

Target Company Statement

20 AUGUST 2010

NZ Farming Systems Uruguay Limited

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

Your Board of Directors recommends that
you **DO NOT ACCEPT** the Olam Offer



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

John Parker



Letter to Shareholders

Dear Shareholder

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 55 cents/share (the "Olam Offer").

Your Board of Directors recommends that you do not accept the Olam Offer

Our reasons for this recommendation are:

- i. the Offer price is too low;
- ii. the Company has received notice from Union Agriculture Group ("UAG") that it intends making a full takeover offer for NZS at the higher price of 60 cents/share;
- iii. Olam's implied plans to change the NZS business model are based on what the Board considers are incorrect assumptions. NZS' farms in eastern Uruguay are suitable for dairying and the Company's business plan already incorporates significant purchased feed;
- iv. a change in strategy now would reduce NZS' ability to capitalise on the positive outlook for both milk commodities and intensive pastoral dairy farming, at the time when most of the 'hard yards' have been done;
- v. the Olam Offer provides insufficient detail on development funding plans for the Directors to judge whether these plans would be adequate for the Company's needs or fair to all shareholders;
- vi. there is a prospect that the Company will be able to raise new equity from a potential investor on terms that are favourable to all shareholders; and
- vii. the Olam Offer price cannot ascribe any value to either proposed management internalisation or the Company's status as a Uruguayan Project of National Interest, because both of these events were unknown at the time the Olam Offer was announced.

For the above reasons and others set out later in this document, all Directors of NZS have notified the NZS Board that they will not accept the Olam Offer in respect of shares under their ownership or control.

The Board recommends you do nothing in respect of this Offer at this point in time. If there is any change to our recommendation before the Olam Offer is due to expire on 24 September, we will advise you. In addition, we expect to send you further information relating to UAG or any other proposal before the expiry of this Offer.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'J Parker', with a large, stylized flourish at the end.

John Parker
Chairman

WHY YOU SHOULD **NOT ACCEPT** THE OLAM OFFER

1. THE OFFER PRICE IS TOO LOW

The Olam Offer price is at a significant discount to the Independent Adviser's valuation, and Net Tangible Asset (NTA) backing. The Independent Adviser's report uses a range of between 90 and 95% of the Company's own milk production projections at steady state, and is therefore more conservative than NZS' model.

2. THE COMPANY HAS RECEIVED NOTICE FROM UAG THAT IT INTENDS MAKING A FULL TAKEOVER OFFER FOR NZS AT THE HIGHER PRICE OF 60 CENTS/SHARE

The takeover offer notified by UAG, a Uruguayan company with a 50,000ha farming operation in Uruguay, is at a higher price than the Olam Offer and potentially provides for meaningful operational synergies.

3. OLAM'S IMPLIED PLANS TO CHANGE THE NZS BUSINESS MODEL ARE BASED ON INCORRECT ASSUMPTIONS. NZS FARMS IN EASTERN URUGUAY ARE SUITABLE FOR DAIRYING AND THE COMPANY'S BUSINESS PLAN ALREADY INCORPORATES SIGNIFICANT PURCHASED FEED

Contrary to Olam's view, NZS has expert opinion that the soils in Eastern Uruguay, where half of NZS' farms are located, are highly suited to intensive pastoral dairying. Further, NZS' five year business plan, reviewed by the Independent Adviser (and to which Olam has not been privy), already assumes significant use of purchased feed in the early years and a slower ramp up to steady state milk production. It also assumes that levels of bought-in feed reduce in later years, due to the impact of genetic improvement, increasing soil fertility and irrigation, and an overall stocking rate (milking cows/total hectare) that is relatively low by New Zealand standards. These factors mean that the Company's steady state productivity and on-farm production costs are considered realistic.

4. A CHANGE IN STRATEGY NOW WOULD REDUCE NZS' ABILITY TO CAPITALISE ON THE POSITIVE OUTLOOK FOR BOTH MILK COMMODITIES AND INTENSIVE PASTORAL DAIRY FARMING, AT THE TIME WHEN MOST OF THE 'HARD YARDS' HAVE BEEN DONE

Despite past difficulties, the Board believes that with its current business plan and a strong internal management structure, it will be able to take full advantage of increasingly favourable market conditions. It also believes that significant changes to this plan as a result of a review by Olam will be counter-productive to this outcome.

5. THE OLAM OFFER PROVIDES INSUFFICIENT DETAIL ON DEVELOPMENT FUNDING PLANS FOR THE DIRECTORS TO JUDGE WHETHER THESE PLANS WOULD BE ADEQUATE FOR THE COMPANY'S NEEDS OR FAIR TO ALL SHAREHOLDERS

Olam has not disclosed the terms on which it would consider a recapitalisation of the Company. Funding certainty is a key issue for Directors and they currently have insufficient information on which to assess Olam's capital raising intentions.

6. THERE IS A PROSPECT THAT THE COMPANY WILL BE ABLE TO RAISE NEW EQUITY FROM A POTENTIAL INVESTOR ON TERMS THAT ARE FAVOURABLE TO ALL SHAREHOLDERS

The NZS Board is in negotiations with a potential investor involving a significant investment of new equity in NZS on terms that are currently acceptable to the Board, but without the requirement for control. No assurance can be given that negotiations will be completed. Should any agreement be finalised, it would be subject to shareholder approval.

7. THE OLAM OFFER PRICE CANNOT ASCRIBE ANY VALUE TO EITHER PROPOSED MANAGEMENT INTERNALISATION OR THE COMPANY'S STATUS AS A URUGUAYAN PROJECT OF NATIONAL INTEREST, BECAUSE BOTH OF THESE EVENTS WERE UNKNOWN AT THE TIME THE OLAM OFFER WAS ANNOUNCED

The pre-Offer share price to which Olam has benchmarked its Offer, is significantly less relevant if plans to internalise management, as announced on the 17 August 2010, are approved. In addition, the Company's investment has qualified as a Uruguayan Project of National Interest. If management internalisation proceeds, the Directors expect to both save around US\$1.5 million per year on overhead costs and appoint a full time CEO based in Uruguay and dedicated to the execution of the Company's five year business plan. The Company's status as a Uruguayan Project of National Interest recognises the significance of its investment in Uruguay and conveys tax benefits that add materially to the value of the business.

ADDITIONAL INFORMATION FOR SHAREHOLDERS

THE OFFER PRICE IS TOO LOW

The Olam Offer is significantly below the Independent Adviser's Valuation Range

The Olam Offer of 55 cents/share is significantly below the Independent Adviser's valuation of NZS and does not include a meaningful price premium for control of the Company. It is also below the price of 60 cents/share offered by UAG in its notice of intention to make a full takeover offer for NZS.

The Independent Adviser, Grant Samuel & Associates, has estimated a discounted cashflow (DCF) valuation range of 65 cents/share to 79 cents/share with a midpoint of 72 cents/share. Olam's offer price of 55 cents/share represents a 23% discount to the midpoint of the Independent Adviser's valuation range.

The Independent Adviser's report uses a range of between 90 and 95% of the Company's own milk production projections at steady state, and is therefore more conservative than NZS' model.

The Olam Offer is below Net Tangible Asset (NTA) value

The NTA of the Company, as set out in the financial statements for the year ended 30 June 2010, is US65 cents/share. This is equivalent to approximately NZ 92 cents per share at the exchange rate applying when this Target Company Statement was completed on Friday 20 August 2010.

The value of the offer from Olam is thus NZ37 cents/share, or 40 percent below the NTA of the Company.

NTA is calculated on the basis of alternate land use and the Board believes that, as has occurred in New Zealand, there is opportunity for further increases in Uruguayan land prices once dairy productivity is proven.

THE COMPANY HAS RECEIVED NOTICE FROM UAG THAT IT INTENDS MAKING A FULL TAKEOVER OFFER FOR NZS AT THE HIGHER PRICE OF 60 CENTS/SHARE

On 16 August 2010, UAG gave notice of intention to make an offer to acquire all of the shares in NZS at a price of NZ\$0.60 per share. UAG's current level of shareholding in the Company is 1.65%.

UAG is an agricultural investment company based in Uruguay which has already conducted some due diligence on NZS.

UAG's takeover offer price is superior to Olam's and UAG's offer brings with it the potential for significant operational synergies. UAG has a 50,000 ha farming operation 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 to ensure that the NZS business plan is successfully implemented and that the potential synergies it perceives between NZS and UAG operations are realised to the benefit of both companies.

OLAM'S IMPLIED PLANS TO CHANGE THE NZS BUSINESS MODEL ARE BASED ON INCORRECT ASSUMPTIONS. NZS FARMS IN EASTERN URUGUAY ARE SUITABLE FOR DAIRYING AND THE COMPANY'S BUSINESS PLAN ALREADY INCORPORATES SIGNIFICANT PURCHASED FEED.

A significantly higher purchased feed component has already been included in NZS' production forecasts

Olam states that, because the Company requires a significant increase in the use of purchased feed compared to the current operating model, it is unlikely to achieve its forecasts. This is incorrect because this assumption has already been factored in.

In autumn 2010 (after Olam had conducted its due diligence) NZS substantially increased the levels of supplementary feed provided to its livestock, in order to improve body condition and increase milk production. NZS' current Holstein herd tends to be more responsive to a diet with a high percentage of supplementary feed. This reliance on supplements is expected to reduce as New Zealand genetics are progressively introduced and the quality of the herd is improved.

In later years, levels of purchased feed are assumed to reduce as pasture production increases due to capital fertiliser applications and increased irrigation.

The NZS business model provided to the Independent Adviser incorporates these higher levels of feed, particularly in the next two to three years.

Even after allowing for the higher feed component, the Independent Adviser has valued the Company significantly higher than the Olam Offer.

ADDITIONAL INFORMATION FOR SHAREHOLDERS

CONTINUED

NZS' farms in the East of Uruguay are suitable for intensive pastoral dairying

The Company believes that its current eastern land holdings are highly suitable for dairying or dairy support.

NZS' initial decision to purchase farms for dairying in eastern Uruguay was supported by a comprehensive report by Dr Tony Davoren, an independent New Zealand expert, who conducted an extensive soil assessment on the Company's Tobay farm.

Dr Davoren's report indicates that much of the farm was suitable for dairying, including with irrigation. This report has been provided to Olam and can be viewed on the Company's website at <http://www.nzfsu.co.nz/page.pasp?pageid=109>. The low-lying balance of this farm, which was used for dry stock grazing, was sold in March 2010. In addition, the Don Pepe farm (which has been used for rice production and dry stock grazing) has a conditional sale agreement in place. These areas were not intended to be developed for dairy production, and NZS has sold them to free up capital for further dairy development on its remaining farms.

The Company's most productive dairy unit, Monasterio 3, is in the East. This unit produced 667 kilograms of milksolids per milking hectare (kgms/milking ha) in the 12 months to July 2010 and further gains towards steady state targets are expected in the current season. In addition, the large Las Novillas farm to the north of Monasterio and Tobay, with three dairy sheds currently in production, has been the focus of substantial development in the past 18 months, with production at its top milking shed (commissioned July 2009) at 479kgms/milking ha in the 12 months to July 2010.

These factors mean that the Company's steady state productivity and on-farm production costs are considered realistic

The Directors of NZS believe both that the Company's five year plan to complete the development of all its existing land holdings and raise the productivity of its farms is realistic.

The Company needs funding to enable it to complete developments that are fundamental to increasing productivity. These developments include irrigation, application of capital fertiliser and systematic improvement of the genetic quality of pastures and animals. The impact of these measures on productivity is well understood by New Zealand farmers.

Subject to receipt of new funding, NZS expects to have a total of 49 dairy units at steady state milk production of 965 kgms/milking ha in 2015/16, producing a total of around 20 million kgms off a milking platform of just over 20,000 hectares.

Although the levels of milk solid production levels the Directors are targeting per milking hectare at steady state are similar to current New Zealand levels, NZS' model utilises a more conservative overall stocking rate than is typical New Zealand practice. The model assumes cows are milked on only around 75% of the area of its farms, rather than around 90% as is typical in NZ. The balance of the land is used exclusively for grazing dry stock and producing supplementary feed, but the Board considers that there is no reason why further land could not be used for milk production in future.

The Independent Adviser's report uses a range of between 90 and 95% of the Company's own milk production projections at steady state, and is therefore more conservative than NZS' model.

A CHANGE IN STRATEGY NOW WOULD REDUCE NZS' ABILITY TO CAPITALISE ON THE POSITIVE OUTLOOK FOR BOTH MILK COMMODITIES AND INTENSIVE PASTORAL DAIRY FARMING AT THE TIME WHEN MOST OF THE 'HARD YARDS' HAVE BEEN DONE

The outlook for intensive pastoral dairying is highly positive....

In the Board's view, the 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 as a result of increasing population and dietary changes associated with increasing wealth in emerging economies.

The Board also believes that, as international demand for milk commodities increases, milk prices will increasingly be determined by the higher costs of production on confinement dairy farms (as opposed to pastoral based farms) which dominate world milk production. Around 90% of global milk production is from high cost confinement systems and it is generally only these farms that will be able to respond to increasing demand on a meaningful scale. As a consequence, as global demand for dairy products increases, international milk prices will need to rise to reflect the cost of confinement production.

Over and above this, in places like Uruguay, there is an intensive pastoral dairying land transformation opportunity such as that being pursued by NZS. This opportunity involves acquiring and developing farmland for significantly less than the cost of buying an existing intensive pastoral dairy farm in an established area like New Zealand.

As an investment, farmland has historically outperformed other asset classes and investor appreciation of farmland as an asset class has increased through the current financial recession. Because of its lower cost structure (related to feed cost), intensive pastoral dairying is significantly more profitable than mainstream cropping or pasture based farming systems and confinement dairy farming, which dominates world milk production. Investments in intensive pastoral dairy farms have performed well historically, and, the Board believes for the reasons above, are poised to outperform the wider farmland market.

...and the hard yards have been done

NZS was established to enable participation in a business formed to leverage internationally New Zealand's expertise in intensive pastoral dairy farming. The adaptation of New Zealand farming methods to the Uruguayan environment has proved more difficult and taken longer than anticipated. With hindsight, the initial estimates of speed of productivity growth and profitability were ambitious, even allowing for drought and a lack of capital.

Delays were caused primarily by:

- *The impact of increased scale on the overall stage of development and milk production* – The decision to purchase additional land due to rapidly escalating prices in 2007/08 has meant that the Company's dairy farms are less developed than originally envisaged. In New Zealand, it generally takes between two and four years before newly converted dairy units become fully operational. New Zealand dairy farm conversion experience also indicates that production gains are 'back end loaded,' with operational performance strengthening in years three and four of each conversion. Nearly half of the NZS dairy units have been added within the past 24 months, and the weighted average age of the Company's dairy sheds is currently 22 months.

ADDITIONAL INFORMATION FOR SHAREHOLDERS

CONTINUED

- *Execution issues* – Although NZS has achieved farm development on a very substantial scale, there were areas where execution could have been better, including tighter focus on management of pasture, animal nutrition, mating process, and proof of concept via monitor farms.
- *Difficult operating conditions* – The severe droughts experienced in autumn 2008 and summer 2008 / autumn 2009 (the worst in 30 years) had a major negative impact on pasture production and durability.
- *Lack of funding* – At the Company's commencement, with freely available capital, rapidly rising land prices and intense global interest in dairy, the most logical course appeared to be significant land-banking and wide scale development. Subsequent tight credit availability has been a major constraint on development, and at times on operating activities.
- *Lack of irrigation* – NZS currently has around 2,000 hectares of land under irrigation, with a further 1,200 hectares of irrigation at the commissioning stage. When development is complete, there will be about 10,000 hectares, or 50 percent of the dairy platform, under irrigation.

Subject to securing funding, these impediments to production have all either abated or been addressed by solutions in various stages of implementation, and the Board believes the Company is now well placed to capitalise on the successful adaptation to Uruguay of New Zealand style intensive pastoral dairy farming systems.

THE OLAM OFFER PROVIDES INSUFFICIENT DETAIL ON DEVELOPMENT FUNDING PLANS FOR THE DIRECTORS TO JUDGE WHETHER THESE PLANS WOULD BE ADEQUATE FOR THE COMPANY'S NEEDS OR FAIR TO ALL SHAREHOLDERS

Olam has acknowledged that NZS needs new capital and indicated that, subject to review, it would support one or more shareholder capital calls if its takeover Offer is successful. However, Olam has not disclosed the terms on which it would be prepared to put new equity into the Company.

The Board is concerned to ensure the terms of any capital raising are fair to Shareholders.

The Board's concerns around lack of clarity surrounding Olam's new funding intentions can be easily resolved by the provision of additional information by Olam.

THERE IS A PROSPECT THAT THE COMPANY WILL BE ABLE TO RAISE NEW EQUITY FROM A PROSPECTIVE INVESTOR ON TERMS THAT ARE FAVOURABLE TO ALL SHAREHOLDERS

The NZS Board is in negotiations with a potential new investor involving a significant minority investment in new ordinary shares in NZS on terms that are currently acceptable to the Board, without the requirement for control. These negotiations arose from the Company's previously stated intention to pursue a sale and leaseback of certain of its farms, and have been under way for several months. There is no assurance that negotiations will be completed. This new funding proposal will be subject to shareholder approval.

To meet Board requirements, any funding proposal will have to:

- i. enable the Company to follow its current strategy and take advantage of the strongly positive outlook for intensive pastoral dairy farming;
- ii. enable the Company to complete development of its existing Uruguayan farm holdings in a timely and profitable manner; and,
- iii. minimise dilution of existing shareholders.

While no assurance can be given at the date of this statement, the Board is endeavouring to conclude negotiations with the new investor in time for a special shareholder meeting to be held to consider resolutions to approve the investment proposal under negotiation, prior to the closing date for the Olam Offer.

THE OLAM OFFER PRICE CANNOT ASCRIBE ANY VALUE TO EITHER THE MANAGEMENT INTERNALISATION OR THE COMPANY'S STATUS AS A URUGUAYAN PROJECT OF NATIONAL INTEREST, BECAUSE BOTH OF THESE EVENTS WERE UNKNOWN AT THE TIME THE OLAM OFFER WAS ANNOUNCED

Internalisation of Management

The market was unaware of the plan to internalise management at the time of the Olam Offer, although negotiations with PGG Wrightson ("PGW") had been under way for some months. This plan has subsequently been realised, subject to shareholder and bank / bondholder approvals, and was announced to the market on 17 August 2010. The internalisation of management, if approved, will enhance management performance and accountability, and is expected to reduce costs by approximately US\$1.5 million per year, to the significant benefit of the Company.

The Directors believe that the Company will be in a much stronger position to execute its business plan if management is internalised. The Directors will seek to appoint a full-time NZS Chief Executive Officer ("CEO") and this appointment will address what the Board believes has been a major limitation of the management arrangement the Company had with PGW, namely the lack of an on the ground CEO dedicated solely to the successful implementation of the Company's development plans.

ADDITIONAL INFORMATION FOR SHAREHOLDERS

CONTINUED

The successful CEO appointee will work with the high quality farm management team that the Board has been systematically putting in place over the past year to significantly boost the Company's farm management expertise. The farm management team is led by two of New Zealand's leading dairy farm management consultants, Brent Boyce and Sue Hagenson, and their expertise is combined with that of highly experienced Uruguayan dairy managers Rafael Secco and Daniel Laborde. Many of our individual farm managers are tertiary qualified and have previously worked on New Zealand dairy farms or studied in New Zealand. Brent and Sue have just been joined by a third dairy consultant from New Zealand, Shane Croft.

If management is internalised, the Company will enter into a preferred supplier arrangement with PGW, and retain the services of the CEO of PGG Wrightson Uruguay Ltd SA, Carlos Miguel de Leon, who has been responsible for oversight of the Company in Uruguay. Under the agreement, Carlos will provide advice and consultancy services relating to local political and regulatory matters. Carlos has been involved with the Company since its inception and brings strong local knowledge and contacts.

Project of National Interest

On 12 August 2010, the Company announced that it has been granted status as a Project of National Interest in Uruguay. This status provides Uruguayan tax benefits currently estimated by the Board to be worth US\$20 million to US\$25 million to the Company.

These benefits will be available to offset the Company's tax liability once it becomes profitable, which the Board anticipates to be in the 2011-12 financial year.

NZS' status as a Uruguayan Project of National Interest recognises the investment made by the Company in developing dairy farms, including its investment in milking sheds, roading, electricity, irrigation and other infrastructure, and the creation of new employment in rural areas of Uruguay. NZS estimates that these tax benefits directly add 11-14 cents/share to the DCF value of the Company.

PGW'S AGREEMENT TO SELL ITS NZS SHARES TO OLAM

The Board considers that the decision by PGW to enter into the lock-up agreement with Olam should not be taken as guidance for decisions to be made by other shareholders in NZS.

The Board considers that the decision by PGW to enter into this agreement was made for reasons specific to that company which are not necessarily aligned with the interests of other shareholders in NZS.

FREQUENTLY ASKED QUESTIONS



Q: SHOULD I ACCEPT OLAM'S OFFER?

A: *The Directors recommend that you **DO NOT ACCEPT** the Offer.*

You are, however, encouraged to read this Target Company Statement and the Olam Offer and form your own view on the merits of the Olam Offer and either accept it or hold your shares.

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

A: *Olam's Offer will remain open until 5pm (New Zealand time) on 24 September 2010 (unless extended).*

Q: HOW DO I ACCEPT THE OLAM OFFER?

A: *You should follow the instructions set out in the Olam Offer document.*

Q: WHAT HAPPENS IF OLAM DOES NOT GET MORE THAN 50% OF NZS' SHARES?

A: *The offer is conditional on Olam receiving acceptances to increase its shareholding to more than 50% (including NZS shares Olam currently holds or controls). Olam currently has an 18.5% holding in NZS and has entered into an agreement to buy PGG Wrightson's 11.5% holding. It requires a further 20.1% of acceptances, or this Offer fails.*

Q: WHAT IF I ACCEPT THE OLAM OFFER AND THEN OLAM LIFTS THE OFFER PRICE?

A: *Under the Takeovers Code, all shareholders benefit equally, so that even if you have already accepted but the price is later increased, you would receive the higher price if the Offer is successful.*

Q: WHEN WILL I RECEIVE THE UAG OFFER?

A: *The UAG Offer will be despatched to you at the earliest on 30 August 2010.*

FREQUENTLY ASKED QUESTIONS

CONTINUED

Q: WHEN IS THE UAG OFFER EXPECTED TO CLOSE?

A: The UAG Notice of Intention of Takeover Offer indicates that that offer will close on 29 October 2010, although this may be subject to change.

