NZ Farming Systems URUGUAY

NZ Farming Systems Uruguay Limited

half year report

FOR THE SIX MONTHS ENDED 31 DECEMBER 2010

Chairman's Review

Vivek Verma

DEAR SHAREHOLDER

It is my privilege to report to you on a half-year that has brought a series of fundamental changes to the governance and management of your company.

As most shareholders will be aware, the company is now 78 percent owned by Olam International Limited – a leading global supply chain manager and processor of agricultural products and food ingredients. There thus remains a small but significant New Zealand based minority shareholding to benefit from the strong business platform established by the company. Soon after the shareholding structure emerged, changes were made at the board and management level and followed up with significant changes in the strategy and day to day operations of the company.

My expectation is that the changes made during the latest half-year, and actions yet to be taken by the new Board and management, will substantially improve the performance of the company. While it is still too early for the full impact of the changes to be realised and in fact the strategy is far from proven, there is already evidence of some improvements in the results for the half-year ended 31 December 2010, which are outlined below. The primary objective of your Board and management will be to hasten the company's progress towards the goal of successfully implementing a profitable pasture based dairy farming model in Uruguay.

Olam believes that Uruguay has a comparative advantage in dairy farming, and therefore the capacity to significantly expand its production. This is very consistent with the premises that NZ Farming Systems Uruguay was founded upon. Olam's move to seek a majority shareholding was motivated by its own strategy of increasing its upstream position in dairy production, and by a desire to assist in improving your company's performance.

Perhaps the most significant step in the near term is a full review of the company's business plan, including the operating platform, performance, funding and related matters. This review commenced shortly after the conclusion of the takeover offer from Olam, and has been recently concluded and discussed by your Board.

The Board has adopted a series of key strategies and changes arising out of the review. In summary, these are:

- Substantial increase in the use of concentrates in the diet of milking cows
- Maximisation of pasture growth through increased fertiliser use and increased irrigation
- A rapid increase in milk production due to increases in the size of the milking herd and the production level per cow on account of the changed feeding regime. Full dairy development on farms, with the number of dairy sheds rising to 50 and 16,000 hectares of dairy land.

Further comment on these measures is made below under "Strategic Review."

The company's new plan expects break-even at the Earnings Before Interest and Tax (EBIT) level in the 2011-12 year, and at the Net Profit After Tax (NPAT) level in the 2012-13 year.

In conjunction with the strategic review, Olam and your company entered into a short-term loan agreement for up to USD 50 million. These funds are being drawn as required to fund capital expenditure and provide working capital. This means the company is not constrained by funding concerns from taking the necessary steps to continue development of its operations and improve the performance of the existing business platform.

To fund the business plan outlined below and capital expenditure, and repay the Olam shareholder loan, will require a capital raising of USD 100-110 million. The company expects this to occur within the next six months.

Results

Revenue increased to USD 18.9 million in the first half year, compared with USD 10.9 million in the December 2009 half-year – an increase of 72 percent.

Milk production volumes continued to increase rapidly, and milk sales contributed revenue of USD 17.4 million net of charges (up from USD 10.2 million in the previous comparable period), and livestock sales of USD 1.1 million (compared with USD 0.7 million for the prior period). Livestock sales were mainly of cull dairy cows.

Earnings were ahead of forecast due to the stronger milk production and prices, despite difficult climatic conditions. As a result, full year earnings are also expected to be better than previously forecast.

The operating loss from farming activities before fair value adjustments[1] and other one-off items was USD 1.6 million – an improvement of USD 2.5 million on the previous comparable period.

We would like to provide more detail in relation to Note 12 of the financial statements. Properties are customarily independently revalued annually at June each year, with no mid year revaluation. In this half-year, there is a debit USD 1,057,000 movement in "Revaluation of property, plant & equipment" line shown in the Statement of Other Comprehensive Income. The revaluation reserve decreased by USD 1 million due to realisation of the revaluation reserve on the Don Pepe farm, once that sale was finalised in November 2010. The farm was held at sale value in June 2010 financials, which was USD 1 million more than cost plus additions.

Operating performance

Milk production for the first half-year was 55.1 million litres, an increase of 31 percent on the 42.1 million litres produced to December 2009. Average milk price received was US 32.9 cents per litre, compared with US 25.0 cents in the prior comparable period. Milk prices strengthened to US 34 cents in December, and there have been 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.

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. Pasture growth was significantly less than expected and required additional supplementary feeding.

The decision to increase the level of concentrates in animal diets was a key factor in farm operating expenses increasing by 116 percent over those for the prior comparable period. 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 reflects this expectation.

Farm development

Development expenditure was delayed in line with funding constraints for much of the first half-year. The sale of the Don Pepe farm, in October, and the provision of a short-term funding facility by Olam, allowed the company to act on immediate farm development priorities.

