PĀMU™
FARMS OF NEW ZEALAND

Statement of Corporate Intent

For the period FY2025-FY2027

About us

Pāmu Farms of New Zealand

Pāmu Farms of New Zealand (Landcorp Farming Limited) is a State-Owned Enterprise established under the State-Owned Enterprises Act 1986 (the Act) and is registered under the Companies Act 1993. Pāmu is the brand name for Landcorp and is used throughout this Statement of Corporate Intent.

The Pāmu Group comprises Landcorp Farming Limited and its subsidiaries: Landcorp Estates Limited, Landcorp Holdings Limited, Landcorp Pastoral Limited, Focus Genetics LP and Farm IQ Systems Limited (the Group). Pāmu also has four strategic joint ventures. The Group structure and key strategic interests are set out in Appendix 2 (page 25).

Under the Act, Pāmu is required to operate as a successful business and specifically be:

- As profitable and efficient as comparable businesses that are not owned by the Crown;
- A good employer; and
- An organisation that exhibits a sense of social responsibility having regard to the interests of the community in which it operates.

Government shareholders expect Pāmu to be an exemplary pastoral farmer through prioritising core business and commercial disciplines. This includes a focus on driving down costs and seeking improvements wherever it can. Pāmu is also expected to deliver an appropriate level of commercial return and represent a value-for-money investment for the Crown.

These expectations shape our strategy and direction.

Strategic operating context

Pastoral farming currently faces significant challenges and opportunities

This Statement of Corporate Intent is prepared in the context of significant challenges and opportunities for pastoral farming in New Zealand. Some of these include:

Less demand for exports

Chinese imports of whole milk powder were down 39% in 2023. Meanwhile, China's milk production showed a compound annual growth rate of 7.1%, reaching just under 40 million metric tons. The birthrate in China has dropped from over 16 million in 2016 to 9 million in 2023 indicating demand won't increase in the short-term.

Demand for red meat particularly lamb and mutton has been weaker than predicted. The expected level of profitability for 2023-24 is the lowest since 2007-08.

Farm inflation

Farm inflation means expenditure remains high and debt-servicing costs have increased significantly, reducing profit margins. The disruption in the Red Sea that gives passage to the Suez Canal has also increased shipping costs.

Climate change resilience

Globally consumer expectations for climate change action continue to grow resulting in food processors implementing regimes to address emissions.

Extremes in weather conditions continue, requiring careful planning to ensure infrastructure is future-fit.

Biodiversity

Aligning work on climate change and biodiversity is an opportunity to take action in both areas. The growth of natural resource regeneration has the potential to create a new asset class (biodiversity; soil health, natural capital) and is a positive for forestry and protected covenants.

Assurance

While freshwater regulations are under review, work continues to progress on programmes that meet both regulatory and assurance requirements, with deliberate prioritisation toward farms where value can be gained from also achieving NZFAP+ certification.

Globally the expectation is for open and honest communication about what happens on-farm.

Financial institutions are requiring strong sustainability credentials via Sustainability Linked Loans.

Alternative proteins

The global protein alternatives market is expected to grow in the forecast period of 2024-2032 at a compound annual growth rate of between 6.8%-13%.

Global trade

The impacts of protectionism, pandemics, and war will continue to influence trade flows around the world for the foreseeable future. 2024 will be a record-breaking year for elections; this will likely impact global trade dynamics.

AI and data

Technology has long been used in agriculture to improve efficiency. AI could transform agriculture by: increasing efficiency, labour, and resources; improving environmental sustainability; making resource allocation "smarter"; and providing real-time monitoring to promote greater health and quality of produce.

Genetic technologies

The Government is proposing to update New Zealand's biotechnology rules and open access to gene editing and genetic modification. The proposed benefits for agriculture include climate and pest-resistant crops, pest control technologies, and reducing methane emissions from farming.

The Pāmu strategy and purpose

Enriching our land, our people and the future of food and fibre for Aotearoa New Zealand

The Pāmu strategy strives to balance dual outcomes of delivering financial performance while ensuring the business is resilient and fit for the future, having regard to the operating context.

The Pāmu strategy (refer to page 6) is based on six strategic priorities. At its core, it is focused on achieving the 'highest and best land use' for the company's portfolio and driving productivity through farming excellence across integrated farm uses.

In pursuing 'highest and best land uses', Pāmu will continue its initiatives to increase dairy beef versus traditional livestock farming systems, transitioning steep class 6 and 7 low-returning pastoral land to plantation forestry, and class 2 land to horticulture.

The full effects of these land-use changes and associated infrastructure (such as shelter and tree stock for horticulture; or calf-rearing facilities for dairy beef) require early expenditure but lead to income and asset value growth over time. An example of the long timeframe is plantation forestry which takes 27 years to mature.

