

A faint, grayscale background image of a cow's head, facing forward, with its ears visible and a tag on its ear.

**NZ Farming Systems Uruguay Limited**

# **Annual results announcement**

## **Year to 30 June 2011**

[www.nzfsu.co.nz](http://www.nzfsu.co.nz)

5 September 2011

# Briefing Outline



- NZFSU Annual Results
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# Overview

- Milk revenue 113% higher than in FY10 due to 58% increase in milk prices and 55% increase in milk production
- Operating loss of \$4.3m; increased by \$1.5m on \$2.8m loss in FY10
- Difficult climatic conditions with wet winter then dry spring and drought conditions throughout summer in the Centre
- Concentrate feed regime incorporated in the 2<sup>nd</sup> quarter had a positive impact on milk production
- Increase in total farm valuation by 6% from FY10
- Increase in total livestock valuation over FY10 by 65% including an 11% increase in numbers
- Steady development progress with 1 further milking shed, 7 under construction, additional irrigation and electricity infrastructure underway
- Management internalised with PGW management agreement terminated
- Funding provided by shareholder loan from Olam to repay outstanding balances to PGW and for immediate capex requirements and working capital

# Key Financials – P&L



	Year ended 30-Jun-11 US\$m	Year ended 30-Jun-10 US\$m
Revenue (1)	64.0	30.7
Livestock and cropping cost of sales	2.5	3.7
Employee benefits expense	7.5	4.2
Farm operating expenses	47.0	20.9
Mgmt fee / depreciation / other expenses	10.3	6.1
Land fair value adj/gain(loss) on property sale	1.0	-1.3
<b>Operating loss from farming activities</b>	<b>-4.3</b>	<b>-2.8</b>
Interest / finance costs / unwind of discount on VAT receivable	4.6	5.2
Tax (benefit) / expense	0.2	0.1
<b>Net profit after tax (NPAT)</b>	<b>-8.7</b>	<b>-7.9</b>

(1) Milk revenue \$39.6m, livestock sales \$2.8m, other \$0.6m and change in fair value of livestock \$21.0m

# Key Financials – Farm Operating Expenses

	Year ended 30-Jun-11 US\$m	Year ended 30-Jun-10 US\$m
Pasture	8.3	5.4
Farm repairs and maintenance	3.3	1.7
Farm management	0.5	0.9
Animal health, breeding, calf rearing	4.2	2.9
Cropping and feed	21.2	6.1
Other farm expenses	9.4	3.9
<b>TOTAL</b>	<b>47.0</b>	<b>20.9</b>

- Expenses up in cropping and feed due to concentrates feeding regime and dry spring and summer

# Key Financials – Balance Sheet



	As at 30-Jun-11 US\$m	As at 30-Jun-10 US\$m
Property, Plant & Equipment	173.9	161.7
Livestock	57.6	34.8
Cash and other assets	58.6	32.6
Liabilities	134.2	71.7
<b>Equity</b>	<b>155.9</b>	<b>157.5</b>
Net Tangible Assets (US cps)	64c	65c
Net Tangible Assets (NZ cps)	77c	92c

- Increase in farm valuations
- Livestock increase in value at June 2011 valuation, and improved body condition
- Shareholder loan during period increased liabilities