One further milking shed was commissioned, bringing the total to 32. Further irrigation pivots were installed, with just under 3,000 hectares now under irrigation. The high tension electricity line in the East of Uruguay is nearing completion, with the line connected since October.

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 and all farms will receive further fertiliser this autumn.

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.

To date, USD 30 million has been drawn on the shareholder loan from Olam, with the remaining USD 20 million expected to be drawn over the next few months to fund both farm development and working capital requirements.

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

[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.

Uruguayan economy

The Uruguayan economy has continued to strengthen. Expectations for growth in Gross Domestic Product are running at slightly over 8 percent for the 2010 calendar year and 5 percent for 2011. Unemployment has been at record lows around 6 percent.

The Uruguayan Peso has been stable, at just under 20 to the US Dollar. Credit rating agency Moodys improved its Uruguayan debt credit rating two points in November, from Ba3 to Ba1, which is one point below investment grade, although the rating is not expected to reach investment grade within the coming year.

Governance and management

Significant changes were initiated both before and after the takeover offer from Olam.

The changes to the Board were a direct consequence of the takeover offer. Three directors – Murray Flett, Craig Norgate and Keith Smith – retired at the annual shareholders' meeting in October. Olam nominated four directors to fill the positions thus created, along with one other that had been vacant. The new Board is listed on page 16 of this report.

In January 2011 the Board elected to appoint me as Chairman, replacing John Parker, who had been Chairman since December 2009 and an independent Director since the company's inception. John resigned as a Director, effective immediately.

With John Parker's resignation, the Board appointed John Roadley to the Audit Committee and Richard Haire stood down. The Audit Committee now comprises Graeme Wong (Chairman), John Roadley and Ravi Kumar.

In August the incumbent Board had decided to terminate the management contract held by a subsidiary of PGG Wrightson Limited and internalise the management of your company. Alastair de Raadt was appointed Chief Executive Officer on a short-term contract, to 31 January 2011. Alastair subsequently elected not to extend his contract beyond that date.

The company has now established its own internal management team, with Managing Director / CEO David Beca appointed from 1 February 2011 and transition from services previously provided by PGG Wrightson under the management agreement. As previously announced, the company paid a termination fee of $NZ4.6 million, equivalent to USD 3.4 million, and paid the remaining outstanding amounts due to PGG Wrightson in respect of previously incurred performance fee, management fees and re-charged expenses.

The company's Chief Financial Officer, Andrew Clark, advised in January 2011 that he had chosen for family reasons not to relocate to Uruguay, where the CFO role will be based in future. Andrew left the company in late February 2011 and Silvina Crosa was appointed CFO. Silvina has been CFO of PGG Wrightson Uruguay, and has also had a major involvement in your company since its inception in 2006. She has an MBA from American University in Washington DC and strong experience in commerce and banking.

The departing directors and managers had all made significant contributions to NZ Farming Systems Uruguay and the Board offers them its thanks and best wishes.

Strategic Review

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

Milk production is expected to increase rapidly from the current year's 100 million litre forecast, to close to 300 million litres, due to both an increase in milking herd to around 48,000 animals at steady state, and an increase in the litres produced per cow, to over 6,000 litres per cow annually. This is higher than the previous plan due to a higher level of concentrates being fed. Milk price is expected to be US 32 cents per litre long-term.

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

Maximisation of pasture grown, whether on irrigated or dry land, is also key to achievement of the plan. Improvements to pasture management, higher rates of nitrogen and phosphate application, and additional irrigation are targeted to achieve this.

NZS intends to continue full dairy development of its farms; over the next two years this will result in a further 18 milking sheds being developed for a total of 50 milking sheds on approximately 16,000 hectares of dairy land, and a total of around 7,000 hectares of dairy land being irrigated.

The 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.

As noted above, the plan expects breakeven at an EBIT level in the 2011-12 year, and at a Net Profit After Tax (NPAT) level in the 2012-13 year.

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

Total capital expenditure in the plan is expected to be approximately USD 69 million, around USD 15 million higher than under the previous plan, due to inclusion of a number of productivity-related capex items such as feed mills, in-shed feeding systems, feed pads and storage pads, additional machinery, and irrigation cost increases.

The total additional capital requirement to complete development is expected to be between USD 100 to USD 110 m and the company expects to announce a capital raising shortly.

Outlook

Milk production has continued to lift very pleasingly since the end of December. 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 US 37 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.