Total shareholder return is the key measure for Pāmu and includes dividend payments, equity growth and the spillover benefits of its activities to broader New Zealand agriculture. These benefits include supporting improved health and safety outcomes in agriculture through partnering with organisations like SaferFarms, low methane genetics, dairy beef, and valuation approaches to biodiversity enhancement. Pāmu must earn this right by demonstrating it is a profitable farming business.

The strategy and its key initiatives align with Shareholding Ministers' expectations of Pāmu, including to be:

- A high-performing food and fibre business that is profitable and efficient;
- Delivering a return on investment and value to all New Zealanders;
- An exemplary pastoral farmer that prioritises core business and commercial disciplines.

OUR STRATEGY TO FY2027

PĀMU FARMS OF NEW ZEALAND

OUR PURPOSE

Enriching our land, our people and the future of food and fibre for Aotearoa New Zealand

STRATEGIC PRIORITIES

CAPABLE AND SAFE PEOPLE
Increase performance by investing in people with an adaptable mindset and supporting the communities in which our people farm.

FARMING EXCELLENCE
Drive productivity through operational farming excellence in integrated land use.

STEWARDSHIP OF NATURAL ASSETS
Protect, restore and enhance our natural capital and build climate change resilience.

EARNINGS DIVERSIFICATION
Utilise our resources to diversify earnings and value linked to market needs through highest and best land use.

DIGITALISATION
Accelerate investment in digitalisation, automation and innovation to drive insights, productivity and the trust sought by customers.

PARTNERSHIPS AND COMMUNITIES
Partner of choice in meeting market needs, developing new technologies and demonstrating knowledge learned with our farming communities.

MILESTONES 2026

- Deliver an eNPS > 20.
- > 40% internal promotion into promotable roles.
- Continue to deliver on the three strands of Rautaki Pae Tawhiti.

- An integrated sustainable land use business addressing the needs of freshwater, biodiversity, climate change and animal welfare.
- Achieve productivity gains through improvements in key operational farming metrics.

- Partner to deliver solutions to changing customer demands.
- Group NOP $100m from FY23-FY26.
- Risk profiling driving investment in risk mitigation.

- Strategic focus on digital technology and automation.
- Support digital collaboration in the primary sector.

- Reduce our emissions aligned to SBT of 3%.
- Increased resilience to extreme climate events.
- Be a leader and partner in demonstrating knowledge gained in lower-carbon farming systems with a focus on livestock genetics.

WHAT SUCCESS LOOKS LIKE - OUR CAPITALS

- A top New Zealand employer with safety and wellness at its core.
- A highly productive, market-led food and fibre company with uncompromising care for the environment and animals.
- A leader in integrated sustainable land use protecting and restoring the natural world.
- Creating enduring value for the good of Aotearoa New Zealand.
- A sought-after innovation partner contributing to Aotearoa New Zealand's future.
- Valued by our customers, partners and the communities in which we live and farm.

GENUINE | SHOULDER-TO-SHOULDER | GROUNDED | BOLD

Key initiatives supporting delivery of the Strategy

PĀMU FARMS OF NEW ZEALAND

Our Purpose: Enriching our land, our people and the future of food and fibre for Aotearoa New Zealand

Farming Excellence	Capable and Safe People	Digitalisation	Earnings diversifications	Stewardship of Natural Assets
• Deliver a set of farm productivity improvement activities to close the gaps to relevant industry benchmarks (measures page 8). Supported by increased use of automation for operational efficiencies. • Continual animal health and welfare improvement with a focus on drench resistance and wastage. • Ongoing review of the portfolio to ensure the highest and best use of assets. • Deliver a national livestock plan to FY2030 including dairy beef integration supported by a refreshed Pāmu genetics strategy that also benefits NZ Inc. • Communicate and share knowledge on initiatives that make a difference for New Zealand agriculture, through farm open days.	• Deliver year 2 of health, safety and wellness improvement plan focussed on critical risk standards and controls. • Enable greater participation of current and future workforce in vocational education (including the Pāmu Apprenticeship Programme), to grow operational, digital and technical farming skills. • Improve gender diversity and continue our Māori engagement strategy.	• Embed FarmIQ and FARMAX to support the delivery of operational performance and streamline regulatory, and processor reporting requirements. • Develop and execute a technology road map for Pāmu farms, and where applicable rationalise and standardise technology offerings. • Utilise AI in data-driven decision-making to support focus on farming excellence.	• Continued expansion of forestry and horticulture business as part of ensuring the highest and best land use and optimising costs (including forestry management Internalisation and supporting systems). • Work with joint venture partners Spring Sheep and Melody Dairies to deliver returns from investments. • Deliver a programme to value non-ETS carbon and ecosystems on Pāmu farms as a future value stream. • Progress renewable energy opportunities across solar and wind with partners.	• Implement greenhouse gas emissions reduction and climate adaptation roadmap, with an innovation focus on low methane livestock genetics. • Rollout of Integrated Farm Plans including Fresh Water Plans in a digital format. • Design and deliver a biodiversity action plan supporting sustainability priorities of climate adaptation, care for land and water, and animal welfare including shade and shelter.

