

Briefing on Half Year Results

Six months to 31 December 2009



NZFSU Half Year Results

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- Continued growth in milk production
- Climate favourable to date, with good rainfall
- Livestock body condition now good, but off a poor base following the drought last year
- 42 percent increase in revenue, to US\$10.9 million
- 50 percent reduction in operating loss, to US\$2.5 million
- Milk prices recovered to US29c per litre at December 2009
- 70 percent increase in milk production, to 42.1 million litres
- 15 percent reduction in operating costs despite higher production
- Projected operating loss for 2009/10 remains a maximum US\$10 million at EBIT level

Key financials – P&L

	Six months 31 Dec 2009 \$USm	Six months 31 Dec 2008 \$USm
Revenue ⁽¹⁾	10.9	7.7
Livestock biological transformation (natural increase) ⁽²⁾	0.8	4.7
Livestock cost of sales	(0.8)	(2.0)
Farm operating expenses	(9.8)	(11.6)
Mgmt fee / depreciation / other expenses	<u>(3.6)</u>	<u>(3.9)</u>
Operating loss from farming activities ⁽³⁾	(2.5)	(5.1)
Loss on Casupa farm sale	(0.9)	-
Livestock revaluations	-	(4.5)
Interest / finance costs	(3.8)	(1.3)
Tax	<u>0.2</u>	<u>2.0</u>
Net profit after tax (NPAT)	(7.0)	(8.9)

(1) Milk revenue \$10.2m, livestock sales \$0.7m

(2) Livestock natural increase generated income of \$0.8m – lower than prior year due to more mature livestock age profile and lower livestock prices (than pre June 2009 reduction)

(3) Before price movements in Livestock and Property

Key financials – farm operating expenses

	Six mths Dec 2009 \$USm	Six mths Dec 2008 \$USm
Labour	2.0	1.9
Pasture expenses (mtce fert, urea)	1.1	2.1
Farm repairs & mtce	0.7	0.4
Farm management	0.3	0.5
Animal health, breeding, calf rearing	1.5	1.6
Cropping and feed (forage crops, supplementary feed)	2.2	2.8
Other farm expenses	<u>2.0</u>	<u>2.3</u>
TOTAL	9.8	11.6

- Expenses down, with reductions in fertiliser prices and supplementary feed, and a focus on effective on-farm expenditure.
- Operational base grew to 26 dairies in operation in current half-year vs average of 17 in prior comparable period
- Other farm expenses include electricity and fuel.

Key financials – operating cashflow

	Six months 31 Dec 2009 \$USm	Six months 31 Dec 2008 \$USm
Operating cashflow total	(14.3)	(15.3)
Operating cashflow breakdown		
Net profit after tax	(7.0)	(8.9)
Decrease in creditors	(9.6)	(1.0)
Feed crops and consumable supplies	(2.1)	(2.8)
Depreciation	1.6	0.8
Other working capital movements and other items	2.8	(3.4)

- Operating cashflow impacted in first half by paying down creditors which were built up in second half 08/09 prior to bond issue
- Feed crops – largely seasonal investment in forage crops
- Other items includes movement in debtors, non-cash foreign exchange gains / losses and movement in taxes

