



**Media Release**  
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## **Market update** **Earnings outlook buoyed by milk prices**

NZ Farming Systems Uruguay (NZS) advises that milk prices now being received in Uruguay are 25 percent higher than at the time of the NZX listing in December 2007, which is having a positive effect on current year earnings. Importantly, the balance of the international market has continued to improve in favour of producers, with positive implications for future years when the productive capacity of NZS's assets is fully on stream.

The Chairman, Keith Smith, said the company's current milk production and its farm development programme were in line with the December 2007 prospectus forecasts. "We are currently milking 4,300 cows. By the end of this month we will have 10 cowsheds in operation. In addition, we will have regrassed 22,000 hectares – 5,000 hectares more than planned."

Mr Smith said NZS is currently receiving the equivalent of NZ\$7.35 per kilogram of milk solids. "The increased milk price and the company's accelerated development programme have outweighed the revenue impact of poor winter and spring weather on production per cow. The higher revenue will be offset to an extent by increased costs, including animal feed.

"Earnings for the year are thus likely to exceed the forecast made in the half-year report, issued in February 2008. We stated at that time that net profit from operations was expected to be around US\$1 million for the full year, excluding the performance fee to be paid to PGG Wrightson. Our estimate at this time is that earnings at the operational level will now be approximately US\$1.5 million, net of a performance fee for which US\$9.2 million is currently accrued.

"We believe it is likely that prices will remain at close to record levels through at least the next 18 months given a weak US dollar and a limited supply response. At the time of listing, our expectation for prices in 2008-09 was US26 cents per litre, equivalent to NZ\$5.10 per kilogram of milk solids. Based on current information, this would appear likely to prove significantly conservative. Importantly, long run prices are expected to settle at around US30 cents per litre, consistent with an international whole milk powder price of US3,000 per tonne."

Mr Smith said the company was expecting a strong lift in milk production for 2008-09. "Total milk production is expected to increase between four and five-fold, to reach around 5.0 million kilograms of milk solids.

"The uplift comes as our development programme continues to increase the land area in milk production. For 2008-09 the company expects to be milking on average 13,000 cows on 12,000 hectares through 20 cowsheds. This is a significant step towards being fully operational on the current farm portfolio of 32,000 hectares by 2010/11.

"Production may also be increased by operations on further land purchases occurring between now and the end of the next year."

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