Pāmu FY2025-27 performance measures

Farming excellence				
	FY2023*	Industry FY2023 averages**	FY2025 target	FY2027 target
Total kg milk solids	13.7m	-	14.30	15.2m
Total kg milk solids/cow	362	399	381	399
Six-week in-calf rate (%)	65	67	69	71
Dairy feed conversion efficiency (kg dry matter/kg milk solids)	13.5	Region dependent	13.4	13.2
Total kg product (red meat)	17.9	-	20.8m	22.1m
Ewes death rate (%)	7.2	6	8	6
Deer death rate (%)	3.3	2***	2.9	2
Lambing percentage (%)	131	131	138	145

*As at the date of publication of this SCI, FY2024 data is not available. FY2023 results are provided to add context to the benchmark and target figures.
** Weighted averages.
*** Industry benchmark

Pāmu FY2025-27 performance measures

PĀMU™
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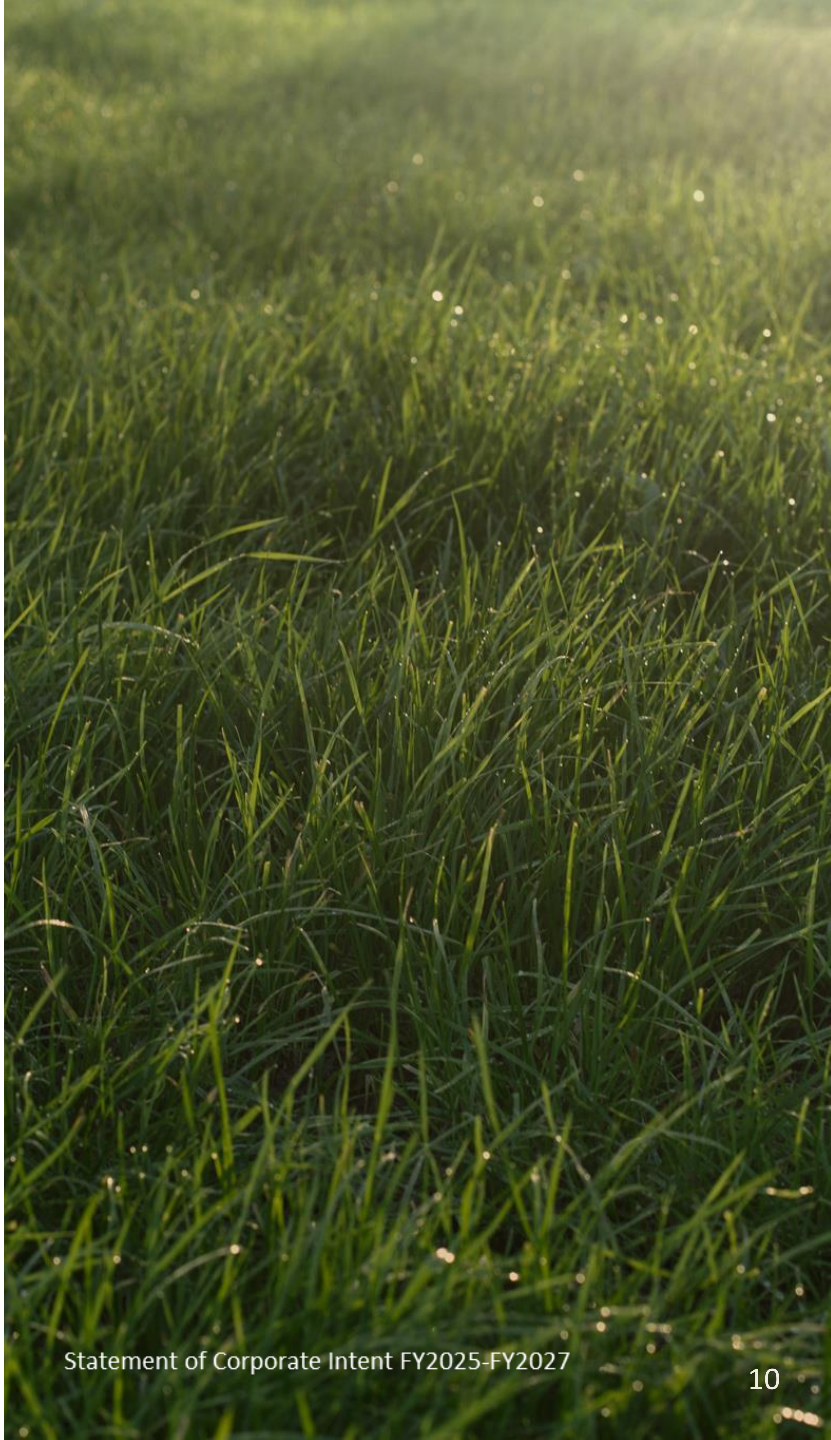
	FY2025	FY2027
Net GHG reduction	Reduce net GHG emissions by 7.21% (compared to FY2021 baseline)	Reduce net GHG emissions by 9.97%
Fit for purpose farm environment plans completed	75%	100%
Pāmu-led open farm days (knowledge sharing)	Seven events	Seven events
Calves reared - born from the dairy herd	61%	75%
H&S - Critical risk standards	Complete eight critical risk standards	Additional standards for six critical risk tasks will be completed with assurance checks
Gender representation	>30% female gender representation in permanent staff	34% female gender representation in permanent staff
Employee net promoter score	+20	+20
Mental health training - % of staff trained	40% all employees 100% farm managers every three years	40% all employees 100% farm managers every three years
Internal promotions	55%	60%
Number of Pāmu staff in vocational training	95 (20% of farm workforce enrolled learners)	25% of farm workforce enrolled learners