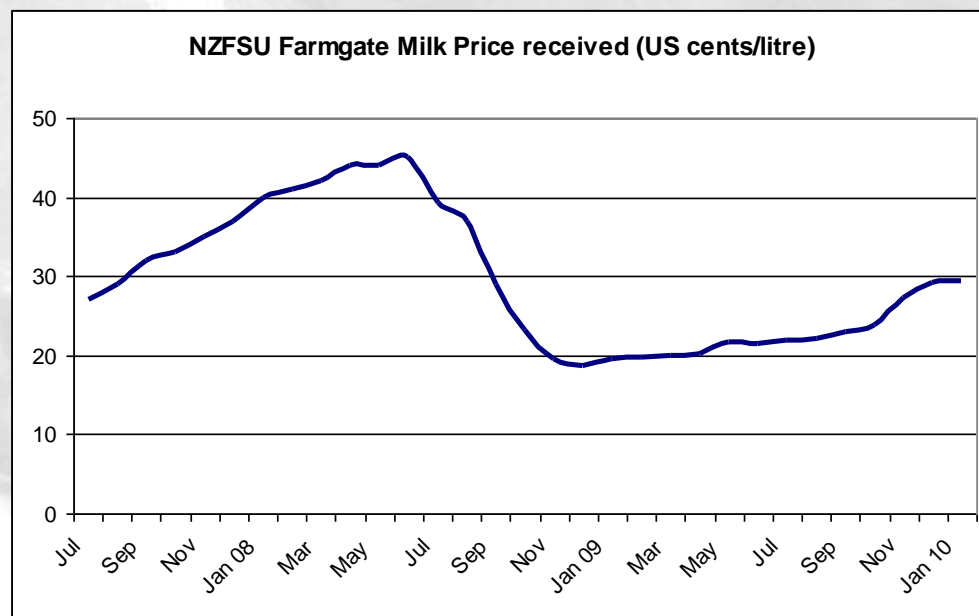
Key financials – balance sheet

	31 Dec 2009 \$USm	30 Jun 2009 \$USm	31 Dec 2008 \$USm
Property, Plant & Equipment	171	174	187
Livestock	27	26	45
Cash and other assets	36	16	21
Liabilities	72	47	37
Equity	162	169	216
Net Tangible Assets (US cps)	67c	70c	89c
Net Tangible Assets (NZ cps)	92c	107c	154c

- Farms and livestock revalued downwards at June 2009 – no further movement at December 2009
- Cash increased by the portion of the US\$30m bond issue uninvested at 31 Dec 2009
- NZD appreciation has reduced net tangible assets (NZD has moved from 58c to 72c against USD in the Dec 2008 to Dec 2009 period)

Market conditions

- International dairy prices recovered faster than expected during 2009
- Ongoing volatility expected as supply and demand adjust
 - Significant demand from China due to economic growth and melamine issues
 - Northern hemisphere supply season underway – US able to export at current prices
 - NZ / Aust supply constrained by dry conditions
 - Firmer trend evident than in 2009
- Average milk price of US25 cents per litre, compared with US26.8 cents to Dec 08
- Upward trend prices moved from 24c to 29c during Oct – Dec 2009

