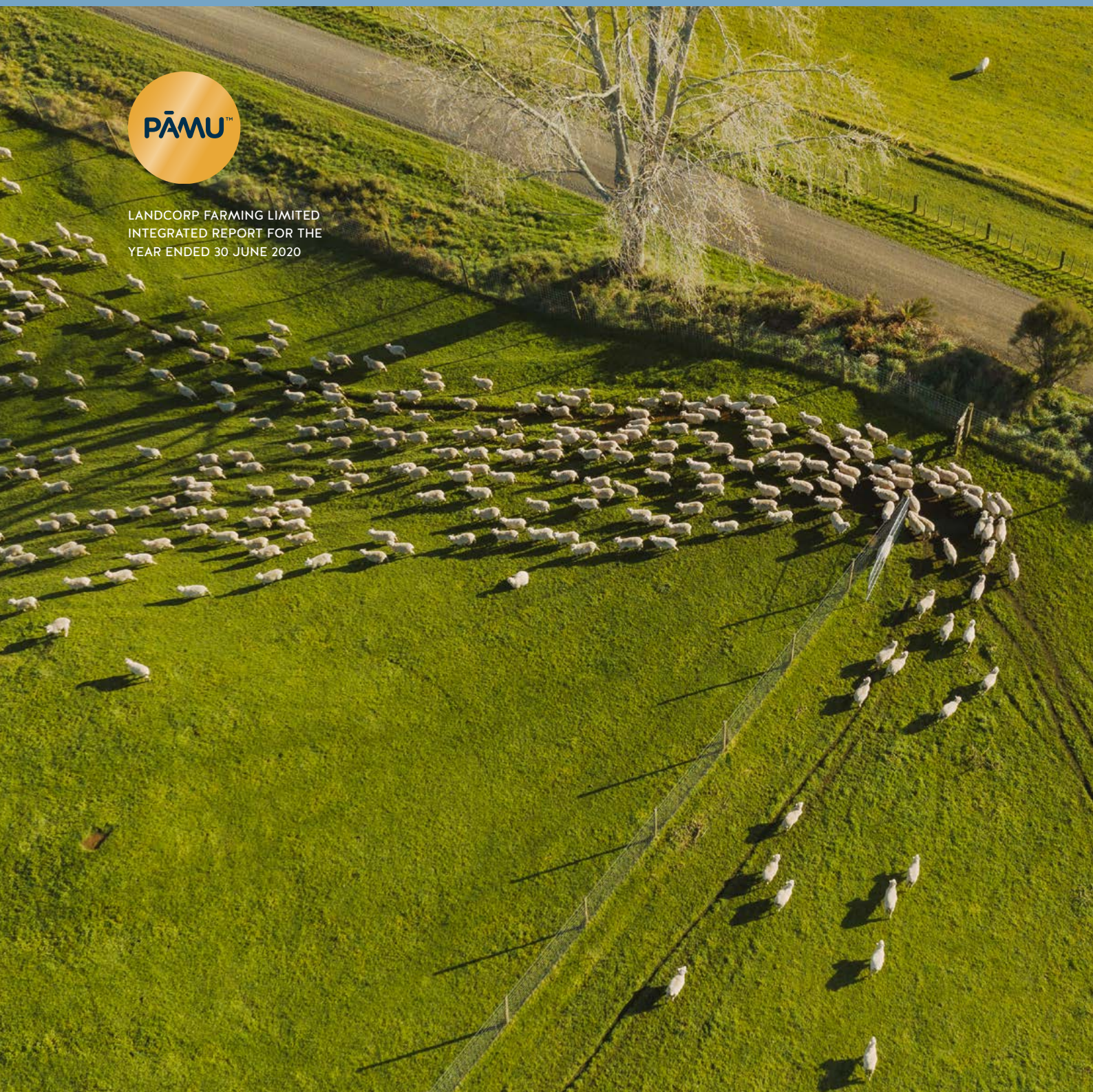
NATURAL INNOVATORS

Our people are transforming the way food is produced with passion, pride and fresh thinking.