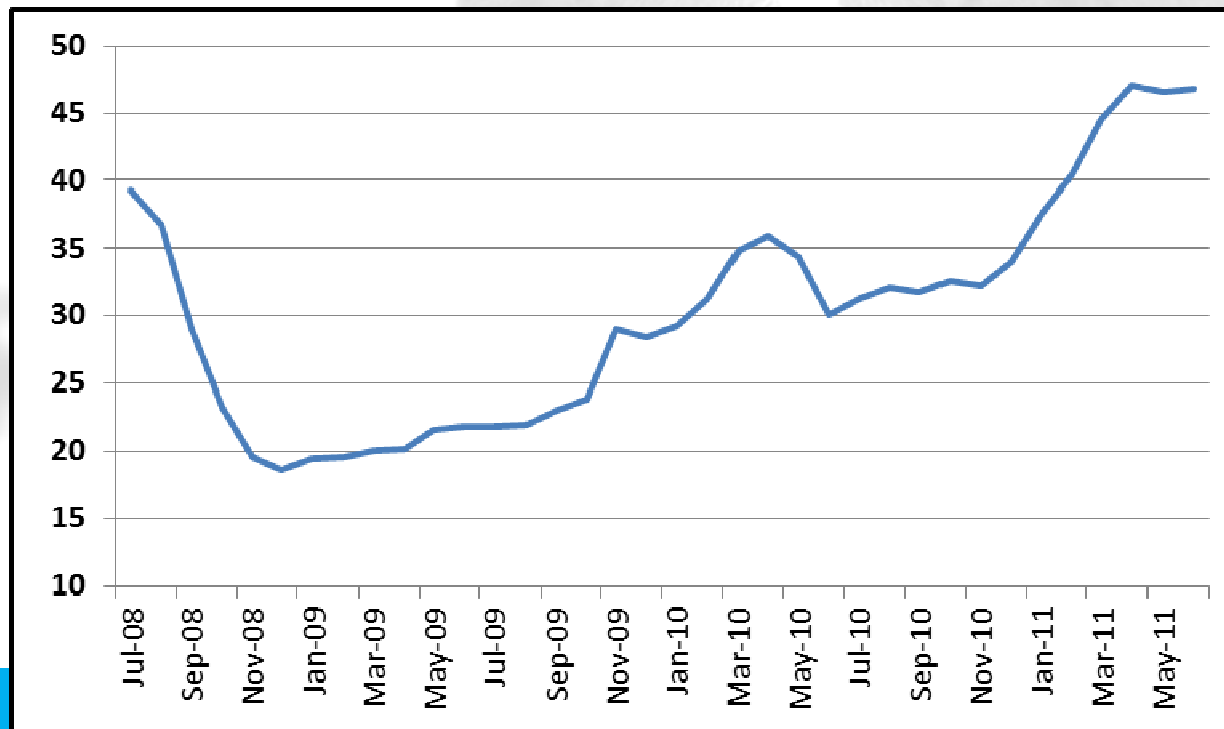
# Funding

- Management agreement internalised; PGG Wrightson short term loan due to performance fee was repaid in December 2010 with Olam loan
- Strong support from Olam via shareholder loan facility of up to \$85m to fund outstanding balance owed to PGW, immediate capex requirements, long term loan partial cancellations, and working capital. At 30 June 2011 outstanding loan balance was \$70m.
- Bond issue partially cancelled; outstanding was \$25.7m. Interest rate on bond was amended in December 2010, taking variable interest rate range from 5%-15% to 9%-11% and redemption option was removed.
- Syndicated loan of \$16m with two banks (BROU and Santander) was partially cancelled; repaid \$8m to Banco Santander
- Received short term loan from BROU of \$5m for capex funding
- Approx \$60m funding required to complete development and livestock purchases
- Funding to come from capital raising or other funding alternatives in the second half of calendar 2011. Total funding of \$115-\$120m required to complete development and repay short term loans.

# Market conditions

- International dairy prices have continued to lift strongly, as did all commodities
- Price trend up from 31.3 c/litre in July 10 to 46.8 c/litre in June 11
- Average price of 38.1c/litre in FY11 compared with 28.7 c/litre in FY10
- Present milk prices at risk due to decrease in international milk prices and macro-economic conditions

NZFSU Farm Gate Milk Price (cents/litre)