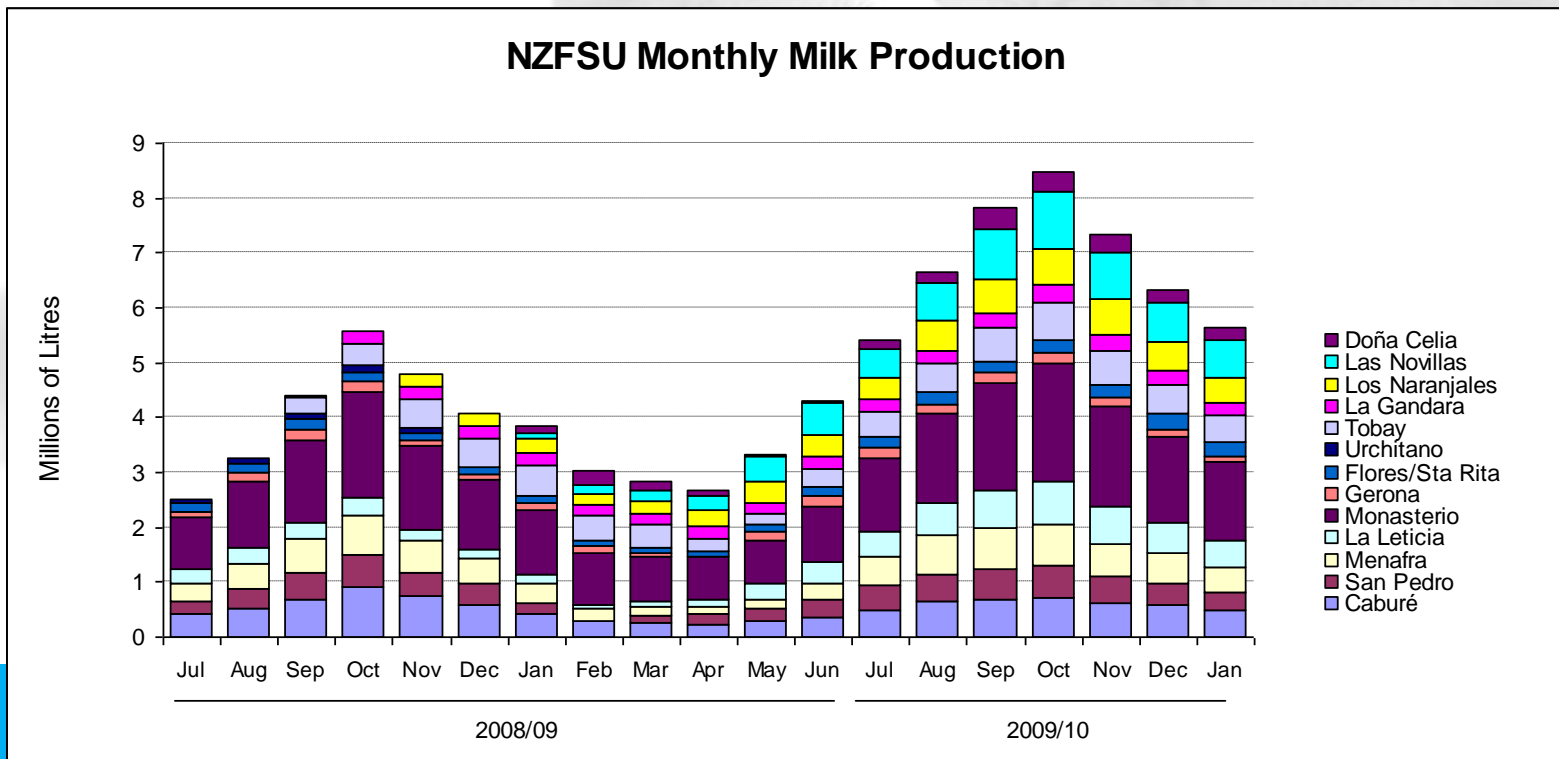


Operating conditions

- Favourable weather extending into February 2010
- Recovery in pastures allowed better utilisation into summer, with lower level of supplementary feed
- Irrigation where available used to maintain moisture and grass growth after rainfall
- Surplus grass converted into silage
- Supplementary feed crops delivering satisfactory yields
- Livestock in good condition – Autumn calving herds in optimum condition

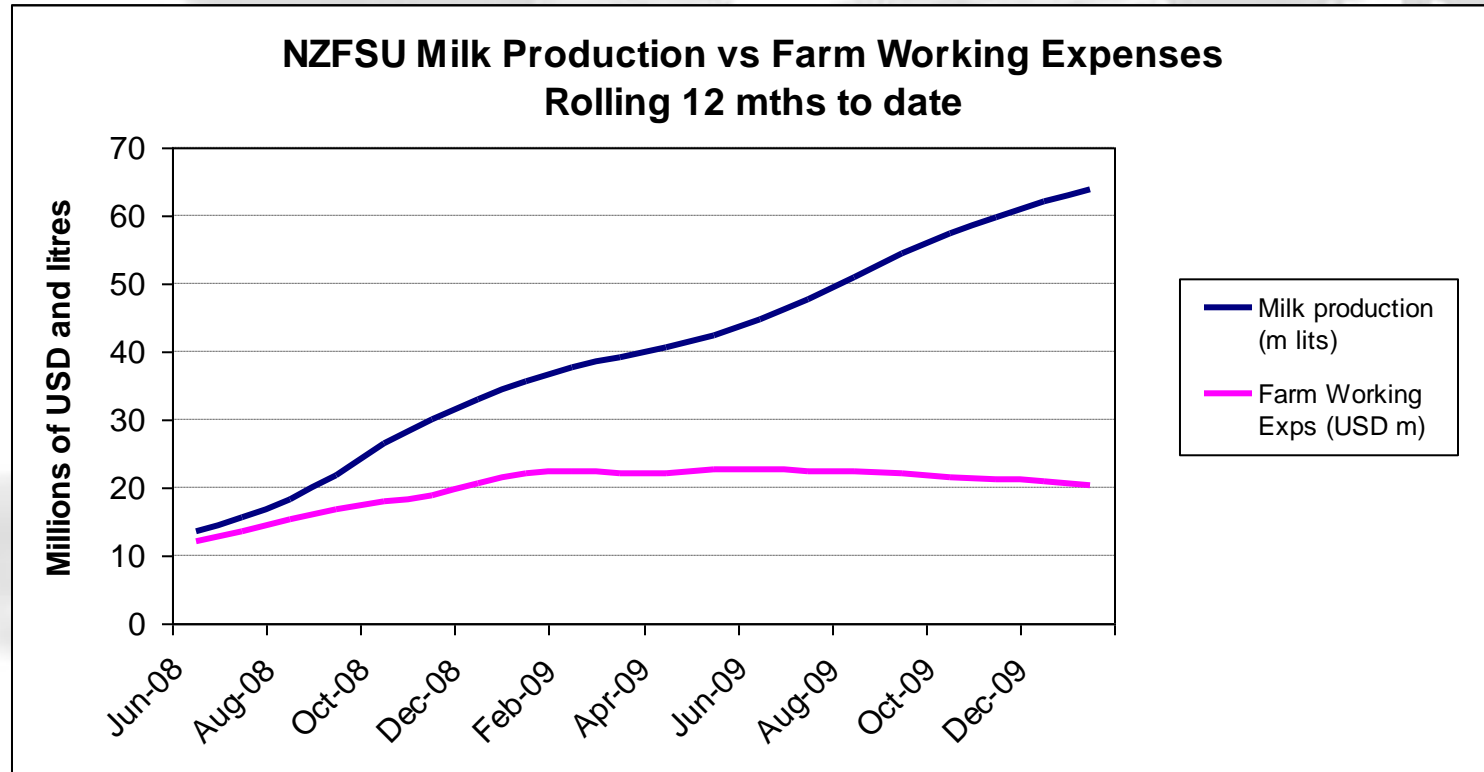
Milk production (1)

