

# Takeover offers and funding

- Offer from Olam International  
Board advice: **Do Not Accept**
- Offer from Union Agriculture Group  
Board advice: **Do Not Sell** pending further information
- Prospect of equity from a new shareholder with no requirement for control
  - **Board is in negotiation**
  - **Further advice to follow**

- Funding discussions with various parties over the past year
- Slowed the pace of development due to funding delays and lower dairy prices in 2008-09
- But continued to consolidate the operating base through focus on productivity, animal condition etc.
- Also commenced the expansion of our irrigation profile in light of drought experience, and progressed other essential infrastructure
- Programme underwritten by Bond issue in Uruguay
- Now... transparent requirement for c. \$US60m in funding to complete development on the farms, purchase livestock for initial stocking, and repay PGW debt

# Current position (1)

- Adapting NZ farming methods to Uruguay has proved more difficult, and taken longer, than anticipated
  - The impact of increased scale on overall stage of development and milk production
  - Execution issues
  - Difficult operating conditions
  - Lack of funding
  - Lack of irrigation
- With hindsight, initial estimates of the speed of productivity growth and profitability were ambitious, even allowing for drought and a lack of capital

# Current position (2)

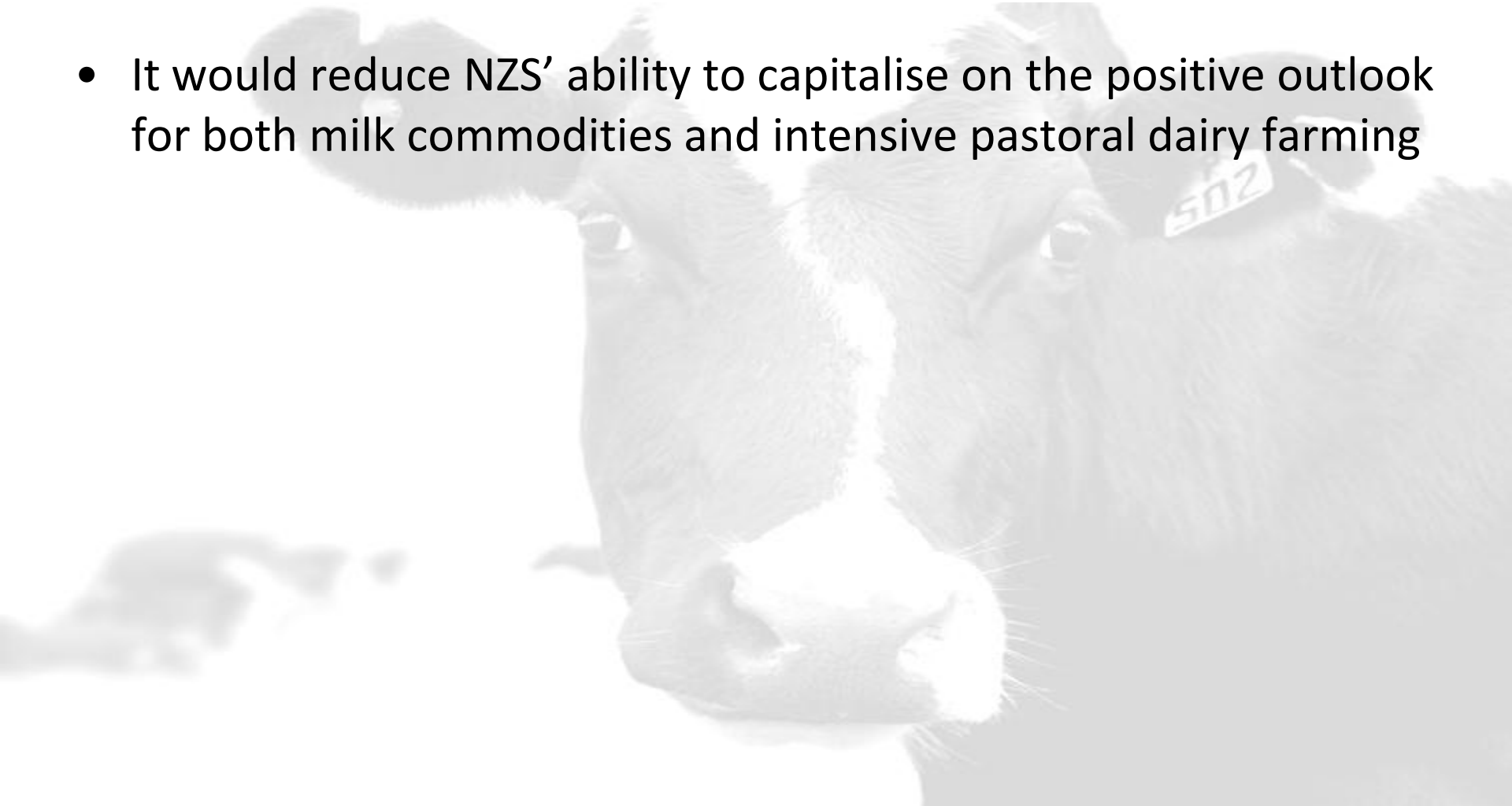
- But now, the hard yards have been done...
- Subject to the introduction of new funds, the impediments have all either abated or been addressed by solutions in various stages of implementation
- The Company is now well placed to capitalise on the successful adaptation to Uruguay of New Zealand style intensive pastoral dairy farming systems
- The offerors clearly see value in what has been established to date, and the future earnings prospects