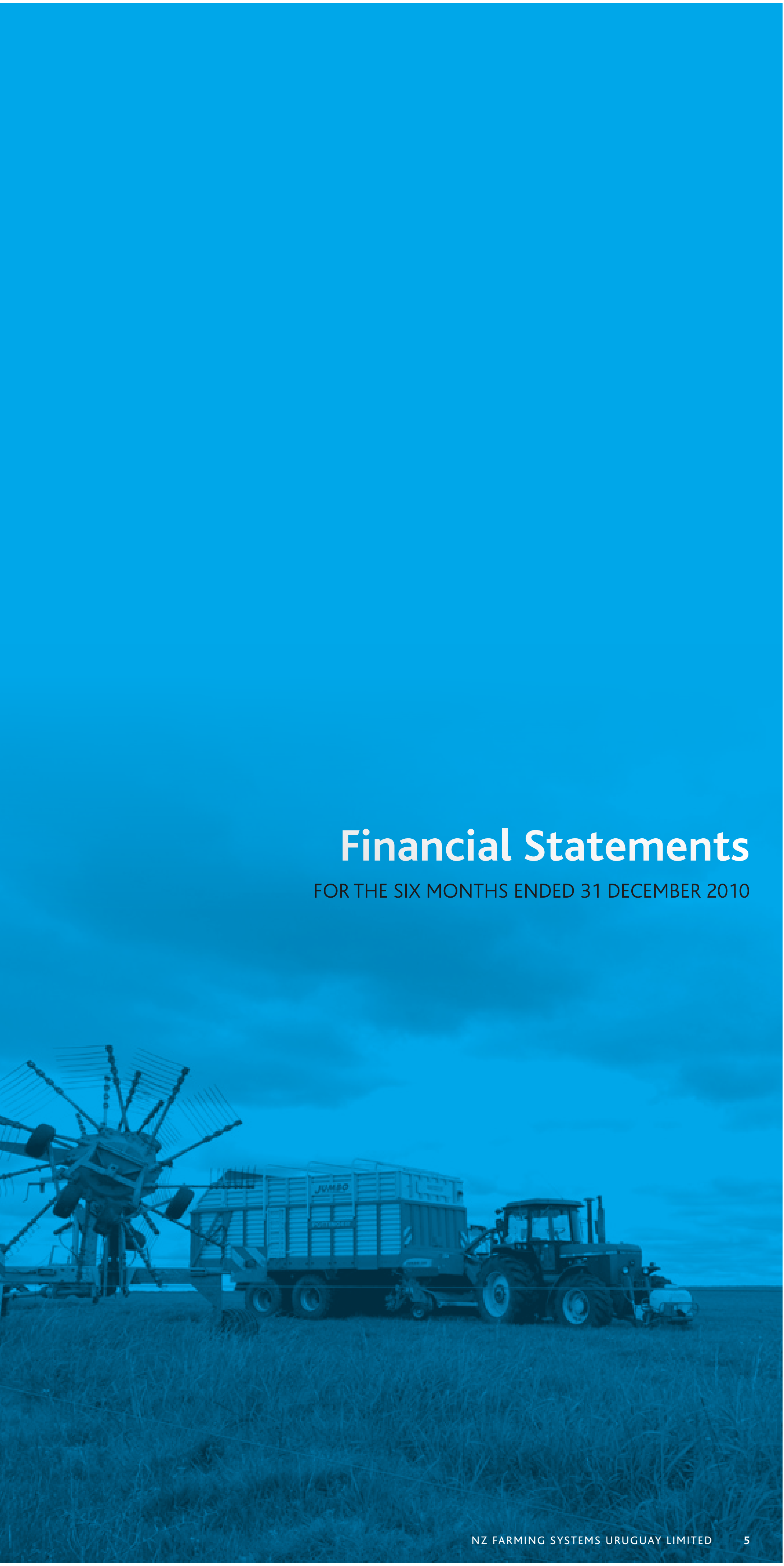
Recent rain in the west and east of Uruguay has led to improved pasture conditions, however the Centre region remains very dry on non-irrigated areas. Pasture growth is therefore forecast to remain lower than originally expected.

The Earnings Before Interest and Taxation (EBIT) forecast for the 2010-11 year is for a loss of USD 11-12 million. This is before the management agreement termination payment. The forecast previously announced in November 2010 expected an EBIT loss of USD 16 million prior to the termination payment. The improvement of USD 4-5 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. However as in previous years any change in livestock valuations will be treated as a non-operating item in the Income Statement.

On behalf of the Board of NZ Farming Systems Uruguay.