- Year on year milk production continuing to grow steadily
- Rolling 12 month milk production 62m litres for 12 months to December 2009, up from 45m litres in 12 months to June 2009
- Spring peak of 8.5m litres, for October, and 20,000 milking cows in November
- Body condition of milking cows has recovered during this half year, expected to generate better peak milk production per cow in future years



Milk production (2)

- Milk production increasing with costs under control



Key Operational Statistics

	Projected 30 Jun 2010	31 Dec 2009	30 Jun 2009
Total livestock	55,000	54,300	53,000
Milking herd	20,000	19,600	11,300
Production (litres – 12 mths)	Low end of 80-85	62.1	44.6
Farm working expenses (\$USm – Dec 2009 is 6 mths only)	22-23	9.8	22.4
Land in milk production (hectares)	13,000	11,100	10,500
Kgms per ha/yr (12 months)	480	430	420
Milking sheds	31	27	26
Capital expenditure (\$USm – Dec 2009 is 6 mths only)	~ 12	6	28

- Total of all farms for six months to December was 264kgms/ha, up 5% on first half last year. Production per cow steady at last year levels.
- Dairies in second / subsequent year of production averaged 290kgms/ha, up 15% on their performance for prior comparable period.
- Menafra, the most developed farm, achieved 478kgms/ha for the first half year on its monitor farm dairy, up 17% on prior comparable period.
- Farm working expenses per litre have fallen rapidly as milk production increases. First half 2009/10 expenses of \$9.8 million equate to 23c/litre if all dairy and dry stock costs are divided across milk production, compared to 51c/litre in 2008/09 full year¹.

¹ *Comparison is made to illustrate farm working expenses trend – as the principal activity is dairy production*

Productivity – Menafra

- Menafra was one of the initial farms purchased when NZS was set up
- It is NZS' most developed farm. Effectively a “mini-NZFSU” with -
 - 1,019ha area, of which
 - 656ha (64%) is effective dairy area in two milking sheds, and
 - 322ha (49% of dairy area) is pivot-irrigated
- One of the dairies is a monitor farm - milk production 478kgms/ha 6 mths to Dec 2009 (408kgms/ha to Dec 2009 for both dairies)
- Figures below are for the total farm, including two dairies, replacement heifers and calf rearing area
- Current year figures are six months only

Menafra - total farm P&L

	USD 000's		USD/ha		US c/lit	
	12 mths	6 mths	12 mths	6 mths	12 mths	6 mths
	Jun 2009	Dec 2009	Jun 2009	Dec 2009	Jun 2009	Dec 2009
Milk production (000's litres)	4,467	3,882				
Milk revenue	1,120	957	1,099	940	25.1	24.7
Other revenue	28	36	27	36	0.6	0.9
Deaths / livestock COGs	539	113	529	111	12.1	2.9
Labour, R&M, electricity, animal health, other	586	294	575	289	13.1	7.6
Pastures, feed	758	198	744	194	17.0	5.1
On Farm EBITDA	(735)	389	(722)	382	(16.5)	10.0