Q: IF NZS IS ABLE TO SECURE FUNDING FROM ANOTHER INVESTOR, CAN IT ISSUE NEW EQUITY AND ENTER INTO OTHER TRANSACTIONS WITH THAT INVESTOR?

A: The Olam Offer places certain restrictions on NZS' ability to issue new equity. Unless approved by Olam, any issue of new equity by NZS would be subject to NZS shareholder approval.

Q: WILL I BE FORCED TO SELL MY SHARES?

A: You cannot be forced to sell your shares under the Olam Offer. Under the Takeovers Code, only once an acquirer has received acceptances in respect of 90% of NZS shares can it proceed to compulsorily acquire the remaining shares.

Q: IF A TAKEOVER OFFER IS SUCCESSFUL, WILL NZS REMAIN LISTED?

A: It is likely the Company will remain listed if acceptances in respect of more than 50% of NZS shares are received, unless an acquirer has received acceptances in respect of 90% of NZS shares.

NZ Farming Systems Uruguay Limited

Independent Adviser's Report

On the takeover offer from Olam International



GRANT SAMUEL



August 2010

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GRANT SAMUEL



1. Terms of the Proposed Transaction

1.1 Background

On 6 August 2010, Olam International Limited (**Olam**) made a full takeover offer for NZ Farming Systems Uruguay Limited (**NZFS**). Olam is an existing 18.45% shareholder in NZFS and its offer is for all of the shares that it does not already own at a price of NZ\$0.55 per share (**the Olam Offer**).

Olam has been a substantial security holder in NZFS since it acquired a 14.4% shareholding in September 2009 from the Australian based fund manager, Hunter Hall Investment Management, at a price of NZ\$0.41 per share. Olam subsequently increased its shareholding to 18.45% through the purchase in May 2010 of a 4.05% stake held by Rural Portfolio Investments, which was in receivership, also at a price of NZ\$0.41 cents per share.

On 16 August 2010 Union Agriculture Group (**UAG**) gave notice of intention to make a full takeover offer for NZFS at NZ\$0.60 per share. UAG is a Uruguayan-based investor in agriculture, largely owned by institutions. The UAG Offer is conditional upon UAG receiving acceptances to take its shareholding to more than 50%. UAG cannot make its offer until 31 August 2010 at the earliest.

1.2 Details of the Olam Offer

The Olam Offer is for all the issued ordinary shares in NZFS that it does not already own. The Olam Offer incorporates the following:

- an Offer price for each NZFS ordinary share of NZ\$0.55;
- the Olam Offer is conditional on:
 - Olam receiving acceptances from NZFS shareholders in respect of shares that, when taken together with shares already held or controlled by Olam, confer on it more than 50% of the voting rights in NZFS;
 - Olam obtaining all consents required under New Zealand's Overseas Investment Act 2005 (**NZOIA**) and its Regulations;
 - the NZX 50 Index (Gross) not having closed below 2,537.9 for a period of three or more consecutive NZX trading days, during the period from 19 July 2010 up to the date of the Olam Offer going unconditional; and
 - other relatively standard conditions for a takeover offer of this nature. For example, no dividends or distributions of any nature may be made by NZFS, and there may be no material adverse changes to NZFS's business and operations.

Olam has the right to waive all conditions of the offer other than the first two listed above.

Olam has stated that its offer becomes unconditional without it receiving acceptances to enable it to take its shareholding in NZFS to 100%, it will not make a further takeover offer at a price higher than the price paid under the Olam Offer.

The Olam Offer opened for acceptances on 9 August 2010.

1.3 Arrangements with PGG Wrightson Investments

Olam has entered into a pre-bid lock-up agreement with PGG Wrightson Investments Limited, a wholly owned subsidiary of PGG Wrightson Limited (**PGG Wrightson**). For the purposes of this report, PGG Wrightson and its wholly owned subsidiaries will be referred to as PGG Wrightson. Under the lock up agreement, PGG Wrightson undertook to irrevocably accept the Olam Offer in respect of its 11.52% shareholding in NZFS. That acceptance of the Olam Offer by PGG Wrightson has now occurred. Under the Takeovers Code, PGG Wrightson and Olam are deemed to be Associates and PGG Wrightson's shares in NZFS would normally be deemed to be controlled by Olam. However, the terms of the lock-up

agreement permit PGG Wrightson to maintain control of the voting rights relating to its NZFS shares up until the time that the shares are transferred to Olam. The lock-up agreement provides for the same terms and conditions for PGG Wrightson as contained in the Olam Offer.

PGG Wrightson created NZFS in 2006, when it offered shares to the public through an initial public offering. PGG Wrightson operates NZFS under a Management Contract held by its wholly owned subsidiary PGG Wrightson Funds Management Limited (the **Management Contract**).

1.4 Requirements of the Takeovers Code

The Takeovers Code came into effect on 1 July 2001, replacing the New Zealand Stock Exchange Listing Rules and the Companies Amendment Act 1963 requirements governing the conduct of company takeover activity in New Zealand. The Takeovers Code seeks to ensure that all shareholders are treated equally and on the basis of proper disclosure are able to make informed decisions on shareholding transactions that may impact on their own holdings.

NZFS is a **Code Company** for the purposes of the Takeovers Code. Rule 6 of the Takeovers Code, the fundamental rule, states that a person (along with its associates) who holds or controls:

- no voting rights, or less than 20% of the voting rights, in a code company may not become the holder or controller of an increased percentage of the voting rights in the code company unless, after that event, that person and that person's associates hold or control in total not more than 20% of the voting rights in the code company;
- 20% or more of the voting rights in a code company may not become the holder or controller of an increased percentage of the voting rights in the code company.

Rule 7 of the Takeovers Code sets out the exceptions to the fundamental rule. Rule 7 states that a person may become the holder or controller of an increased percentage of the voting rights in a code company under the following circumstances:

- by an acquisition under a full offer;
- by an acquisition under a partial offer;
- by an acquisition by the person of voting securities in the code company or in any other body corporate from one or more other persons if the acquisition has been approved by an ordinary resolution of the code company in accordance with the code;
- by an allotment to the person of voting securities in the code company or in any other body corporate if the allotment has been approved by an ordinary resolution of the code company in accordance with the code;
- if: (i) the person holds or controls more than 50%, but less than 90%, of the voting rights in the code in the company; and
(ii) the resulting percentage held by the person does not exceed by more than five the lowest percentage of the total voting rights in the code company held or controlled by the person in the 12-month period ending on, and inclusive of, the date of the increase;
- if the person already holds or controls 90% or more of the voting rights in the code company.

Olam is making a full offer for all of the shares in NZFS that it does not already own.

2. Scope of the Report

2.1 Purpose of the Report

The Independent Directors of NZFS have engaged Grant Samuel & Associates Limited (**Grant Samuel**) to prepare an Independent Adviser's Report to comply with the Takeovers Code in respect of the Olam Offer. Grant Samuel is independent of NZFS and Olam and has no involvement with, or interest in, the outcome of the Olam Offer.

Rule 21 of the Takeovers Code requires the Independent Adviser to report on **the merits** of the Olam Offer. The term "merits" has no definition either in the Takeovers Code itself or in any statute dealing with securities or commercial law in New Zealand. While the Takeovers Code does not prescribe a meaning of the term "merit", it suggests that "merits" include both positives and negatives in respect of a transaction.

A copy of this report will accompany the Target Company Statement in relation to the Olam Offer to be sent to all NZFS shareholders. This report is for the benefit of the shareholders of NZFS other than Olam and PGG Wrightson. The report should not be used for any purpose other than as an expression of Grant Samuel's opinion as to the merits of the Olam Offer.

2.2 Basis of Evaluation

Grant Samuel has evaluated the Olam Offer by reviewing the following factors:

- comparing the estimated value range of NZFS shares with the price of the Olam Offer;
- the likelihood of an alternative proposal and alternative transactions that could realise fair value;
- the likely market price and liquidity of NZFS shares in the absence of the Olam Offer;
- any advantages or disadvantages for NZFS shareholders of accepting or rejecting the Olam Offer;
- the current trading conditions for NZFS;
- the timing and circumstances surrounding the Olam Offer;
- the attractions of NZFS's business;
- the risks of NZFS's business; and
- other possible benefits to Olam arising from the purchase of NZFS.

Grant Samuel's opinion is to be considered as a whole. Selecting portions of the analyses or factors considered by it, without considering all the factors and analyses together, could create a misleading view of the process underlying the opinion. The preparation of an opinion is a complex process and is not necessarily susceptible to partial analysis or summary.

3. Profile of NZFS

3.1 Background

NZFS was established in late 2006 with the objective of applying New Zealand's expertise in pastoral dairy farming to high quality, low cost and under-utilised farmland in Uruguay. NZFS's origins date back to 1999 when the New Zealand rural supplies and services business, Wrightson Limited acquired a 51% stake in the Uruguayan seed company, Semillas PAS. Semillas was subsequently renamed Wrightson PAS and expanded its agricultural interests in Uruguay with the purchase and lease of farms to demonstrate the productivity improvements that could be achieved using New Zealand pasture management systems.

The principal New Zealand farming techniques that NZFS base its farm productivity improvements on are:

- application of phosphate to promote grass growth, increase drought resistance, bring forward spring growth and extend the growing season;
- subdivision of paddocks to control pasture growth, particularly in the spring, to increase utilisation of what is grown;
- reticulation of water to all paddocks to ensure that cattle have access to good water at all times;
- the planting of new, improved pasture species using direct drilling;
- increased cattle numbers per hectare to utilise the additional feed;
- once robust new pasture is established fertility is maintained through annual phosphate and urea dressings; and
- irrigation is introduced where cost effective to increase yields, especially in summer months.

The key events in the evolution of NZFS to date are summarised in the table below:

Key Events in NZFS History	
Year	Description
1999	Wrightson Limited acquired 51% of Uruguayan Company, Semillas PAS, renaming it Wrightson PAS.
2001	Wrightson PAS leased a small beef finishing farm to demonstrate the productivity improvement that could be achieved with new grasses and New Zealand pasture management.
2005	PGG Wrightson purchased three farms near Young in western Uruguay to further demonstrate the value of the New Zealand pasture-based intensive system on a larger scale.
2006	In November 2006 shares in NZ Farming Systems Uruguay were offered to the public. The initial public offering (IPO) was for 75 million shares at NZ\$1.00 (partly paid to 50c), was oversubscribed and closed in December 2006 with 105 million shares issued. Three farms (total 2,687 hectares) were purchased from PGG Wrightson for US\$12.4 million.
2007	In April 2007 the Company placed 39 million new shares, mainly with New Zealand and overseas institutions, at NZ\$1.02, partly paid to NZ\$0.52, the proceeds of which enabled it to increase the scale of its operations. In June 2007 the Company issued 7.5 million fully paid ordinary shares at an issue price of NZ\$1.00 in part consideration for the purchase of the Santa Isabel farm and farm assets (4,003 hectares) In August 2007 NZFS announced that it had substantially increased its land holdings by 19,883 hectares to a total of 26,523 hectares. In December 2007 NZFS was listed on the NZX following the payment of the second call of NZ\$0.50 on the shares issued in December 2006. An additional NZ\$110 million was raised through an institutional placement and non-renounceable rights issue at NZ\$1.50 per share.
2008	The global financial crisis starts to impact international dairy product prices (and equity markets).

	<p>In April 2008 NZFS announced a net profit forecast of US\$1.5 million for the full 2007/08 financial year after deduction of a US\$9.2 million performance fee payable to PGG WRIGHTSON.</p> <p>In May 2008 NZFS announced the acquisition of additional land to take total holdings to 36,300 hectares.</p> <p>In August 2008 the company announced a net loss of US\$7.96 million after deducting a PGG Wrightson performance fee of US\$13.6 million.</p> <p>In December 2008 NZFS released an earnings guidance for an operating loss of US\$7–11 million for the year to June 2009.</p>
2009	<p>In April 2009 NZFS revised the forecast loss to US\$20 million as a result of drought and falling milk prices. NZFS raises US\$30 million in a Uruguayan domestic bond issue in July 2009.</p> <p>In August 2009 NZFS announced a US\$15.6 million operating loss (before livestock and farm value write down).</p> <p>In September 2009, Olam acquired a 14.35% shareholding in NZFS.</p> <p>In December 2009 the company gave an earnings guidance of an EBIT loss of US\$10 million, less than previously expected due to a rise in milk prices.</p>
2010	<p>In February 2010 an EBIT loss of US\$2.5 million was announced for the half year. Approximately 2,500 hectares of land was sold for US\$8.5 million in March 2010.</p> <p>In May 2010 Olam announced that it had acquired a further 10 million NZFS shares to take its shareholding to 18.4%.</p> <p>In July 2010 Olam announces a lock-up agreement with PGG Wrightson to acquire a further 28.1 million NZFS shares conditional upon the simultaneously announced full takeover offer becoming unconditional.</p>

3.2 Operations

Since its listing in 2006, NZFS's focus has been on the purchase and development of agricultural land in Uruguay and acquisition of livestock. It has spent over US\$177 million on the purchase and development of dairy land and livestock, with an estimated further US\$62 million remaining to be spent to complete the development expenditure. This work has focused on the following areas:

Pasture

Pasture development has included both the re-grassing of paddocks with improved grass species, and the raising of base soil fertility levels through the application of fertiliser. Ongoing plans call for the re-grassing of one-third of non-irrigated pastures each year.

Farm Infrastructure & Development

NZFS has completed the construction or upgrading of 29 dairy (milking) sheds, 62 farm workers' houses, 11 irrigation dams, 470km of roading, and reticulation of 65km of high tension wiring for electricity supply required for dairy shed and irrigation pumps. Approximately 5,000 drinking troughs have been placed in paddocks and 1,800km of new fencing has been completed.

Irrigation

NZFS has a target of having irrigation installed for 50% of its effective milking area, representing approximately 10,000 hectares. Currently only 2,018 hectares are irrigated with a further 1,200 hectares to be under irrigation in time for this summer. Funding constraints have delayed the irrigation programme as well as the high tension electricity infrastructure improvements required to power irrigation pumps.

NZFS is currently milking approximately 17,000 cows and is the largest single producer of milk in Uruguay, accounting for approximately 4% of national production. The company's medium term plans project it to be milking 44,000 cows and producing approximately 16% of milk in Uruguay by the 2012/13 season. Long term projections project NZFS to be milking approximately 55,000 cows by the 2015/16 season. The company's key measure of productivity, kilograms of milk solids per hectare (kgms/ha) is

projected to rise from 420kgms/ha for the just completed 2009/10 season, to 642kgms/ha 2012/13, and then to 965kgms/ha in 2015/16.

Notwithstanding the achievements to date, the company has developed more slowly than projected in its original business plan. A number of factors have contributed to this:

- an extended period of drought experienced in autumn 2008 and summer 2008/ autumn 2009 led to poor pasture production and poor cow production;
- the size of the overall development has meant that the infrastructure and production from the individual farming units are not as developed as was originally contemplated; and
- a lack of funding for operational development was caused principally by a higher level of land purchases than was originally planned. This has meant that capital fertiliser application has been constrained and the development of irrigation and electricity infrastructure has been slow.

The lower than expected pasture production has led to reduced milk volumes, and low pregnancy rates across the herd (as a result of poor animal condition following the drought in 2007/2008). The low pregnancy rates have impacted the overall level of herd profitability and resulted in a slow down in the overall genetic development of the herd. In addition there has been a corresponding increase in dry stock numbers as a proportion of overall herd size.

NZFS is undertaking or planning to undertake a number of immediate steps to improve productivity. These include:

- temporarily increasing feed levels in the 2010/11 growing season to improve the condition of cows, maintain lactation longer during summer, and improve herd fertility rates;
- reviewing the drystock policy given the carrying costs of lower fertility stock; and
- application of fertiliser during 2010/11 in conjunction with a reduction in grazing pressure on pasture to allow paddocks to become more robustly established.

Set out below are key operating statistics for NZFS for the 2008, 2009 and 2010 financial years and the budget for 2011. Over the next three years NZFS intends to expand the number of milking sheds to 49 and its dairy land under irrigation to 50%.

Key operating statistics				
Year ended 30 June	2008	2009	2010	2011 (B)
Milking cow numbers (average)	5,600	11,300	16,500	20,100
Milk price (US cents/litre average)	39.7	23.7	28.3	31.9
Milk production (million litres)	13.4	44.6	68.4	99.7
Milk production (Kgs milk solids per cow per year)	240	290	290	275
Dairy hectares in production	4,700	10,500	12,044	13,100
Kilograms of Milk Solids per hectare	380	420	419	532
Milking sheds	11	26	31	32
Irrigated area (hectares)	0	406	2,018	3,191

3.3 Capital Expenditure Requirements

NZFS's Five Year Business Plan calls for a total of 49 dairy units to be developed, up from the current 31 units. Capital expenditure to complete the development is forecast at US\$62.6 million. A breakdown of the expenditure is shown below:

NZFS - Capital Expenditure Forecast (US\$ millions)	
Irrigation	16.8
Milking sheds	11.7
Livestock	8.9
Electricity reticulation	8.1
Fertiliser	5.2
Water dams	3.5
Machinery	2.1
Roading	1.1
Other	5.2
Total capital expenditure	62.6

NZFS will have to undertake fund raising to meet the costs of the bulk of this expenditure. A number of funding alternatives have been under consideration. NZFS has been in discussions with Olam since last year. Contemporaneously, NZFS has been negotiating a share placement with another party, which has been delayed pending receipt of an offer from Olam. The Receipt of the Olam Offer and the increased certainty of long term funding has taken much longer than originally anticipated.

3.4 The Management Contract

NZFS contracted PGG Wrightson to provide a range of services, set out below:

- assisting with the strategic development of the farm assets;
- managing the farm assets, including the land, livestock, buildings and plant equipment;
- the operation of farm assets, including management of production targets and procurement;
- supervising and managing the recruitment and performance of employees, contractors and agents; and
- managing reporting and legal requirements.

The Management Contract has the following key terms:

- an annual fee of 1.0% of NZFS's gross asset value up to US\$400m with 0.75% to be charged on gross asset values above \$US400 million;
- a performance fee equal to 20% of the amount by which the investor return for a year exceeds 10%, provided that the company has also achieved a compounded target investor return of 10% p.a since the company's inception. The performance fee was payable in cash or shares subject to compliance with relevant law and listing rules. Due to capital constraints the performance fee was transferred into a loan with the final amount being payable on 31 March 2010. Interest has been accrued at a rate of 10% per annum. As at 30 June 2010 US\$9.6 million of the loan to PGG Wrightson was outstanding; and
- any farms sold and managed under any sale and leaseback arrangement incurred a reduced 0.5% management fee.

With effect from 19 July 2010 the Management Contract has been terminated (subject to the approval of NZFS shareholders, bond holders and bankers) with NZFS assuming the management role. In the interim

and pending the outcome of the Olam Offer and any other offers, certain PGG Wrightson executives will be seconded to NZFS on a cost recovery basis. NZFS will pay PGG Wrightson NZ\$4 million as a fee to terminate the Management Contract.

3.5 The Uruguayan Dairy Industry

Uruguay has a well-established dairy industry that has significant advantages enabling it to be competitive in world dairy trade. Over the past 20 years milk production has doubled while income from dairy exports has increased ten-fold. Uruguay has a temperate to sub-tropical climate with temperatures similar to the upper North Island of New Zealand. Rainfall, which averages around 1200mm per annum, is reasonably well distributed throughout the year with more rain in summer and autumn compared with winter and spring.

Dairy farming is traditionally grass based grazing with supplementary feed provided at the dairy shed to cover seasonal variations in pasture production. Unlike New Zealand, little or no water has historically been reticulated to paddocks and cows obtain water from natural sources and at the dairy shed. Average dairy farm size has fallen in recent years from a peak of 211 hectares in 1999 to 184 hectares in 2008. However, in the same period herd sizes have increased from 78 to 89 on average per farm. The progressive introduction of modern dairying techniques have seen productivity per hectare rise 59% between 1998 and 2007. In this period productivity per cow rose 21% and the number of dairy cows per hectare increased 26%.

Milk processing is undertaken by 36 companies which are predominantly co-operatives. The largest of these is Conaprole (NZFS's preferred processor) which accounted for 65% of processing volumes in 2009. Milk shipments from farm to plant have risen by an average of 4% annually over the last 20 years. Processing capacity growth has been at a slightly greater pace meaning that plants are able to process springtime milk volume peaks without constraints. It is estimated that surplus production capacity is currently around 20%. Nonetheless, additional capacity continues to be installed by the co-operatives and by international firms such as USA's Schreiber Foods and Brazil's Bom Gosto.

3.6 Financial Performance

The financial performance of NZFS for the years ended 2007, 2008, 2009 and 2010 and the budget for 2011 is shown in the table below:

NZFS Financial Performance (US\$ millions)					
	Year end 30 June				
	2007	2008	2009	2010	2011(B)
Cattle sales	0.4	2.7	4.3	2.4	2.3
Milk sales	0.3	5.0	10.0	18.8	31.8
Rice	-	-	1.5	-	-
Other income	0.1	0.1	0.1	1.4	-
Total revenue	0.8	7.8	15.8	22.5	34.2
Change in fair value of livestock (physical)	2.4	2.6	6.2	2.0	4.0
Livestock and cropping costs of sale	(0.5)	(2.3)	(8.5)	(3.7)	(3.7)
Farm working expenses	(3.8)	(12.0)	(22.4)	(25.1)	(31.9)
Administration and other expenses	(0.9)	(1.2)	(2.7)	(2.2)	(1.8)
Fund management fee	(0.8)	(2.7)	(2.5)	(2.2)	(2.0)
EBITDA	(2.8)	(7.7)	(14.0)	(8.7)	(1.2)
(Loss)/ Gain on sale of fixed assets	-	-	0.8	0.3	-
Change in fair value of livestock due to price changes (price)	1.0	14.3	(20.2)	6.2	-
Change in fair value of farm properties	-	-	(3.6)	1.1	-
Performance fees	-	(13.6)	-	-	-
Discount on VAT receivable	-	-	(2.5)	-	-
Depreciation and amortisation	(0.2)	(1.0)	(2.4)	(1.7)	(3.8)
EBIT	(2.0)	(8.0)	(42.0)	(2.8)	(5.0)
Net interest	1.7	1.0	(3.8)	(5.2)	(3.5)
Tax expense	-	(0.9)	(0.1)	0.1	-
Loss for the year	(0.3)	(8.0)	(45.9)	(7.9)	(8.5)

The following points should be taken into consideration when reviewing the table above:

- farm working expenses comprise direct farm working expenses and the costs of improving and maintaining pastures. These costs are currently increasing and forecast to continue to do so for another two to three years, which contributes to the negative operating cash flow over that period. Milk production is forecast to grow substantially up until 2016 when it is forecast to begin flattening;
- the performance fee payable in 2008 under the Management Contract was a result of a sharp increase (albeit temporary) in the share price in the first half of calendar year 2008; and
- the changes in the value of livestock reflect market prices prevailing in Uruguay at year end. Livestock prices fluctuate due to climatic conditions. This adjustment to earnings distorts the reported results. NZFS has no intention to realise its milking herd.