Vivek Verma
Chairman



Financial Statements

FOR THE SIX MONTHS ENDED 31 DECEMBER 2010

Condensed Interim Consolidated Statement of Comprehensive Income

For the six months period ended 31 December 2010

	Note	Unaudited 6 mths ended Dec 2010 US$000	Audited Year ended Jun 2010 US$000	Unaudited 6 mths ended Dec 2009 US$000
Revenue	3	18,854	22,534	10,943
Change in fair value of livestock due to physical changes	4	2,844	1,977	750
Livestock and cropping cost of sales		(1,165)	(3,653)	(776)
Employee benefits expense		(2,564)	(4,225)	(1,968)
Farm operating expenses	5	(16,976)	(20,917)	(7,841)
Management fee		(357)	(2,211)	(1,096)
Depreciation and amortisation expense		(947)	(1,710)	(1,559)
Other operating expenses		(1,256)	(2,161)	(939)
Operating loss from farming activities before market movements in livestock & property and gains/losses from property sales		**(1,567)**	**(10,365)**	**(2,486)**
Gain/(loss) on property sales		1,027	253	(862)
Fair value adjustments	6	–	7,264	–
Management agreement termination fee	16	(3,440)	–	–
Loss before interest		(3,980)	(2,848)	(3,348)
Net interest and finance costs	7	(2,614)	(5,155)	(3,877)
Loss before income tax		(6,594)	(8,003)	(7,225)
Income tax (expense)/benefit		(180)	101	230
Loss for the period		**(6,774)**	**(7,902)**	**(6,995)**
Other comprehensive income				
Revaluation of property, plant and equipment		(1,057)	(3,664)	–
Movement in deferred tax on revaluation of property, plant and equipment		–	276	151
Other comprehensive income for the period, net of income tax		(1,057)	(3,388)	151
Total comprehensive income for the period		**(7,831)**	**(11,290)**	**(6,844)**
Loss attributable to:				
Shareholders of the Company		(6,774)	(7,902)	(6,995)
Loss for the period		**(6,774)**	**(7,902)**	**(6,995)**
Total comprehensive income attributable to:				
Shareholders of the Company		(7,831)	(11,290)	(6,844)
Total comprehensive income for the period		(7,831)	(11,290)	(6,844)
Earnings per share				
Basic and diluted earnings per share (USD)	8	(0.03)	(0.03)	(0.03)

The accompanying notes form an integral part of these financial statements.

Condensed Interim Consolidated Statement of Changes in Equity

For the six months period ended 31 December 2010

	Share capital US$000	Fair value reserves US$000	Retained earnings US$000	Total equity US$000
Balance at 1 July 2009	197,081	25,810	(54,096)	168,795
Loss for the year	–	–	(6,995)	(6,995)
Movement in fair value of property, plant and equipment, net of tax	–	151	–	151
Total comprehensive income for 6 months	**–**	**151**	**(6,995)**	**(6,844)**
Balance at 31 December 2009	**197,081**	**25,961**	**(61,091)**	**161,951**
Balance at 1 January 2010	197,081	25,961	(61,091)	161,951
Loss for the period	–	–	(907)	(907)
Movement in fair value of property, plant and equipment, net of tax	–	(3,539)	–	(3,539)
Total comprehensive income for 6 months	–	(3,539)	(907)	(4,446)
Balance at 30 June 2010	**197,081**	**22,422**	**(61,998)**	**157,505**
Balance at 1 July 2010	197,081	22,422	(61,998)	157,505
Loss for the period	–	–	(6,774)	(6,774)
Movement in fair value of property, plant and equipment, net of tax	–	(1,057)	–	(1,057)
Total comprehensive income for 6 months	–	(1,057)	(6,774)	(7,831)
Balance at 31 December 2010	**197,081**	**21,365**	**(68,772)**	**149,674**

The accompanying notes form an integral part of these financial statements.

Condensed Interim Consolidated Statement of Financial Position

As at 31 December 2010

	Note	Unaudited Dec 2010 US$000	Audited Jun 2010 US$000	Unaudited Dec 2009 US$000
ASSETS				
Current				
Cash and cash equivalents	9	11,891	5,671	19,591
Trade and other receivables	10	16,773	11,447	7,012
Income tax receivable		29	284	117
Assets held for sale		–	6,860	–
Inventories and consumable supplies		4,496	3,735	3,701
Total current assets		33,189	27,997	30,421
Non-current				
Other receivables	10	4,438	4,647	5,000
Livestock	11	38,194	34,833	27,288
Intangible assets		47	21	35
Property, plant and equipment	12	164,503	161,710	171,229
Total non-current assets		207,182	201,211	203,552
Total assets		**240,371**	**229,208**	**233,973**
LIABILITIES				
Current				
Loans and borrowings due within one year	13	77,500	11,154	16,143
Accounts payable and accruals	14	12,302	13,654	8,858
Total current liabilities		89,802	24,808	25,001
Non-current				
Long-term loans and borrowings	13	–	46,000	46,000
Deferred tax liability		895	895	1,021
Total non-current liabilities		895	46,895	47,021
Total liabilities		90,697	71,703	72,022
EQUITY				
Share capital		197,081	197,081	197,081
Reserves		21,365	22,422	25,961
Accumulated losses		(68,772)	(61,998)	(61,091)
Total equity		149,674	157,505	161,951
Total liabilities and equity		**240,371**	**229,208**	**233,973**

These condensed interim consolidated financial statements have been authorised for issue on 17 February 2011.

Vivek Verma
Chairman

Graeme Wong
Director

The accompanying notes form an integral part of these financial statements.