LANDCORP FARMING LIMITED
INTEGRATED REPORT FOR THE
YEAR ENDED 30 JUNE 2020

LANDCORP FARMING LIMITED IS A STATE-OWNED ENTERPRISE WITH A NATIONWIDE PORTFOLIO OF FARMS THAT PRODUCE MILK, BEEF, LAMB, WOOL, VENISON, WOOD AND MORE. PĀMU STRIVES TO BE A LEADER IN NEW ZEALAND AGRICULTURE, CAREFULLY CREATING NATURAL PRODUCTS OF HIGH QUALITY.

IN THIS REPORT

WELCOME TO PĀMU'S THIRD INTEGRATED ANNUAL REPORT

Critical to successful integrated reporting are two key elements – feedback from stakeholders on our performance and the issues that impact our business, and a full accounting for how we look after the capitals (including natural resources) which come under our stewardship. We cover both aspects in this report.

We are grateful to the stakeholders who have given generously of their time to share their perspectives on the issues that face Pāmu and the agri-sector we all work in.

Integrated reporting is a journey of continuous improvement and refinement and a snap shot in time. As such, we welcome your feedback at any time to help us facilitate innovation that will improve farming and the vitality of the wider sector and communities in which we work.

PĀMU TODAY

117
TOTAL FARMS

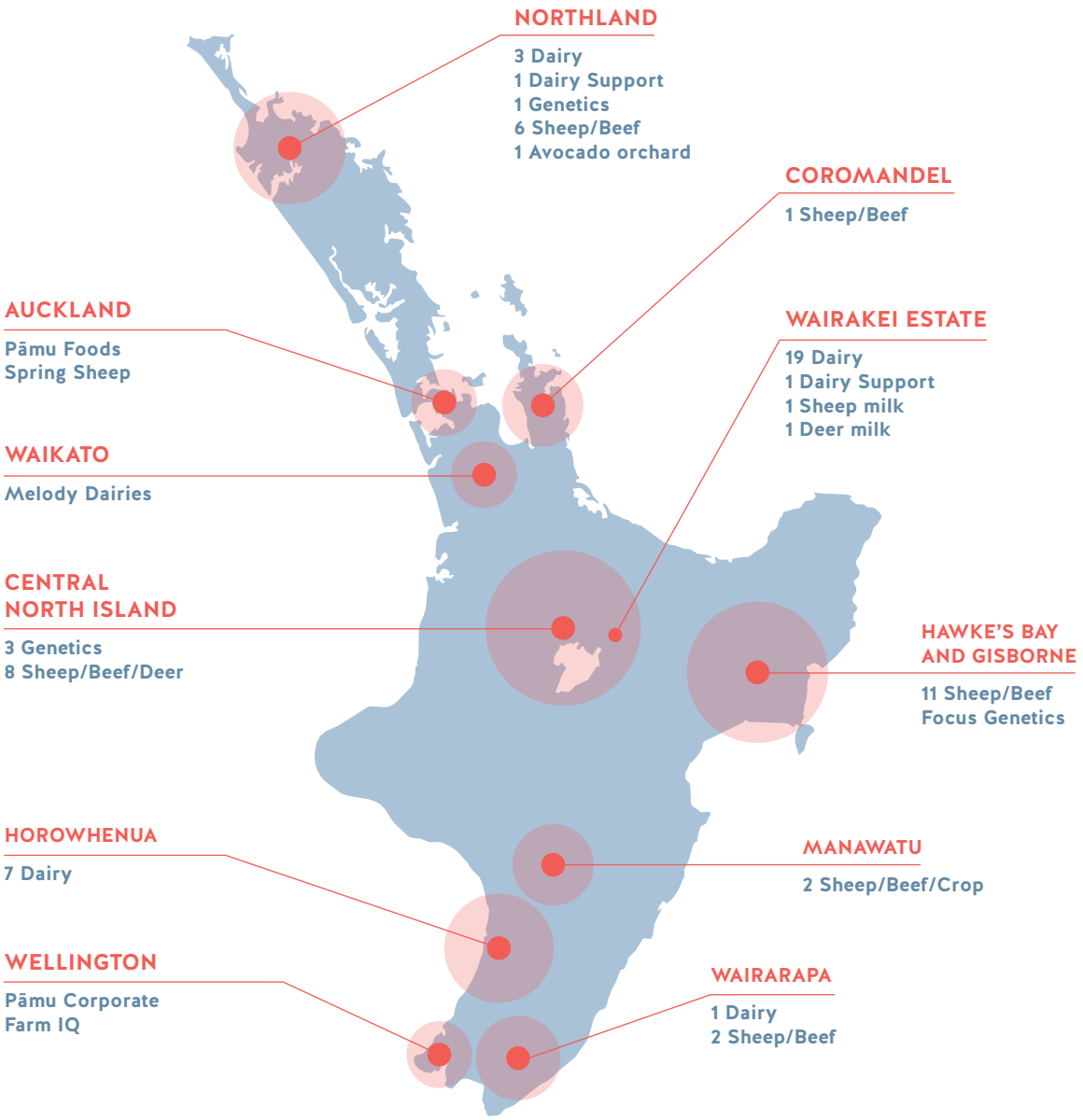
32
FARMS MANAGED BY PĀMU, OWNED BY OTHERS

85
FARMS OWNED AND MANAGED BY PĀMU

>365,627
TOTAL HECTARES OF FARMS

>211,488
HECTARES OF MANAGED FARMS

>154,139
HECTARES OF OWNED FARMS



OUR CONSUMER AND FOOD SERVICE PRODUCTS

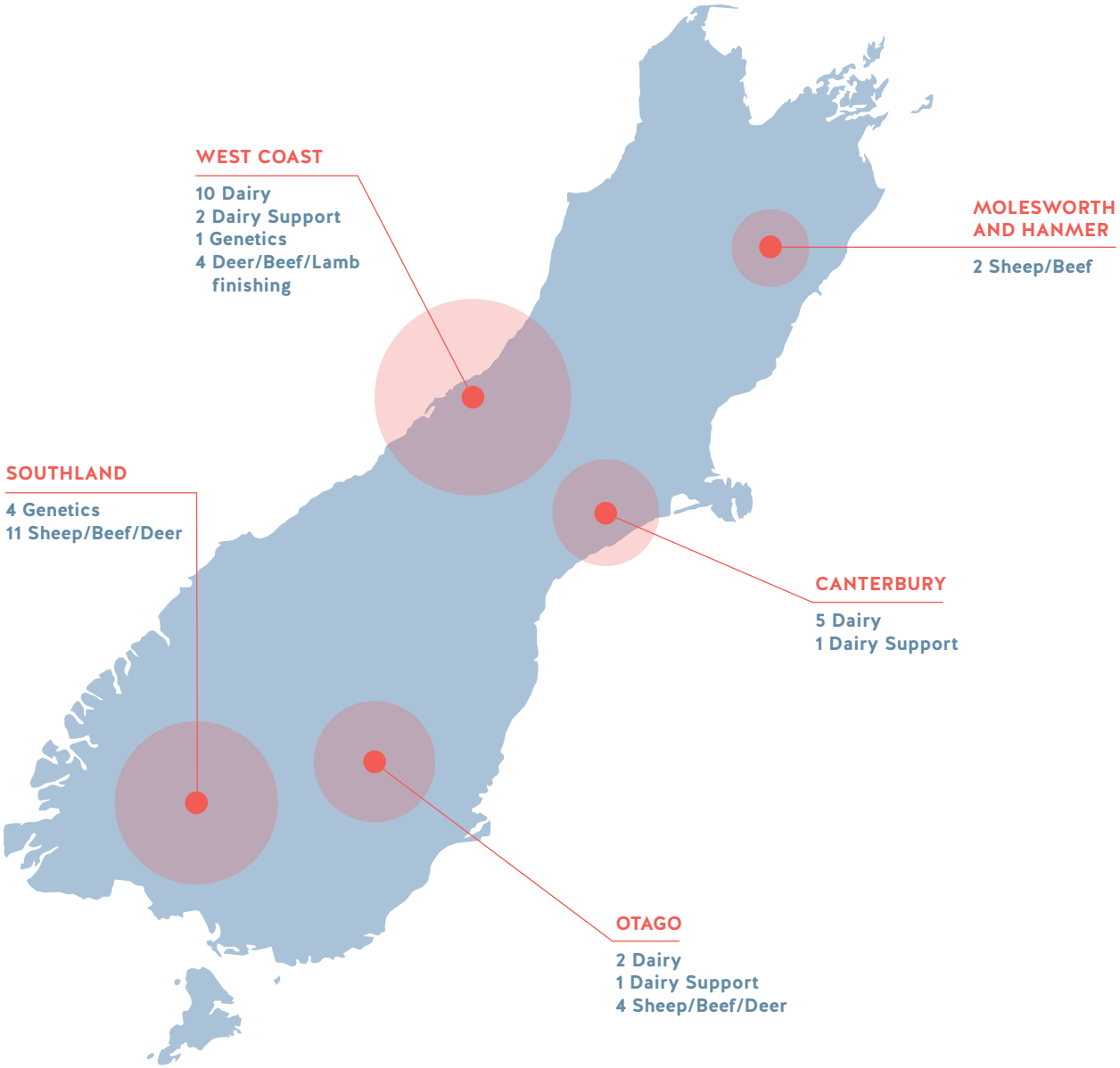
JOINT VENTURES AND SUBSIDIARIES

FARMIQ®

MELODY Dairies

FOCUS GENETICS

SPRING SHEEP MILK CO. New Zealand



PERFORMANCE SCORECARD

	Financial Year 2020	Financial Year 2019	Financial Year 2018
ENVIRONMENT			
Total area retired and protected in QEII covenants (hectares)[1]	9,497	8,861	7,461
GHG emissions on farms that we own (tonnes CO2e)[2]	gross 562,000 net 245,000	gross 616,000 net 322,000	gross 686,000 net 423,000
GHG emissions on all farming operations (tonnes CO2e)[2]	790,000	875,000	919,000
ETS – eligible (post 1989) forestry planting (hectares)[3]	8,563	7,203	6,575
Total nitrogen loss below the root zone (tonnes)[4]	4,115	4,912	5,080
PEOPLE			
Lost time injury frequency rate[5]	7.17	9.44	10.71
On-farm safety observations (number)[6]	3,263	1,419	967
Employee turnover (%)[7]	21.3	22.2	31.3