3.7 Financial Position

The financial position of NZFS as at 30 June 2008, 2009 and 2010 is outlined in the table below:

NZFS – Balance Sheet (US\$ millions)			
	30 June		
	2008	2009	2010
Cash and cash equivalents	128.9	3.6	5.7
Trade and other receivables	4.8	6.1	11.7
Consumable supplies	0.7	1.6	3.7
Assets held for sale	-	-	6.9
Current assets	134.4	11.3	28.0
Property, plant and equipment	165.4	173.8	161.7
Livestock	40.4	26.4	34.8
Trade and other receivables	3.5	4.2	4.6
Deferred tax	2.5	-	-
Non-current assets	211.9	204.4	201.2
Total assets	346.3	215.7	229.2
Loans and borrowings	(78.1)	(1.5)	(11.2)
Trade and other payables	(19.2)	(27.8)	(13.7)
Current liabilities	(97.2)	(29.4)	(24.8)
Borrowings	(18.5)	(16.0)	(46.0)
Income tax payable	(7.0)	(1.5)	(0.9)
Non-current liabilities	(25.5)	(17.5)	(46.9)
Total liabilities	(122.7)	(46.9)	(71.7)
Net assets	223.6	168.8	157.5
Net tangible assets per share US\$	0.92	0.69	0.64
Net tangible assets per share NZ\$ converted at NZD:USD 0.7050	1.30	0.98	0.91

The following points are relevant when considering the above table:

- net assets declined in FY2009 due to the downwards revaluation of property plant and equipment of US\$9.0 million and the US\$45.9m loss for the year;
- in July 2009 the company raised US\$30 million via a domestic bond issue in Uruguay to fund expenditure on milking sheds, irrigation and electricity development. The bonds were downgraded from A- (UY) to BBB (UY) negative watch by Fitch in May 2010, reflecting the delay in completing the development plan. The bonds are non-convertible and have an expected term of approximately fifteen years, with a fixed interest rate of 5% pa until 30 September 2010, and thereafter a variable interest rate of between 5% and 15% calculated using a formula incorporating gross milk revenue and certain key input costs. The bonds have an interest only period until 30 March 2016, and repayments of principal thereafter are linked to gross milk revenue;
- all livestock is revalued to current market prices annually and exhibits significant fluctuations year on year; and
- the cash balance at 30 June 2010 includes the uninvested portion of the US\$30 million bond issue.

3.8 Cash Flow

The cash flows for NZFS for the years ended 2007, 2008, 2009 and 2010 are shown in the table below:

NZFS – Statement of Cash Flows (US\$ millions)					
Year end 30 June	2007	2008	2009	2010	Cumulative
Cash receipts from customers	0.3	6.5	16.2	21.3	44.3
Cash paid to employees and suppliers	(2.6)	(23.3)	(35.9)	(42.8)	(104.6)
Other operating cash flows	(0.1)	(2.0)	(2.4)	(3.0)	(7.5)
Net cash flow from operations	(2.5)	(18.8)	(22.2)	(24.4)	(67.9)
Acquisition of property, plant and equipment	(31.3)	(87.2)	(28.4)	(14.3)	(161.2)
Acquisitions of livestock	(4.7)	(14.3)	-	-	(19.1)
Sales of property, plant and equipment	-	-	2.4	15.8	18.2
Net cash flow from investing activities	(36.0)	(101.5)	(26.1)	1.5	(162.1)
Proceeds from issue of share capital	44.6	152.2	-	-	196.8
Funds raised through borrowings	-	-	17.5	30.0	47.5
Other financing cash flows	(3.8)	(1.9)	2.0	(5.0)	(8.6)
Net cash flow from financing activities	40.8	150.3	19.5	25.0	235.6
Net cashflow	2.4	30.0	(28.7)	2.0	5.7

In reviewing the above table the following should be considered:

- NZFS maintained a positive net cash position in 2007 and 2008 through the issue of approximately US\$200 million in equity. In July 2009 the company raised US\$30 million via a bond issue in Uruguay; and
- in FY2010 operating cashflow had a deficit of US\$25 million versus US\$22 million in 2009. Increases in milk production are forecast to contribute to a reduction in this deficit in FY2011.

3.9 Capital Structure and Ownership

NZFS has 244,236,495 shares on issue held by approximately 1,723 shareholders. The Company's top 20 shareholders as at 6 August are shown in the table below:

NZFS – Top 20 Shareholders as at 6 August 2010		
Shareholder	Shares (000s)	%
Olam International Limited	45,051	18.45%
PGG Wrightson Investments Limited	28,138	11.52%
Accident Compensation Corporation	17,165	7.03%
HSBC Nominees	12,995	5.32%
ANZ Nominees	10,945	4.48%
M J Flett & S M Flett & J J McClean	8,998	3.68%
National Nominees New Zealand	8,729	3.57%
Dairy Investment Fund Limited	4,751	1.95%
K & D Goble	2,850	1.17%
Sierra Asset Limited	2,616	1.07%
Custodial Services Limited	2,452	1.00%
Natusch Trust Partnership	2,250	0.92%
B & S Custodians	2,000	0.82%
R & C Poole	2,000	0.82%
Custodial Services Limited	1,662	0.68%
Anglesea Consulting Limited	1,540	0.63%
Aorangi Laboratories Limited	1,500	0.61%
Honeyfield Holdings	1,500	0.61%
Joanne Flett	1,423	0.58%
Leveraged Equities Finance Limited	1,385	0.57%
Top 20 Shareholders	159,950	65.59%
Other Shareholders	84,286	34.51%
Total	244,236	100.00%

In reviewing the above table the following should be considered:

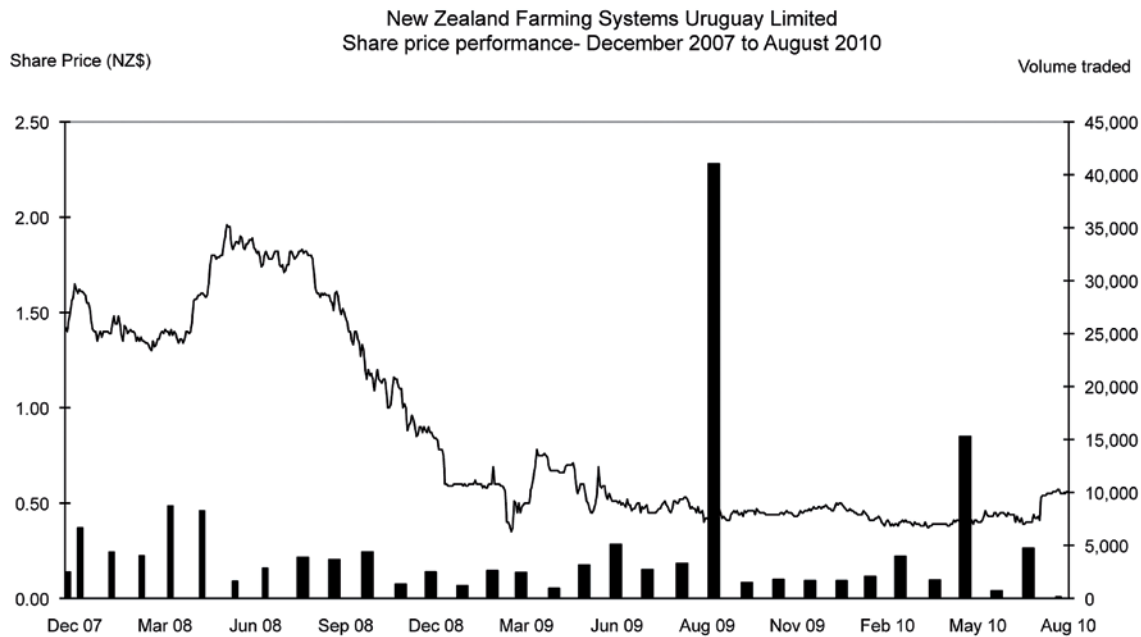
- NZFS's share register has become more concentrated since 2008. The top seven shareholders in NZFS have a combined shareholding of 54%; and
- Olam has entered into a lockup agreement with PGG Wrightson whereby PGG Wrightson has agreed to accept the Olam Offer which will give Olam nearly 30% of the shares in NZFS, requiring only a further 20.1% or 49,165,000 shares to be able to reach the minimum threshold of 50.1%.

3.10 Share Price Performance

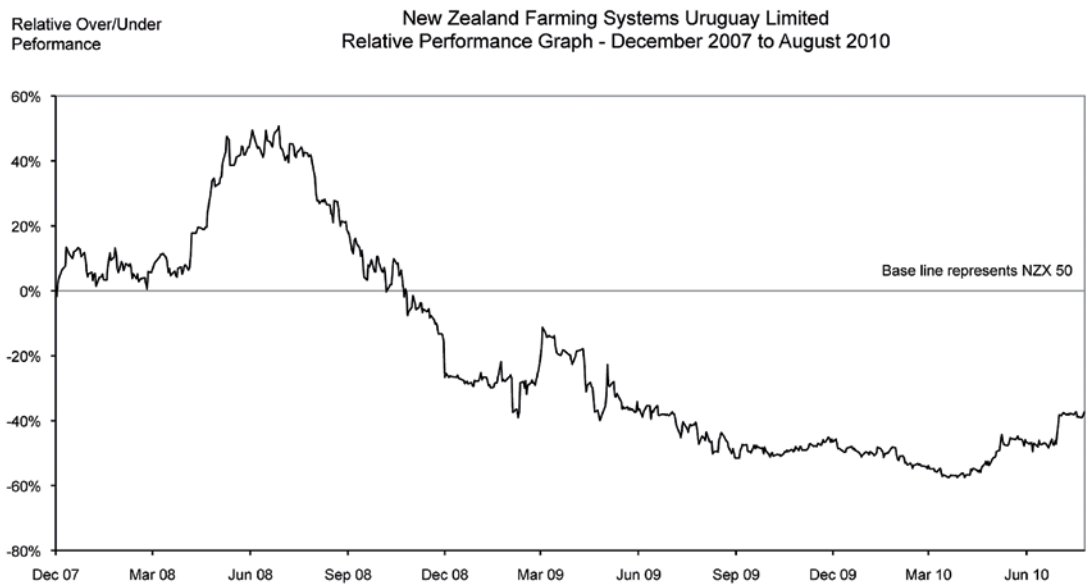
NZFS's share price since its listing in 2007 has fluctuated significantly when compared to the performance of the NZSX. Initially the share price outperformed the market due to positive commodity price movements and positive financial forecasts. However, since August 2008, the share price has been impacted by declining commodity prices, lack of funding and milk productivity uncertainty.

The volume of shares traded peaked in September 2009 when Olam acquired its initial 14.4% shareholding on market, primarily from Hunter Hall Investment Management Limited.

The share price and trading volume history of NZFS shares is depicted graphically below.



NZFS’s share price against the NZX50 index is shown in the graph below:



4. Profile of Olam International Limited

4.1 Background

Olam is a Singapore based company, established in 1989 by the Kewalram Chanrai Group (**Kewalram**). Olam has developed into a globally diverse specialist in the supply chain management of a core of 20 agricultural products and food ingredients, with operations in over 64 countries, spanning 14 businesses and employing approximately 10,000 people.

In 2005, Olam listed on the Singapore Stock Exchange (**SGX**) with an initial market capitalisation of S\$929 million. Since 2005, Olam's market capitalisation has risen to approximately S\$5.5 billion as at 27 July 2010.

The key significant shareholders in Olam are:

- Kewalram, with a 22.8% holding;
- Temasek Holdings (**Temasek**). Through its wholly owned subsidiary Seletar Investments, Temasek acquired a stake in the company in 2003. In 2009, Temasek injected another US\$300 million into Olam taking its shareholding to 13.7%. Temasek is owned by the Ministry of Finance of Singapore;
- Olam's management, who collectively own 10.3%; and
- the public and 300 institutional investors from over 28 countries who control the remaining 53.2%.

Olam's core product categories are edible nuts, coffee, cocoa, cotton, rice and sesame. Acquisitions have formed a key part of Olam's growth strategy, with a number of deals completed from 2007 to 2010:

Olam – M&A Activity since April 2007			
Date	Company name	Investment (US\$m)	Holding %
Apr 07	Universal Blanchers	73.1	100
Jul 07	Queensland Cotton	136.3	100
Aug 07	Key Foods Ingredients	18.5	100
Sep 07	Naarden Agro	3.8	100
Oct 07	PT DUS	14.0	100
n.a 08	Nauvu Investments	122.0	50
Jun 08	Ouangolo Gin	5.0	100
Jul 08	PureCircle	53.1	10
Jul 08	Open Country Dairy	76.8	24.8
Nov 08	GSIL Sugar Mill	9.9	100
Dec 08	Onion Dehydration Facility	10.0	100
Feb 09	IMC	7.0	100
Jul 09	Tomato Processing Assets	39.0	100
Sep 09/ May 10	New Zealand Farming Systems Uruguay	12.8	18.5
Jan 10	Almond Orchards	267.4	100
Jan 10	Crown Flour Mills	107.6	100
July 10	Gilroy Foods & Flavors	250.0	100
Total		1,206.3	

In New Zealand, Olam owns a 24.75% shareholding in Open Country Dairy Limited (**Open Country**) and its 18.5% shareholding in NZFS. Open Country is a substantial dairy company with a turnover of \$300 million in the 14 months ended 31 July 2009. It is the second largest milk processor in New Zealand, albeit only a fraction of the size of Fonterra. Olam's investment in Open Country and proposed further investment in NZFS appears to be part of a strategy to get closer to the sources of supply. Olam's international growth and expansion has required significant funding resources:

- on 15 July 2009, Olam raised S\$437.5 million by allotting and issuing a further 273 million new shares;
- on 27 August 2009 Olam secured an underwritten US\$540 million syndicated transferable loan facility. The facility comprises two tranches of US\$324 million and USD\$216 million of term loans of three year and five years respectively;
- on 27 August 2009, Olam closed a 12-month USD\$100 million Islamic revolving trade finance facility arranged by the Islamic Bank of Asia Limited;
- in September 2009, Olam announced the issue of convertible bonds to raise US\$400 million;
- in October 2009 Olam raised US\$850 million by way of a Transferable Term Loan facility; and
- in August 2010 Olam raised US\$250 million by way of a 10 year unsecured bond.

4.2 Operations

Olam operates an integrated supply chain, sourcing and supplying over 3,000 customers in more than 50 markets. Olam's product range is diversified and includes, confectionery and beverage products, ingredients, cocoa, coffee, peanuts, edible nuts, spices & beans, cashew, beans, sesame, spices, food staples & packaged foods, rice, sugar, dairy products, fibre & wood products, and cotton.

4.3 Financial Profile

A brief financial profile of Olam is summarised below:

Olam Financial Profile (SGD\$ millions)			
Year end 30 June	2007	2008	2009
Revenue	5,478	8,152	8,726
EBITDA	290	365	430
EBIT	274	349	407
Net profit after tax	109	168	252
Operating cash flow	(161)	(711)	431
Total assets	3,178	5,239	5,415
Total liabilities	(2,745)	(4,601)	(4,370)
Net assets	433	638	1,046
Earnings per share (cents) - diluted	6.7	10.1	12.4

Source: Olam Financial Reports.

In reviewing the above table the following should be considered:

- sales volume grew by 16.1% to 5.7 million tonnes in FY2009 compared to FY2008, with growth registered across all four core product segments;
- sales revenue grew by almost 50% to SGD\$8.1 billion in FY2008 as sales volume rose by 30.6% to 4.9 million tonnes and prices increased across most of the products in the portfolio. Olam attributed 63% of the increase in sales revenue to underlying volume growth while the balance was contributed from price increases;
- in FY2009 sales revenue growth was far more modest as prices came down across most products even though sales volume increased. In FY2009 Asia and the Middle East accounted for 41% of group sales, Europe 27.3%, Africa 19.3% and the Americas 12.6%; and
- as illustrated in the table below confectionary & beverage ingredients have historically formed the largest sales segment representing 44% of total Olam's sales. Despite the global economic downturn, all sales segments, with the exception of industrial raw materials reported growth in revenue in FY2009:

Olam Sales Revenue Profile (SGD\$ millions)			
Year end 30 June	2007	2008	2009
Edible nuts, spices & beans	783	1,169	1,200
Confectionary & beverage ingredients	2,178	3,189	3,783
Food staples and packaged foods	1,432	2,028	2,140
Industrial raw materials	1,062	1,727	1,465
Total	5,456	8,112	8,588

5. Factors Contributing to the Olam Offer

5.1 Introduction

A combination of the readily availability of equity capital, increasing farm values in Uruguay and an increasing milk price contributed to the adoption of the significantly more aggressive land acquisition strategy adopted by NZFS than was contemplated at the time of the IPO in 2006.

The original concept for NZFS contemplated a farm network of 7,000 ha, with a projected capital cost of US\$60 million. In 2007 and the first half of the 2008 financial year NZFS raised a further NZ\$149 million by issuing 121.3 million shares. It became apparent by mid 2008 that the time required to complete the farm development would be longer than originally envisaged due to the vastly increased scale and the lack of management expertise and knowledge to implement New Zealand dairy farming practices in Uruguay. The five year business plan now contemplates ownership and development of a 28,600 ha network, with an estimated total capital cost of approximately US\$240 million. NZFS has a requirement of approximately US\$62 million to fund capital expenditure to complete the farm development, which includes:

- US\$20.3 million to be spent on irrigation and dams to provide irrigation to a total of 10,000 hectares representing approximately half of the proposed total dairy producing area of NZFS;
- US\$11.7 million to be spent on milking sheds and equipment. NZFS requires 48 milking sheds to fully service its dairy land area once fully developed;
- US\$8 million for electricity infrastructure including US\$7 million of NZFS's share of the high-tension electricity project required to bring electricity supply from the national grid into NZFS's farming districts;
- US\$5.2 million for initial fertiliser dosing;
- US\$8.4 million on other capital costs including pastures, roading, fencing, machinery, worker housing and earthworks; and
- US\$8.9 million for livestock purchases.

Although it is optimal and arguably most efficient to complete the dairy infrastructure as fast as possible, not all of the expenditure needs to be completed within the next 24 months. NZFS has considered a range of fund raising initiatives including:

- a bond issue(s), primarily to Uruguayan pension funds (including existing bond holders of the company);
- the sale and leaseback of a portfolio of NZFS farm land assets;
- the issue of convertible notes and/or ordinary shares to one or more institutional investors;
- the sale of selected property assets; and
- other capital market alternatives (such as a rights issue to existing and new shareholders).

There is also a requirement to fund the payment of the US\$13 million liability owed to PGG Wrightson in relation to performance fees and management fees due under the Management Contract. The payment to PGG Wrightson has already been deferred from its original due date by way of a loan agreement between NZFS and PGG Wrightson which expired in March 2010. The performance fee was incurred in 2008 when global milk commodity prices were at an all time high and NZFS's share price spiked temporarily.

Given the scope of NZFS's funding requirements, it can be expected that more than one of these sources of funding will be required. The eventual level of funding secured will impact the operations and profile of

NZFS. In the absence of any new funding NZFS will need to sell assets and seek to negotiate a further deferral of the performance fee payment.

5.2 Background to the Olam Offer

NZFS has been in discussions with Olam since the latter part of 2009. Olam acquired an initial 14.35% shareholding in NZFS in September 2009, increasing this to 18.4% in May 2010. During this period it conducted extensive due diligence which eventuated in the Olam Offer.

Grant Samuel understands that UAG and another party have been granted access to the business of NZFS for the purposes of conducting due diligence. Shareholders will note that UAG has given notice of intention to make a full takeover offer at NZ\$0.60 per share.

5.3 Factors influencing the NZFS business performance

There are a number of contributing factors to the NZFS business performance since the company's inception in 2006:

- a substantial increase in the land area acquired over and above the original plan;
- a significant shortfall in the volume of milk produced (relative to projections);
- a fluctuating milk price;
- the decision to invest in irrigations and electricity reticulation;
- a requirement for further capital to complete the conversions; and
- the sale of land only recently acquired to meet development costs.

Each of these factors is discussed below.

Increase in land area acquired

The table below sets out the land acquisition forecasts as set out in the Prospectus, compared with the actual land acquired.

NZFS – hectares of farmland		
Year end 30 June	2007	2008
Prospectus	7,000	13,000
Actual	26,523	36,300

In the Annual Report for the year ended 30 June 2007 the NZFS Chairman documented:

The first step in this has been the acquisition of suitable farmland in Uruguay. The risk of raising sellers' expectations limited our ability to report progress in land purchases as quickly or as fully as we would have liked. However, I can report that the company's acquisition programme has been very successful. Total holdings stand at 26,523ha in 3 hubs in western, central and eastern Uruguay compared with an original target for the period to June 2007 of around 7,000ha. While there was strong competition for suitable farmland, PGG Wrightson's local knowledge and presence in Uruguay ensured that the land acquired has been at prices close to the targeted US\$2,000 per ha.

Acceleration of the land acquisition programme was undertaken in a context of rising land prices, which resulted in a significant upward revaluation of the company's foundation farms, and a sharply improved outlook for dairy products. The Board is confident that this adjustment in strategy will benefit shareholders.

NZFS acquired more land than it was able to convert into high yielding dairy farms in the medium term. The funding of the development expenditure had not been secured at the time the land was purchased, due to an expectation that funding was readily available. The global financial crisis resulted in a very

sudden change in the availability of funding. In its initial prospectus in December 2006 NZFS intended to issue approximately 93 million shares, 75 million to new investors and 18 million to PGG Wrightson in part consideration for three farms. By the end of 2007 when NZFS listed on the NZX it had issued capital of more than 244 million shares. The most recent shares issued were 73.3 million shares at NZ\$1.50 raising NZ\$110 million in December 2007. The ready availability of equity funding during this period and the perceived low cost of land encouraged the Board and Manager to substantially increase land and livestock purchases as shown below:

NZFS – Fixed Assets and Livestock US\$ million		
Year end 30 June	2007	2008
Livestock		
Prospectus	6.7	11.6
Actual	8.2	40.4
Property Plant & Equipment		
Prospectus	23.9	48.3
Actual	64.2	165.4

Shortfall in Milk Volumes

Over the longer term NZFS is forecasting an average milk production of 17 litres per cow per milking day or approximately 4,675 litres per year. In 2010 the average production per farm varied from 8.1 litres per cow to 15.1 litres per cow and an overall average of 11.3 litres per cow. The wide disparity in production reflects the different stage of development of NZFS's farm portfolio. It is important to note that no farm is achieving the projected average (except at the height of the season) of 17 litres per cow per day target.