Condensed Interim Consolidated Statement of Cash Flows

For the six months period ended 31 December 2010

	Note	Unaudited Dec 2010 US$000	Audited Jun 2010 US$000	Unaudited Dec 2009 US$000
Cash flows from operating activities				
Inflows		16,931	22,442	10,953
Outflows		(43,775)	(45,797)	(25,272)
Net cash flow (to) operating activities	15	(26,844)	(23,355)	(14,319)
Cash flows from investing activities				
Inflows		6,880	15,770	6,538
Outflows		(3,816)	(14,289)	(6,250)
Net cash flow from investing activities		3,064	1,481	288
Cash flows from financing activities				
Inflows		31,500	28,918	31,508
Outflows		(1,500)	(5,000)	(1,513)
Net cash flow from financing activities		30,000	23,918	29,995
Net increase in cash held		6,220	2,044	15,964
Opening cash		5,671	3,627	3,627
Cash and cash equivalents		**11,891**	**5,671**	**19,591**

The accompanying notes form an integral part of these financial statements.

Notes to the Financial Statements

For the six months period ended 31 December 2010

1 Reporting Entity

NZ Farming Systems Uruguay Limited ("the Company") is a company domiciled in New Zealand, registered under the Companies Act 1993 and listed on the New Zealand Stock Exchange. The Company is an issuer in terms of the Financial Reporting Act 1993.

The condensed interim consolidated financial statements of NZ Farming Systems Uruguay Limited for the six months ended 31 December 2010 comprise the Company and its subsidiaries (together referred to as the "Group").

The Company is primarily involved in dairy farming in Uruguay.

2 Basis of Preparation

The condensed interim consolidated financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice ("NZ GAAP"). They comply with the New Zealand equivalents to International Financial Reporting Standards ("NZ IFRS") as applicable for interim financial statements for profit orientated entities, and in particular NZ IAS 34. The financial statements also comply with IAS 34.

The condensed interim financial statements do not include all of the information required for full annual statements. The condensed interim consolidated financial statements are presented in US dollars. The same accounting policies, presentation and methods of computation are followed in the condensed interim consolidated financial statements as applied in the Group's latest annual audited financial statements, with exceptions as described below.

The Group operates in one segment, that of developing and operating dairy farming activities in Uruguay. Although the Group operates from separate farm bases around the country, the transportability of livestock between these farms, particularly during this development phase of the business, makes any analysis by farm misleading and impractical.

These statements were approved by the Board of Directors on 17 February 2011.

3 Revenue

	Unaudited Dec 2010 US$000	Audited Jun 2010 US$000	Unaudited Dec 2009 US$000
Milk Sales	18,141	19,230	10,528
Charges against milk sales	(705)	(473)	(329)
Cattle sales	1,131	2,420	730
Other income	287	1,357	14
	18,854	**22,534**	**10,943**

4 Changes in Fair Value of Livestock

	Unaudited Dec 2010 US$000	Audited Jun 2010 US$000	Unaudited Dec 2009 US$000
Livestock - category changes	3,041	1,722	813
Livestock - births	913	1,393	561
Livestock - deaths	(1,110)	(1,138)	(624)
	2,844	**1,977**	**750**

5 Farm Operating Expenses

	Unaudited Dec 2010 US$000	Audited Jun 2010 US$000	Unaudited Dec 2009 US$000
Pastures	(2,043)	(5,367)	(1,148)
Farm repairs and maintenance	(1,218)	(1,722)	(736)
Farm management	(1,158)	(931)	(320)
Animal health, breeding & calf rearing	(2,198)	(2,931)	(1,484)
Cropping and feed costs	(7,902)	(6,098)	(2,223)
Other farm expenses	(2,457)	(3,868)	(1,930)
	(16,976)	**(20,917)**	**(7,841)**

6 Fair Value Adjustments

	Note	Unaudited Dec 2010 US$000	Audited Jun 2010 US$000	Unaudited Dec 2009 US$000
Change in fair value of livestock due to price changes	11	–	6,169	–
Change in fair value of farm properties below cost		–	1,095	–
		–	**7,264**	**–**

7 Net Interest and Finance Costs

	Unaudited Dec 2010 US$000	Audited Jun 2010 US$000	Unaudited Dec 2009 US$000
Interest income	90	82	48
Interest expense	(2,305)	(4,489)	(2,467)
Net foreign exchange losses	(371)	(671)	(1,414)
Facility fees	(28)	(77)	(44)
	(2,614)	**(5,155)**	**(3,877)**

8 Earnings Per Share and Net Tangible Assets

	Unaudited Dec 2010 US$000	Audited Jun 2010 US$000	Unaudited Dec 2009 US$000
Number of shares			
Weighted average number of ordinary shares	244,236	244,236	244,236
Number of ordinary shares at December / June	244,236	244,236	244,236

