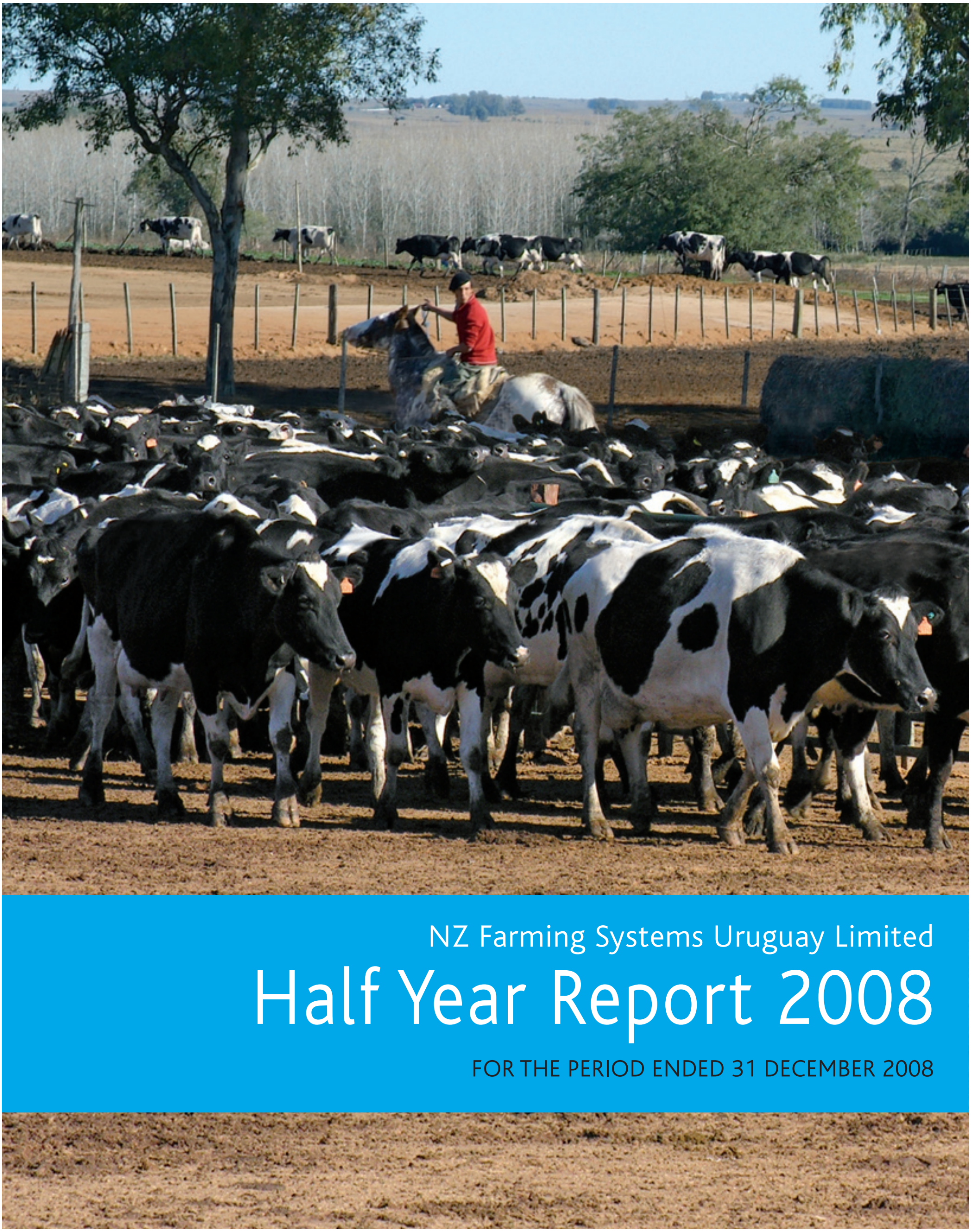


NZ Farming Systems Uruguay Limited

Half Year Report 2008

FOR THE PERIOD ENDED 31 DECEMBER 2008

Letter from the Chairman

23 March 2009

Dear Shareholder,

The Company's results for the period to December 2008 show strong progress in the development of its farms and increasing productivity in both pasture and milk production. This was despite a very difficult environment, due not only to the global financial crisis and lower dairy prices, but also to the worst drought in Uruguay for decades.

Overview of Half Year

After an excellent first quarter the Company experienced a significant deterioration in operating conditions, with the combined impact of low commodity milk prices and the worst drought in Uruguay for more than 30 years.