A factor in the poor operating performance has been climate but some variations in climatic conditions can be expected, and a larger contributing factor to the lower than expected milk production is that NZFS has not yet been able to get milk production per hectare or per cow anywhere near close to targeted levels. This is largely a result of the slower than planned development of a number of farms, impacted in particular by lower levels of phosphate application arising from a lack of funds and an underestimation of the difficulties in adapting New Zealand dairying farming practices to Uruguayan farming conditions. In addition, the 2007/2008 drought pushed back development by at least 12 months. As a result of that drought, NZFS is proposing to place approximately one half of its dairy farms under irrigation as soon as practicable.

Fluctuating Milk Price

The average milk price achieved by NZFS over the past 3 years is outlined in the table below:

Year end 30 June	US \$/ litre
2008	0.40
2009	0.24
2010	0.28

Over the last six years the price of internationally traded milk commodities has exhibited much higher price instability than any other time. Most market commentators believe that increased volatility is likely to persist at least over the medium term. The prices received by NZFS are higher than it originally forecast, however this is being offset by higher than expected operating costs per litre.

Higher Development Costs

The original plan made limited provisions for the investment in irrigation based on an analysis of rainfall patterns. The drought in 2007/2008 has resulted in a reassessment of that strategy with the intention of

50% of the milking land (10,000 hectares) being under irrigation. The extended cost of the irrigation system including electricity reticulation is approximately US\$35 million.

The table below shows the cash flows from investment activities and operations since NZFS's formation.

NZFS Half Yearly Cash Flows US\$ million								
	Dec 06	June 07	Dec 07	June 08	Dec 08	June 09	Dec 09	June 10
Investment	(7.8)	(28.2)	(53.7)	(47.8)	(27.9)	(0.5)	(6.3)	(8.0)
Divestment						2.4	6.5	9.3
Operations	-	(2.4)	(0.6)	(18.2)	(15.3)	(6.9)	(14.3)	(10.1)
Total Cash Flow	(7.8)	(30.6)	(54.3)	(66.0)	(43.2)	(5.0)	(14.1)	(8.8)

Further Conversion Capital Required

The market is aware that substantial further capital expenditure on conversion of the farms to dairy is required. The possibility of further share issues is likely to have placed downwards pressure on the share price.

Sale of Land

NZFS has, out of necessity, commenced selling land which it now considers to be non-core. To date NZFS has sold US\$24 million of land including sales in progress, the proceeds of which have been used to fund capital expenditure.

Lack of Credibility

A more measured approach to land acquisition and development would have, in all likelihood, resulted in a better outcome for shareholders, especially as a result of the impact of the global financial crisis on funding. As the chairman noted in November 2007, the development of the first three farms acquired from PGG Wrightson was only being completed at that time. In the season just ended these three completed farms have averaged only 500kgms per hectare compared with a target of 965kgms per hectare in 2016.

The land acquisitions strategy appears to have been based on three factors:

- the availability of funds;
- an expectation of higher land prices; and
- the prevailing strong milk price in the latter half of 2007 and first half of 2008

With the benefit of hindsight, these were the wrong reasons to significantly expand the size of the land area to be developed. Importantly, by the end of 2008 NZFS was starved of cash and began to take on debt and sell land to address a negative operating cash flow. At the same time capital expenditure was reduced drastically. The impact on global dairy prices as a result of the global financial crisis of 2008 was comparatively short lived with prices rising quite quickly and still yielding around US\$0.30 per litre in Uruguay. The impact on the ability of NZFS to fund the necessary development expenditures was serious and has slowed the conversions to dairy farms.

NZFS overestimated its ability to convert a very large number of farms to the New Zealand system in a relatively short period of time. The difficulties it encountered are being addressed, but until it has the financial resources to complete dairy conversions and pasture productivity improvement, it will continue to underperform. Further, the margins and milk volumes originally forecast have been shown to be overly optimistic with operating costs much higher per litre, but forecast to decline as both the number of milking cows and milk volumes per cow increase.

6. Valuation of NZFS

6.1 Summary

Grant Samuel's valuation of the equity in NZFS is between US\$111.8 million and US\$136.3 million equivalent to NZ\$0.65 to NZ\$0.79 cents per share as summarised below:

NZFS – Valuation Summary		
\$US million except where otherwise stated	Low	High
Enterprise value	154.4	179.0
Net debt for valuation purposes	(42.7)	(42.7)
Equity value	111.8	136.3
Fully diluted shares on issue (million)	244.2	244.2
Value per share (\$US cents)	45.8	55.8
Value per share (\$NZ cents) converted at NZD:USD 0.7050	64.9	79.2

The valuation represents the estimated full underlying value of NZFS assuming 100% of the company was available to be acquired and includes a premium for control. The value exceeds the price at which, based on current market conditions, Grant Samuel would expect NZFS shares to trade on the NZSX in the absence of a takeover offer. This valuation range is an overall judgement having regard to the following:

- Grant Samuel has valued NZFS based on forecast US dollar cash flows and translated that valuation into NZ dollars to derive a NZ dollar share valuation. The NZ dollar has a strong correlation to world commodity prices and therefore under normal conditions it is unlikely for the NZ dollar to move inversely with global dairy prices over the longer term. Any gains in global dairy prices are likely to be partially offset by a strengthening NZ dollar. The NZFS share value is more sensitive to milk price movements in Uruguay than NZ\$/US\$ exchange rates. To derive the value per share Grant Samuel has applied the current foreign exchange rate of NZD:USD 0.7050. The following table provides a range of NZ dollar share values for NZFS based on various NZD:USD assumptions:

NZFS – Value per share range based on FX assumptions (\$NZ cents)		
NZD: USD	Low	High
0.650	70.4	85.9
0.675	67.8	82.7
0.700	65.8	79.7
0.725	63.1	77.0

- In deriving net debt for valuation purposes Grant Samuel has taken into account NZFS's debt position as at 30 June 2010 and a series of transactions that NZFS plans to settle within the next three months or has settled since 30 June 2010. These transactions include the proceeds from the sale of the Don Pepe farm and undeveloped farms in the Western Region, the purchase of the Management Contract and settlement of outstanding fees with PGG Wrightson. A large portion of net debt is related to the US\$30 million of bonds issued to institutional investors in Uruguay.

NZFS – Net Debt for valuation purposes \$US (millions)	
Cash and cash equivalents	5.7
Bank overdraft and short term borrowing	(11.2)
Uruguay Bank long term loans	(16.0)
Uruguay Bonds ¹	(30.0)
Net Debt - 30 June 2010	(51.5)
Proceeds from Don Pepe Sale	7.0
Sales of undeveloped farms in Western Region	8.0
PGG Wrightson payables overdue	(3.4)
Buyout of PGG Wrightson Management Contract	(2.9)
Net Debt for valuation purposes	(42.7)

- As at 30 June 2010 NZFS had net tangible assets (**NTA**) of US\$0.64 per share (NZ\$0.91 per share). Grant Samuel's valuation implies a discount to NTA in the range of 13% to 29%. Grant Samuel would expect a discount to NTA when taking into consideration the significant investment that has occurred, which has not yet produced a positive cash flow and is unlikely to do so for a number of years. Further development and investment expenditure is required to transform the investment in land into productive dairy farms which carries both investment and execution risk.

6.2 Valuation Methodology

Overview

Grant Samuel's valuation of NZFS has been estimated on the basis of fair market value as a going concern, defined as the estimated price that could be realised in an open market over a reasonable period of time assuming that potential buyers have full information. The valuation of NZFS is appropriate for the acquisition of the company as a whole and accordingly incorporates a premium for control. The value is in excess of the level at which, under current market conditions, shares in NZFS could be expected to trade on the sharemarket. Shares in a listed company normally trade at a discount of 15% - 25% to the underlying value of the company as a whole, but the extent of the discount (if any) depends on the specific circumstances of each company.

The most reliable evidence as to the value of a business is the price at which the business or a comparable business has been bought and sold in an arm's length transaction. In the absence of direct market evidence of value, estimates of value are made using methodologies that infer value from other available evidence. There are four primary valuation methodologies commonly used for valuing businesses:

- capitalisation of earnings or cash flows;
- discounting of projected cash flows;
- industry rules of thumb; and
- estimation of the aggregate proceeds from an orderly realisation of assets.

¹ Grant Samuel considered marking this bond to market and researched BBB rated bonds in the US and the bond market in Uruguay. However, due to the complex nature of the bond, the location, the lack of market data in Uruguay and the various risks that surround NZFS, a market comparison was difficult to obtain. Therefore, the most appropriate and relevant yield to maturity to value the bond is the implied interest rate from NZFS's alternative debt sources. NZFS's management believes that the expected interest rate at the time the bond was created was approximately 10% and based on management's research this view has not changed (i.e. if NZFS was to raise an additional US\$30 million it would be close to 10% under a classical structure). Given the lack of market comparisons, Grant Samuel considers any adjustment to debt is arbitrary as the book value of the debt provides a close approximation to the likely value of market debt using a 10% yield to maturity.

Each of these valuation methodologies has application in different circumstances. The primary criterion for determining which methodology is appropriate is the actual practice adopted by purchasers of the type of business involved.

Capitalisation of Earnings

Capitalisation of earnings or cash flows is most appropriate for businesses with a substantial operating history and a consistent earnings trend that is sufficiently stable to be indicative of ongoing earnings potential. This methodology is not particularly suitable for start-up businesses, businesses with an erratic earnings pattern or businesses that have unusual expenditure requirements. This methodology involves capitalising the earnings or cash flows of a business at a multiple that reflects the risks of the business and the stream of income that it generates. These multiples can be applied to a number of different earnings or cash flow measures including EBITDA, EBITA, EBIT or net profit after tax. These are referred to respectively as EBITDA multiples, EBITA multiples, EBIT multiples and price earnings multiples. Price earnings multiples are commonly used in the context of the sharemarket. EBITDA, EBITA and EBIT multiples are more commonly used in valuing whole businesses for acquisition purposes where gearing is in the control of the acquirer.

Where an ongoing business with relatively stable and predictable earnings is being valued Grant Samuel uses capitalised earnings or operating cash flows as a primary reference point. Application of this valuation methodology involves:

- estimation of earnings or cashflow levels that a purchaser would utilise for valuation purposes having regard to historical and forecast operating results, non-recurring items of income and expenditure and known factors likely to impact on operating performance; and
- consideration of an appropriate capitalisation multiple having regard to the market rating of comparable businesses, the extent and nature of competition, the time period of earnings used, the quality of earnings, growth prospects and relative business risk.

The choice between the parameters is usually not critical and should give a similar result. All are commonly used in the valuation of industrial businesses. EBITDA can be preferable if depreciation or non-cash charges distort earnings or make comparisons between companies difficult but care needs to be exercised to ensure that proper account is taken of factors such as the level of capital expenditure needed for the business and whether or not any amortisation costs also relate to ongoing cash costs. EBITA avoids the distortions of goodwill amortisation. EBIT can better adjust for differences in relative capital intensity.

Determination of the appropriate earnings multiple is usually the most judgemental element of a valuation. Definitive or even indicative offers for a particular asset or business can provide the most reliable support for selection of an appropriate earnings multiple. In the absence of meaningful offers, it is necessary to infer the appropriate multiple from other evidence.

The usual approach is to determine the multiple that other buyers have been prepared to pay for similar businesses in the recent past. However, each transaction will be the product of a unique combination of factors. A pattern may emerge from transactions involving similar businesses with sales typically taking place at prices corresponding to earnings multiples within a particular range. This range will generally reflect the growth prospects and risks of those businesses. Mature, low growth businesses will, in the absence of other factors, attract lower multiples than those businesses with potential for significant growth in earnings.

An alternative approach used in valuing businesses is to review the multiples at which shares in listed companies in the same industry sector trade on the sharemarket. This gives an indication of the price

levels at which portfolio investors are prepared to invest in these businesses. Share prices reflect trades in small parcels of shares (portfolio interests) rather than whole companies and it is necessary to adjust for this factor.

The analysis of comparable transactions and sharemarket prices for comparable companies will not always lead to an obvious conclusion as to which multiple or range of multiples will apply. There will often be a wide spread of multiples and the application of judgement becomes critical. Moreover, it is necessary to consider the particular attributes of the business being valued and decide whether it warrants a higher or lower multiple than the comparable companies. This assessment is essentially a judgement.

The business thesis for NZFS and its entire development plan necessitates a long development period until positive cashflow can be generated. In its most recent results for the year to 30 June 2010 NZFS reported at US\$7.9 million loss. In fact, the company is only projecting operations to be profitable at an EBIT level in the year to 30 June 2012. Accordingly, a capitalisation of earnings valuation methodology is not appropriate.

Discounted Cash flow

Discounting of projected cash flows has a strong theoretical basis. It is the most commonly used method for valuation in a number of industries, and for the valuation of start-up projects where earnings during the first few years can be negative. DCF valuations involve calculating the net present value of projected cash flows. This methodology is able to explicitly capture the effect of a turnaround in the business, the ramp up to maturity or significant changes expected in capital expenditure patterns. The cash flows are discounted using a discount rate, which reflects the risk associated with the cash flow stream. Considerable judgement is required in estimating future cash flows and it is generally necessary to place great reliance on medium to long-term projections prepared by management. The discount rate is also not an observable number and must be inferred from other data (usually only historical). None of this data is particularly reliable so estimates of the discount rate necessarily involve a substantial element of judgment. In addition, even where cash flow forecasts are available the terminal or continuing value is usually a high proportion of value. Accordingly, the multiple used in assessing this terminal value becomes the critical determinant in the valuation (i.e. it is a “de facto” cash flow capitalisation valuation). The net present value is typically extremely sensitive to relatively small changes in underlying assumptions, few of which are capable of being predicted with accuracy, particularly beyond the first two or three years. The arbitrary assumptions that need to be made and the width of any value range mean the results are often not meaningful or reliable. Notwithstanding these limitations, DCF valuations are commonly used and can at least play a role in providing a check on alternative methodologies, not least because explicit and relatively detailed assumptions need to be made as to the expected future performance of the business operations.

Realisation of Assets

Valuations based on an estimate of the aggregate proceeds from an orderly realisation of assets are commonly applied to businesses that are not going concerns. They effectively reflect liquidation values and typically attribute no value to any goodwill associated with ongoing trading. Such an approach is not appropriate in the case of NZFS, as it clearly represents the scenario that is likely to occur if NZFS cannot secure all the funding desires.

Industry Rules of Thumb

Industry rules of thumb are commonly used in some industries. These are generally used by a valuer as a “cross check” of the result determined by a capitalised earnings valuation or by discounting cash flows, but in some industries rules of thumb can be the primary basis on which buyers determine prices. Grant Samuel is not aware of any commonly used rules of thumb that would be appropriate to value NZFS.

6.3 Discounted Cash Flow Valuation

Grant Samuel has adopted a discounted cashflow valuation as its preferred approach as NZFS has a detailed financial model available and the range of assumptions can be referenced against industry data. The discounted cashflow approach also allows Grant Samuel to demonstrate to NZFS shareholders the degree of sensitivity the valuation has to key assumptions such as global dairy prices, production volumes and foreign exchange rates.

NZFS provided Grant Samuel with a thirteen year financial model that was used for business planning purposes and capital raising. A thirteen year horizon was necessary to adequately capture the potential value of NZFS operating at a steady state for a reasonable period of time.

Grant Samuel has reviewed the underlying assumptions of the NZFS model and when deemed appropriate adjusted these assumptions. The following points provide an overview of the key considerations and adjustments made by Grant Samuel to derive the NZFS valuation:

Milk production forecasts

A key driver of the projections in each year is the assumed milk production level, measured in litres per day. The projected operational performance of NZFS (albeit some five years in the future) is in some cases projected to exceed the average performance currently being achieved by New Zealand dairy farms. The following table provides a high level comparison of NZFS's forecast FY2016 performance against New Zealand and South Island averages in 2009. FY2016 is considered an appropriate reference year because it represents the first year when the NZFS network is forecast to be completely developed and operating at a steady state.

NZFS – Comparison of NZFS's forecast performance in FY2016 to NZ dairy averages in 2009			
	NZFS	NZ	South Island
Milk solids %	8.0%	8.4%	8.3%
Milk solids per hectare	965	921	1,018
Kg Milk solids/cow milked	360	323	355
Litres per cow milked	4,510	4,043	4,473
Litres per cow/day	16.4	15.2	16.9
Days in milk	275	266	264

Source: LIC and Dairy NZ : New Zealand Dairy Statistics and Season herd test averages by LIC region 2008/2009.

Over the last 12 months, NZFS's top performing farm, Monasterio 3 in the Eastern Region, produced 667 kg of milk solids per hectare while all farms averaged 421kg of milk solids per hectare. To achieve the FY2016 volume forecast on average, milk production will need to increase by 129%². NZFS's plans include a significant increase in the number of milking cows and effective dairy land, improved management expertise, irrigation, application of fertiliser and a transition to New Zealand genetics. The existing herd is genetically dominated by Holstein cows sourced from Uruguay which are less capable of converting high volumes of pasture into milk. The forecast performance of NZFS is not directly comparable to New Zealand dairying regions for a number of reasons, but New Zealand statistics do provide a reasonable reference point. NZFS's management has made comparisons with Northland in the past due to latitudinal similarities, however due to NZFS's growth plan noted above the performance is expected to be closer to South Island averages. It is important to consider the large differences with this comparison, including soil type and weather conditions, especially when considering return on irrigation expenditure, and different time horizons. It is also important to recognise that the NZFS model is based on the utilisation of 70% of its farm land for dairy which could provide additional upside if NZFS is able to convert a large portion of the remaining land into effective dairy land.

² This includes farms that are currently undeveloped. The top performing farm, Monasterio 3 is required to increase productivity by 45%.

Grant Samuel considers that a degree of conservatism should be applied to the NZFS projections. For the purpose of the valuation Grant Samuel has assumed a range of projections, reflecting 90% – 95% of the level of milk production projected by NZFS. These assumptions result in the following revised production statistics for NZFS for FY2016:

Grant Samuel Revised Projections FY2016		
% of Base Production	90%	95%
Milk solids %	8.0%	8.0%
Milk solids per hectare	868	917
Kg Milk solids/cow milked	324	342
Litres per cow milked	4,059	4,258
Litres per cow/day	14.8	15.6
Days in milk	275	275

The milk price per litre

The most sensitive assumption in the valuation is the milk price received by NZFS. Analysis of the historical price being received by NZFS for milk and the average Whole Milk Powder (**WMP**) price on Fonterra's auction platform global Dairy Trade (**gDT**), not surprisingly, shows a close correlation.

Accordingly, Grant Samuel has estimated the prevailing milk price being paid to NZFS having had regard to limited publicly available information on WMP prices. For the purposes of valuation Grant Samuel has used US\$0.29 in the valuation.

The following table provides a range of NZD share prices based on various milk price assumptions and shows the sensitivity of the valuation to the milk price received by NZFS:

NZFS – Value per share range based on Milk Price assumptions (\$NZ cents)		
Milk price (US\$)	Low	High
0.250	30.5	42.9
0.275	51.6	65.1
0.300	73.8	88.5
0.325	93.9	109.7
0.350	115.7	132.7

Uruguayan tax losses and the Project of National Interest framework

NZFS has considerable tax losses and has recently been granted additional tax benefits by the Uruguayan government. The additional benefits are in the form of income tax concessions under the policy framework in place to encourage investment in economic growth and employment in Uruguay (the Project of National Interest framework). Grant Samuel has included the tax benefits from tax losses and the Project of National Interest framework within its discounted cash flow model.

Pasture costs

Once NZFS is at steady and developed state, pasture costs are forecast to represent approximately 50% of total farming costs or US\$378 per milking cow per annum. NZFS's management believes that there will be sufficient grass under the mix of irrigated and dry land and there is sufficient supplemental feed contained in the forecasts to support the planned stocking rate of 2.7 milk cows per hectare and production forecasts. NZFS has under its current five year plan approximately 30% of its land area set aside for dry stock. This is a much higher ratio than for a typical farm in New Zealand and will assist in achieving increased levels of milk production. Grant Samuel has reviewed NZFS's forecast pasture costs

and compared it to the NZ budget dairy model. Based on this comparison Grant Samuel consider there is no requirement to make an adjustment to pasture costs.

Sustainable EBITDA margins

Grant Samuel has compared the long term EBITDA margin of NZFS with the financial data provided by the Ministry of Agriculture and Forestry's (MAF) monitored dairy farms while taking into consideration the perception that Uruguay has lower operating costs. The following table provides a comparison of NZFS's forecast performance at FY2016 (incorporating Grant Samuel's adjustments). It must of course be recognised that there are differences between the conditions in New Zealand and Uruguay. However, as NZFS is implementing NZ farming methods and practices, in Grant Samuel's opinion it is the most appropriate comparison. The financial data from MAF illustrate the impact that climate and milk price volatility can have on farm performance. It is unrealistic to seek to incorporate future weather conditions into long-term forecasts. When valuing NZFS using a discounted cash flow long term sustainable EBITDA margins are a key consideration. If the EBITDA margin from FY2015 is adjusted to 45%, the implied value per share falls to NZ\$0.54 - NZ\$0.63.