Pāmu FY2025-27 financial performance measures

	Budget FY25	Business Plan FY26	Business Plan FY27
Shareholder Returns			
Total Shareholder Return %	-0.0%	1.5%	2.2%
Return on Equity %	-0.5%	1.4%	2.1%
Dividend Yield %	0.0%	0.3%	0.6%
Profitability & Efficiency			
Return on Invested Capital %	1.1%	4.6%	5.9%
Operating Margin %	15.0%	24.2%	27.0%
Leverage & Solvency			
Gearing (Net Debt/Net debt plus equity) %	11.2%	11.1%	11.0%
Net debt and lease liability to EBITDAR (x)	12.1x	6.1x	5.0x
Debt to EBITDAR (x)	5.1x	2.8x	2.4x
Interest Cover x (Underlying EBIT / Net Interest)	0.8x	3.1x	4.0x
Solvency (including current debt)	1.1	1.1	1.1
Solvency (excluding current debt)	4.3	4.4	4.3
Interest Cover x (As agreed with Bank)[1]	1.49x	3.87x	4.84x
Growth			
Revenue Growth (x)	1.0x	1.1x	1.1x
Capital Replacement (x)	0.8x	0.9x	1.0x
Underlying EBITDAR Growth (x)	0.8x	1.8x	1.2x
Net Operating Profit Growth (x)	0.4x	5.5x	1.3x

Note: Interest Cover calculation is based on the Owners' Expectation Manual methodology. For its reporting to lenders, Pāmu uses EBITDAR before the application of IFRS16 Leases.



Performance measure descriptors

Shareholder return Measure	Description	Calculation
Total shareholder return	Performance from an investor perspective - dividends and investment growth	(Commercial value-end less Commercial value-beginning plus dividends paid less equity injected) / Commercial value-beginning
Dividend yield	The cash return to the shareholder	Dividends paid / Average commercial value
Return on equity	How much profit a company generates with the funds the shareholder has invested in the company	Net profit after tax / Average equity
Profitability/efficiency	Description	Calculation
Return on invested capital	The efficiency and profitability of a company's capital from both debt and equity sources	EBIT less non-operating items / Average interest-bearing debt plus average share capital (including RPS) plus average retained earnings plus average other equity
Operating margin	The profitability of the company per dollar of revenue	EBITDAR less non-operating items / Revenue
Leverage/solvency	**Description**	**Calculation**
Gearing ratio (net)	Measure of financial leverage - the ratio of debt (liabilities on which a company is required to pay interest) less cash, to debt less cash plus equity	Net debt / Net debt plus equity
Debt and Lease Liability to EBITDAR	Size of debt and lease liability relative to earnings	Net debt plus lease liability / EBITDAR
Debt to EBITDA	Size of debt relative to earnings	Net debt / EBITDAR less non-operating items
Interest cover	The number of times that earnings can cover interest	EBIT less non-operating items / Net bank interest
Solvency	Ability of the company to pay its debts as they fall due	Current assets / Current liabilities
Growth	**Description**	**Calculation**
Revenue growth	Measure of growth	Current year’s revenue / previous year’s revenue
Capital replacement	Measure of capital investment relative to maintenance investment levels	Asset expenditure / depreciation and amortisation less lease amortisation
Underlying EBITDAR growth	Change in EBITDAR	Current year EBITDAR less non-operating items / previous year EBITDAR less non-operating items

Note: Non-operating items include fair value adjustments and other gains/losses. Asset expenditure excludes non-depreciable land development expenditure.

Capital structure

The issued share capital of Pāmu as at 30 June 2024 is 125,000,000 ordinary shares at $1.00 each ($125 million) and 86,513,000 redeemable preference shares of $1.00 each, giving a total share capital of $211.5m.