Rainfall in 2008, at between 500 and 600 millimetres, was approximately half the normal level of 1,200 millimetres. Extremely dry conditions prevailed from November, affecting farms in all three of the Company's regional hubs. Relief came late in January 2009, with up to 200 millimetres of rain over a period of four days, restoring soil moisture, promoting grass growth and helping replenish dams.

In response to the deteriorating operating conditions, an action plan was implemented which included the scaling back of development and selective reduction of stock numbers, to conserve cash and provide a platform to take advantage of the improved climatic conditions once they arrived.

Despite the dry weather in the half year under review, the Company's milking cows were maintained in very good condition through supplementary feeding. This, however, resulted in additional costs of around $US300,000 per month solely due to the drought.

The dry conditions and lower than forecast international prices for traded milk products affected earnings.

Revenue increased to $US8 million, from $US2.8 million in the 2007 half year, reflecting the increase in the total number of milking cows in production. Of the total, milk sales were $US6.6 million and livestock sales were $US1.4 million. Earnings before interest and taxation (EBIT) were a loss of $US9.5 million, compared with a loss of $US9.9 million for the previous comparable period.

The net loss after tax was $US8.9 million. No performance fee was accrued for the period.

The Company had an operating cash deficit of $US15.3 million for the period, with operations not yet having reached the critical mass necessary to break even. Cashflow was affected by lower milk prices, reduced milk production along with additional supplementary feed costs due to drought, and seasonal investment in forage crops and farm consumable supplies.

Natural growth in the livestock herd generated $US4.8 million of income, whereas livestock values were reduced by an offsetting $US4.6 million, or around 10 percent, to $US44.6 million, reflecting the impact of lower milk prices and drought conditions. This was signalled in the December market update. Both of these livestock items are non cash.

During the half year the Company obtained debt funding of $US16 million via Uruguayan banks. Further debt is being negotiated and is required in order to fund the completion of development on the existing landholding.

As announced in December, no dividend will be paid in respect of the 2009 financial year.

Market conditions

Unprecedented turmoil in global financial markets has led to flow-on effects in supply and demand for commodities, including oil and dairy products. Oil economies are key markets for internationally-traded dairy products. In addition, in Asian and other key markets, demand for dairy products has weakened due to the financial crisis and consumer reaction to the previous record high prices.

As a consequence, dairy prices have fallen substantially. The price paid by Conaprole, to which all of the Company's production is sold, reduced from more than US40c per litre at the start of the period to US19c per litre in December, consistent with current international dairy price trends.

The international dairy market appeared to have bottomed out prior to the recent announcement by the European Union (EU) that it would re-implement limited export subsidies. Until then, cow culling had been in progress in the United States and marginal milk production had become uneconomic at current prices. The EU action now appears likely to prolong the period of lower milk prices until at least the end of their selling season in the third quarter of this calendar year.

Uruguayan economy

Although the Uruguayan economy with its strong agricultural base has been affected by drought and falling commodity prices, GDP growth during 2008 was strong at around 11 percent. Economists' consensus is still for positive growth for 2009, of 2.3 percent.

Operating performance

Operating performance in the December half year reflected two distinct periods – a favourable spring, with excellent grass growth and milk production per cow exceeding expectations, followed by a period of low rainfall in October and drought from November.

The drought conditions in the second quarter reduced production and required supplementary feed to maintain livestock condition. Milking cow numbers peaked at 12,800 cows in October, but with drought conditions some animals were dried off early and some herds were moved to make the best use of available feed resources as new milking sheds were commissioned.

Milk production for the half year was 24.6 million litres, with 10.2 million litres in the first quarter and 14.4 million litres in the second. The second quarter, in particular, was below expectations due to the drought. The effect on revenue was compounded by the slide in international prices for traded dairy products. These external impacts prompted a detailed review of farm operating expenses, with the second quarter seeing a reduction in expenses of more than 10 percent compared to the first quarter, despite increased milk production. The benefit of on-farm cost saving measures was to some extent offset by the increased need for supplementary feed.

There was solid growth in milk production per cow and per hectare as operations gathered momentum. Milk production for the 2007-08 year was 240 kilograms of milk solids (kg MS) per cow, with the current year anticipated to be around 320 kg MS per cow. Production per hectare is expected to lift from 380 kg MS per hectare last year to around 484 kg MS per hectare this year.

