

# Target Company Statement

6 NOVEMBER 2012  
NZ Farming Systems Uruguay Limited

THIS IS AN IMPORTANT  
DOCUMENT AND  
IT REQUIRES YOUR  
IMMEDIATE ATTENTION.





## Contents

Letter to Shareholders	1
Frequently asked questions	4
Independent Adviser's Report	7
Target Company Statement	56
Schedule One – Ownership of equity securities in NZS	61
Schedule Two – Substantial Security Holders	61
Schedule Three – Ownership of equity securities in Olam	61

If you are in doubt as to how to deal with this document please seek advice from your professional advisers.

Tim Storey



# Letter to Shareholders

DEAR SHAREHOLDER

## Olam takeover

Olam International Limited ("**Olam**") has made a full takeover offer for NZ Farming Systems Uruguay Limited ("NZS" or "the Company") at an offer price of NZ\$0.75 per share (the "**Olam Offer**" or the "**Offer**"). You should have received the Olam Offer document in the post directly from Olam. A copy is also available on the NZX website under stock code NZS.

On receipt of the takeover notice signalling Olam's intention to make the Olam Offer, the Board of NZS appointed a Committee of Peter Wilson and myself to manage the Company's obligations under the Takeovers Code ("**Code**"). Simmons Corporate Finance Limited ("**Simmons Corporate Finance**") was appointed as independent adviser to report on the merits of the Olam Offer. The Simmons Corporate Finance report is included in the Target Company Statement attached to this letter.

## Independent Adviser's report

Simmons Corporate Finance has assessed the underlying value of the Company's shares in the range of NZ\$0.52 to NZ\$0.65 cents per share. This is the price Simmons Corporate Finance assesses an entity would be expected to pay to acquire the Company as a whole. The Olam Offer is therefore above Simmons Corporate Finance's valuation range.

The Simmons Corporate Finance report sets out the factors shareholders should consider when deciding whether to accept or reject the Olam Offer. These include:

- Olam has stated its intention to own 100% of the shares in the Company. Olam can achieve its objective through either a full takeover offer (as per the Olam Offer) or via the creep provisions of the Code (where it can acquire up to a further 5% of the Company's shares each year)
- Olam already has significant control over the Company in that it can singlehandedly control the outcome of any ordinary resolution or special resolution and control appointments to the Company's Board of directors
- Simmons Corporate Finance assesses the full underlying value of NZS to be in the range of NZ\$0.52 to NZ\$0.65 per share. The Olam Offer consideration of NZ\$0.75 per share is 15% above the top end of the valuation range
- the Olam Offer of NZ\$0.75 per share represents a premium ranging from 25% to 29% over the Company's volume weighted average share price ("VWAP") for the past year
- since the announcement of the Olam Offer, the Company's shares have traded on the NZSX in the range of NZ\$0.74 to NZ\$0.75 at a VWAP of NZ\$0.74, which is marginally below the offer price
- given Olam's 85.97% shareholding, the likelihood of an alternative takeover offer is remote
- assuming that the Olam Offer is successful, Olam will wholly own NZS and the Company will be delisted from the NZSX.



The Simmons Corporate Finance report further notes:

- the main advantage for shareholders of accepting the Olam Offer is that they will be able to realise cash of NZ\$0.75 per share for their shares – this is at a premium to the prior share price. This represents an exit opportunity for all shareholders which is not readily available on the NZSX (particularly for larger parcels of NZS shares) as the shares are thinly traded
- the main disadvantage of accepting the Olam Offer is that shareholders will not participate in any appreciation in the value of the Company's shares as a result of improved future performance. Shareholders should however take into consideration that the Company faces considerable risks in its operations and there is no guarantee that NZS will successfully execute its business strategy or that the achievement of the targeted operational improvements will result in an appreciation in the Company's share price.