# Fundamentals unchanged

- Outlook for milk commodity prices, and hence returns from intensive pastoral dairy farms, is extremely positive
- Globally, demand for dairy products is expected to continue to increase
  - Population growth
  - Dietary changes associated with increasing wealth in emerging economies
- Milk prices will increasingly be set by higher production costs on confinement dairy farms which dominate world production

# Wrong time for a change in strategy

- It would reduce NZS' ability to capitalise on the positive outlook for both milk commodities and intensive pastoral dairy farming



# Offer from Olam – 55c/share

- Board has recommended that shareholders **Do Not Accept**
- The offer price is too low
- Union Agriculture (UAG) intention to offer 60c/share
- Olam's plans to change the business model are based on what we consider incorrect assumptions
- A change in strategy now would reduce NZS' ability to capitalise on the positive outlook
- Insufficient detail on development funding plans
- New equity may be available on favourable terms
- Offer cannot take into account recent developments regarding the proposed internalisation of management, and Uruguay Project of National Interest

# Offer price is too low

- Significantly below the Independent Adviser's Valuation Range
  - 23% below the mid-point of the Independent Adviser's valuation (65-79c/share)
- Below Net Tangible Asset value
  - 40% below NTA as set out in the accounts for 2010 – ie. US65c/share (around NZ92c/share)
- No value for factors unknown when offer announced – proposed management internalisation and Uruguayan tax benefits
- Does not include a meaningful premium for control
- Below the 60 cents/share to be offered by UAG

# UAG offer at 60 cents/share

- Announced on 16 August 2010
- Board advice not to sell pending further information
- UAG's price is superior to Olam's
- UAG is an agricultural investment company based in Uruguay which has already conducted due diligence on NZS
- UAG's offer brings potential for significant operational synergies
  - UAG has a 50,000 ha farming operation of its own in Uruguay, but no involvement in intensive pastoral dairying
  - UAG has indicated that it would seek to work collaboratively with NZS at Board and operational levels
- Target Company Statement to be released two weeks after UAG offer despatched to shareholders – expect mid-September

# Olam offer based on incorrect assumptions

- A significantly higher purchased feed component has already been included in NZS' production forecasts (and Independent Adviser's valuation)
- NZS farms in the East of Uruguay are suitable for intensive pastoral dairying – best performing shed is Monasterio 3 in East
- These factors mean that the Company's steady state productivity and on-farm production costs are realistic

# Insufficient detail on funding plans

- Insufficient detail for the directors to judge whether these plans would be adequate for needs or fair to all shareholders
- Olam has indicated that, subject to review, it would support shareholder capital calls if its offer is successful
- It has not disclosed the terms on which it would do so
- Information on new funding terms is important because the Board wishes to ensure that any capital raised is on terms that are fair to all shareholders
- These uncertainties can be easily resolved by additional information from Olam.

# Prospect of new equity

- NZS in negotiations with a new investor
  - A significant minority investment in new ordinary shares at a similar price, without the requirement for control
  - Negotiations under way for several months
- Will be subject to shareholder approval
- To meet Board requirements, any funding proposal from any investor, will have to:
  - Enable NZS to follow current strategy and take advantage of the outlook for intensive pastoral dairy farming
  - Enable timely and profitable development of existing farms
  - Minimise dilution of existing shareholders

- Proposed internalisation of management
  - Announced on 17 August 2010 – subject to bank/bondholder and shareholder approval
  - Would enhance management performance and accountability, and reduce costs by about US\$1.5 million per year
  - Will retain the services of PGG Wrightson Uruguay CEO Carlos Miguel de Leon
  - NZS would also enter into preferred supplier agreement with PGW in Uruguay for supply of farm inputs
- Project of National Interest
  - Announced on 12 August 2010
  - NZS farm development has status as a Project of National Interest in Uruguay
  - Tax benefits estimated at \$US20-25 million
  - Available to offset tax once profitable, anticipated in 2011-12
  - Estimated value of 11-14c/share to the Company

# Summary on Olam offer

- **Board has recommended that shareholders Do Not Accept**
- **Shareholders who accept this advice need take no action in respect of the offer**
- **Directors will not accept for their own shares**
- If there is any change in recommendation before the offer is due to expire on 24 September it will be advised
- The Board expects to send further information to shareholders before the offer expires on 24 September on
  - The offer from UAG
  - Any other proposal that arises, including the prospective new shareholder funding referred to earlier