Rapid development progress was made during the half year. Eight new milking sheds were commissioned, as planned, bringing the total to 19 at December 2008. Farm infrastructure such as fences, roading and water reticulation also advanced rapidly.

Key Statistics

	Jun 08	Dec 08	Expected Jun 09	Original plan Jun 09**
Total livestock numbers	50,200	60,000	50,000*	85,000
Milking cow numbers	5,600	11,500	14,500	20,000
Milk production Kgs MS per cow per year (Dec 08 is 6mths only)	240	163 (6 mths)	320	333
Dairy hectares in production	4,700	7,300	10,200	12,900
Milk production Kgs MS per hectare per year (Dec 08 is 6mths only)	380	256 (6 mths)	484	495
Milking sheds	11	19	26	30
Capital expenditure for period (including livestock on initial stocking of farms)	$84m	$26m (6 mths)	$34m (12 mths)	$75m

Notes

- Livestock / milking cows / dairy hectares / milking shed figures are as at the date specified. Milk production and capital expenditure figures are for the 12 mths ended on the date specified, except for Dec 2008 which is for the 6 mths 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.

* Livestock numbers projected at 30 June 2009 assume sale of majority of beef cattle in order to dedicate land and feed to dairy production. Dairy cow numbers are expected to be equal to original plan, with the 35,000 difference between projected June 2009 and original plan being in beef animals and heifers / heifer calves.

** Original plan figures are as at 30 June 2009 or for the 2008/09 year, as appropriate.

Key Operating Performance Statistics

	Q1 (Jul-Sep)	Q2 (Oct-Dec)	YTD Dec 2008 6 mths	Dec 08 Original Plan 6 mths	Full Yr Projection June 09 12 mths	2008/09 Original Plan 12 mths
Milk price (US cents/lit average)	35c	21c	27c	35c	23c	35c
Milk volume (Million litres)	10.2	14.4	24.6	32.2	50-60	65
Farm working expenses (USD Millions)	5.5	4.9	10.4	9.8	19.8	26.1

Notes

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

Immediate Priorities

In response to the adverse operating conditions a range of measures are being implemented to conserve cash, protect the condition of dairy livestock and continue with a targeted development programme.

These include:

- A selective reduction in livestock numbers, primarily through the sale of the majority of the beef herd to dedicate land and available feed to dairy production.
- Reduction in fertiliser application to maintenance levels, with deferral of capital fertiliser (soil improvement) to spring 2009 to benefit from lower prices.
- Completion of a further five milking sheds by June 2009, taking the total to 26, including two which have been completed since December 2008. These will be required for milking once 2009 spring calving is under way.
- Negotiation of further funding sources to complete the development programme, in addition to the $US16 million raised in December 2008.

The development programme is expected to see the Company's milking herd increase from 11,500 at December 2008 to 14,500 in June 2009. The programme will include the completion of a further five milking sheds, to bring the total to 26, the expansion of irrigation to more than 500 hectares, and associated farm infrastructure. The programme will also include the re-establishment of 2,200 hectares of pasture which was lost during this summer's drought.

The Company has monitor farms in two of the three regions of Uruguay in which it operates. Despite the climatic difficulties experienced from the second quarter, production on these farms has been pleasing. In particular, the El Monasterio farm in the eastern region has demonstrated that, with irrigation, 40-60 kilograms of dry matter production per hectare per day can be achieved, with clear prospects for further improvement in future through increasing soil fertility. This has been sufficient to sustain a stocking rate of more than four cows per hectare on irrigated land (20 percent of the monitor farm), equivalent to average stocking rates on irrigated farms in Canterbury in New Zealand. El Monasterio monitor farm has averaged 15.7 litres daily milk production per cow during the first half year despite only partial irrigation.

Outlook

Uncertainty continues over prices for internationally traded dairy products, with expectations for a continuation of depressed commodity and financial markets, and for reduced economic growth globally. Taking these factors into account, the Company believes the current level of prices is likely to persist until at least the third quarter of 2009.

The Company has implemented measures, as outlined above, to manage the operations within the parameters implied by these conditions, and to enable the Company to benefit from the planned increase in the number of cows milking and the associated increase in production.

The Company is pursuing a number of additional options to complete the conversion of all of its landholding in Uruguay to dairy production. Completion would require $US80-90 million of further debt, and negotiations are in progress for part of this amount, which is required prior to June 2009 to meet anticipated cash requirements. NZFSU believes that full completion of farm development makes more sense than land-banking at this time, so in the event that sufficient funding cannot be accessed to completely develop the existing landholding, the Company would consider disposal of some farms to free up cash to enable full completion, including irrigation, of the remaining landholding.

