Transfer to assets held for sale	(3,775)	-	-	(3,775)
Revaluation	6,042	-	-	6,042
Balance at 30 June 2011 (unaudited)	**151,100**	**25,741**	**463**	**177,304**
Depreciation and impairment losses				
Balance at 1 July 2009	-	1,089	59	1,148
Depreciation for the year	499	1,159	52	1,710
Disposals	-	(331)	(4)	(335)
Depreciation reversed on revaluation	(499)	-	-	(499)
Balance at 30 June 2010 (audited)	**-**	**1,917**	**107**	**2,024**
Balance at 1 July 2010	-	1,917	107	2,024
Depreciation for the year	425	1,398	55	1,878
Disposals	-	(25)		(25)
Depreciation reversed on revaluation	(425)	-	-	(425)
Balance at 30 June 2011 (unaudited)	**-**	**3,290**	**162**	**3,452**
Carrying amounts				
At 1 July 2009	**160,860**	**13,980**	**96**	**174,936**
At 30 June 2010 (audited)	**142,850**	**18,602**	**258**	**161,710**
At 1 July 2010	**142,850**	**18,602**	**258**	**161,710**
At 30 June 2011 (unaudited)	**151,100**	**22,451**	**301**	**173,852**

The Group has a trust structure in Uruguay for the purpose of issuing debt securities. The structure required for an issue of debt securities in Uruguay is different from how a similar issue might be structured in New Zealand. Rather than the Company or a subsidiary issuing the bonds they are issued by a financial trust, with guarantees provided by a guarantee trust, and with both trusts being governed by an independent trustee. The purpose of the guarantee trust is to hold legal title of certain farms to guarantee compliance by the Company's Uruguayan subsidiaries with their obligations under the trust agreement. In substance, while the guarantee trust operates like a charge over the farms, there is a sale of the farms into the guarantee trust. The independent trustee has the ability to sell the farms only in the event that the Group defaults on its repayment obligations under the terms of the financial trust. The value of the farms held in the guarantee trust is approximately US$74.8 million. US$30 million of bonds have been raised against the security of these properties.

All properties are carried at fair value. Land is valued on a fair market, highest and best use basis, determined from market-based evidence including analysis of comparable sales and conditions that prevailed as at the valuation date. Land has been valued as if vacant and incorporates the influence of size, contour, soil quality, location, productivity and highest and best use. All buildings have been valued on either a fair market or depreciated replacement cost basis. The properties are valued excluding milking plant, travelling irrigators and other farm plant items. The land is valued subject to any rights, easements and other encumbrances.

At 30 June 2010 the Group owned 27,871 hectares of land at various stages of development, with an average capital value based on valuation, of US$ 5,421 per hectare (30 June 2010: 28,656 hectares at average valuation of US$4,985 per hectare). The 30 June 2010 figures exclude the Los Naranjos farm, which was held for resale.

The basis of valuation for farmland, buildings and improvements reflects the fact that the assets are in continuing use by the Group for the purpose of their current activities. The fair value of an asset is determined wherever possible by reference to the price in an active market for the same or similar asset. Where the fair value of an asset is not able to be reliably determined using market-based evidence, depreciated replacement cost is considered to be the most appropriate basis for determination of the fair value.

Crighton Anderson Limited (Crighton Anderson) has been engaged to undertake a valuation review to provide an independent judgement in considering the work of another valuer and to ensure the valuation has been carried out in accordance with international and New Zealand professional standards. Crighton Anderson has sourced and independently contracted the Uruguayan firm of valuers Escritorio Dutra Ltda to undertake separate valuations of each property held by the Group. Crighton Anderson has confirmed that in their opinion, the valuations undertaken by Escritorio Dutra Ltda in Uruguay are a fair reflection of the market value of the properties as at 30 June 2011. Crighton Anderson has also confirmed that these valuations are suitable for inclusion within the 2011 financial statements of the Group and are in accordance with the requirements of NZ equivalents to International Accounting Standards.