	Unaudited Dec 2010 US$000	Audited Jun 2010 US$000	Unaudited Dec 2009 US$000
Net Tangible Assets			
Total Assets	240,371	229,208	233,973
Total Liabilities	(90,697)	(71,703)	(72,022)
less Intangible assets	(47)	(21)	(35)
less Deferred tax	895	895	1,021
	150,522	**158,379**	**162,937**

	Unaudited Dec 2010 US$000	Audited Jun 2010 US$000	Unaudited Dec 2009 US$000
Net tangible assets per share at December / June	0.62	0.65	0.67
Earnings per share (basic and diluted)	(0.03)	(0.03)	(0.03)

9 Cash and Cash Equivalents

	Note	Unaudited Dec 2010 US$000	Audited Jun 2010 US$000	Unaudited Dec 2009 US$000
Bank and cash		11,891	5,360	8,461
Funds held by bond trustee	13	–	311	11,130
		11,891	**5,671**	**19,591**

10 Trade and Other Receivables

	Unaudited Dec 2010 US$000	Audited Jun 2010 US$000	Unaudited Dec 2009 US$000
VAT receivable	11,418	10,846	9,400
Discount on VAT receivable	(2,442)	(2,324)	(2,500)
Prepayments	5,713	3,651	2,383
Trade and other debtors	6,522	3,921	2,729
	21,211	16,094	12,012
Less non-current VAT receivable	4,438	4,647	5,000
Current Trade and Other Receivables	**16,773**	**11,447**	**7,012**

VAT recoverable in Uruguay is not generally recoverable from the tax authorities in cash, rather this asset can be used by the Group to offset other taxes payable in Uruguay such as income tax, wealth tax and social security tax. It is anticipated that it will take up to seven years to fully recover this amount. The VAT asset is initially recognised at cost, and subsequently measured at the lower of that amount and its recoverable amount. Recoverable amount is the higher of fair value less cost to sell, and value in use. Value in use is determined by discounting future estimated cashflows, with the discount being charged to the Statement of Comprehensive Income. VAT receivable is denominated in Uruguayan Pesos thus both the balance outstanding and the discount to reflect the fair value are affected by movements in the Peso-US$ exchange rate. The movement in discount is due to foreign currency movements. This asset can also be used to settle any obligation that arises with respect to the crystallisation of deferred tax liabilities in Uruguay.

Trade and other debtors includes an amount of $US752 thousand expected to be recoverable from Olam in respect of takeover costs under Rule 49 (2) of the NZ Takeovers Code.

11 Livestock

Livestock

Livestock is measured at fair value net of estimated point-of-sale costs. At 30 June 2010 a valuation review was performed by Crighton Stone Limited (Crighton Stone) to provide an independent judgement of the work of another valuer. Crighton Stone also sourced and independently contracted the Uruguayan firm of valuers Escritorio Dutra Ltda to undertake the valuation of all livestock held by the Group. The next independent valuation and review is scheduled for June 2011.

The Board has considered the impact of climatic, economic, milk powder pricing and other factors, including livestock sales in the six months to 31 December 2010 and is of the view that there has been no material change to the fair value of livestock over the six month period. The result to 30 June 2010 included a gain of US$6.1 million (six months to 31 December 2009: US$nil) being recorded in the Statements of Comprehensive Income for the respective periods.

During the period, livestock additions totalled US$1.6 million (12 months to 30 June 2010: US$2.6 million, 6 months to 31 December 2009: US$0.8 million).

12 Property, Plant and Equipment

Property, plant and equipment consist mainly of farm properties and improvements.

Legal titles of certain farms were transferred into a guarantee trust prior to 30 June 2009 for the purpose of guaranteeing the issue of debt securities. The value of the farms held in the guarantee trust is approximately US$71.3 million. US$30.0 million of bonds have been raised against the security of these properties. The independent trustee has the ability to sell the farms only in the event that the Group defaults on repayment obligations under the terms of the trust.

Properties are carried at fair value. As for livestock, Crighton Stone provided an independent review on the work of another valuer as at 30 June 2010. The Board has considered the impact of recent economic factors to determine whether an impairment in the value of the Group's properties should be recorded. The Board has concluded that there has been no material change to the fair value of the Group's properties over the six month period. The next independent valuation and review is scheduled for June 2011.

At 31 December 2010, there were capital commitments of US$1.1 million.

Acquisitions and disposals

During the six months ended 31 December 2010, the Group acquired assets with a cost of US$3.9 million (30 June 2010: US$13.9 million, 31 December 2009: US$6.7 million).

Assets with a net book value of US$5.6 million were disposed during the six months ended 31 December 2010 (30 June 2010: US$15.5 million, 31 December 2009: US$7.4 million), resulting in a gain on disposal of US$1.0 million (30 June 2010: gain of US$0.8 million, 31 December 2009: loss of US$0.9 million).