The drought breaking rains in late January and early February will revive milk production but not fully to budgeted levels for the 2009 year. The increase in operating costs incurred as a result of the prolonged drought will be partially offset by the cost reduction measures outlined above. The likely result for the 2009 year is a loss at the higher end of the EBIT range indicated in the December 2008 market update, of $US7 million to $US11 million.

Despite the difficult conditions experienced both in the global context and climatically in Uruguay, the Company believes that sound progress is being made. The Company's vision is to establish an internationally competitive dairy farming enterprise with a low cost operation, using highly productive pasture species and genetically superior milking cows. Confidence is growing, based on initial monitor farm results, that the targeted production levels are likely to be achieved.

On behalf of the Board of NZ Farming Systems Uruguay.

Keith Smith
Chairman

Financial Statements

FOR THE SIX MONTHS ENDED 31 DECEMBER 2008

Condensed Interim Consolidated Income Statement

For the six months ended 31 December 2008

	Note	Unaudited For the 6 months ended 31 Dec 2008 US$000	Audited For the 12 months ended 30 Jun 2008 US$000	Unaudited For the 6 months ended 31 Dec 2007 US$000
Revenue		8,026	8,044	2,806
Cost of sales		(3,189)	(3,823)	(1,212)
Gross profit		4,837	4,221	1,594
Livestock revaluations	7	(4,558)	14,285	2,400
Livestock biological transformation	7	4,783	3,626	446
Other income		77	90	–
		302	18,001	2,846
Farm working expenses		(11,096)	(10,562)	(2,873)
Management and administration expenses		(2,346)	(3,456)	(936)
Performance fee	3	–	(13,566)	(9,234)
Fund management fee		(1,243)	(2,672)	(1,327)
		(14,685)	(30,256)	(14,370)
Results from operating activities		(9,546)	(8,034)	(9,930)
Financial income		1,152	6,034	3,346
Financial expenses		(2,577)	(5,009)	(3,033)
Net finance (expense) / income		(1,425)	1,025	313
Net loss before taxation		(10,971)	(7,009)	(9,617)
Income tax credit / (expense)		2,054	(947)	2,809
Net loss after tax for the period		**(8,917)**	**(7,956)**	**(6,808)**
Earnings per share				
Basic and diluted earnings per share (United States Dollars)		(0.04)	(0.03)	(0.04)
Net Tangible Assets per share (United States Dollars)		0.89	0.92	0.79

Statement of Changes in Equity

For the six months ended 31 December 2008

	Note	Unaudited For the 6 months ended 31 Dec 2008 US$000	Audited For the 12 months ended 30 Jun 2008 US$000	Unaudited For the 6 months ended 31 Dec 2007 US$000
Loss for the period		(8,917)	(7,956)	(6,808)
Revaluation of Property, Plant and Equipment	4	–	36,007	–
Movement in deferred taxation on reserves		1,611	(4,221)	–
Total recognised income and expense for the period		(7,306)	23,830	(6,808)
Share capital issued	5	–	86,055	84,775
Less issue costs	5	–	(1,890)	(1,206)
		–	84,165	83,569
Movements in equity for the period		(7,306)	107,995	76,761
Equity at beginning of the period		223,623	115,628	115,628
Equity at end of the period		**216,317**	**223,623**	**192,389**

Balance Sheet

As at 31 December 2008

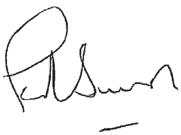
	Note	Unaudited For the 6 months ended 31 Dec 2008 US$000	Audited For the 12 months ended 30 Jun 2008 US$000	Unaudited For the 6 months ended 31 Dec 2007 US$000
ASSETS				
Current assets				
Trade and other receivables		5,821	4,766	5,257
Share instalments due		–	–	198
Cash and cash equivalents		5,235	128,941	180,622
Consumable supplies		3,481	719	–
Total current assets		14,537	134,426	186,077
Non-current assets				
Property, plant and equipment	4	186,957	165,399	88,913
Livestock	7	44,563	40,420	19,649
Trade and other receivables		5,000	3,500	–
Deferred tax assets		2,724	2,570	3,047
Total non-current assets		**239,244**	**211,889**	**111,609**
Total assets		**253,781**	**346,315**	**297,686**
EQUITY				
Share capital		197,081	197,081	196,485
Reserves		36,398	34,787	3,001
Retained earnings		(17,162)	(8,245)	(7,097)
Total equity		**216,317**	**223,623**	**192,389**