The redeemable preference shares holding reflects the commercial arrangement with the Crown under which the shareholder of Pāmu purchased redeemable preference shares in an amount equal to the agreed market value of designated land that has been protected from sale. This land is held by Pāmu subsidiary, Landcorp Holdings Limited, for the purpose of future historical Treaty of Waitangi settlements by the Crown.

After balancing operating, capital, and dividend cash flows, the estimated closing interest-bearing debt for the next three years is: $208m (30 June 2025) and $209m (30 June 2026) and $211m (30 June 2027).

The estimated Pāmu Group capital structure for the next three years is as follows:

	Budget FY25	Business Plan FY26	Business Plan FY27
Total Assets	2,199	2,216	2,243
Total Liabilities	581	579	580
Total Equity	**1,618**	**1,637**	**1,663**
Interest Bearing Debt / Total Funding	11.2%	11.1%	11.0%
Shareholders' Funds / Total Assets[1]	73.6%	73.9%	74.2%

1Consolidated Shareholders' funds are equal to equity from the statement of financial position based on New Zealand International Financial Reporting Standards (IFRS). Total Assets are from the Statement of Financial Position per IFRS.

Dividend policy

The dividend policy for Pāmu is to make distributions at a dividend pay-out ratio within an average, over time of 80% to 100% of Free Cash Flow.

Free Cash Flow is calculated as net cash flows from operating activities less payment of lease liabilities, maintenance capital expenditure and investment required to address strategic opportunities and risks.

Reporting & Disclosure

Reporting to Shareholding Ministers

Pāmu presents the following reports in accordance with the Act and requirements of shareholding Ministers:

- Annual Report: within three months of the end of each financial year and including audited financial statements of the year and a report from the Chairman and Chief Executive;
- Half-Yearly Report: within two months of the end of each half-year, including unaudited financial statements, and a qualitative report from the Chairman and Chief Executive on the company's performance; and
- Quarterly Reports: within one month of the end of each quarter and comprising a commentary and summary of financial performance.
- Annual benchmarking reports: each year, Pāmu benchmarks its operational performance against appropriate regional and national results and shares the findings with Ministers..

In addition, Pāmu has regular meetings with officials and occasional meetings with shareholding Ministers on an as-needed basis to ensure shareholding Ministers are appraised of the Pāmu strategy and performance.

Consultation

Pāmu will consult with shareholding Ministers on transactions:

- involving investing, by one or more related transactions, $20m or more in any activity within the nature and scope of its core business (including the acquisition or disposal of shares in another company or organisation);
- outside the nature and scope of its core business;
- which meet any applicable criteria for consultation as set out in the current letter of expectations to Pāmu from shareholding Ministers;
- when selling or disposing of the whole or any substantial part of the company's assets;
- involving diversification or overseas expansion (including offshore investments).

Commercial value and compensation

Commercial value

The Pāmu Board considers the commercial value of the company (including subsidiaries) to be $1.6 billion as at 30 June 2024.

This valuation is based on the estimated market value of Pāmu assets and liabilities. The valuation includes:

- external assessment of land and buildings, and forests; and
- market prices for livestock, shares and financial instruments.

It does not include commercial valuations of Pāmu investments in joint ventures which are likely to be higher than their carrying value.

The value of liabilities is deducted from the value of the assets to determine the commercial value.

Compensation from the Crown

Section 7 of the Act allows for the Crown to enter into an agreement with Pāmu under which the Crown would pay Pāmu for undertaking a non-commercial activity.

If the Crown wishes or requires Pāmu to undertake activities or assume obligations which constrain Pāmu from acting in a normal, business-like manner or which will or could impact on Pāmu profit or value, Pāmu will seek compensation in accordance with section 7 of the Act. This includes compensation for retaining properties normally intended for sale but which might be required by the Crown to fulfil Treaty of Waitangi settlement obligations. As at the date of publication of this Statement of Corporate Intent, Pāmu has no, and has not sought any, section 7 agreements.

Appendices

1. Pāmu accounting policies
2. Group structure

Appendix 1: Accounting policies

Statement of compliance

The financial statements are prepared in accordance with New Zealand Generally Accepted Accounting Principles (NZ GAAP) under the Companies Act 1993 and the Financial Reporting Act 2013. NZ GAAP consists of New Zealand equivalents of the International Financial Reporting Standards (NZ IFRS), and other applicable financial reporting standards, as appropriate for profit-oriented entities.

NZ IFRS can significantly impact on reported income for Pāmu through the requirement to include material unrealised gains and losses within reported profits. This can substantially increase the volatility of reported income. In addition, forecast profits for Pāmu can be significantly different to actual results, depending on changes in the fair value of livestock, land and buildings, investments and income tax as calculated under NZ IFRS.