Comparison of NZFS's financial performance at FY2016 against the top 10% of MAF monitored NZ farms for 2007/2008, 2008/09 and 2009/10					
	NZFS (Uruguay)		Top 10% (NZ)		
	Low	High	2007/2008	2008/2009	2009/2010
EBITDA margin %	50%	52%	59%	36%	49%
Milk solids per hectare	868	917	1,304	1,059	1,202
Milk production per cow	324	342	392	351	377
Stocking rate	2.7	2.7	3.1	3.0	3.2

Source: MAF: Pastoral sector overview 2009

The discount rate applied to cash flows

A 12.5% discount rate with a 2% terminal growth rate has been applied to the cash flows. Grant Samuel calculated a weighted average cost of capital using the capital asset pricing model (CAPM) to calculate the cost of equity. CAPM is probably the most widely accepted and used methodology for determining the cost of equity capital. There are more sophisticated multivariate models which utilise additional risk factors, but these models have not achieved any significant degree of usage or acceptance in practice. While the theory underlying the CAPM is rigorous, the practical application is subject to very substantial shortcomings and limitations. Results from application of the CAPM model should only be regarded as a general guide. There is a tendency to regard the discount rates calculated using CAPM as inviolate. There are no companies that are directly comparable to NZFS that provide support for key cost of equity parameters. Grant Samuel has calculated the cost of equity and debt to be 14.9% and 7.2% respectively which translates to a 12.2% discount rate. This is based on:

- a risk free rate of 5.34% being the ten year NZ government bond rate at 6 August 2010. It is important to note that the current risk free rate is still being impacted by the global financial crisis. The five year average before June 2008 was 6.16%. If that five year average was used to calculate the cost of equity the discount rate would increase to 12.7%;
- an equity beta of 1.1 based on NZFS's asset beta of 0.7 and debt to equity ratio of 35%. Grant Samuel believes that NZFS does not have sufficient trading history to warrant an accurate measure of systematic risk. However, when compared with PGG Wrightson's assessed beta and betas calculated across a large pool of food, dairy and agriculture operations across a range of geographies, Grant Samuel believes an equity beta of 1.1 is appropriate;
- a market risk premium of 7% and an additional 2% risk premium to reflect country and exchange rate risk. The risk premium is based on the existing yield spreads between the long term United

States and Uruguay (rated BB) sovereign bonds. In Grant Samuel's opinion a 2% risk premium is a fair approximation for the additional premium that investors will require to account for country and exchange rate; and

- a pre tax cost of debt of 10% and an after tax cost of 7.2% using the New Zealand corporate tax rate of 28%. A large portion of net debt is related to the US\$30 million in Uruguay Bonds. The cost of debt is usually the estimated current cost to a company of raising and maintaining its debt. The existing NZFS bond has a complicated structure where the interest and principal repayments are based on a formula incorporating gross milk revenue and certain key input costs (with a minimum interest payment of 5% and a maximum of 15%). Based on Grant Samuel's and NZFS's assumptions, the effective interest rate assuming the bond is repaid on 1 January 2018 is around 9.0%. NZFS confirms that under a classical structure the cost of debt is close to 10%.

Planned and long term capital expenditure requirements

As outlined in section 3.3 NZFS has US\$62.6 million in planned capital expenditure over the next two years and this has been included in the discounted cash flow. From FY2013, NZFS does not anticipate further significant levels of capital expenditure as all farms will be operational at an optimal level and only maintenance capital expenditure will be required. NZFS will need additional equity funding before it can contemplate raising further debt, such as a further US\$30 million issue to Uruguayan institutional investors.

Valuation using NZFS's management assumptions

Set out in the following table is a comparison between a valuation of NZFS using NZFS assumptions and Grant Samuel's assumptions. This comparison illustrates the sensitivity of the valuation to relatively small changes to key assumptions. Shareholders need to consider the likelihood of NZFS consistently achieving its forecast assumptions. One assumption in isolation may seem reasonable but in Grant Samuel's opinion there is a low probability of all assumptions falling into line consistently:

Bridge between Grant Samuel's high end and a valuation using NZFS's assumptions			
	Assumptions		Valuation Impact
	NZFS	Grant Samuel	(\$NZ cents)
Valuation under NZFS's assumptions			116.8
Discount rate	12.15%	12.5%	(6.3)
Terminal growth	0%	2%	11.0
Foreign exchange (NZD: USD)	US\$0.70	US\$0.705	(0.9)
Milk Price	US\$0.32	US\$0.29	(27.2)
Milk volumes	100%	95%	(14.3)
Grant Samuel valuation			79.2

7. Merits of the Olam Offer

7.1 Value of the Olam Offer

The Olam Offer of NZ\$0.55 per share is below Grant Samuel's valuation range of NZ\$0.65 - \$0.79. We note that:

- NZFS has an urgent need to raise US\$62 million over the next two years. The Olam Offer could be considered to be opportunistic, recognising NZFS's need for a substantial injection of funds and only limited options available. Shareholders need to weigh up the current uncertain future faced by NZFS against an offer that could be considered sub-optimal from a value perspective. NZFS is forecasting strong growth in revenues and an increase in earnings. The expectation of an improved performance must be matched against the urgent need to raise significant funds to complete the farm development plan and the historical performance.
- Shareholders may choose to not accept the Olam Offer unless Olam increases the price. Olam has stated it won't make another offer before 31 March 2011 if the Olam Offer is made unconditional. Olam already holds 18.4% of the issued capital of NZFS which demonstrates a degree of commitment to the company. NZFS's second largest shareholder, PGG Wrightson, has accepted the NZ\$0.55 offer price, Olam may see no reason to pay a higher price as it now has nearly 30% of the shares locked up, making it more difficult for the competing UAG Offer to succeed. Olam understandably has given no indication of its intention to pay a higher price;
- in Grant Samuel's opinion Olam can afford to pay a higher price. At the current Olam Offer price it is unlikely that Olam will be successful in achieving 100% ownership and, in Grant Samuel's opinion, will struggle at the current offer price to get to the minimum 50.1% ownership, particularly given the emergence of a competing higher offer from UAG;
- the Olam Offer represents a premium of approximately 35% relative to the closing price of NZ\$0.41 per share on 18 July 2010, being the day prior to Olam's takeover offer. The premium for control is consistent with the premiums for control generally observed in successful takeovers of other listed companies;
- in Grant Samuel's opinion the Five Year Business Plan of NZFS is aggressive and will be a challenge to achieve. The individual assumptions on their own appear reasonable, when referenced to New Zealand performance, but collectively they produce a significant improvement in earnings year on year to a point where the measures of performance such as litres of milk per cow, and kgms per cow exceed that of the current New Zealand average. Further, the assumptions do not take into account climatic influences on annual production and the different soil types and climate across the 49 farms; and
- shareholders who believe that the Olam Offer price is too low, but also see benefit in a strong committed cornerstone shareholder such as Olam, may wish to delay their acceptance until late in the offer period. Under the Takeovers Code the Olam Offer must be open for a minimum of 30 days and a maximum of 90 days. If the Olam Offer period is to be extended beyond the original closing date of 24 September 2010 stipulated in the Offer Document, Olam must give 14 days notice of its intention to extend the offer period. There is no need to decide whether to accept the Olam Offer until the last 14 days of the Olam Offer period. Once within the last 14 days of the Olam Offer period, Olam cannot extend the Olam Offer time to accept. Olam is required to advise the market of the level of acceptances. As noted elsewhere, shareholders may elect to sell only a part of their shareholding and use the proceeds to participate in an expected, but not assured, rights issue at a discount to the prevailing share price. There is no compelling reason to accept the Olam Offer early but good reasons to delay acceptance to give Olam an incentive to increase its offer to at least

match or better the indicated UAG Offer price of NZ\$0.60 and for an alternative offer to be potentially made by another party.

7.2 Implications of the Olam Offer in terms of NZFS shares and ownership

If the Olam Offer is successful then NZFS will either remain a listed company with Olam as a cornerstone shareholder holding at least 50.1% of voting rights, or be fully taken over by Olam. Of the two outcomes, Olam securing at least 50.1% but less than 100% is the more likely, however, this is by no means assured, particularly in light of the higher offer from UAG. In either of these circumstances:

- the liquidity of NZFS shares may be affected. NZFS is a relatively thinly traded share. The size of the total public pool of shareholders will reduce if the Olam Offer is successful but the company will arguably have a higher profile and be seen as more stable with Olam as a cornerstone shareholder and as a result there may be an increased level of interest in NZFS shares. An alternative outcome is for Olam to secure a relatively high shareholding from the Olam Offer and/or a subsequent rights issue, which would reduce the liquidity and attractiveness of an investment in NZFS shares to institutional shareholders, depressing the share price;
- if the Olam Offer is successful Olam will not be able to acquire any further shares in NZFS during the next 12 months, without making a further partial or full takeover offer for NZFS or without the prior approval of NZFS shareholders. After 12 months it can acquire an additional 5% each year without the need for a formal offer. Olam has stated it will not make a further takeover offer for NZFS for a price higher than the price paid under the Olam Offer prior to 31 March 2011. By making this statement, Olam cannot make another offer until April 2011. Rule 64 of the Takeover Code prohibits misleading and deceptive conduct and accordingly the Panel would hold Olam to its commitment to not make another offer until April 2011. It is possible that Olam may choose to increase the price under the current Olam Offer before it closes, particularly in light of the UAG Offer. If this occurs all shareholders will receive the higher price regardless of whether they accepted the original offer;
- the attraction of NZFS as a takeover target is likely to be diminished while Olam owns at least a 50.1% shareholding. For any subsequent takeover offer for 100% of the company from another party to be successful would require Olam to sell its shareholding in NZFS to the offerer. Takeovers are an important mechanism by which shareholders can realise value in excess of sharemarket prices as bidders will typically pay a premium to acquire control. Impediments to a takeover are generally negative for shareholders in as much as they remove or lessen the impact on share prices of potential takeovers;
- if Olam is not successful in securing sufficient acceptances to take its shareholding in NZFS to 50.1% it will remain as an 18.4% shareholder. This level of shareholding would be an impediment to a full takeover from another party, but not a partial offer. It would also be insufficient to block shareholder approval of a substantial placement to another party. Olam itself may choose to accept the UAG Offer, increasing the likelihood of a successful outcome for UAG;
- if Olam is successful in securing at least 50.1% of the shares in NZFS it can be expected that NZFS's share price will be rerated. The extent of any rerating will be dependent upon NZFS raising the necessary funding and being able to demonstrate improved milk production in the 2011 and subsequent seasons;
- in the event the Olam and UAG Offers lapse and no other party comes forward with an alternative offer or proposal, the NZFS share price will come under pressure particularly in light of the substantial funding requirement. As already noted UAG has given notice of intentions to make an offer and one other party is considering making an offer; and
- the compulsory acquisition provisions of the Takeovers Code come into effect where the dominant owner reaches ownership or control of 90% of all the voting securities on issue. If Olam receives sufficient acceptances of the Olam Offer to increase its shareholding to 90% or more it must, as stated in clause 11 of the Appendix to the Olam Offer Document, compulsorily acquire any outstanding NZFS shares.

7.3 Implications of the Olam Offer for NZFS

If the Olam Offer becomes unconditional there will be a number of implications for NZFS:

- it is generally accepted that a shareholding of around 40% or greater in a widely held public listed company would give that holder control. While NZFS is not a widely held public company, with top 100 shareholders holding 82% of the shares, a shareholding of at least 50% will afford a significant level of control;
- Olam will seek to appoint new directors to the Board of NZFS. Olam could be reasonably expected to have a majority on the Board;
- NZFS will secure a financially strong, long term cornerstone shareholder. At present NZFS does not have a cornerstone investor. Currently the two largest shareholders are PGG Wrightson (11.45%) and Olam (18.45%). While these shareholders are both supportive of NZFS, neither can be regarded as cornerstone investors at their existing levels of shareholding. Olam's increased shareholding should provide stability to the share register. Olam has stated that it would be a long term investor which seeks to add value to NZFS. Olam is a substantial operator in the supply chain management of agricultural products and food ingredients. Since 2003 Olam has become a major trader in dairy products. Initially it restricted its trading to milk powder but has expanded the range of products into butter, anhydrous milk fat and cheese. Olam with a controlling shareholding will provide strategic direction for the company and it has stated that it has the financial resources to fund the required investment, either through equity or a combination of debt and equity;
- it is possible that Conaprole, the company that purchases all of NZFS's output would see Olam as a potential threat should Olam either on its own or in joint venture establish a milk processing plant. However, Olam is understood to have no immediate plans to invest in processing capacity in Uruguay; and
- it can be expected that, if Olam becomes the holder of at least 50.1% (but less than 100%) of the capital of NZFS, it will seek to raise the maximum amount of the required funding by way of an underwritten rights issue. Olam has stated in its offer to shareholders that "given NZFS's performance history and current financial situation, equity is a more appropriate source of funding as compared to additional debt". Shareholders may wish to consider selling a proportion of their shareholding into the Olam Offer and using the proceeds to take up the rights under a cash issue which will in all likelihood be priced below the Olam Offer price of NZ\$0.55. The size, price and even the fact of a cash issue is not certain. In Grant Samuel's opinion there is a high probability of a cash issue in the event Olam secures control. It is reasonable to expect that Olam would be an underwriter for any rights issue. If its percentage ownership of the voting shares increases as a result of the take up of shares under any underwrite, the increased ownership level would need to be approved by shareholders.

7.4 Other merits of the Olam Offer

In assessing the other merits of the Olam Offer Grant Samuel considered the following factors:

- PGG Wrightson is the Manager of NZFS and based on its knowledge of NZFS has agreed to sell at the Olam Offer price of NZ\$0.55 per share and has already accepted the Olam Offer for its 11.5% shareholding. It is arguable that PGG Wrightson "supports" the Olam Offer as from its perspective a clean sale of all of its shareholding may be preferable to selling through the open market and depressing the share price or alternatively retaining its shareholding and being required to participate in a relatively large cash issue so as to not be diluted. PGG Wrightson is acting in its own best interests and it would be wrong to suggest that its acceptance of the Olam Offer is indicative of a view on the part of PGG Wrightson that the Olam Offer is necessarily in the best interests of all NZFS shareholders.

- on 16 August 2010 UAG gave notice of intention to make an offer to acquire all of the shares in NZFS at a price of NZ\$0.60 per share. The UAG Offer will be conditional upon UAG taking its current level of shareholding (1.65%) to more than 50%;
- UAG is an agricultural investment company based in Uruguay. UAG has conducted due diligence on NZFS;
- the UAG Offer is higher than the Olam Offer. It is likely but not certain that Olam will match or better the UAG Offer;
- alternatively, but less likely at NZ\$0.60 per share, Olam could accept the UAG Offer, but given its 18.4% shareholding and that it effectively controls the ownership of the PGG Wrightson shareholding it may seek to use that level of shareholding to extract a higher offer price from UAG;
- in Grant Samuel's opinion, UAG will not be successful in its bid to get to a minimum shareholding of more than 50% unless it is able to secure the Olam and by default PGG Wrightson combined shareholding of nearly 30%;
- Grant Samuel understands that a third party is in the final stages of conducting due diligence and negotiating terms of a possible investment of fresh capital. Grant Samuel understands that the investor would be a passive investor and unlike Olam and UAG would not seek control of NZFS;
- if NZFS is to secure the proposed new equity it would, in Grant Samuel's opinion, be in a position to raise debt for the balance of the proposed capital expenditure plan;
- the issue of shares to the third party will require shareholder approval under the NZX Listing Rules. As a result, the issue of shares could proceed. Both the Olam and UAG Offers have conditions which would allow them to terminate the offer if new shares are issued, which is not operative if shareholders are required to approve the issue. Put simply, neither of the offers can be withdrawn because of the shareholders' vote to issue shares to another party;
- Grant Samuel believes that the presence of one and possibly two new parties willing to invest in NZFS will result in an increased offer price. Exactly how events will unfold is unclear. The last date for accepting the Olam Offer is 24 September 2010 and currently based on the takeover notice is 29 October 2010 for the UAG Offer. Both offers can be extended, provided 14 days notice base on the takeover notice is given.

As with any equity investment there are risks and opportunities associated with the market in which the company operates. The risks and opportunities associated with an investment in NZFS include:

Opportunities for the NZFS Business

To date NZFS has underperformed its own forecasts and the challenge is to significantly increase milk productions through both better farm management and capital expenditure. NZFS will only be able to capitalise on the opportunities facing the business once the immediate need to fund US\$62 million has been addressed. Assuming this takes place (recognising that there is significant uncertainty) NZFM should:

- become self funding and eventually be in a position to make distributions to shareholders in addition to repaying the US\$30 million of bonds to Uruguayan institutions. The bonds are a relatively expensive form of funding particularly at current milk prices as the interest rate is linked to both milk prices and input costs; and
- be able to finish the planned development of its dairy farm network. On completion NZFS will be the biggest dairy farm operator in Uruguay producing approximately 16% of the country's milk, and should be able to generate strong cashflows from its substantial investment in dairy farms. All agricultural businesses are subject to the vagaries of climate and commodity prices and it can be expected that NZFS will continue to experience significant variations in its earnings and cashflows.

Risks of the NZFS Business

NZFS faces the immediate risk of not raising the required capital:

- NZFS has underperformed since its inception. Although the impact of the global financial crisis could have not been foreseen, its impact on dairy price was in fact only short term. NZFS's current funding shortfall stems largely from the decision to expand the land acquisition plan dramatically in 2007 and to underestimate the difficulties in completing the "NZ System" in a foreign country with limited specialist technical advice available. NZFS initially failed to put on the ground sufficient experienced management capable of adapting the NZ System to the very different conditions prevailing in Uruguay. NZFS needs one or more of the capital raising initiatives to be implemented, or its viability will come into question. In the absence of suitable funding, NZFS will have to continue to sell land; and
- NZFS has been conducting discussions with a range of parties to find a cornerstone investor, a role which PGG Wrightson appears now unwilling or unable to undertake. At present NZFS is in a position where it must raise US\$62 million to complete the conversion of its land in Uruguay into 49 large, modern dairy units. With only a very limited ability to increase debt (without further equity) NZFS will be faced with undertaking a rights issue to existing shareholders with no certainty of success or finding a financially strong cornerstone shareholder prepared to support the company either by way of undertaking a cash issue or a combination of a cash issue and some form of shareholder loan. In Grant Samuel's opinion further bank debt will be not forthcoming until NZFS can demonstrate a history of positive operating cash flows and increased equity. The forecast capital expenditure for the 2011 financial year totalling US\$30 million would be the minimum that must be raised with equity. The current market capitalisation of NZFS is NZ\$153.9 million. In the event of a cash issue to raise US\$30 million, existing shareholders of NZFS are likely to need to outlay approximately NZ\$170 for every 1,000 shares held, on the basis of an assumed NZ\$0.40 issue price. If the full amount of the capital expenditure is to be funded by equity, shareholders would need to outlay NZ\$350 for every 1,000 shares. A holding of 1,000 shares in NZFS has a current market value of NZ\$630.

Other risks inherent in the business include:

- dairy commodity prices – these can be expected to fluctuate;
- foreign exchange risks – being a New Zealand domiciled company with all of its assets valued in US dollars, certain operating costs in Uruguayan pesos and revenues reflective of movements in US dollar denominated commodity prices, shares in NZFS can be expected to be more susceptible to foreign exchange movements than the majority of stocks listed on NZX;
- the Uruguayan climate – NZFS has already in a short period of time experienced one major drought which had a severe impact, particularly as at the time it had only a very small amount of land under irrigation. Climate will continue to impact on the results of NZFS;
- when development is completed, NZFS will be a very large farming business and dependent on the quality of its many farm managers. The ramifications of poor decision making in farming can have effects beyond one season. NZFS has recently employed three New Zealand adviser managers to assist and supervise farm managers, in order to produce more consistent results;
- it has become apparent that the "New Zealand model" needs to be adapted to suit local Uruguayan conditions. To date the model has not proved itself with production at the longest held farms still well below forecast levels. For example New Zealand rye grasses are not coping on un-irrigated land with the high temperatures experienced in summer and NZFS has only limited experience to date with the carnitine grass types such as Fescue. The Holstein cow breed requires higher levels of supplements than the Friesian. It will take at least 5 years to convert the herds to a predominant Friesian cross breed. The New Zealand farming model is based on a vast body of knowledge built up over many years and readily accessible by all farmers. Only limited knowledge of the New Zealand model exists in Uruguay and as a result NZFS is learning the hard way;

- NZFS supplies all of its milk across its network to Conaprole, a dairy co-operative. Conaprole accounts for 70% of the Uruguayan milk processing capacity and is widely considered the strongest financially. NZFS is already the largest supplier of milk to Conaprole. However Conaprole will be alert to the presence of Olam as the cornerstone shareholder of NZFS. Provided that Olam does not express desire to commence development of or acquire milk processing facilities in Uruguay, the NZFS/Conaprole supplier/processor relationship is likely to be preserved; and
- Olam has indicated that it intends to review farm development expenditure. This review has the potential to delay critical expenditure, in particular on pasture development, further delaying the increase in production necessary to produce adequate returns on investment.

7.5 Acceptance or Rejection of the Proposed Transaction

Acceptance or rejection of the Proposed Transaction is a matter for individual shareholders based on their own view as to value and future market conditions, risk profile, liquidity preference, portfolio strategy, tax position and other factors. In particular, taxation consequences will vary widely across shareholders. Shareholders will need to consider these consequences and, if appropriate, consult their own professional adviser(s).

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8. Qualifications, Declarations & Consents

8.1 Qualifications

The Grant Samuel group of companies provides corporate advisory services (in relation to mergers and acquisitions, capital raisings, corporate restructuring and financial matters generally), property advisory services and manages private equity and property development funds. One of the primary activities of Grant Samuel is the preparation of corporate and business valuations and the provision of independent advice and expert's reports in connection with mergers and acquisitions, takeovers and capital reconstructions. Since inception in 1988, Grant Samuel and its related companies have prepared more than 400 public expert and appraisal reports.

The persons responsible for preparing this report on behalf of Grant Samuel are Michael Lorimer, BCA, Simon Cotter, BCom, MAppFin, F Fin, John Mandeno BCom, and Christopher Smith, BCom, PGDipFin, DipAppFin. Each has a significant number of years of experience in relevant corporate advisory matters.

8.2 Limitations and Reliance on Information

Grant Samuel's opinion is based on economic, market and other conditions prevailing at the date of this report. Such conditions can change significantly over relatively short periods of time. The report is based upon financial and other information provided by the directors, management and advisers of NZFS. Grant Samuel has considered and relied upon this information. Grant Samuel believes that the information provided was reliable, complete and not misleading and has no reason to believe that any material facts have been withheld.

The information provided has been evaluated through analysis, enquiry, and review for the purposes of forming an opinion as to the underlying value of NZFS and the merits of the Proposed Transaction. However in such assignments time is limited and Grant Samuel does not warrant that these inquiries have identified or verified all of the matters which an audit, extensive examination or "due diligence" investigation might disclose.

The time constraints imposed by the Takeovers Code are tight. This timeframe restricts the ability to undertake a detailed investigation of NZFS. In any event, an analysis of the merits of the Proposed Transaction is in the nature of an overall opinion rather than an audit or detailed investigation. Grant Samuel has not undertaken a due diligence investigation of NZFS. In addition, preparation of this report does not imply that Grant Samuel has audited in any way the management accounts or other records of NZFS. It is understood that, where appropriate, the accounting information provided to Grant Samuel was prepared in accordance with generally accepted accounting practice and in a manner consistent with methods of accounting used in previous years.

An important part of the information base used in forming an opinion of the kind expressed in this report is the opinions and judgement of the management of the relevant enterprise. That information was also evaluated through analysis, enquiry and review to the extent practicable. However, it must be recognised that such information is not always capable of external verification or validation.