### Recent visit to Uruguay

Peter Wilson, Robert Poole and I (the "Independent Directors") recently visited Uruguay to review the Company's business operations and observe:

- good progress has been made in the continued development of the Company's farms including the construction of additional dairies and the installation of irrigation systems. The capital works programme is expected to be largely completed over the course of this financial year, although it can be expected that there will be a continued need for further expenditure particularly in pasture development and irrigation, to compensate for challenging climatic conditions
- while land values have shown growth since the business was established, this now appears to have stabilised with some risk as to the outlook, particularly given recent changes to foreign investment rules in Argentina (Argentina being a significant investor in the Uruguayan economy)
- the reorientation of the Company's farming systems with a greater emphasis on a balance between grass and supplemental feeding is in progress, although it is clear that implementation will take longer than initially anticipated. The scale and complexity of the Company's business requires strong management and a continued emphasis on recruiting, developing and maintaining its management and operational teams
- although it has taken longer than anticipated to achieve targeted level of milk production per cow, the condition of the existing herd is good. The natural increase in young stock numbers and improvement in quality is evident, and the use of sexed semen will further build on this and provide increasing livestock revenue. Stock values have continued to firm
- the Uruguayan political environment and economy remain sound although recent tax changes have affected the business and inflation is significant and continues to increase wage costs in particular
- the international economy remains difficult, leading to continued uncertainty around commodity pricing. This affects the Company's business both in relation to its cost base (particularly around the cost of supplemental feeds and fertiliser) but also in revenue terms around the price it receives for the milk it produces.

Following that visit, the Board has adopted a revised business plan which recognises a delay of two years in the company reaching "steady state" operations with an adjustment to anticipated revenue and expenses in the longer term. Further details of the plan are referred to in the Simmons Corporate Finance report included in the Target Company Statement.

## Issues for Shareholders

In considering the Olam Offer, shareholders will need to consider a number of matters:

- while the Board is confident that the Company will achieve the revised business plan in the longer term, it will be a challenge for management to meet progressive targets in what will remain a volatile environment – both economically and climatically
- the Company's financial performance is in particular sensitive to milk prices and concentrate/grain prices which can be volatile and are beyond the control of management
- in the event that the Offer does not result in Olam achieving a full takeover of the Company, then:
  - the Company will need to promptly complete an equity raise of US\$135 million as referred to in the Simmons Corporate Finance report so that it can meet loan repayment commitments and fund the remaining capital works programme. Shareholders who did not wish to see their holdings diluted would need to invest a considerable further sum in the Company; NZ\$0.67 per each share they hold, based on exchange rates at 31 October 2012
  - it is likely that the Company's shares will continue to be thinly traded and even more so if Olam achieves an increased shareholding. Further, there is no immediate prospect of any other major buyer in the market for the Company's shares unless Olam elects to sell some or all of its shareholding
- it is unlikely that the Company will be in a position to pay a dividend in the short to medium term.

## Our recommendation

The Committee recommends that shareholders accept the Olam Offer.

Despite our recommendation, it is for individual shareholders to make their own decision as to the assumptions expressed in the Simmons Corporate Finance report, or the opinions of the Independent Directors contained in the Target Company Statement. You should carefully read the Target Company Statement and the Simmons Corporate Finance report, and consult as you see fit with your financial adviser, to make an informed decision on the merits of the Olam Offer.

Yours sincerely,



**Tim Storey**

Chairman - Committee of Independent Directors

# FREQUENTLY ASKED QUESTIONS

## Q: WHEN DO I HAVE TO MAKE A DECISION ON THE OLAM OFFER?

A: *Olam's Offer will remain open until 5 pm (New Zealand time) on 30 November 2012 (unless extended in accordance with the Takeovers Code).*

## Q: IF I WISH TO, HOW DO I ACCEPT THE OLAM OFFER?

A: *You should follow the instructions set out in the Olam Offer document. If you are uncertain, you should consult your financial or legal adviser.*