Measurement base

The financial statements have been prepared using a historic cost basis, modified by the revaluation of certain assets, investments and financial instruments as disclosed below. The functional and reporting currency used to prepare the financial statements is New Zealand dollars, rounded to the nearest million dollars ($m).

Basis of consolidation

The consolidated financial statements use the acquisition method of consolidation for Pāmu and its subsidiaries. Associates and joint ventures are accounted for using the equity method. All material intercompany balances and transactions are eliminated on consolidation. Transactions with jointly controlled entities are eliminated to the extent of Pāmu's interest in the entity.

Appendix 1: Accounting policies

Significant accounting policies

There have been no changes in accounting policies during the financial year. The principal accounting policies applied in the preparation of these financial statements have been consistently applied to all the periods presented. Where necessary, comparative information has been reclassified to achieve consistency with the current period's presentation.

Revenue

Farm operating revenue is derived from the sale of livestock, milk and other agricultural produce such as wool and forestry logs. Revenue is measured at the transaction price specified in the customer contract.

Livestock revenue is recognised following delivery to customers. Sales contracts either fix prices in advance or allow livestock to be sold at the prevailing spot rate. Each year, the Board approves a standard value for each livestock class. Changes in the value and volume of livestock arising from purchases, sales, births, deaths and ageing are determined using standard values.

Milk revenue is recognised following collection by the milk processor using the processor's most recent forecast price and dividend information.
Pāmu holds New Zealand Stock Exchange milk futures to manage commodity price risk. Fair value gains or losses are reported within the Statement of Profit or Loss.

Wool revenue is recognised following delivery to the wool broker. Contracts are held that either fix prices in advance or allow the wool to be sold at the prevailing spot rate.

Forestry revenue is recognised from the sale of logs together with revenue attributable to the growth of forest stands. Carbon revenue is recognised upon the initial allocation of carbon emissions credits (NZUs) at the prevailing market price on the day of allocation. NZUs are revalued at each reporting date and any fair value movement is reflected in comprehensive income. Any gain on the sale of NZUs is recognised in revenue.

Appendix 1: Accounting policies

Accounts receivable

Trade and other receivables are recognised at cost, less any provision for lifetime expected credit losses.

Property held for sale

Properties are identified for sale when a sales plan has been implemented and an unconditional sales contract is expected to be signed within a year or a property is subject to a Treaty settlement sale. Properties held for sale comprise farmland and associated buildings. Properties subject to Treaty settlements may be classified as held for sale for periods greater than one year while settlement terms are negotiated. These properties are still likely to be purchased by claimants, and it is probable that their value will be recovered by way of sale rather than ongoing operations. Property held for sale is measured at the lower of the carrying value of the property when it was classified as property held for sale and fair value less sales costs.

Livestock

Livestock are recorded at fair value less estimated point-of-sale costs. Changes in the value and volume of livestock arising from purchases, sales, births, deaths and aging are recognised within revenue in the Statement of Profit or Loss. Changes in value due to general livestock price movements are recognised in the Statement of Profit or Loss within fair value movement in biological assets. Livestock valuations are provided by independent valuers. These market values reflect livestock of similar weight and age throughout New Zealand.

Appendix: Accounting policies

Forestry and carbon assets

Forest establishment and direct management expenses are recorded as planting costs and capitalised to forestry stands. Forestry stands below ten years of age are valued at cost. After ten years, forestry stands are recorded at fair value. Changes to value due to forestry growth are recognised within revenue in the Statement of Profit or Loss. Changes due to movements in forestry prices are recognised in the Statement of Profit or Loss within fair value movement in biological assets.
As a forester, Pāmu is allocated emission credits (NZUs) and will incur liabilities through the ETS. Pāmu holds credits for forestry plantations. Should these plantations be harvested and/or deforested, a liability would be incurred up to a maximum of the credits received. NZUs are revalued at each reporting date and any fair value movement is reflected within Other Comprehensive Income.

Equity accounted investments

Equity-accounted investments are initially recognised at cost and the carrying value is increased or decreased to recognise the Pāmu share of surplus or deficit of the investee after the date of acquisition. Cash contributions made to the investee increase the carrying amount of the investment. Distributions received from the investee reduce the carrying amount of the investment. If the Pāmu share of losses exceeds its investment, a liability is recognised to the extent that Pāmu has incurred a constructive or legal obligation. The carrying values of investments are reviewed annually for indicators of impairment, and carrying values are adjusted accordingly if required.

Share investments

The Group is required to hold certain shares and investments in co-operative companies to facilitate farming operations. Shares are held as a consequence of business operations and are not held for trading. Share investments are initially recognised at cost, and subsequently revalued to fair market value. Pāmu has elected to account for fair value changes through Other Comprehensive Income except in cases where the shares can be redeemed at “par” value from the issuer. In such cases any value change will be accounted for through the Statement of Profit or Loss. Any dividends from share investments are recognised in the Statement of Profit or Loss.