Balance Sheet

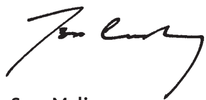
As at 31 December 2008

	Note	Unaudited For the 6 months ended 31 Dec 2008 US$000	Audited For the 12 months ended 30 Jun 2008 US$000	Unaudited For the 6 months ended 31 Dec 2007 US$000
LIABILITIES				
Current				
Loans and borrowings	3, 6	10,267	78,075	67,750
Trade and other payables		7,551	19,159	19,047
Total current liabilities		17,818	97,234	86,797
Non-current				
Loans and borrowings	6	16,000	18,500	18,500
Deferred tax liability		3,646	6,958	–
Total non-current liabilities		19,646	25,458	18,500
Total liabilities		**37,464**	**122,692**	**105,297**
Total liabilities and equity		**253,781**	**346,315**	**297,686**

These financial statements have been authorised for issue on 19 February 2009.



Keith Smith
Chairman



Sam Maling
Director

Statement of Cash Flows

For the six months ended 31 December 2008

	Note	Unaudited For the 6 months ended 31 Dec 2008 US$000	Audited For the 12 months ended 30 Jun 2008 US$000	Unaudited For the 6 months ended 31 Dec 2007 US$000
Cash flows from operating activities				
– Inflows		9,664	6,511	–
– Outflows		(24,938)	(25,296)	(610)
Net cash from operating activities	8	(15,274)	(18,785)	(610)
Cash flows from investing activities				
– Outflows	4, 7	(27,857)	(101,517)	(53,699)
Net cash from investing activities		(27,857)	(101,517)	(53,699)
Cash flows from financing activities				
– Inflows	5, 6	16,000	204,759	189,763
– Outflows	6	(96,575)	(1,890)	(1,206)
Net cash from financing activities		(80,575)	202,869	188,557
Net (decrease)/increase in cash and cash equivalents		(123,706)	82,567	134,248
Opening cash/(bank overdraft)		128,941	46,374	46,374
Cash and cash equivalents		**5,235**	**128,941**	**180,622**

Notes to the Financial Statements

For the six months ended 31 December 2008

1 Reporting Entity

NZ Farming Systems Uruguay Limited (the "Company") is a company registered in New Zealand under the Companies Act 1993 and is an issuer for the purposes of the Securities Act 1978.

The consolidated interim financial statements for the Group are for the economic entity comprising NZ Farming Systems Uruguay Limited and its subsidiaries.

The Company is primarily involved in dairy farming in Uruguay.

2 Basis of Preparation

The interim financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice ("NZ GAAP"), as applicable for a profit oriented entity. They comply with both NZ IAS 34 and IAS 34, Interim Financial Reporting. The condensed interim financial statements do not include all of the information required for full annual statements.

The same accounting policies, presentation and methods of computation are followed in the condensed interim consolidated financial statements as set out on pages 20 to 23 of the Company's annual report for 30 June 2008.

These statements were approved by the Board of Directors on 19 February 2009.

3 Performance Fee

The Company has a management contract with PGG Wrightson Funds Management Limited. Included within this is a performance fee element where a fee is payable to PGG Wrightson Funds Management when shareholder returns exceed a compounding 10% per annum.

For a performance fee to be paid, NZ Farming Systems Uruguay Limited's share price would need to be above NZ$1.75 at 30 June 2009. As the share price was below this level at 31 December, no accrual has been made (30 June 2008: US$13.57 million; 31 December 2007: US$9.2 million).

The performance fee for the year ended 30 June 2008 is included in current loans and borrowings. Interest is currently payable at a rate of 10% per annum. A loan agreement is currently under negotiation to formalise the performance fee payable as an unsecured loan, with the first review date being 30 June 2009.

4 Property, Plant and Equipment

All properties are carried at fair value in accordance with the Group's accounting policy. Independent external valuations are carried out by a Uruguayan valuer on an annual basis and peer reviewed by a New Zealand based valuer to ensure adherence to International and New Zealand professional standards.