This included the Don Pepe farm, which was categorised in assets held for sale at 30 June 2010.

13 Loans and Borrowings

	Unaudited Dec 2010 US$000	Audited Jun 2010 US$000	Unaudited Dec 2009 US$000
PGG Wrightson Limited short term loan	–	9,654	14,635
Olam International Limited short term loan	30,000	–	–
Uruguayan bank short term loans	1,500	1,500	1,508
Uruguayan bank long term loans	16,000	16,000	16,000
Uruguayan bonds issued	30,000	30,000	30,000
	77,500	**57,154**	**62,143**
Payable within 12 months	77,500	11,154	16,143
Payable beyond 12 months	–	46,000	46,000
	77,500	**57,154**	**62,143**

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

The PGG Wrightson Limited short term loan carried a variable interest rate equal to PGW's cost of funds and was repaid in December 2010. This was the former performance fee payable in respect of the 2008 financial year, which was converted to an interest-bearing loan.

NZS has arranged 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"). As at 31 December 2010, NZS has drawn down US$30 million. The Loan carries an interest rate (including withholding taxes) of approximately 9% per annum and is repayable by NZS on the earlier of 31 December 2011 or a capital raising sufficient to repay the Loan.

On 27 September 2010 US$1.5m of loans matured and were rolled to mature on 30 May 2011. The long term loans mature on 11 December 2015. The long term loans are with two local banks in Uruguay, and are secured over property in Uruguay. Approval of the bank syndicate is required for change of control and internalisation of management. This approval was obtained on 8 February 2011, subject to review of the Group's updated business plan. The updated business plan will be provided to the bank syndicate once approved by the Board, and bank syndicate approval is to be provided by 31 March 2011. At 31 December 2010 the loans were therefore classified as current liabilities. The Group has a covenant applicable at 30 June 2011, which requires opening cash plus operating cashflow less capital expenditure to be at least 1.2 times debt servicing (interest plus principal, if any). The Group does not expect to comply with this covenant at 30 June 2011 and has therefore requested a waiver from the bank syndicate.

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$71.3 million.

13 Loans and Borrowings (continued)

The bonds were issued to provide funding for development of the Group's farms in Uruguay. Funds raised by the bonds are held by a trustee on behalf of the Group, pending confirmation of expenditure on farm development. As at 31 December 2010, the fiduciary held US$nil, (30 June 2010: US$0.3m, 31 December 2009 US$11.1m), with the balance of the US$30.0m having been provided to the Group during the respective periods.

The bonds have 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 9% and 11% per annum calculated annually using a formula based on gross milk revenue and certain key input costs. The bonds are expected to have a term of approximately 15 years, and the expected average interest rate is 9.6% per annum, with interest being accrued to date on this basis. In December 2010 the Group agreed with bond-holders to renegotiate certain terms and conditions relating to the bonds, resulting in a similar expected overall interest rate but within a narrower band than the original 5% to 15% per annum range.

Bond-holder approval to change of control and the internalisation of management was obtained on 10 December 2010, subject to approval of the Group's updated business plan. The updated business plan will be provided to the bond-holders once approved by the Board, and their approval is to be provided by 31 March 2011. At 31 December 2010 the bonds were therefore classified as current liabilities.

14 Accounts Payable and Accruals

	Unaudited Dec 2010 US$000	Audited Jun 2010 US$000	Unaudited Dec 2009 US$000
Trade creditors and accruals	12,302	8,762	5,413
Related party creditors	–	4,892	3,445
	12,302	**13,654**	**8,858**

PGG Wrightson Limited, and its subsidiaries and related parties, were previously related parties of the Group. Following PGW's sale of its shareholding in the Group to Olam International Limited ("Olam") as part of Olam's takeover offer for the Group, PGW is no longer a related party of the Group. The Group continues to purchase various farm inputs from PGW, with the balances relating to those purchases included in trade creditors and accruals. The Group does not have any balances payable to Olam.

15 Reconciliation of Loss After Tax With Net Cash Flow from Operating Activities

	Unaudited Dec 2010 US$000	Audited Jun 2010 US$000	Unaudited Dec 2009 US$000
Loss after taxation	(6,774)	(7,902)	(6,995)
Add/(deduct) non-cash / non operating items:			
Depreciation, amortisation and impairment	947	1,710	1,559
Unrealised foreign exchange losses	(468)	671	1,414
Livestock value changes	(2,844)	(1,977)	(750)
Fair value adjustments	–	(7,264)	–
Bond raising costs	–	1,082	–
Conversion of performance fee from creditors to loan	–	12,548	–
(Increase)/decrease in deferred taxation	–	(635)	(509)
Other non-cash items	(1,230)	859	2,660
	(3,595)	6,994	4,374
Add/(deduct) movement in working capital items:			
(Increase) in accounts receivable and prepayments	(5,325)	(7,114)	(1,181)
(Increase) in inventories and consumable supplies	(762)	(2,152)	(2,118)
Increase/(decrease) in trade creditors and accruals	(10,643)	(14,187)	(9,572)
Decrease in income tax receivable	255	1,006	1,173
	(16,475)	(22,447)	(11,698)
Net cash flow to operating activities	**(26,844)**	**(23,355)**	**(14,319)**

The operating cashflow in the six month period to 31 December 2010 was negative largely due to paying the PGW management agreement termination fee and outstanding debts.