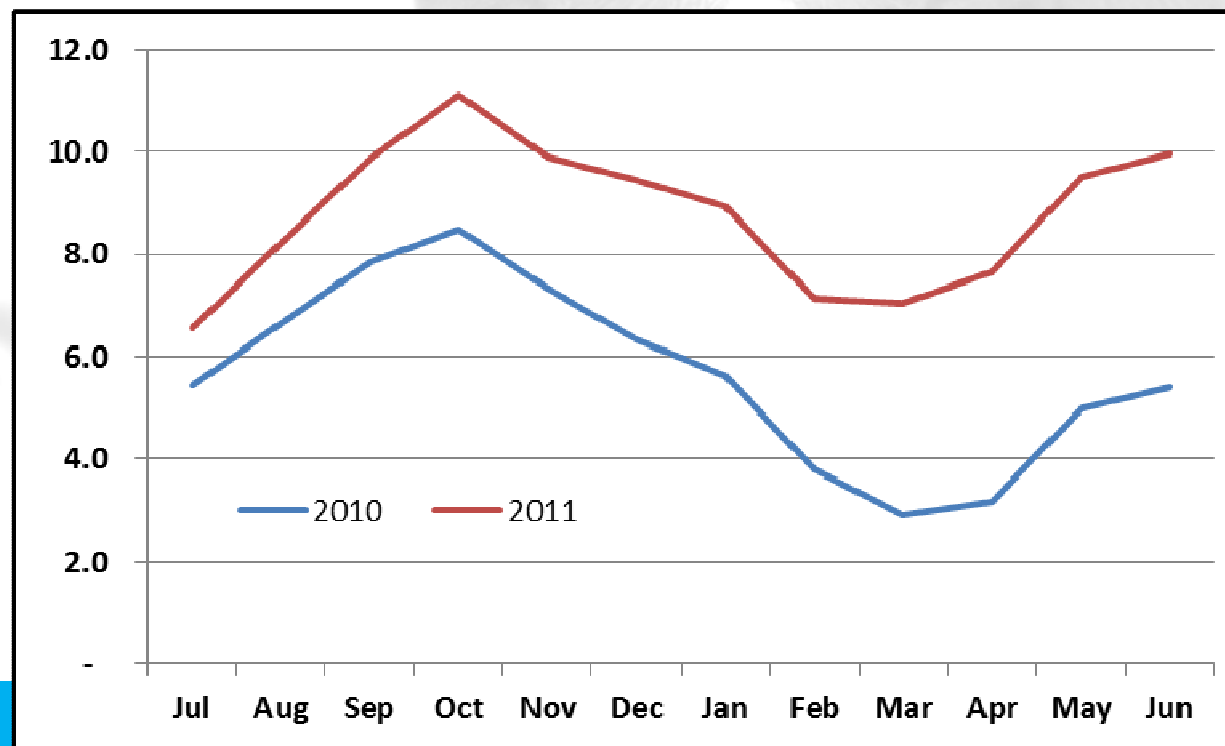
# Operating Conditions

- Increased level of concentrates fed to cows post peak in spring resulted in annual milk production over budget
- New feeding regime also improved pregnancy rates, young stock weight gain and overall livestock body condition
- Feed costs per ton very high due to peaks in prices of all feeds internationally
- Autumn 2011 and spring 2011 calving herds in excellent condition
- Climate was very challenging with a wet winter followed by a dry spring in all regions and drought conditions in the Centre
- Irrigation helped to maintain soil moisture and provide higher grass growth, though costs were high due to the use of generators, and increased area under irrigation is required
- Availability of funding from Olam ensured capital fertiliser applications could be completed during autumn

# Milk production (1)

- Production lifted from 68m litres in FY10 to 105m litres in FY11 – 5m litres above budget.
- Much slower decline in milk production per cow from November despite drought conditions, due to new concentrate/management regime
- Spring milk peak of 11.1m litres in October, and 24,000 peak milking cow numbers in November

