

29 January 2010

Market update

This market update reflects the Board's current views on the impact of recent increases in both dairy commodity prices and Company milk production.

Milk prices

The average milk price received by the company in December 2009 was US29 cents per litre – up from US27 cents in November and US24 cents in October. The price outlook for the balance of the year remains somewhat uncertain, with ongoing volatility in prices struck by the Fonterra online auction system. However an underlying positive trend is expected to continue as economies in key international dairy markets improve.

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 first half of the 2009/10 financial year. We believe US25 cents to be conservative given the high level of production costs in many dairy-producing countries.

Milk production

Total volume for the six months to 31 December 2009 was 42.1 million litres, an increase of 70 percent over 24.6 million litres in the December 2008 half-year. The increase reflects a production curve consistent with the growth of farming operations. In addition, it was achieved with farm working expenses about 15 percent lower than for the previous corresponding period, with a marked reduction in pasture and supplementary feed costs, partly due to decreases in fertilizer costs. Weather conditions remained favourable, with regular rainfall during this summer to date.

Production forecast for the current year remains at 80 million to 85 million litres, with final production likely to be towards the lower end of this range.

Development programme

The five new milking sheds foreshadowed in previous market communications are on target to begin production in autumn 2010.

The company is continuing work on funding the remaining development programme. The Board's assumption is that the next tranche of milking sheds will be operational in autumn 2011. On that basis, milk production for the 2010/2011 financial year would be anticipated at between 100 million and 110 million litres.

Steady progress is being made towards the full-scale production target of 940 kilograms per hectare per year, which is expected to be achieved on average for the 2014/15 year. We expect these levels to be achieved before then on the more advanced farms.

Financial

At the forecast production level of 80-85 million litres 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, and a 25c milk price, projected EBIT would be a small loss as previously stated. On that basis NZS would expect operations at the EBIT level to be profitable in the 2011/12 financial year as previously stated.

Achievement of the full-scale production target of 940 kilograms per hectare per year by 2014/15 would imply positive EBIT of \$35-40 million at that point, again based on a milk price of US25 cents per litre.

Further comment will be made on the operations and outlook of the company when the trading results for the December 2009 half-year are released via NZX on Tuesday 16 February.

For further information, please contact:

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