16 Related Parties

PGG Wrightson Funds Management Limited ("PGWM") formerly managed the assets of NZ Farming Systems Uruguay Limited ("NZS") pursuant to a management agreement, first entered into in 2006, and subsequently amended in 2009 ("Management Agreement").

On 17 August 2010 PGG Wrightson Limited ("PGW"), PGWM and NZS conditionally entered into a Transaction Implementation Agreement ("TIA"). The TIA contained provisions for the termination of the Management Agreement, and required that NZS enter into a long term preferred supplier agreement with PGW. Elements of the TIA (being the requirement to enter into a preferred supplier agreement with PGW) were subject to shareholder approval under NZSX Listing Rule ("Rule") 9.2.1.

On 27 September 2010, following a takeover offer ("Takeover"), Olam International Limited ("Olam") became the majority shareholder of NZS, holding 78% of NZS shares. This offer successfully closed on 24 September 2010.

Following the Takeover, the terms of the TIA were renegotiated by NZS, PGW and Olam ("Varied TIA"). Under the Varied TIA, on 24 December 2010, NZS paid PGW a termination fee of NZ$ 4.6 million (plus GST if any) (equivalent to US$ 3.4 million) to terminate the Management Agreement, and in addition paid all outstanding debts to PGW due under the Management Agreement. The requirement to enter into the preferred supplier agreement with PGW was waived by PGW as part of the renegotiation.

Olam has offered NZS a short term loan facility of up to US$50 million ("Loan Facility") to repay the outstanding debts and pay the termination fee under the Varied TIA, as well as to provide funds for the continued development of NZS' farms in Uruguay (both working capital and capital expenditure approved by the Board), until alternative funding arrangements can be established. As at 31 December 2010, NZS has drawn down US$30 million. The loan carries an interest rate (including withholding taxes) of approximately 9% per annum.

On 20 December 2010 NZX Regulation granted a waiver of the application of Listing Rule 9.2.1 so that NZ Farming Systems Uruguay Limited ("NZS") may enter into the Loan Facility with Olam International Limited ("Olam") without prior shareholder approval, on the condition that the Directors of NZS not Associated with Olam certify, in a form acceptable to NZX Market Supervision ("NZXMS") that:

- the terms of the Loan Facility are arms length and commercial and were negotiated with Olam on an arms length and commercial basis;
- entry into the Loan Facility is in the interest of NZS and shareholders not Associated with Olam;
- the need for the funding provided by the Loan Facility is sufficiently critical that funding is required before NZS is able to convene a shareholders meeting;
- the Directors of NZS have investigated alternative funding arrangements to the Loan Facility, and in their opinion there are no alternative funding arrangements that NZS could enter into on terms that are more favourable for NZS shareholders than the Loan Facility.

Management agreement (31 December 2009)

On 28 October 2009 NZX Regulation granted a waiver of the application of Listing Rule 9.2.1 in respect of the requirement to obtain approval from shareholders to the variation of the Farm and Fund Management contracts. The following changes were made:

- The Fund and Farm Management Agreements have been merged;
- The management fee percentage was reduced from 1% to 0.75% for gross asset value above $US400 million (gross asset value at 30 June 2010 was approximately US$ 229 million; at 31 December 2009 was approximately US$ 234 million);
- PGG Wrightson will at NZ Farming Systems Uruguay's request accept shares rather than cash for any future performance fee payments, subject to compliance with relevant law and listing rules;
- PGG Wrightson's right to charge a margin for the provision of Farm Management services (although it has not been exercised) has been waived by PGG Wrightson;
- A management performance review clause has been inserted to implement a formal annual review process;
- Any agreed farms sold and managed under any sale and leaseback arrangement would incur a reduced 0.5% management fee; and
- The Farm Management Agreement term has been extended to align with the Fund Management Agreement.

17 Events Subsequent to End of Interim Period

There are no material events occurring subsequent to 31 December 2010 and prior to the date of these financial statements.

Corporate Directory

Company Number: 1866126

Board of Directors as at 1 February 2011

Vivek Verma, Chairman *(appointed 11 January 2011)*
David Beca
Richard Haire
Ravi Kumar
John Roadley
Graeme Wong

Managing Director/Chief Executive

David Beca *(appointed 1 February 2011)*

Registered Office

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Auditor

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Auckland 1140

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Share Registry

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