The information provided to Grant Samuel included projections of future revenues, expenditures, profits and cashflows of NZFS prepared by the management of NSZ. Grant Samuel has used these projections for the purpose of its analysis. Grant Samuel has assumed that these projections were prepared accurately, fairly and honestly based on information available to management at the time and within the practical constraints and limitations of such projections. It is assumed that the projections do not reflect any material bias, either positive or negative. Grant Samuel has no reason to believe otherwise.

However, Grant Samuel in no way guarantees or otherwise warrants the achievability of the projections of future profits and cashflows for NZFS. Projections are inherently uncertain. Projections are predictions of future events that cannot be assured and are necessarily based on assumptions, many of which are beyond the control of management. The actual future results may be significantly more or less favourable.

To the extent that there are legal issues relating to assets, properties, or business interests or issues relating to compliance with applicable laws, regulations, and policies, Grant Samuel assumes no responsibility and offers no legal opinion or interpretation on any issue. In forming its opinion, Grant Samuel has assumed, except as specifically advised to it, that:

- the title to all such assets, properties, or business interests purportedly owned by NZFS is good and marketable in all material respects, and there are no material adverse interests, encumbrances, engineering, environmental, zoning, planning or related issues associated with these interests, and that the subject assets, properties, or business interests are free and clear of any and all material liens, encumbrances or encroachments;
- there is compliance in all material respects with all applicable national and local regulations and laws, as well as the policies of all applicable regulators other than as publicly disclosed, and that all required licences, rights, consents, or legislative or administrative authorities from any government, private entity, regulatory agency or organisation have been or can be obtained or renewed for the operation of the business of NZFS, other than as publicly disclosed;
- various contracts in place and their respective contractual terms will continue and will not be materially and adversely influenced by potential changes in control; and
- there are no material legal proceedings regarding the business, assets or affairs of NZFS, other than as publicly disclosed.

8.3 Disclaimers

It is not intended that this report should be used or relied upon for any purpose other than as an expression of Grant Samuel's opinion as to the merits of the Proposed Transaction. Grant Samuel expressly disclaims any liability to any NZFS security holder who relies or purports to rely on the report for any other purpose and to any other party who relies or purports to rely on the report for any purpose whatsoever.

This report has been prepared by Grant Samuel with care and diligence and the statements and opinions given by Grant Samuel in this report are given in good faith and in the belief on reasonable grounds that such statements and opinions are correct and not misleading. However, no responsibility is accepted by Grant Samuel or any of its officers or employees for errors or omissions however arising in the preparation of this report, provided that this shall not absolve Grant Samuel from liability arising from an opinion expressed recklessly or in bad faith.

Grant Samuel has had no involvement in the preparation of the Target Company Statement issued by NZFS and has not verified or approved any of the contents of the Target Company Statement. Grant Samuel does not accept any responsibility for the contents of the Target Company Statement (except for this report).

8.4 Independence

Grant Samuel and its related entities do not have any shareholding in or other relationship or conflict of interest with NZFS or Olam that could affect its ability to provide an unbiased opinion in relation to the Proposed Transaction. Grant Samuel had no part in the formulation of the Proposed Transaction. Its only role has been the preparation of this report. Grant Samuel will receive a fixed fee for the preparation

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of this report. This fee is not contingent on the outcome of the Proposed Transaction. Grant Samuel will receive no other benefit for the preparation of this report. Grant Samuel considers itself to be independent for the purposes of the Takeovers Code.

8.5 Information

Grant Samuel has obtained all the information that it believes is desirable for the purposes of preparing this report, including all relevant information which is or should have been known to any Director of NZFS and made available to the Directors. Grant Samuel confirms that in its opinion the information provided by NZFS and contained within this report is sufficient to enable NZFS security holders to understand all relevant factors and make an informed decision in respect of the Proposed Transaction. The following information was used and relied upon in preparing this report:

Publicly Available Information

- NZFS's Annual Reports 2008 and 2009;
- NZFS's Management Agreement with PGG Wrightson;
- 2006 Investment Statement/ Prospectus;
- 2007 Investment Statement/ Prospectus;
- 2009 Uruguay Bond Prospectus;
- Broker Reports;
- NZFS Fitch Report on Uruguay Bond Issue;
- NZFS's investor presentations;
- NZ Dairy Statistics 2008 – 2009;
- FAPRI 2010 Agriculture Outlook; and
- MAF Pastoral Sector Overview 2008 and 2009.

Non Public Information

- NZFS's Financial Statements 2010;
- NZFS's Five Year Business Plan FY 2011 – FY 2015;
- NZFS's Five Year Financial Model;
- Ernst and Young tax advice to NZFS;
- NZFS's Board Papers over the last 12 months;
- NZFS production statistics and performance by farm and month for FY 2009 and FY 2010;
- Olam's due diligence report on NZFS's farm resources (i.e. pasture, milking area, cow numbers and costs); and
- NZFS's response to Olam's due diligence report and supporting documents.

8.6 Declarations

NZFS has agreed that it will indemnify Grant Samuel and its employees and officers in respect of any liability suffered or incurred as a result of or in connection with the preparation of the report. This indemnity will not apply in respect of the proportion of any liability found by a Court to be primarily caused by any conduct involving gross negligence or wilful misconduct by Grant Samuel. NZFS has also agreed to indemnify Grant Samuel and its employees and officers for time spent and reasonable legal costs and expenses incurred in relation to any inquiry or proceeding initiated by any person. Where Grant Samuel or its employees and officers are found to have been grossly negligent or engaged in wilful misconduct

Grant Samuel shall bear the proportion of such costs caused by its action. Any claims by NZFS are limited to an amount equal to the fees paid to Grant Samuel.

Advance drafts of this report were provided to the directors and executive management of NZFS. Certain changes were made to the drafting of the report as a result of the circulation of the draft report. There was no alteration to the methodology, evaluation or conclusions as a result of issuing the drafts.

8.7 Consents

Grant Samuel consents to the issuing of this report in the form and context in which it is to be included in the Target Company Statement to be sent to security holders of NZFS. Neither the whole nor any part of this report nor any reference thereto may be included in any other document without the prior written consent of Grant Samuel as to the form and context in which it appears.

GRANT SAMUEL & ASSOCIATES LIMITED

20 August 2010

Grant Samuel + Associates

Target Company Statement

This Target Company Statement has been prepared by NZ Farming Systems Uruguay Limited pursuant to Rule 46 and Schedule 2 of the Takeovers Code in relation to a full takeover offer made by Olam International Limited

1 DATE

- 1.1 This target company statement ("**Statement**") is dated 20 August 2010.

2 OFFER

- 2.1 This Statement relates to a full takeover offer by Olam International Limited ("**Olam**") to purchase all of the fully paid ordinary shares ("**Shares**" or "**NZS Shares**") not already held by it in NZ Farming Systems Uruguay Limited, for a cash purchase price of NZ\$0.55 per Share (the "**Offer**"). The Offer closes (subject to any extension) at 5.00pm New Zealand time on 24 September 2010.
- 2.2 Olam currently holds 18.45% of the Shares. If the Offer is successful, Olam will control more than 50% of NZS' Shares.
- 2.3 The terms of the Offer are set out in the Offer Document dated 6 August 2010 ("**Offer Document**").

3 TARGET COMPANY

The name of the target company is NZ Farming Systems Uruguay Limited ("**NZS**").

4 DIRECTORS OF TARGET COMPANY

The names of the directors of NZS are as follows:

- (a) Murray James Flett
- (b) Michael Craig Norgate
- (c) John Suffield Parker (Chairman)
- (d) John Cecil Roadley
- (e) Keith Raymond Smith
- (f) Graeme Henry Wong

5 OWNERSHIP OF EQUITY SECURITIES OF TARGET COMPANY

- 5.1 The number and the percentage of any class of equity securities in NZS (being ordinary shares) held or controlled by the directors and senior officers of NZS and their associates are set out in Schedule One.
- 5.2 Except as set out in Schedule One, no other person referred to in paragraph 5.1 holds any equity securities of NZS.
- 5.3 The number and issue price of equity securities in NZS that have, during the two year period ending on the date of this Statement, been issued to the directors and senior officers of NZS or their associates are set out in Schedule Two.

- 5.4 The number and the percentage of equity securities in NZS held or controlled by any other person known by NZS to hold or control 5% or more of the ordinary shares are set out in Schedule Three.

- 5.5 No directors or senior officers or their associates have, in the two year period ending on the date of this Statement, obtained a beneficial interest under any NZS employee share scheme or other remuneration arrangement.

6 TRADING IN TARGET COMPANY EQUITY SECURITIES

- 6.1 In addition to the issue of NZS shares referred to in paragraph 5.3, details of all other acquisitions or disposals of NZS shares by any director or senior officer of NZS or their associates, or any person holding or controlling 5% or more of NZS shares, during the six month period before the latest practicable date before the date of this Statement, being 18 August 2010 ("**Reference Date**"), are set out in Schedule Four, including the number of shares acquired or disposed in, consideration for, and the date of, each transaction. As a result of ongoing discussions regarding potential funding options, none of the directors or senior officers of NZS have been allowed to trade NZS' shares during the six month period before the Reference Date.

7 ACCEPTANCE OF OFFER

- 7.1 Each of NZS' Directors, senior officers and their associates who holds or controls NZS' Shares has indicated that their intention is to not sell into the Offer any of those Shares.

8 OWNERSHIP OF EQUITY SECURITIES OF OFFEROR

- 8.1 Neither NZS, nor any other director or senior officer of NZS or any of their associates, holds or controls any equity securities in Olam.

9 TRADING IN EQUITY SECURITIES OF OFFEROR

- 9.1 Neither NZS, nor any director or senior officer of NZS or any of their associates, has acquired or disposed of any equity securities in Olam during the six month period before the Reference Date.

Target Company Statement (continued)

10 ARRANGEMENTS BETWEEN OFFEROR (AND OFFEROR'S ASSOCIATES) AND TARGET COMPANY (AND TARGET COMPANY'S RELATED COMPANIES)

- 10.1 No agreement or arrangement (whether legally enforceable or not) has been made, or is proposed to be made, between Olam or any associates of Olam and NZS or any related company of NZS, in connection with, in anticipation of, or in response to, the Offer.

11 RELATIONSHIP BETWEEN OFFEROR (AND OFFEROR'S ASSOCIATES), AND DIRECTORS AND OFFICERS OF TARGET COMPANY (AND TARGET COMPANY'S RELATED COMPANIES)

- 11.1 No agreement or arrangement (whether legally enforceable or not) has been made, or is proposed to be made, between Olam or any associates of Olam, and any of the directors or senior officers of NZS or any related company of NZS in connection with, in anticipation of, or in response to, the Offer.
- 11.2 No directors or senior officers of NZS are also directors or senior officers of Olam, or any related company of Olam.

12 AGREEMENT BETWEEN TARGET COMPANY (AND TARGET COMPANY'S RELATED COMPANIES), AND DIRECTORS AND OFFICERS OF TARGET COMPANY (AND TARGET COMPANY'S RELATED COMPANIES)

- 12.1 No agreement or arrangement (whether legally enforceable or not) has been made, or is proposed to be made between NZS or any related company of NZS, and any of the directors or senior officers or their associates of NZS or its related companies, under which a payment or other benefit may be made or given by way of compensation for loss of office, or as to their remaining in or retiring from office in connection with, in anticipation of, or in response to, the Offer.
- 12.2 Prior to notice of the Offer being received, negotiations were ongoing to internalise management of NZS (see page 9).

13 INTERESTS OF DIRECTORS AND OFFICERS OF TARGET COMPANY IN CONTRACTS OF OFFEROR (OR A RELATED COMPANY OF THE OFFEROR)

- 13.1 Other than as set out in this clause 13, no director or senior officer of NZS or their associates has any interest in any contract to which Olam, or any related company of Olam, is a party.
- 13.2 Keith Smith, a director of NZS, is also a director of PGG Wrightson Limited. It is the parent company of PGG Wrightson Investments Limited which has signed a pre-bid agreement with Olam agreeing to sell 28,137,844 shares

in NZS into the offer at NZ\$0.55c per share if the Offer becomes unconditional. Keith Smith was not involved in any part of the decision by PGG Wrightson Limited to enter into the pre-bid agreement. Keith Smith did not attend any meetings at which the proposal to enter the pre-bid agreement was discussed, nor receive any minutes of them, and did not know of any proposal to enter into the pre-bid agreement until after PGG Wrightson Limited had committed to it.

- 13.3 The following people are considered to be senior officers of NZS because in the last six months they have been concerned or have taken part in the management of NZS for the respective reasons outlined below, and have an interest in the pre-bid agreement to which Olam is a party:

- (a) Michael Thomas – Group General Manager AgriServices, PGG Wrightson, who is considered to be a senior officer of NZS as he has overseen PGG Wrightson Funds Management Limited's management agreement with NZS.
- (b) Andrew Clark – Chief Financial Officer, NZS, who is considered to be a senior officer of NZS as he is responsible for the operational financial management of NZS.
- (c) Carlos Miguel de Leon – Chief Executive, PGG Wrightson Uruguay Limited SA, who is considered to be a senior officer of NZS as he is responsible for the local oversight of NZS in Uruguay.
- (d) Julian Daly – General Counsel and Company Secretary, PGG Wrightson, who has undertaken company secretarial services for NZS under PGG Wrightson Funds Management Limited's management agreement with NZS.
- (e) Jane Pearson – Legal Counsel, PGG Wrightson, who has undertaken company secretarial services for NZS under PGG Wrightson Funds Management Limited's management agreement with NZS.

- 13.4 The people listed above are employed by PGG Wrightson Limited (except for Carlos Miguel de Leon who is employed by PGG Wrightson Uruguay Limited SA). PGG Wrightson Limited, PGG Wrightson Funds Management Limited and PGG Wrightson Uruguay Limited SA are related companies of PGG Wrightson Investments Limited which has signed the pre-bid agreement with Olam referred to above. Because of the relationship between the senior officers and the PGG Wrightson companies, including PGG Wrightson Investments Limited, they are considered, for the purposes of the Takeovers Code, to have an interest in the pre-bid agreement with Olam.

13A INTERESTS OF TARGET COMPANY'S SUBSTANTIAL SECURITY HOLDERS IN MATERIAL CONTRACTS OF OFFEROR (OR A RELATED COMPANY OF THE OFFEROR)

- 13.5 PGG Wrightson Investments Limited, a substantial security holder of NZS, has signed and is therefore interested in the pre-bid agreement with Olam agreeing to sell 28,137,844 shares in NZS into the offer at NZ\$0.55c per share if the Offer becomes unconditional.
- 13.6 No other person, who to the knowledge of the directors or the senior officers of NZS holds or controls 5% or more of any class of equity securities of NZS, has an interest in any material contract to which the offeror, or any related company of the offeror, is a party.

14 ADDITIONAL INFORMATION

- 14.1 The information set out on pages 2 to 10 of this Statement contains additional material on NZS, and responds to matters set out in the Offer which the Board considers shareholders should take into account in assessing the Offer.

15 RECOMMENDATION

- 15.1 The NZS Board has delegated authority to a committee of NZS directors ("Committee") to attend to matters associated with the Offer. The Committee consists of John Suffield Parker, Michael Craig Norgate and Graeme Henry Wong.
- 15.2 Keith Raymond Smith considers that, as a director of PGG Wrightson Limited (whose related company PGG Wrightson Investments Limited has entered into a pre-bid agreement with Olam), he should abstain from making any recommendation in relation to the Offer. Keith Smith has indicated that he does not intend to sell NZS shares held or controlled by him into the Offer.
- 15.3 The Directors other than Keith Smith unanimously recommend to shareholders that they reject the Offer.
- 15.4 The Committee has considered the merits of the Offer in reaching its recommendation to shareholders. These merits are discussed in further detail in this Statement and in the accompanying letter from the Chairman.
- 15.5 Olam's Offer price of NZ\$0.55 is below the midpoint of NZ\$0.72 and below the lower end of the NZ\$0.65 to NZ\$0.79 range determined by the Independent Adviser, and is in the Board's opinion inadequate.

16 ACTIONS OF TARGET COMPANY

- 16.1 There are no material agreements or arrangements (whether legally enforceable or not) entered into by NZS and its related companies as a consequence of, in response to, or in connection with the Offer.
- 16.2 There are no negotiations underway, as a consequence of, in response to, or in connection with, the Offer that relate to, or could result in:
- (a) an extraordinary transaction (such as a merger, amalgamation, or reorganisation) involving NZS or any of its related companies; or
 - (b) the acquisition or disposition of material assets by NZS or any of its related companies; or
 - (c) an acquisition of equity securities by, or of, NZS or any related company of NZS; or
 - (d) a material change in equity securities on issue, or policy related to distributions, of NZS.

17 EQUITY SECURITIES OF TARGET COMPANY

- 17.1 There are currently 244,236,495 NZS shares on issue. These are fully paid. Shareholders have in respect of each NZS share, subject to the NZSX rules and NZS' constitution:
- (a) the right to an equal share in dividends authorised by the Board of directors of NZS;
 - (b) the right to an equal share in distribution of surplus assets of NZS;
 - (c) the right to participate in any further issues of equity securities by NZS; and
 - (d) the right to cast one vote on a show of hands or the right to cast one vote on a poll (for each share held) on any resolution, including a resolution to:
 - (i) appoint or remove a director or the auditor;
 - (ii) alter NZS' constitution;
 - (iii) approve a major transaction by NZS;
 - (iv) approve an amalgamation involving NZS (other than an amalgamation of a wholly owned subsidiary); and
 - (v) put NZS into liquidation.

Target Company Statement (continued)

18 FINANCIAL INFORMATION

- 18.1 Every person to whom the Offer is made is entitled to obtain from NZS a copy of its most recent annual report (being the report for the period ended 30 June 2009) by making a written request to:

Company Secretary
NZ Farming Systems Uruguay Limited
PO Box 292
Christchurch 8042

- 18.2 A copy of the most recent half year report (being the report for the period ended 31 December 2009) is attached to this statement as Schedule Five.

- 18.3 On 23 August 2010, NZS intends to confirm the audited result for the twelve month period to 30 June 2010. The 2010 result shows net operating revenue for the twelve months of US\$22.5 million.

Earnings before Interest, Tax, Depreciation and Amortisation ("EBITDA") was a US\$8.7 million loss and Net Profit After Tax ("NPAT") was a US\$7.9million loss.

This result and the principal assumptions and projections on which it is based are reflected in the Independent Adviser's report which accompanies this Statement.

A copy of the most recent annual and half year reports and the audited financial statements to 30 June 2010 are available on NZS' website at www.nzfsu.co.nz. The 2009/2010 annual report for the period ended 30 June 2010 is due to be released and sent to shareholders on 20 September 2010. This will also be on NZS' website when available.

- 18.4 The material changes in the financial position or trading position, or prospects, of NZS since the annual report to 30 June 2009 are as follows:

- Milk production grew by 52% year on year, and was in line with the lower end of the most recent guidance issued in May 2010.
- The annual independent valuation process conducted at 30 June 2010 resulted in an uplift of US\$6.2 million in livestock values.
- NZS' Earnings before Interest and Tax (EBIT) result for the year ended 30 June 2010 was a loss of US\$10.4 million, slightly below guidance of up to US\$10 million loss.
- NZS issued US\$30 million of long term bonds in Uruguay in August 2009, secured over certain of NZS' farms and via assignment of part of NZS' milk revenues. The bond issue proceeds were used to construct five milking sheds, install further irrigation pivots and connect existing pivots, to construct a high tension electricity line to improve quality and stability of electricity supply to NZS' eastern farms, apply capital fertiliser and other farm development items. As part of this, overdue payables were able to be reduced.

- During the year NZS sold two farms for total proceeds received of US\$15.7 million, and currently has a conditional sale contract on a further farm, for US\$6.9 million net of commissions. Part of these funds were used to make a US\$5 million payment towards the outstanding performance fee loan with PGG Wrightson Funds Management Limited.

- 18.5 The following matters are also material:

- The conditional agreement reached with PGG Wrightson Funds Management Limited, announced on 17 August 2010, for NZS to buy out the Management Contract between the parties on payment of NZ\$4million and to enter into a preferred supplier agreement with PGG Wrightson until at least 2019, and a consultancy agreement with senior Uruguayan management until 2015, subject to necessary approvals.
- The granting of tax benefits, with an estimated current value of US\$20 – 25 million under Uruguayan tax law. The benefits will be available to offset NZS' tax liability once it becomes profitable, anticipated by the Board to be in the 2011 – 2012 financial year.

- 18.6 Other than as set out above, there is no other information about the assets, liabilities, profitability and financial affairs of NZS that could reasonably be expected to be material to the making of a decision by shareholders to accept or reject the Offer.

19 INDEPENDENT ADVICE ON MERITS OF THE OFFER

- 19.1 Grant Samuel & Associates, as independent adviser, has prepared a report under Rule 21 of the Takeovers Code ("Independent Adviser's Report"). A full copy of the Independent Adviser's Report accompanies this Statement.

20 ASSET VALUATION

- 20.1 The NZS half year report to 31 December 2009 refers at page 13 to valuation reviews on livestock and property, plant and equipment, conducted by Crighton Anderson Property & Infrastructure Limited, now named Crighton Stone Limited (Crighton Stone) to provide an independent review of valuation work undertaken by Escritorio Dutra Ltda in Uruguay of all livestock, and to undertake separate valuations of each property held by the NZS Group.

Crighton Stone has confirmed that in their opinion, the valuations undertaken by Escritorio Dutra Ltda in Uruguay are a fair reflection of the market value of the properties as at 30 June 2009. Crighton Stone also confirmed that these valuations were suitable for inclusion within the 2009 financial statements of the NZS Group.

Shareholders are also directed to the valuation reviews conducted by Crighton Stone on the valuations conducted by Escritorio Dutra Ltda referred to in the financial statements to 30 June 2010.

All properties are carried in the financial statements at fair value in accordance with New Zealand International Accounting Standard 16. Land is valued on a fair market, highest and best use basis, determined from market-based evidence including analysis of comparable sales and conditions that prevailed as at the valuation date. Land has been valued as if vacant and incorporates the influence of size, contour, soil quality, location, productivity and highest and best use. All buildings have been valued on either a fair market or depreciated replacement cost basis. The properties are valued excluding milking plant, travelling irrigators and other farm plant items. The land is valued subject to any rights, easements and other encumbrances. Livestock was valued taking into account disposal costs.