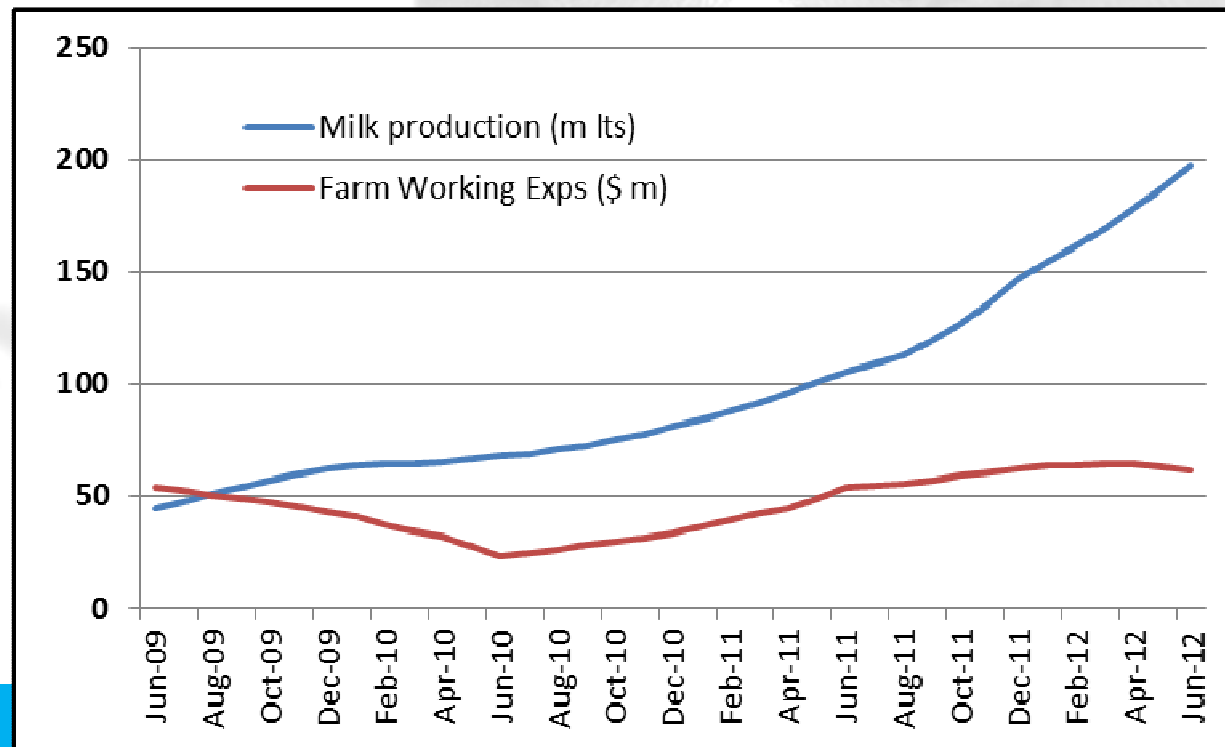
**NZFSU Monthly Milk Production (m litres)**



# Milk Production (2)

- Costs per litre increased in FY 11 with re-structuring costs plus new concentrate feeding policy, high feed costs per ton and drought
- FY11 cost of production 47 c/litre, with this expected to drop to 29-31 c/litre in FY12 and then further to 23-24 c/litre at maturity in FY14/15