## Q: WHAT HAPPENS IF OLAM GETS MORE THAN 90% OF NZS' SHARES?

A: *The Offer is conditional on Olam receiving acceptances to take its shareholding to 90% or more of NZS shares. If it does it will exercise its powers under the Takeovers Code to compulsorily acquire the remaining shares. This would be at the same price as paid to shareholders who sold their shares into the Offer subject to the terms of the Takeovers Code (which include certain rights of objection, and if sufficient objections are received the price will be determined by expert determination).*

## Q: WHAT HAPPENS IF OLAM DOES NOT GET MORE THAN 90% OF NZS' SHARES?

A: *If Olam does not receive acceptances in respect of 90% or more of NZS shares the Offer will not proceed as it is conditional on Olam receiving acceptances to take its total shareholding to at least 90% of NZS shares. This condition may be waived by Olam at its sole discretion. If Olam does not achieve 90% and does not waive the condition, it will continue to work with the NZS Board to implement the current business plan, including the previously indicated capital raising required to do this.*

## Q: COULD OLAM GET MORE THAN 90% OF NZS' SHARES AFTER THE OFFER CLOSES?

A: *If Olam achieved a shareholding of less than 90% in NZS, it would still be able to exercise its creep rights to a level of 90.97% (based on its holding of 85.97% at 29 October 2012 - Olam can purchase up to 5% of NZS shares in a 12 month period without requiring shareholder consent). At the stage that it exceeds 90% it could invoke the compulsory acquisition procedures under the Takeovers Code to acquire the balance of shares it does not hold. Olam at this stage must offer a price set as fair and reasonable by an independent adviser. Shareholders have certain rights to object to the price and require expert determination by an independent person appointed by the Takeovers Panel.*

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**Q: WILL I BE FORCED TO SELL MY SHARES?**

**A:** *You cannot be forced to sell your shares into the Olam Offer. But if Olam receives acceptances to take its total holding to 90% of NZS shares or more, it can proceed under the Takeovers Code to compulsorily acquire the remaining shares.*

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**Q: WILL NZS REMAIN LISTED?**

**A:** *Olam has indicated that if it receives acceptances to take its shareholding to 90% or more of NZS shares, it will invoke its compulsory acquisition rights and seek to delist NZS. NZX will generally suspend trading of shares 5 business days after it receives a notice in these circumstances. If Olam does not achieve acceptances to take its shareholding to 90%, NZS can request NZX that its shares are delisted. However NZS understands that NZX can make that delisting subject to such conditions it thinks fit, which can include arrangements to protect minority shareholders. While NZS remains listed, it is required to comply with the NZSX Listing Rules, including the requirement to maintain directors who are independent of Olam.*

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**Q: ARE THERE ANY CONDITIONS TO THE OLAM OFFER?**

**A:** *The Offer is conditional on Olam receiving acceptances to take its total holding to 90% or more of NZS shares. This condition may be waived by Olam at its sole discretion.*

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**Q: HOW DO I FIND OUT IF THE TERMS OF THE OFFER CHANGE?**

**A:** *Notice of any variation or change in the offer will be sent by Olam to each shareholder, NZS, the Takeovers Panel and the NZX. The Takeovers Code allows Olam to make only two types of variation to the Offer: either to improve the Offer price or to extend the period of the Offer. However, due to Olam's statement that it would not be increasing the Offer price, its only variation would be to extend the Offer period. Olam may, at its sole discretion, also waive the condition for it to receive acceptances to take its total shareholding to at least 90% of NZS shares.*

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**Q: WHEN WILL I RECEIVE PAYMENT IF I ACCEPT THE OFFER?**

**A:** *As the Olam Offer is conditional, if the completed Acceptance Form required by Olam is in order, then not later than 5 days after the later of:*

- (a) the date of the Offer becoming unconditional; and*
- (b) the date on which the acceptance is received,*

*you will be paid by cheque or an electronic transfer. Acceptances must be received by Olam no later than 5 pm (New Zealand time) on 30 November 2012 unless there is a variation to extend the Offer period.*