The basis of valuation for farmland, buildings and improvements reflects the fact that the assets are in continuing use by the NZS Group for the purpose of their current activities. The fair value of an asset is determined wherever possible by reference to the price in an active market for the same or similar asset. Where the fair value of an asset is not able to be reliably determined using market-based evidence, depreciated replacement cost is considered to be the most appropriate basis for determination of the fair value. The valuations assumed that all land, except that held for sale, is assumed to be held for operational purposes, current use of land although under development reflects highest and best use, and property is valued excluding milking plant, travelling irrigators and other plant items.

The total fair value of property valued was US\$142.8 million (2009: US\$160.9 million). This resulted in a net reduction in carrying value of the properties of US\$2.8 million (2009: reduction of US\$16.2 million). As a consequence of properties being valued on a property by property basis, this adjustment has resulted in recovery of value against some properties previously revalued down below their original purchase cost plus improvements. This has resulted in a gain in the Statement of Comprehensive Income in the current year of US\$1.1 million (2009: change of US\$3.6 million).

At 30 June 2010 the NZS Group owned 28,656 hectares of land at various stages of development, with an average capital value based on valuation, of US\$4,985 per hectare (30 June 2009: 35,535 hectares at average valuation of US\$4,527 per hectare). The 30 June 2010 figures exclude the Don Pepe farm, which was held for resale.

The total fair value of livestock at 30 June 2010 was US\$34,705,526 (2009: US\$26,387,611).

The valuations referred to are as follows:

2009

Crighton Stone	30 June 2009
Escritorio Dutra Ltda	4 May 2009 – 20 May 2009

2010

Crighton Stone	30 June 2010
Escritorio Dutra Ltda	4 May 2010 – 3 June 2010

- 20.2 Copies of the valuations and financial statements of NZS are available from NZS at its registered office and will also be sent to any shareholder on request.

21 PROSPECTIVE FINANCIAL INFORMATION

- 21.1 The Independent Adviser's Report contains prospective financial information in relation to NZS and the principal assumptions on which the prospective financial information is based are set out in the Independent Adviser's Report.

22 SALES OF UNQUOTED EQUITY SECURITIES UNDER OFFER

- 22.1 The shares, which are the subject of the offer, are quoted on the NZSX.

23 MARKET PRICES OF QUOTED EQUITY SECURITIES UNDER OFFER

- 23.1 The closing price on the NZSX market operated by NZX of NZS shares on:
- (a) 18 August 2010, being the latest practicable working day before the date on which this Statement is sent to shareholders, was NZ 64 cents; and
 - (b) 16 July 2010, being the last day on which the NZSX was open for business before the date on which NZS received Olam's takeover notice, was NZ 41 cents.
- 23.2 The highest and lowest closing market price of NZS shares on the NZSX and the relevant dates during the 6 months before the date on which NZS received Olam's takeover notice were as follows:
- (a) the highest closing market price was NZ 47 cents on 18 January 2010; and
 - (b) the lowest closing market price was NZ 37 cents on 31 March 2010.
- 23.3 There were no issues of equity securities or changes in the equity securities on issue that could have affected the market prices referred to in this section 23.
- 23.4 The Board of NZS determined that no dividend would be paid in respect of the 2008/2009 financial year.

Target Company Statement (continued)

OTHER INFORMATION

- 23.5 Shareholders, when making decisions as to whether to accept or reject the Offer, and at what point any acceptance should be given, should be aware that the terms of the Offer state that, once given, acceptances may not be withdrawn by acceptors, whether or not the Offer is varied by Olam, unless Olam fails to pay acceptors in accordance with the Takeovers Code.

APPROVAL OF TARGET COMPANY STATEMENT

- 23.6 This Statement has been approved by the Committee who have been delegated authority from the NZS Board to deal with all matters relating to the Offer.
- 23.7 Keith Raymond Smith abstained from voting on the resolution to approve the content of this Statement due to conflicts of interest described in paragraph 15.2.

CERTIFICATE

- 23.8 To the best of our knowledge and belief, after making proper enquiry, the information contained in or accompanying this Statement is, in all material respects, true and correct and not misleading, whether by omission of any information or otherwise, and includes all the information required to be disclosed by NZS under the Takeovers Code.

SIGNED BY:



John Suffield Parker
Director



Graeme Henry Wong
Director



Michael Thomas*
(fulfilling the role of Chief Executive Officer)



Andrew Clark
Chief Financial Officer

Michael Thomas and Andrew Clark are employed by PGG Wrightson Limited but have performed the roles of Chief Executive Officer and Chief Financial Officer respectively, of NZS.

Schedule One – Ownership of equity securities in NZS

Ownership of equity securities in NZS (Paragraph 5.1)

NAME OF DIRECTOR	ORDINARY SHARES HELD OR CONTROLLED BY DIRECTOR		ORDINARY SHARES HELD OR CONTROLLED BY ASSOCIATES OF DIRECTOR	
	NUMBER	PERCENTAGE	NUMBER	PERCENTAGE
Murray James Flett	8,988,268	3.68%	1,423,470	0.58%
			28,137,844*	11.52%
Michael Craig Norgate		0.00%	600,000	0.25%
			15,000	0.01%
			28,137,844*	11.52%
John Suffield Parker	480,000	0.20%		
John Cecil Roadley	50,000	0.02%		
Keith Raymond Smith	20,000	0.01%	1,645,000	0.73%
			28,137,844*	11.52%
Graeme Henry Wong	145,000	0.06%		

Notes:

1. Italics indicate that the ownership of equity securities is non-beneficial.
2. * Keith Raymond Smith is an associated person of substantial security holder PGG Wrightson Limited and PGG Wrightson Investments Limited, who have agreed to sell 28,137,844 shares in NZS to Olam subject to the Offer being unconditional. Michael Craig Norgate and Murray James Flett resigned as directors of PGG Wrightson Limited on 28 February 2010.

NAME OF SENIOR OFFICER	ORDINARY SHARES HELD OR CONTROLLED BY SENIOR OFFICER		ORDINARY SHARES HELD OR CONTROLLED BY ASSOCIATES OF SENIOR OFFICER	
	NUMBER	PERCENTAGE	NUMBER	PERCENTAGE
Carlos Miguel de Leon	150,000	0.06%		
Andrew Christopher Clark	65,000	0.03%		
Michael Richard Thomas	133,333	0.05%		

Schedule Two – Equity securities issued to directors and senior officers or their associates

Equity securities issued to directors and senior officers or their associates (Paragraph 5.3)

No equity securities have been issued to any directors or senior officers or their associates during the two year period ending on the date of this statement.

Schedule Three – Substantial Security Holders

(Paragraph 5.4)

NAME OF SHAREHOLDER OR PERSON HOLDING OR CONTROLLING 5% OR MORE OF NZS SHARES	NUMBER OF ORDINARY SHARES HELD OR CONTROLLED AS AT 18 AUGUST 2010	PERCENTAGE	DATE OF LAST SUBSTANTIAL SECURITY HOLDER NOTICE
Olam International Limited*	45,050,856*	18.45%	13 August 2010
PGG Wrightson Investments Limited and PGG Wrightson Limited**	28,137,844**	11.52%	19 July 2010
Accident Compensation Corporation	17,164,579	7.03%	6 April 2010
HSBC Nominees (New Zealand) Limited***	12,668,798	5.19%	1 September 2009
Odey Asset Management LLP****	14,338,503	5.18%	10 July 2008

Notes:

- * Olam International Limited now also has a substantial security interest in an additional 28,137,844 shares which they have entered into a pre-bid agreement with PGG Wrightson Investments Limited and PGG Wrightson Limited to acquire if the takeover Offer is accepted.
- ** PGG Wrightson Investments Limited and PGG Wrightson Limited still have a substantial security interest in these shares even though they have entered into a pre-bid agreement with Olam International Limited to sell these shares if the takeover Offer is accepted.
- *** HSBC Nominees (New Zealand) Limited is a nominee company and does not have a beneficial interest in these shares. It holds the shares for underlying beneficial owners, none of whom individually qualify as a substantial security holder.
- **** Odey Asset Management LLP holds these shares through a number of nominee companies. Odey Asset Management LLP holds the beneficial interest in these shares.

This information is taken from substantial security holder notices filed with the NZX as at 18 August 2010, NZS' share register as at 18 August 2010, and enquiries made of Odey Asset Management LLP.

Schedule Four – Acquisitions and Dispositions by Substantial Security Holders and Directors and Officers

(Paragraph 6.1)

NAME OF SHAREHOLDER OR PERSON HOLDING OR CONTROLLING 5% OR MORE OF NZS SHARES, DIRECTOR OR SENIOR OFFICER OF NZS OR THEIR ASSOCIATES	NUMBER OF ORDINARY SHARES AFFECTED	ACQUISITION OR DISPOSAL	WEIGHTED AVERAGE CONSIDERATION PER SHARE (NZ\$)	DATE
Accident Compensation Corporation	435,685	Acquisition	\$0.46	Week ended 31 January 2010
	39,989	Disposition	\$0.41	10 March 2010
	39,989	Acquisition	\$0.41	16 March 2010
	125,000	Acquisition	\$0.39	1 April 2010
	70,000	Acquisition	\$0.53	23 July 2010
HSBC Nominees (New Zealand) Limited (1)	222,807	Disposition	\$0.45	Week ended 31 January 2010
	32,000	Disposition	\$0.44	Week ended 7 February 2010
	103,711	Disposition	\$0.41	Week ended 14 February 2010
	156,201	Disposition	\$0.41	Week ended 21 February 2010
	141,063	Disposition	\$0.39	Week ended 28 February 2010
	98,300	Disposition	\$0.46	Week ended 7 March 2010
	77,500	Disposition	\$0.40	Week ended 14 March 2010
	114,918	Disposition	\$0.40	Week ended 21 March 2010
	2,000	Acquisition	\$0.39	8 April 2010
	7,950,000	Acquisition	N/A	19 April 2010
	53,500	Acquisition	\$0.40	Week ended 9 May 2010
	9,407	Disposition	\$0.38	5 May 2010
	360,000	Off Market Transfer	N/A	11 May 2010
	5,051	Acquisition	\$0.37	12 May 2010
	290,000	Acquisition	\$N/A	17 June 2010
	88,000	Acquisition	\$0.42	16 July 2010
	110,115	Disposition	\$0.50	22 July 2010
	683,000	Acquisition	\$0.53	Week ended 1 August 2010
	675,000	Disposition	\$0.54	30 July 2010

Schedule Four –Acquisitions and Dispositions by Substantial Security Holders and Directors and Officers (continued)

(Paragraph 6.1)

NAME OF SHAREHOLDER OR PERSON HOLDING OR CONTROLLING 5% OR MORE OF NZS SHARES, DIRECTOR OR SENIOR OFFICER OF NZS OR THEIR ASSOCIATES	NUMBER OF ORDINARY SHARES AFFECTED	ACQUISITION OR DISPOSAL	WEIGHTED AVERAGE CONSIDERATION PER SHARE (NZ\$)	DATE
PGG Wrightson Investments Limited and PGG Wrightson Limited (2)	28,137,844 (3)	Disposition	\$0.55	16 July 2010
Odey Asset Management LLP (4)	9,407	Disposition	\$0.39	27 April 2010
Olam International Limited	10,000,000	Acquisition	\$0.41	17 May 2010
Olam International Limited	28,137,844 (3)	Acquisition	\$0.55	16 July 2010
Rural Portfolio Investments Limited (in receivership) (5)	10,000,000	Disposal through transfer to receivers	n/a	6 May 2010
Rural Portfolio Investments Limited (in receivership) (5)	10,000,000	Disposal through sale by receivers	\$0.41	17 May 2010

This information is taken from substantial security holder records and notices filed with NZS and NZX as at 18 August 2010, NZS' share register as at 18 August 2010, and acquisition/disposal enquiries from 1 January 2010 to 31 July 2010 made of Accident Compensation Corporation, HSBC Nominees (New Zealand) Limited, PGG Wrightson Investments Ltd and Odey Asset Management LLP.

Notes:

- (1) HSBC Nominees (New Zealand) Limited is a nominee company and does not have a beneficial interest in these shares. It holds the shares for underlying beneficial owners, none of whom individually qualify as a substantial security holder. Its price per share includes brokerage/fees.
- (2) K R Smith is an associated person of PGG Wrightson Limited and PGG Wrightson Investments Limited. M J Flett and M C Norgate were associated persons of PGG Wrightson Limited and PGG Wrightson Investments Limited and their interests as associated persons ceased on 28 February 2010.
- (3) This transaction is conditional on the Offer becoming unconditional.
- (4) Odey Asset Management LLP holds its shares through a number of nominee companies. Odey Asset Management LLP holds the beneficial interest in these shares.
- (5) MC Norgate was an associated person of Rural Portfolio Investments

Schedule Five – Half Year Report

See following pages.

(Paragraph 18.2)

NZ Farming Systems Uruguay Limited

half year report

FOR THE SIX MONTHS ENDED 31 DECEMBER 2009



Chairman's Review



John Parker

Dear Shareholder

Results for the December 2009 half-year reflected continued growth in the farming operations, improved operating conditions and the success of measures taken to reduce expenditure.

The company has established good momentum after the difficulties experienced in the previous year. Milk prices have improved, and tight cost control has resulted in a much improved performance.

Given the extent of the land banking undertaken we are understandably still a long way from steady state production on most of our existing farms, and still have many farms to develop. Our longest established farms indicate that our steady state goal of an average of 940 kilograms of milk solids per hectare is realistic, although it will prove to have been somewhat ambitious in terms of the time it would take to reach those goals.

Last year's drought, poor prices and a lack of funds have been, or are being, addressed to the satisfaction of directors. While it is impossible to fully drought-proof a pastoral farming operation, we are moving as rapidly as we can to have significant portions of all farms irrigated. The ramp-up in irrigation has been hampered by the unavailability of sufficient electricity reticulation and capital, but both issues are in the process of resolution.

Overview

Revenue increased to \$US10.9 million in the period under review, from \$US7.7 million in the 2008 half year.

Milk volumes were substantially higher, with milk sales contributing \$US10.2 million of revenue net of charges (up from \$US6.2 million in the previous comparable period), and livestock sales \$US0.7 million (primarily beef animals and dairy cull cows). Natural growth in the livestock herd was valued at \$US0.8 million, but there was no requirement for fair value adjustments in the total value of the herd at the end of the period.

The Operating Loss from Farming Activities before fair value adjustments¹ and other one-off items was \$US2.5 million, compared to a \$US5.1 million loss for the previous comparable period.

Consistent rainfall patterns in the first quarter were followed by good rains throughout the second and into the early summer. This allowed pastures to recover from the prolonged and debilitating drought over the previous summer and autumn.

Milk production for the half-year totalled 42.1 million litres, an increase of 70 per cent on the 24.6 million litres produced in the comparable period in 2008. The increase reflected a production curve consistent with the growth of farming operations – during the first half year the company had an average 10,950 hectares of land in dairy production, compared with 6,400 hectares one year earlier.

The first-half production level was consistent with the lower end of the 80-85 million litres forecast for the full 2010 financial year.

Despite the production growth, farm working expenses were about 15 per cent lower than for the previous corresponding period, at US\$9.8 million, with a marked reduction in pasture and supplementary feed costs.

¹ Fair value adjustments were nil in the December 2009 half year, but previously have included price changes for livestock and farm properties. Other one-off items include gains or losses on farm sales, and discount on VAT receivable.

Operating conditions

The company received an average milk price of US\$25.0 cents per litre for the December half-year, compared with US\$26.8 cents per litre in the December 2008 period. The previous comparable period benefited from peak dairy prices in mid-2008 calendar year, whilst the January to June 2009 period subsequently achieved only US\$22.0 cents per litre. Prices trended upward during the current half year, with average prices moving up from US\$24 cents to US\$29 cents per litre over the October to December period. The weather, which caused severe stress in the previous summer, has been more favourable throughout and beyond the period under review with rainfall extending into February 2010. Caution remains, as climatic conditions can change quickly.

Favourable weather conditions have resulted in substantially better pasture growth and therefore substantial savings on supplementary feed compared with last year. Irrigation, where installed, has been used to maintain moisture levels and grass growth following rainfall. The company now has 1,240 hectares of dairy land under irrigation, with a further 700 hectares awaiting final connections over the next few months. Steady progress is being made although the total irrigated area is well short of the eventual goal of 50 percent of dairy area (approximately 10,000 hectares). Irrigation dams are full following the regular rainfall.

Better weather has allowed good volumes of silage and supplementary feed crops to deliver satisfactory yields.

Livestock are in good condition, with the autumn calving herds in optimum condition and the climate this year allowing body condition to be substantially improved following the end of last summer's drought. Calves born in 2010 will again be cross-breds, as the company builds the future milking herd based on New Zealand genetics.

Operating performance

Milk production improved over the course of the half-year with the rolling 12 months to December achieving 62 million litres, up from 45 million litres in the 12 months to June 2009. The spring peak was 8.5 million litres, for the month of October.

Milking numbers peaked for the spring season at just on 20,000 during November. Peak milk production was in line with guidance previously issued, but was lower than expected as the cows' body condition had not fully recovered from the previous summer's drought. Accordingly, peak milk production per cow can be expected to improve in future years.

At the end of December, 19,600 cows were being milked, with an average daily yield of 10.4 litres. Many cows are now near the end of their seasonal lactation as over half of the herd is autumn calving.

As noted above, costs were down significantly, with a reduction in fertiliser prices, reduced use of supplementary feed and a focus on efficient on-farm expenditure. This was a commendable achievement by the manager and staff, as the area in production and the size of the milking herd continued to increase.

Development and funding

The strong support of Uruguayan institutions for the \$US30 million bond issued by the company in July enabled a rapid increase in the area irrigated, the construction of a further five dairies and the restitution of pastures impaired by last summer's drought.

The area under irrigation tripled, to 1,240 hectares currently. Further irrigation gains will be enabled by the installation currently underway of new power transmission lines to farms in the Eastern hub by Uruguay's electricity distributor. The bond issue has provided sufficient funding for a total of nearly 3,200 hectares of irrigation, including the current area. In addition to the current 1,240 hectares there is some 700 hectares awaiting final connections over the next few months, and a further approximately 1,200 hectares of pivots having been ordered.

The company initiated a programme to dispose of a small number of undeveloped properties to optimise land use and operations, and to free up cash. The sale of one farm of approximately 2,000 hectares was completed in October 2009 for \$US6.85 million before sales commissions, which was 7.5% below the June 2009 valuation. It would have been some time before the property was developed, so although the sale was at a modest discount to valuation, we preferred to realise the cash. This sale is viewed as one-off and not reflective of a wider valuation impact. The company is also working with prospective investors on the sale and leaseback of some developed properties and other capital raising initiatives that will enable it to complete the development of its farms in 2011/12 and meet its other financial commitments. These initiatives include a second bond issue.

Personnel

The management team was further strengthened by the appointments of Brent Boyce as New Zealand General Manager in September 2009, and Sue Hagenson as Technical Manager, effective early March. Both Brent and Sue bring a strong New Zealand farm consultancy background, and will be based with their families in Uruguay.

Sam Maling, who had been a director since the formation of the company, stepped down from the Board on 15 October 2009. Keith Smith retired as Chairman in December 2009, having taken up the Chairmanship of PGG Wrightson and deciding that chairing both companies was inappropriate. Keith has been Chair of NZ Farming Systems Uruguay since inception and the Board is grateful for the time, effort and experience he brought to the role and is pleased he is staying on as a Director of the company.

Uruguayan economy

Senator Jose Mujica, of the Frente Amplio party in the current centre-left ruling coalition, won the Presidential election held on 29 November 2009. Amongst his initial comments, President-elect Mujica said his government would continue with existing policies established by current President Vazquez. His running mate and ex Minister of the Economy Danilo Astori will be Vice President, with oversight of the economy, when the new government takes office in March 2010. President-elect Mujica was previously Uruguayan Minister of Agriculture, and supportive of the establishment of NZ Farming Systems Uruguay.

Uruguayan Gross Domestic Product grew by 2.5 percent in the third quarter of 2009. A survey of public and private analysts predicts growth of 1.8 percent for calendar 2009 and 3.7 percent for 2010. Inflation has been running at just under 6 percent, and the Government has tightened its target range to 4-6 percent. Analysts are forecasting inflation of 6 percent for 2010.

The Uruguayan peso continued its steady appreciation, closing at 19.6 to the US Dollar at the end of December, compared with 24.3 at 30 June 2009. This has put pressure on peso-denominated expenses such as labour costs.

Outlook

The outlook for milk prices remains somewhat uncertain for the balance of the year, with ongoing volatility in prices struck by the Fonterra online auction system; however, a positive underlying trend is expected to continue as economies in key international dairy markets improve.

Currently, Conaprole has lifted its milk price to the equivalent of US29 cents per litre. At the 31 December 2009 NZD:USD exchange rate of 0.725, this is equivalent to \$NZ 5.80 per kilogram of milksolids.

Our internal financial projections (including those stated below) reflect an average milk price of US25 cents per litre for the 2009/10 season. The assumed milk price is slightly above the average of 23.9 cents per litre received in the 2008/09 financial year (during which prices ranged between US19 cents and US40 cents per litre) but in line with the average price for the December half-year. We believe US25 cents to be a conservative long-term expectation given the high level of production costs in many dairy-producing countries.

At the forecast production level of the lower end of the 80-85 million litres range for the 2010 financial year, projected loss at the EBIT level (Earnings Before Interest and Taxation) remains consistent with the maximum US\$10 million outlined in the 17 December 2009 update.

At the forecast production level of 100-110 million litres for the 2010/11 financial year, projected EBIT would be a small loss as previously stated. On that basis, the company would expect operations at the EBIT level to be profitable in the 2011/12 financial year.

Achievement of the full-scale production target of 940 kilograms of milksolids per hectare per year by 2014/15 would imply positive EBIT of \$35-40 million at that point. Although the company expects a number of farms to achieve steady state prior to this, on average it is expected to take until 2014/15 year for steady state to be achieved.

The combination of drought, milk price and capital shortages made last year unmemorable. This year to date has been much better but your Directors are far from satisfied. We have progressed well but still are short of where we would wish to be. That's the negative. The positive is that although there is still much hard work to do, the past half year has greatly increased confidence that we will achieve success for NZ Farming Systems Uruguay.

On behalf of the Board of NZ Farming Systems Uruguay.