**NZFSU Milk Production vs Farm Working Expenses  
FY 2010-FY 2012 - Rolling 12 Months to Date**



# Management Internalisation

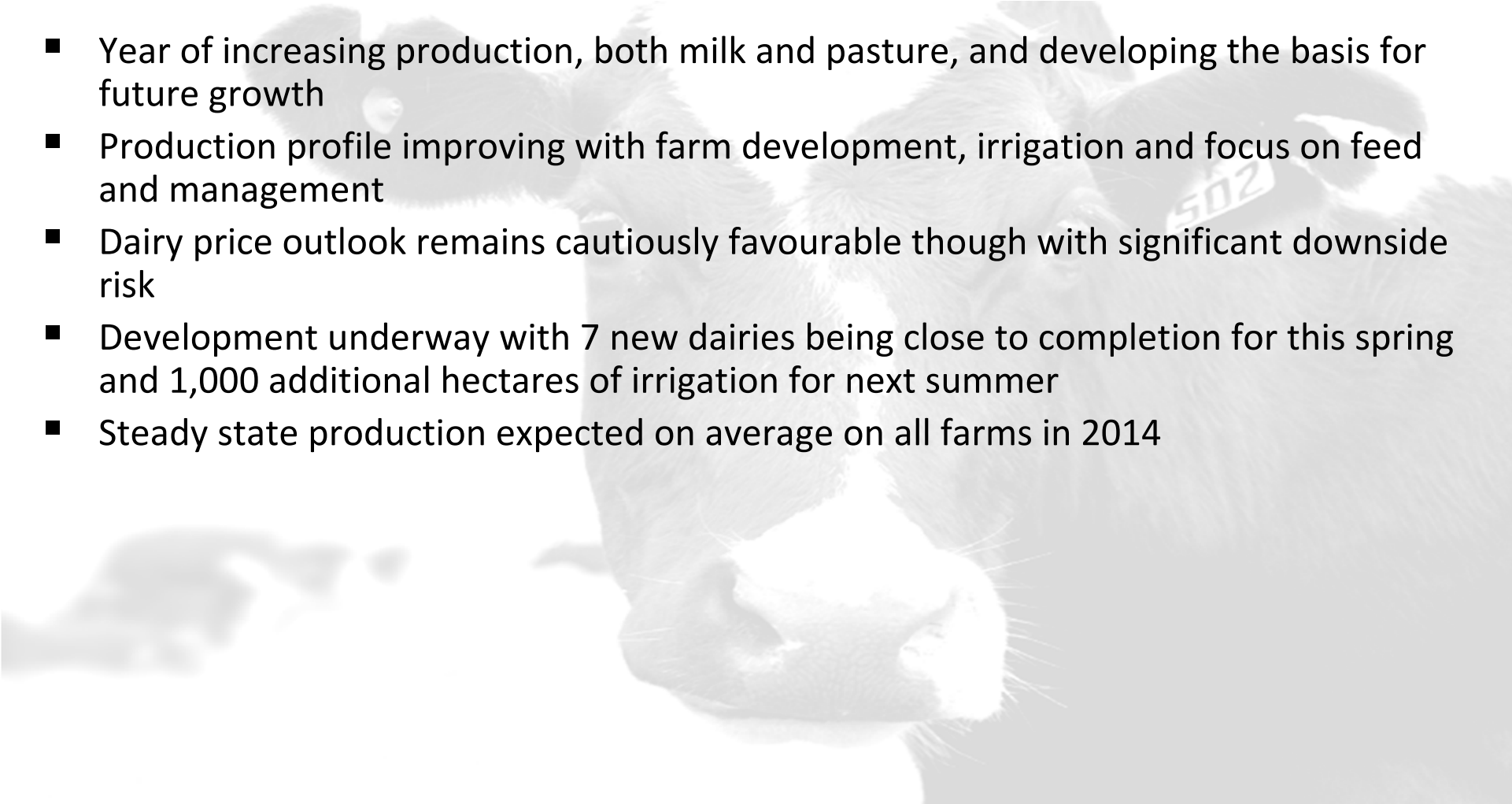


- Terms for ending the Management Agreement with PGW agreed and effective after 17 August 2010
- Incorporation of PGW Uruguay management staff into NZFSU
- New CEO David Beca based in Uruguay from 01 February 2011, with significant experience in dairy farming in Australia, New Zealand and South Africa
- Management structure entirely based within Uruguay with broader based management team

# Outlook

- Forecast production of 197m litres for FY12
- Milk prices forecast on average at 37 c/litre in FY12
- Projected EBIT and PAT profits
- Upside opportunities:
  - Higher milk prices
  - Higher milk production
  - Lower feed costs
- Downside risks:
  - Lower milk prices
  - Lower milk production
  - Dry/drought conditions
  - High feed costs
  - High operating expenses

# Summary

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- Year of increasing production, both milk and pasture, and developing the basis for future growth
  - Production profile improving with farm development, irrigation and focus on feed and management
  - Dairy price outlook remains cautiously favourable though with significant downside risk
  - Development underway with 7 new dairies being close to completion for this spring and 1,000 additional hectares of irrigation for next summer
  - Steady state production expected on average on all farms in 2014

# Investor Tour



- Upcoming tour on 8-10 November
- Program to visit NZS farms in Centre, East and West of Uruguay
- Register interest on website [www.nzfsu.co.nz](http://www.nzfsu.co.nz)





NZ Farming Systems Uruguay Limited

# Briefing on Annual Results

**Year ended 30 June 2011**

# THANK YOU