Appendix 1: Accounting policies

Property, plant and equipment

Property, plant and equipment consists of land and improvements, protected land and plant and equipment.
Land is measured at fair value and buildings are measured at fair value less accumulated depreciation and any impairment after the date of valuation. The fair value of land and buildings within each of the four property portfolios is reviewed by an independent valuer at a minimum every three years, and more frequently where there are indications of a material movement in values. During a revaluation, the valuer will estimate the value of each property within a portfolio by considering a range of operational data for the property concerned together with information relating to sales of comparable properties. Additions to land and buildings after the most recent valuation are recorded at cost less accumulated depreciation for buildings.

The last full valuation was performed on 30 June 2022. In years where there is not a full valuation, a material change assessment of the property portfolio is performed by an independent valuer.

Revaluations are undertaken using a level 2 fair value methodology. They employ a market approach and take into account general factors that influence farm land prices as well as market evidence such as recent farm sales in the relevant regions. The valuation also considers the price effects of various legal obligations placed on Pāmu land ownership. The impact of the Conservation Act 1987 relating to the establishment of marginal strips and conservation management plans is considered where applicable. In the North Island, deductions of 0–6% have been made for the effects of the Treaty of Waitangi (State Enterprises) Act 1988 and the memorials pertaining to section 27B of the State Owned Enterprises Act 1986, which provides for the resumption of land on the recommendation of the Waitangi Tribunal. The South Island properties include a deduction of up to 5% to reflect the effect of the Right of First Refusal memorial granted to Ngāi Tahu under the Ngāi Tahu Claims Settlement Act 1998.

Improvements on leased land are held at cost.

Protected land is defined in the Agreement Concerning Pāmu Land Protected from Sale, signed with the Crown in 2007 and amended in June 2013 (the Protected Land Agreement) and relates to land that the Crown wishes to protect from sale for public policy reasons. Protected land (including buildings on protected land) was valued at fair value at the time it was classified as protected land as this is the ongoing fair value of the land to Pāmu. Buildings are measured at this value less accumulated depreciation.

Appendix 1: Accounting policies

Property, plant and equipment (continued)

Items of plant and equipment are measured at cost less accumulated depreciation and impairment losses.

Depreciation is provided on a straight-line basis on all property, plant and equipment other than land and land improvements. Depreciation rates are used to allocate the cost or revalued amount of the assets to their estimated residual values over their useful lives. The useful lives of major classes of property, plant and equipment have been estimated as follows:

Buildings	30 - 60 years
Leasehold improvements	lease term
Plant	3 -10 years

Leases

Leased assets and liabilities are initially recognised in the Statement of Financial Position at the present value of remaining unpaid lease payments discounted by the Pāmu incremental borrowing rate. Thereafter leased assets are depreciated over the life of the lease and lease liabilities reduce as lease payments are made. After the commencement of a lease, any subsequent changes to the lease payments are reflected as a lease remeasurement adjustment.

Leased assets are largely made up of farmland in Wairakei, northeast of Taupō. The lease was entered into in 2004 and expires in 2049. The lease requires Pāmu to convert what was previously forestry land into pastoral farming land. Other leases are also held for office buildings and telecommunications equipment.

Pāmu acts as a lessor of farmland provided under operating leases. Income from operating lease agreements is recognised as lease income on a straight-line basis over the term of the lease. Lease terms are of various lengths and some leases include rights of renewal.

Appendix 1: Accounting policies

Bank loans

Bank loans are the drawn components of bank cash advance facilities. Facilities may be borrowed against, or repaid, at any time by Pāmu and are subject to a negative pledge agreement which means that Pāmu may not grant a security interest over its assets without the consent of its lenders. Facilities are either on a daily floating interest rate or a short-term fixed rate and therefore carrying value approximates fair value.

Financial guarantees

Pāmu has provided limited guarantees to the Ministry for Primary Industries in relation to primary growth partnerships with Spring Sheep Dairy Limited Partnership.

Redeemable preference shares

Redeemable preference shares were issued as a capital injection under the terms of the Protected Land Agreement. They carry no voting rights and are not eligible for dividends or any share of net assets on wind-up. When requested, Pāmu will transfer properties referred to in the Protected Land Agreement to the Crown. On transfer, the redeemable preference shares are redeemed at the initial value of the property.

Appendix 1: Accounting policies

Capital management

Share capital

Under the State-Owned Enterprises Act 1986, Pāmu's ordinary shares are held equally by the Minister of Finance and the Minister for State-Owned Enterprises. This prevents Pāmu from raising capital from other sources. Ordinary shares carry one vote per share and carry the right to participate in dividends. All shares are fully paid up.

Retained earnings

Retained earnings comprise Pāmu's accumulated net profits including transfers from revaluation reserves when the underlying asset has been sold, less any dividends paid. Retained earnings also includes any payment from the Crown for additional capital expenditure incurred on the properties defined in the Protected Land Agreement.