John Parker
Chairman

Key statistics

	Jun 09	Dec 09
Total livestock numbers (period end)	53,000	54,300
Milking cow numbers (period end)	11,300	19,600
Milk production Kgs MS per cow per year Dec 09 is rolling 12 months	290	290
Dairy hectares in production (period end)	10,500	11,100
Milk production Kgs MS per hectare per year Dec 09 is rolling 12 months	420	430
Milking sheds (period end)	26	27
Capital expenditure for period (Excluding livestock – Dec 09 is six months only)	28	6

Notes

- Livestock / milking cows / dairy hectares / milking shed figures are as at the date specified. Milk production figures are for the 12 months ended on the date specified. Capital expenditure figures are for the 12 months ended on the date specified, except for Dec 2009 which is for the 6 months to that date.
- Milk production per hectare figures are calculated based on dairy hectares in production each month and thus are weighted for conversion progress.

Key operating performance statistics

	Q1 (Jul-Sep)	Q2 (Oct-Dec)	YTD Dec 09 (6 mths)
Milk price (US cents/litre average)	22.4	26.9	25.0
Milk volume (Million litres)	19.9	22.2	42.1
Farm working expenses (USD Millions)	5.4	4.4	9.8

Notes

- Farm working expenses include all on-farm operating expenses, except depreciation.



Financial Statements

FOR THE SIX MONTHS ENDED 31 DECEMBER 2009

Condensed Interim Consolidated Statement of Comprehensive Income

For the six months ended 31 December 2009

	Note	Unaudited 6 mths ended Dec 2009 US\$000	Audited Year ended Jun 2009 US\$000	Unaudited 6 mths ended Dec 2008 US\$000
Revenue	3	10,943	15,809	7,730
Change in fair value of livestock due to physical changes	4	750	6,242	4,730
Livestock and cropping cost of sales		(776)	(8,468)	(1,987)
Employee benefits expense		(1,968)	(3,390)	(1,900)
Farm operating expenses	5	(7,841)	(19,001)	(9,763)
Management fee		(1,096)	(2,513)	(1,243)
Depreciation and amortisation expense		(1,559)	(2,391)	(824)
Other operating expenses		(939)	(2,663)	(1,845)
Operating loss from farming activities before market movements in livestock & property and gains/losses from property sales		(2,486)	(16,375)	(5,102)
Gain/(loss) on property sales		(862)	754	—
Fair value adjustments	6	—	(23,842)	(4,558)
Discount on VAT receivable	10	—	(2,500)	—
Loss before interest		(3,348)	(41,963)	(9,660)
Net interest and finance costs	7	(3,877)	(3,761)	(1,311)
Loss before income tax		(7,225)	(45,724)	(10,971)
Income tax expense		230	(127)	2,054
Loss for the period		(6,995)	(45,851)	(8,917)
Other comprehensive income				
Revaluation of property, plant and equipment		—	(12,026)	—
Movement in deferred tax on revaluation of property, plant and equipment		151	3,049	1,611
Other comprehensive income for the period, net of income tax		151	(8,977)	1,611
Total comprehensive income for the period		(6,844)	(54,828)	(7,306)
Loss attributable to:				
Shareholders of the Company		(6,995)	(45,851)	(8,917)
Loss for the period		(6,995)	(45,851)	(8,917)
Total comprehensive income attributable to:				
Shareholders of the Company		(6,844)	(54,828)	(7,306)
Total comprehensive income for the period		(6,844)	(54,828)	(7,306)
Earnings per share				
Basic and diluted earnings per share (USD)	8	(0.03)	(0.19)	(0.04)

The accompanying notes form an integral part of these financial statements.

Condensed Interim Consolidated Statement of Changes in Equity

For the six months ended 31 December 2009

	Share capital US\$000	Fair value reserves US\$000	Retained earnings US\$000	Total equity US\$000
Balance at 1 July 2008	197,081	34,787	(8,245)	223,623
Loss for the period	–	–	(8,917)	(8,917)
Movement in deferred tax on fair value reserve	–	1,611	–	1,611
Total comprehensive income for the period	–	1,611	(8,917)	(7,306)
Balance at 31 December 2008	197,081	36,398	(17,162)	216,317
Balance at 1 January 2009	197,081	36,398	(17,162)	216,317
Loss for the period	–	–	(36,934)	(36,934)
Movement in fair value of property, plant and equipment, net of tax	–	(10,588)	–	(10,588)
Total comprehensive income for the period	–	(10,588)	(36,934)	(47,522)
Balance at 30 June 2009	197,081	25,810	(54,096)	168,795
Balance at 1 July 2009	197,081	25,810	(54,096)	168,795
Loss for the period	–	–	(6,995)	(6,995)
Movement in fair value of property, plant and equipment, net of tax	–	151	–	151
Total comprehensive income for the period	–	151	(6,995)	(6,844)
Balance at 31 December 2009	197,081	25,961	(61,091)	161,951

The accompanying notes form an integral part of these financial statements.

Condensed Interim Consolidated Statement of Financial Position

As at 31 December 2009

	Note	Unaudited Dec 2009 US\$000	Audited Jun 2009 US\$000	Unaudited Dec 2008 US\$000
ASSETS				
Current				
Cash and cash equivalents	9	19,591	3,627	5,235
Trade and other receivables	10	7,012	4,780	4,734
Income tax receivable		117	1,290	1,114
Inventories and consumable supplies		3,701	1,583	3,359
Total current assets		30,421	11,280	14,442
Non-current				
Other receivables	10	5,000	4,200	5,000
Livestock	11	27,288	26,376	44,563
Deferred tax asset		–	–	2,724
Intangible assets		35	35	15
Property, plant and equipment	12	171,229	173,788	186,942
Total non-current assets		203,552	204,399	239,244
Total assets		233,973	215,679	253,686
LIABILITIES				
Current				
Loans and borrowings due within one year	13	16,143	1,513	–
Accounts payable and accruals	14	8,858	27,841	17,723
Total current liabilities		25,001	29,354	17,723
Non-current				
Long-term loans and borrowings	13	46,000	16,000	16,000
Deferred tax liability		1,021	1,530	3,646
Total non-current liabilities		47,021	17,530	19,646
Total liabilities		72,022	46,884	37,369
EQUITY				
Share capital		197,081	197,081	197,081
Reserves		25,961	25,810	36,398
Accumulated losses		(61,091)	(54,096)	(17,162)
Total equity		161,951	168,795	216,317
Total liabilities and equity		233,973	215,679	253,686

These condensed interim consolidated financial statements have been authorised for issue on 16 February 2010.



John Parker
Chairman



Graeme Wong
Director

The accompanying notes form an integral part of these financial statements.

Condensed Interim Consolidated Statement of Cash Flows

For the six months ended 31 December 2009

	Note	Unaudited 6 mths ended Dec 2009 US\$000	Audited Year ended Jun 2009 US\$000	Unaudited 6 mths ended Dec 2008 US\$000
Cash flows from operating activities				
Inflows		10,953	16,182	9,664
Outflows		(25,272)	(38,362)	(24,938)
Net cash flow from operating activities	15	(14,319)	(22,180)	(15,274)
Cash flows from investing activities				
Inflows		6,538	2,384	–
Outflows		(6,250)	(28,443)	(27,857)
Net cash flow from investing activities		288	(26,059)	(27,857)
Cash flows from financing activities				
Inflows		31,508	19,500	16,000
Outflows		(1,513)	(96,575)	(96,575)
Net cash flow from financing activities		29,995	(77,075)	(80,575)
Net (decrease)/increase in cash held		15,964	(125,314)	(123,706)
Opening cash		3,627	128,941	128,941
Cash and cash equivalents		19,591	3,627	5,235

The accompanying notes form an integral part of these financial statements.

Notes to the Financial Statements

For the six months ended 31 December 2009

1 Reporting Entity

NZ Farming Systems Uruguay Limited (the "Company") is a company domiciled in New Zealand, registered under the Companies Act 1993 and listed on the New Zealand Stock Exchange. The Company is an issuer in terms of the Financial Reporting Act 1993.

The condensed interim consolidated financial statements of NZ Farming Systems Uruguay Limited for the six months ended 31 December 2009 comprise the Company and its subsidiaries (together referred to as the "Group").

The Group is primarily involved in dairy farming in Uruguay.

2 Basis of Preparation

The condensed interim consolidated financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice ("NZ GAAP"). They comply with the New Zealand equivalents to International Financial Reporting Standards ("NZ IFRS") as applicable for interim financial statements for profit orientated entities, and in particular NZ IAS 34. The financial statements also comply with IAS 34.

The condensed interim financial statements do not include all of the information required for full annual statements. The condensed interim consolidated financial statements are presented in US dollars. The same accounting policies, presentation and methods of computation are followed in the condensed interim consolidated financial statements as applied in the Group's latest annual audited financial statements, with exceptions as described below.

Certain comparative information in the Interim Consolidated Statement of Comprehensive Income has been re-presented to conform with the presentation in the current year.

The following new standards are mandatory for the first time for financial years beginning 1 January 2009:

a) IAS 1 Presentation of Financial Statements (2007) (revised). The Group has applied this standard in these condensed interim financial statements as of and for the six month period ended on 31 December 2009. As a result, the Group presents in the consolidated statement of changes in equity all owner changes in equity, whereas all non-owner changes in equity are presented in the consolidated statement of comprehensive income.

b) IFRS 8 Operating Segments. Application of this new standard has had no impact on the Group as it operates in one segment only, being that of developing and operating dairy farming activities in Uruguay. This is consistent with the way the Board reviews the operating performance of the Group on a regular basis.

c) NZ IFRS 3(revised) Business Combinations and NZ IAS 23 Borrowing Costs. Neither of these standards have an impact on these financial statements.

These statements were approved by the Board of Directors on 16 February 2010.

3 Revenue

	Unaudited 6 mths ended Dec 2009 US\$000	Audited Year ended Jun 2009 US\$000	Unaudited 6 mths ended Dec 2008 US\$000
Milk sales	10,528	10,670	6,587
Charges against milk sales	(329)	(650)	(373)
Cattle sales	730	4,250	1,439
Other income	14	1,539	77
	10,943	15,809	7,730

4 Changes in Fair Value of Livestock

	Unaudited 6 mths ended Dec 2009 US\$000	Audited Year ended Jun 2009 US\$000	Unaudited 6 mths ended Dec 2008 US\$000
Livestock – category changes	813	6,540	4,783
Livestock – births	561	1,741	1,035
Livestock – deaths	(624)	(2,039)	(1,088)
	750	6,242	4,730

5 Farm Operating Expenses

	Unaudited 6 mths ended Dec 2009 US\$000	Audited Year ended Jun 2009 US\$000	Unaudited 6 mths ended Dec 2008 US\$000
Pastures	(1,148)	(5,674)	(2,064)
Farm repairs and maintenance	(736)	(727)	(423)
Farm management	(320)	(962)	(500)
Animal health, breeding & calf rearing	(1,484)	(2,711)	(1,641)
Cropping and feed costs	(2,223)	(4,861)	(2,820)
Other farm expenses	(1,930)	(4,066)	(2,315)
	(7,841)	(19,001)	(9,763)

6 Fair Value Adjustments

	Note	Unaudited 6 mths ended Dec 2009 US\$000	Audited Year ended Jun 2009 US\$000	Unaudited 6 mths ended Dec 2008 US\$000
Change in fair value of livestock due to price changes	11	–	(20,247)	(4,558)
Change in fair value of farm properties below cost		–	(3,595)	–
		–	(23,842)	(4,558)

7 Net Interest and Finance Costs

	Unaudited 6 mths ended Dec 2009 US\$000	Audited Year ended Jun 2009 US\$000	Unaudited 6 mths ended Dec 2008 US\$000
Interest income	48	1,474	1,472
Interest expense	(2,467)	(3,588)	(2,464)
Net foreign exchange losses	(1,414)	(1,471)	(319)
Facility fees	(44)	(176)	–
	(3,877)	(3,761)	(1,311)

Notes to the Financial Statements (continued)

For the six months ended 31 December 2009

8 Earnings Per Share and Net Tangible Assets

	Unaudited Dec 2009 000	Audited Jun 2009 000	Unaudited Dec 2008 000
Number of shares			
Weighted average number of ordinary shares	244,236	244,236	244,236
Number of ordinary shares at December / June	244,236	244,236	244,236
	Unaudited Dec 2009 US\$000	Audited Jun 2009 US\$000	Unaudited Dec 2008 US\$000
Net Tangible Assets			
Total Assets	233,973	215,679	253,686
Total Liabilities	(72,022)	(46,884)	(37,369)
less Intangible assets	(35)	(35)	(15)
less Deferred tax	1,021	1,530	922
	162,937	170,290	217,224
	Unaudited Dec 2009 US\$	Audited Jun 2009 US\$	Unaudited Dec 2008 US\$
Net tangible assets per share at December / June	0.67	0.70	0.89
Earnings per share	(0.03)	(0.19)	(0.04)

9 Cash and Cash Equivalents

	Note	Unaudited Dec 2009 US\$000	Audited Jun 2009 US\$000	Unaudited Dec 2008 US\$000
Bank and cash		8,461	3,627	5,235
Funds held by bond trustee	13	11,130	—	—
		19,591	3,627	5,235

10 Trade and Other Receivables

	Unaudited Dec 2009 US\$000	Audited Jun 2009 US\$000	Unaudited Dec 2008 US\$000
VAT receivable	9,400	8,815	7,361
Discount on VAT receivable	(2,500)	(2,500)	—
Prepayments	2,383	938	625
Trade and other debtors	2,729	1,727	1,748
	12,012	8,980	9,734
Less non-current VAT receivable	5,000	4,200	5,000
Current Trade and Other Receivables	7,012	4,780	4,734

VAT recoverable in Uruguay is not generally recoverable from the tax authorities in cash, rather this asset can be used by the Group to offset other taxes payable in Uruguay such as income tax, wealth tax and social security tax. It is anticipated that it will take up to seven years to fully recover this amount. The VAT asset is initially recognised at cost, and subsequently measured at the lower of that amount and its recoverable amount. Recoverable amount is the higher of fair value less cost to sell, and value in use. Value in use is determined by discounting future estimated cashflows, with the discount being charged to the Statement of Comprehensive Income. This asset can also be used to settle any obligation that arises with respect to the crystallisation of deferred tax liabilities in Uruguay.

11 Livestock

Livestock

Livestock is measured at fair value net of estimated point-of-sale costs. At 30 June 2009 a valuation review was performed by Crighton Anderson Property & Infrastructure Limited (Crighton Anderson) to provide an independent judgement of the work of another valuer. Crighton Anderson also sourced and independently contracted the Uruguayan firm of valuers Escritorio Dutra Ltda to undertake the valuation of all livestock held by the Group. The next independent valuation and review is scheduled for June 2010.

The Board has considered the impact of climatic, economic, milk powder pricing and other factors, including livestock sales in the six months to 31 December 2009 and is of the view that there has been no material change to the fair value of livestock over the six month period. The result to 30 June 2009 included a loss of US\$20.25 million (six months to 31 December 2008: loss of US\$4.56 million) being recorded in the Statements of Comprehensive Income for the respective periods.

During the period, livestock additions totalled US\$0.84 million (30 June 2009: US\$7.02 million, 31 December 2008: US\$3.92 million).

12 Property, Plant and Equipment

Property, plant and equipment consist mainly of farm properties and improvements.

Legal titles of certain farms to the value of approximately US\$63.7 million were transferred into a guarantee trust prior to 30 June 2009 for the purpose of guaranteeing the issue of debt securities. Bonds have been issued during the period to 31 December 2009 (see note 13), hence a charge has been raised against these properties. The independent trustee has the ability to sell the farms only in the event that the Group defaults on repayment obligations under the terms of the trust.

Properties are carried at fair value. As for livestock, Crighton Anderson provided an independent review on the work of another valuer as at 30 June 2009. The Board has considered the impact of recent economic factors to determine whether an impairment in the value of the Group's properties should be recorded. The Board has concluded that there has been no material change to the fair value of the Group's properties over the six month period. The next independent valuation and review is scheduled for June 2010.

Acquisitions and disposals

During the six months ended 31 December 2009, the Group acquired assets with a cost of US\$6.7 million (30 June 2009: US\$28.4 million, 31 December 2008: US\$22.4 million).

Assets with a net book value of US\$7.4 million were disposed during the six months ended 31 December 2009 (30 June 2009: US\$2.4 million, 31 December 2008: US\$Nil), resulting in a loss on disposal of US\$0.9 million (30 June 2009: gain of US\$0.8 million, 31 December 2008: US\$Nil).

13 Loans and Borrowings

	Unaudited Dec 2009 US\$000	Audited Jun 2009 US\$000	Unaudited Dec 2008 US\$000
PGG Wrightson Limited short term loan	14,635	–	–
Uruguayan bank short term loans	1,508	1,513	–
Uruguayan bank long term loans	16,000	16,000	16,000
Uruguayan bonds issued	30,000	–	–
	62,143	17,513	16,000
Payable within 12 months	16,143	1,513	–
Payable beyond 12 months	46,000	16,000	16,000
	62,143	17,513	16,000

The fair value of all loans and borrowings is equivalent to the carrying value.

The PGG Wrightson Limited short term loan carries an interest rate of 8% per annum and is repayable on 31 March 2010. This is the former performance fee payable in respect of the 2008 financial year, which has been converted to an interest-bearing loan.

On 30 December 2009 US\$1.51m of loans matured and were rolled to mature on 30 March 2010. The long term loans mature on 11 December 2015. The long term loans are with two local banks in Uruguay, and are secured over property in Uruguay.

Notes to the Financial Statements (continued)

For the six months ended 31 December 2009

The Group issued US\$30.0m of long term bonds on 31 July 2009 via a trust structure in Uruguay. The structure required for an issue of debt securities in Uruguay is different from how a similar issue might be structured in New Zealand. Rather than the Company or a subsidiary issuing the bonds they are issued by a financial trust, with guarantees provided by a guarantee trust, and with both trusts being governed by an independent trustee. The purpose of the guarantee trust is to hold legal title of certain farms to guarantee compliance by the Company's Uruguayan subsidiaries of their obligations under the trust agreement. In substance, while the guarantee trust operates like a charge over the farms, there is a sale of the farms into the guarantee trust. The independent trustee has the ability to sell the farms only in the event that the Group defaults on its repayment obligations under the terms of the financial trust. The value of the farms held in the guarantee trust is approximately US\$63.7 million.

The bonds were issued to provide funding for development of the Group's farms in Uruguay. Funds raised by the bonds are held by a trustee on behalf of the Group, pending confirmation of expenditure on farm development. As at 31 December 2009, the trustee held US\$11.1m, with the balance of the US\$30.0m having been provided to the Group during the period to 31 December 2009.

The bonds have an initial fixed interest rate of 5% per annum for the period to 30 September 2010, and thereafter an annual variable interest rate of between 5% and 15% per annum calculated annually using a formula based on gross milk revenue and certain key input costs. The bonds are expected to have a term of approximately 15 years, and the expected average interest rate is 9.5% per annum, with interest being accrued to date on this basis.

14 Accounts Payable and Accruals

Note	Unaudited Dec 2009 US\$000	Audited Jun 2009 US\$000	Unaudited Dec 2008 US\$000
Trade creditors and accruals	5,413	5,039	3,964
Performance fee payable to PGG Wrightson Limited	13	12,548	10,267
Related party creditors	3,445	10,254	3,492
	8,858	27,841	17,723

15 Reconciliation of Loss After Tax With Net Cash Flow from Operating Activities

	Unaudited 6 mths ended Dec 2009 US\$000	Audited Year ended Jun 2009 US\$000	Unaudited 6 mths ended Dec 2008 US\$000
Loss after taxation	(6,995)	(45,851)	(8,917)
Add/(deduct) non-cash / non operating items:			
Depreciation, amortisation and impairment	1,559	2,391	824
Unrealised foreign exchange losses	1,414	1,471	319
Livestock value changes	(750)	(6,242)	(4,730)
Fair value adjustments	–	26,342	4,558
(Increase)/decrease in deferred taxation	(509)	(2,904)	(1,902)
Other non-cash items	2,660	(3,277)	(53)
	4,374	17,781	(984)
Add/(deduct) movement in working capital items:			
(Increase)/decrease in accounts receivable and prepayments	(1,181)	(1,867)	(838)
(Increase)/decrease in inventories and consumable supplies	(2,118)	(825)	(2,762)
Increase/(decrease) in trade creditors and accruals	(9,572)	9,509	(1,022)
Increase/(decrease) in income tax payable/receivable	1,173	(927)	(751)
	(11,698)	5,890	(5,373)
Net cash flow from operating activities	(14,319)	(22,180)	(15,274)

The operating cashflow in the six month period to 31 December 2009 was negative largely due to paying down creditors that had been accrued in the period leading up to 30 June 2009.

16 Related Parties

Management agreement

On 28 October 2009 NZX Regulation granted a waiver of the application of Listing Rule 9.2.1 in respect of the requirement to obtain approval from shareholders to the variation of the Farm and Fund Management contracts. The following changes have been made:

- The Fund and Farm Management Agreements have been merged;
- The management fee percentage has been reduced from 1% to 0.75% for gross asset value above \$US400 million (gross asset value at 31 December 2009 was approximately \$US234 million, at 30 June 2009 approximately \$US215 million);
- PGG Wrightson will at NZ Farming Systems Uruguay's request accept shares rather than cash for any future performance fee payments, subject to compliance with relevant law and listing rules;
- PGG Wrightson's right to charge a margin for the provision of Farm Management services (although it has not been exercised) has been waived by PGG Wrightson;
- A management performance review clause has been inserted to implement a formal annual review process;
- Any agreed farms sold and managed under any sale and leaseback arrangement would incur a reduced 0.5% management fee; and
- The Farm Management Agreement term has been extended to align with the Fund Management Agreement.

For the period to 31 December 2009, these changes have had no impact on the results for NZ Farming Systems Uruguay.

17 Events Subsequent to End of Interim Period

There are no material events occurring subsequent to 31 December 2009 and prior to the date of these financial statements.

Corporate Directory

Company Number: 1866126

Board of Directors

John Parker, *Chairman (appointed as Chairman 17 December 2009)*

Murray Flett

Sam Maling (*retired 15 October 2009*)

Craig Norgate

John Roadley

Keith Smith (*retired as Chairman 17 December 2009*)

Graeme Wong

Registered Office

NZ Farming Systems Uruguay Limited

57 Waterloo Road

PO Box 292

Christchurch 8042

Telephone 64 3 372 0800

Fax 64 3 372 0801

Auditor

PricewaterhouseCoopers

PricewaterhouseCoopers Centre

119 Armagh Street

PO Box 13 244

Christchurch 8011

Telephone 64 3 374 3000

Share Registry

Computershare Investor Services Limited

Level 2, 159 Hurstmere Road

Takapuna

Private Bag 92119

Auckland 1142

Shareholder enquiries about transactions or changes of address should be directed to Computershare

Telephone 64 9 488 8777

Fax 64 9 488 8787

Email: enquiry@computershare.co.nz