USD/ha figures are divided across the total 1,019ha farm

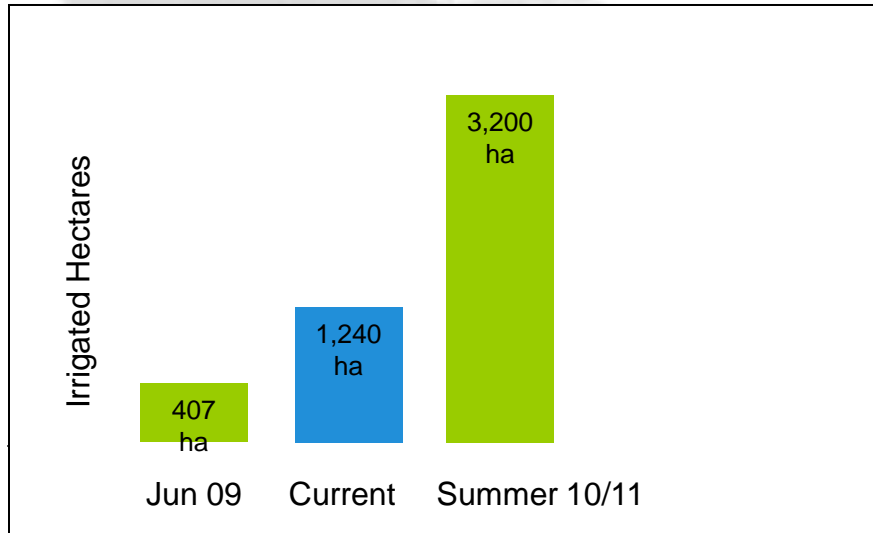
- Dairy herd continuing to increase as cross-bred calves grow to maturity
- Herd breakdown at December 2009:

	December 2009			June 2009		
	Number	Value USD 000's	Value/head	Number	Value USD 000's	Value/head
Milking / pregnant cows	27,800	21,000	755	27,200	20,400	750
Heifers / dry cows > 300kg	10,100	3,000	297	10,800	3,400	315
Heifers < 300kg	4,300	1,200	279	1,800	500	278
Calves < 1 yr	10,400	1,700	163	9,500	1,500	158
Beef / male calves	1,200	200	167	3,200	500	156
Other	600	200	333	500	200	400
Total	54,400	27,300	502	53,000	26,500	500

- Dairy herd mortality rate for mature animals slightly better than previous year at 3.5% for 12 months to date. Calf mortality rate at 12% requires improvement with actions underway.

Productivity - irrigation

- Steady progress in increasing irrigation although still at early stages towards target of 10,000 irrigated hectares



- Area under irrigation tripled to 1,240 hectares currently
- Bond issue of \$30m provided sufficient funding to complete approx 3,200 hectares, including current area 1,240 hectares, ~ 700 hectares awaiting final connection, and ~ 1,200 hectares of pivots which have been ordered
- Irrigation dams full with good rainfall
- Further irrigation gains to be enabled by new power transmission lines to farms in the Eastern hub – currently under construction in conjunction with Uruguay's electricity distributor

- Strong support of Uruguayan institutions for \$US30m bond issue funded new irrigation, milking sheds and electricity infrastructure
- Sales of undeveloped properties to optimise land use and operations
 - Casupa farm of 2,000 ha sold for \$US6.5m, which was 7.5% below book value
- Also working with investors on sale and leaseback of some developed properties
- These options intended to assist in repayment of performance fee loan from PGW – due March 2010
- Continuing to work towards second bond issue, along with other forms of funding, to complete farm development in 2011/12

Outlook – 2009-2010

- Short-term price outlook remains uncertain, but there is an underlying medium term positive trend as key dairy economies improve
- Internal financial projections reflect an average milk price of US25 cents per litre
- This is regarded as conservative given high production costs in dairy-producing countries
- Given forecast production of low end of 80-85 million litre range for 2009-10, projected result remains as stated in December market update – a maximum of US\$10 million loss at EBIT level

Longer term outlook

- Given forecast production of 100-110 million litres for 2010-11, projected EBIT would be a small loss as previously stated
- On that basis EBIT would be expected to be a profit in the 2011-12 year
- Achievement of full-scale production target of 940 kilograms per hectare per year by 2014-15 would imply positive EBIT of \$35-40 million at that point
- Above projections also based on average price of US25 cents/litre
- Global trends in regard to population growth and food supply remain in place

Summary

- Production gains in the half-year from improved conditions, along with tight management of operating costs
- Production profile improving with farm development, irrigation and improved genetics
- Market conditions improving with underlying long term trend in key dairy consuming economies, but some ongoing price volatility expected; price assumptions viewed as conservative at average US25 cents per litre
- Steady state production expected on average on all farms 2014/15 – a number of farms earlier
- While progress has been slower than anticipated, results from first half year have greatly increased confidence in NZS model

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