The valuation at 30 June 2008 resulted in a revaluation of US$31.8 million, net of deferred tax on revaluation of US$4.2 million. The Board has considered whether as a result of recent economic factors there has been any impairment in the value of the Group's property. Whilst there have been only limited property transactions over the last six months, those that have come to the Board's attention have been at values which suggest there has been no impairment in the carrying value of property at 31 December 2008. In accordance with Group accounting policy, an independent valuation will be conducted at 30 June 2009.

During the six months ended 31 December 2008, the Group acquired assets with a cost of US$22.37 million (30 June 2008: US$69.3 million; 31 December 2007: US$24.97 million). No property, plant, or equipment was disposed of during the period (30 June 2008: US$Nil; 31 December 2007: US$Nil).

The additions to property, plant and equipment consisted mainly of improvements to the farms.

5 Share Capital Issued

During the six months to 31 December 2008 no share capital was issued (12 months to 30 June 2008: US$84.2 million; six months to 31 December 2007: US$83.6 million).

The Company listed on the New Zealand Stock Exchange on the 18th December 2007.

Costs incurred in raising the new share capital have been deducted from the share capital raised.

6 Loans and Borrowings

	Unaudited For the 6 months ended 31 Dec 2008 US$000	Audited For the 12 months ended 30 Jun 2008 US$000	Unaudited For the 6 months ended 31 Dec 2007 US$000
Non-current liabilities			
Secured bank loans	16,000	18,500	18,500
Current liabilities			
Performance fee payable	10,267	–	–
Current portion of secured bank loans	–	78,075	67,750

During the period the Group reviewed its funding arrangements. The result was a decision to cancel the Uruguay loan facilities backed by secured funds in New Zealand in favour of direct borrowing in Uruguay. This saw the Group repay the loans owing at 30 June 2008 from the secured cash held.

A new facility has been drawn down with two local banks in Uruguay. These loans are secured over property in Uruguay.

7 Livestock

The current policy is for livestock to be measured at fair value less estimated point of sale costs.

The Board has considered the impact that the current drought conditions in Uruguay and the decline in global milk prices would have on the carrying value of the livestock. As at 31 December 2008 the livestock has been revalued to US$44.56 million. This resulted in a loss of US$4.56 million (30 June 2008: gain of US$14.29 million: 31 December 2007: US$Nil) being recorded in the Income Statement.

Livestock revaluations in the Income Statement reflect the change in value of livestock as a result of changes in market prices. Livestock biological transformation reflects the increase in the fair value of livestock as a result of births and natural growth.

During the period, livestock additions totalled $3.92 million (30 June 2008: $14.34 million; 31 December 2007: $4.74 million).

8 Reconciliation of Loss after Income Tax with Net Cash from Operating Activities

	Unaudited For the 6 months ended 31 Dec 2008 US$000	Audited For the 12 months ended 30 Jun 2008 US$000	Unaudited For the 6 months ended 31 Dec 2007 US$000
Loss for the period after tax	(8,917)	(7,956)	(6,808)
Add/(deduct) non-cash items:			
Depreciation	824	1,049	291
Unrealised foreign exchange losses	319	–	(138)
Interest arising on deferred share capital receipts	–	–	(1,697)
Change in biological categories of livestock	(4,783)	(14,285)	(446)
Change in fair value of livestock	4,558	(3,626)	(2,400)
	918	(16,862)	(4,390)
Add/(deduct) movement in working capital items:			
Change in trade and other receivables	(838)	(6,806)	(2,541)
Change in deferred tax	(1,902)	4,388	(3,047)
Change in trade and other payables	(1,022)	(3,384)	6,942
Change in performance fee payable	–	13,566	9,234
Change in consumable supplies	(2,762)	(719)	–
Income tax paid	(751)	(1,012)	–
	(7,275)	6,033	10,588
Net cash from operating activities	**(15,274)**	**(18,785)**	**(610)**

9 Major Movements

The major movements in the six months to 31 December 2008 were improvements to property, plant and equipment (refer to Note 4), the repayment of debt (refer to Note 6), and the revaluation of livestock (refer to Note 7).

Corporate Directory

Board of Directors

Keith Smith, Chairman
Murray Flett
Sam Maling
Craig Norgate
John Parker
John Roadley
Graeme Wong

Registered Office

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Auditor

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Telephone 64 3 374 3000

Share Registry

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Private Bag 92119
Auckland 1142

Shareholder enquiries about transactions or changes of address are directed to Computershare:
Telephone 64 9 488 8777, Fax 64 9 488 8787
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NZ Farming Systems
URUGUAY