



Media Release
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Market Update – Earnings Outlook for NZS

The Board of NZ Farming Systems Uruguay (NZS) advises that the recent sharp falls in international prices for traded milk products, along with current operating conditions, means that guidance on earnings before interest and tax (EBIT) for the year ending 30 June 2009 needs to be revised.

Earnings before Interest and Tax (EBIT) are now anticipated to be a loss in the range of \$US 7 million to \$US 11 million. The Board indicated at the 2008 Annual Shareholders' Meeting, in October, that there was potential for downside in earnings expectations from the analysts' consensus range of \$US8million to \$US10 million EBIT. This reflected a short-term outlook for milk prices to fall below US30 cents per litre.

Prices have since fallen substantially below this level, as demonstrated by the December 2008 Fonterra online auction for whole milk powder being concluded at approximately US20 cents per litre. With production from Uruguay being predominantly exported, movements in international prices will flow through to revenue for NZS.

Milk Price

The board believes that once customers are confident the market has bottomed and start to rebuild their inventory levels, combined with the impact on production of current lower milk prices, international dairy prices will increase significantly.

Milk Production

Earnings for the current year are also likely to be affected by lower than forecast milk production.

Milk production for the year is now anticipated to be in the range of 50-60 million litres, compared with the previous forecast of 60-70 million litres. This reflects the onset of dry weather conditions in November 2008, a reduction in the anticipated growth of the milking herd and lack of water in the company's dams. Rainfall across Uruguay in calendar year 2008 has been about half the usual historic average of 1200 mm.

Livestock Values

As a consequence of lower milk prices, it is expected that livestock values will reduce reflecting an expectation that livestock values as at 30 June 2009 will be about 10 percent lower than at as June 2008. This herd revaluation will be reflected in the company's earnings.

Farm Operating Expenses

Farm operating expenses are likely to be well below plan for the year, with savings due to lower fertiliser and urea prices and usage more than offsetting expected higher supplementary feed costs.

Lead Monitor Farms

NZS Chairman Keith Smith says that despite the variations in short-term performance arising from current market volatility the Board remains satisfied with progress in the company's development, in particular, results from the company's monitor farms. "Performance on our two lead monitor farms, where we collect comprehensive performance data, is confirming our assumptions in regard to pasture and herd performance. Irrigated pasture is regularly achieving grass growth of around 70 kilograms of dry matter per hectare per day, which is equivalent to spring growth in New Zealand. We are very pleased with the performance of the first irrigation installations of 70 hectares on the Monasterio lead farm, with a stocking rate of over 4 cows per hectare on the irrigated area.

"Milk production on our lead farms has averaged 16-17 litres per cow per day since the start of the new season in July, which is in line with the original steady state projections and provides confidence that our targets are achievable once we have fully developed the farms including irrigation." The company intends to pursue a higher level of irrigation.

Capital Management and Development

Mr Smith said the Board had confirmed that the company would continue to apply its financial resources to farm development. Accordingly, the Board has resolved that no dividend would be paid in respect of the 2009 financial year.

The Board is pleased to announce that a \$US 16 million long-term funding package has just been finalised with local Uruguayan banks. Further funding in order to meet ongoing development requirements is currently under negotiation.

Economic projections for Uruguay anticipate a relatively solid economy in 2009, with 3 to 4 percent GDP growth expected.

NTA

Mr Smith said the Board's confidence in medium and long-term prospects was supported by net book value now standing above NZ\$1.60 per share based on an exchange rate of US55 cents to \$NZ1.00 and the June 2008 asset book values.

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