The total fair value of property valued was US$151.1 million (2010: US$142.8 million). This resulted in a net increase in carrying value of the properties of US$6.5 million (2010: reduction of US$2.3 million). As a consequence of properties being valued on a property by property basis, this adjustment has resulted in loss of value of some farms below their original purchase cost plus improvements. This has resulted in a loss in the Statement of Comprehensive Income in the current year of US$0,6 million (2010: gain of US$1,1 million).

7 Loans and Borrowings

	Unaudited Group 2011 US$000	Audited Group 2010 US$000
PGG Wrightson Limited short term loan	-	9,654
Olam International short term loan	70,000	-
Uruguayan bank short term loans	7,500	1,500
Uruguayan bank long term loans	7,000	16,000
Uruguayan bonds issued	25,690	30,000
	110,190	**57,154**
Payable within 12 months	77,500	11,154
Payable beyond 12 months	32,690	46,000
	110,190	**57,154**

The fair value of all loans and borrowings is equivalent to the carrying value.

The PGG Wrightson Limited short term loan was repaid on December 2010. This was the former performance fee payable in respect of the 2008 financial year, which was converted to an interest-bearing loan. Interest after 30 April 2009 was accrued at a variable rate reflecting PGG Wrightson's cost of funds.

NZS arranged on December 2010 a short term shareholder loan of up to $US50 million ("Loan") with Olam International Limited (Olam), NZS' controlling shareholder, to provide funding for immediate capital expenditure requirements, working capital, and to re-pay the outstanding balances owing to PGG Wrightson Limited ("PGW"). On June 2011 NZS arranged an extension of the credit limit under the Loan from US$50 million to US$85 million. The extension of the credit limit was to enable NZS to repay NZS' current syndicated loan of US$16 million (Syndicated Loan) from Banco Santander S.A. and Banco de la Republica Oriental del Uruguay (collectively, the Syndicated Bank) before 30 June 2011; and support NZS' ongoing development. The Loan carries an interest rate (including withholding taxes) of 8.9% per annum and is repayable by NZS on the earlier of 31 December 2011 or a capital raising sufficient to repay the Loan.

The Uruguayan bank short term loans mature US$1.5m on 30 August 2011 and US$5.0m on 25 May 2012. The long term loans mature on 11 December 2015. The long term loan is with one local bank in Uruguay. This loan was with two local banks, however on 30 June 2011 one of the banks was repaid its share. The loan is secured over property in Uruguay.

The Group issued US$30.0m of long term bonds on 31 July 2009 via a trust structure in Uruguay. The structure required for an issue of debt securities in Uruguay is different from how a similar issue might be structured in New Zealand. Rather than the Company or a subsidiary issuing the bonds they are issued by a financial trust, with guarantees provided by a guarantee trust, and with both trusts being governed by an independent trustee. The purpose of the guarantee trust is to hold legal title of certain farms to guarantee compliance by the Company's Uruguayan subsidiaries of their obligations under the trust agreement. In substance, while the guarantee trust operates like a charge over the farms, there is a sale of the farms into the guarantee trust. The independent trustee has the ability to sell the farms only in the event that the Group defaults on its repayment obligations under the terms of the financial trust. The value of the farms held in the guarantee trust is approximately US$74.8 million.

The bonds had an initial fixed interest rate of 5% per annum for the period to 30 September 2010, and thereafter an annual variable interest rate of between 5% and 15% per annum calculated annually using a formula based on gross milk revenue and certain key input costs. On December 2010 there was an amendment to the bonds agreement, changing the variable interest rate to range between 9% and 11% and the redemption option was removed. The bonds are expected to have a term of approximately 15 years, and the expected average interest rate is 9.8% per annum, with interest being accrued to date on this basis.

The Group has incurred costs of $1.1 million in the process of raising the bonds. These prepaid costs are included in prepayments and are amortized over the life of the bonds.