Share revaluation reserve

The share revaluation reserve comprises the cumulative net change in the fair value of share investments, until the investment is sold.

Asset revaluation reserve

The asset revaluation reserve is used to record changes in the fair value of land and buildings and intangible assets. Revaluations are reflected in the asset revaluation reserve and included in Other Comprehensive Income, with any revaluations below cost or recoveries to cost being recognised in the Statement of Profit or Loss.

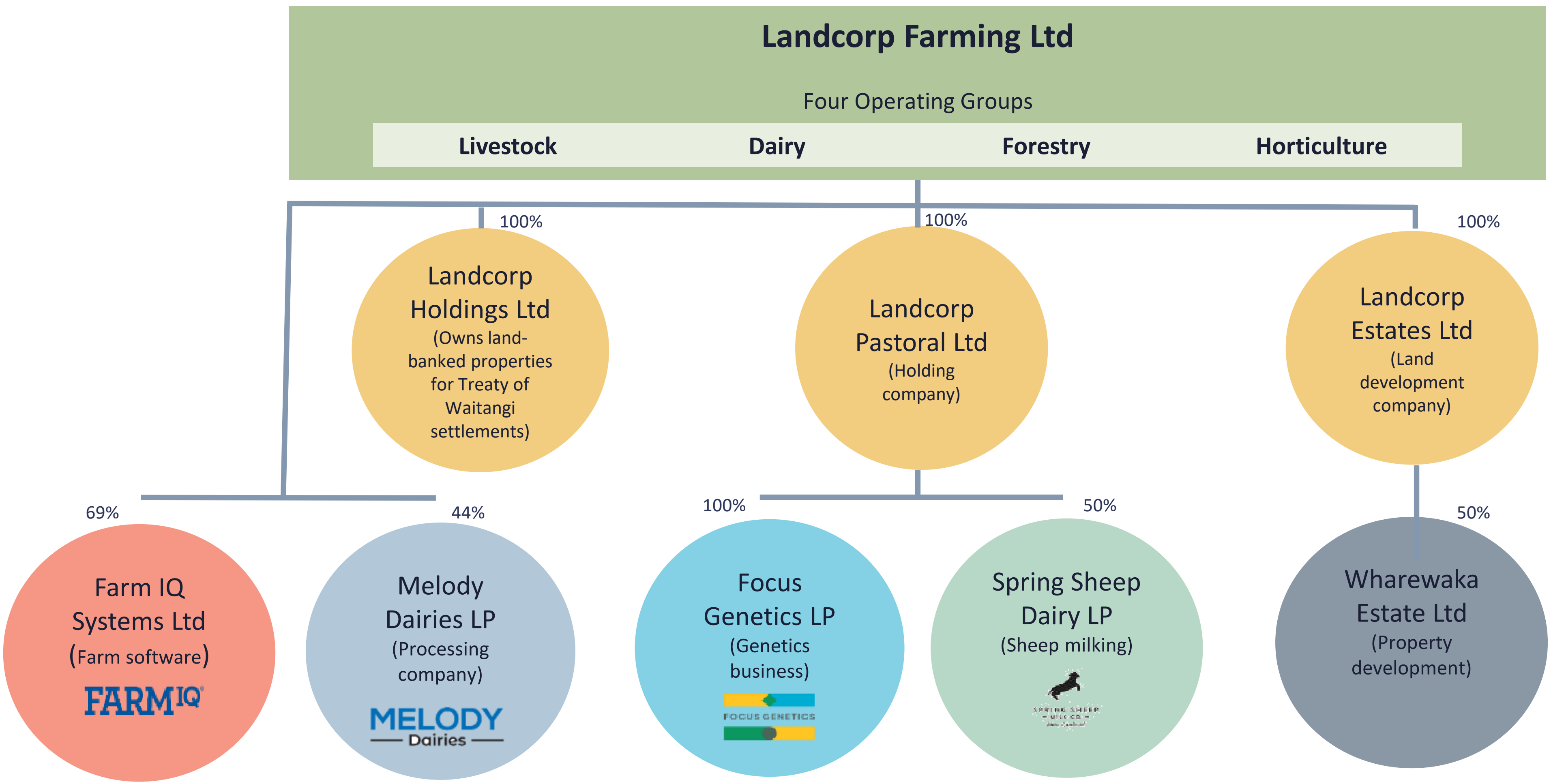
Valuation of financial instruments

Pāmu is a party to financial instruments as part of its normal operations. Financial assets and liabilities carried at fair value are categorised into a fair value hierarchy based on the observability of inputs used to measure fair value as follows:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
Level 3: unobservable inputs for the asset or liability that are not based on observable market data.

Appendix 2:

Pāmu group structure and key strategic interests



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