Employee diversity – gender & ethnicity (% of total)[8] Male	76.7	75.2	75.1
Female	23.3	24.8	24.9
New Zealand European	64.6	65.9	52.5
Māori	18.8	17.2	14.3
Not known	5.2	5.4	24.2
European	4.0	5.1	3.9
Asian	4.6	3.8	3.1
Pacific Peoples	1.2	1.2	0.7
Middle Eastern/Latin American/African	0.8	0.9	0.3
Other Ethnicity	0.9	0.5	1.0
Employee diversity – gender pay gap[9] New Zealand	9.3%	9.3%	9.2%
Pāmu	3.9%	4.0%	4.0%
FINANCE			
Return on capital employed (%)[10]	2.9	2.2	3.4
Operating margin (%)[11]	23.9	14.4	20.8
Solvency ratio (times, 30 June)[12]	5.0	6.2	5.8
Balance sheet gearing (%, 30 June)[13]	13.4	13.4	12.2

1. Pāmu land protected by covenants with the QEII Trust Board as at 30 June under biodiversity protection programmes initiated in 1991.
2. Greenhouse gas emissions from all farming operations on properties that are owned and/or operated by Pāmu. Gross on-farm emissions are based on modelling of carbon dioxide, nitrous oxide and methane loss to the atmosphere using the best-available industry standard Overseer technology. Net emissions are gross on-farm emissions minus CO2e sequestered in all planted forestry and riparian areas and also native forest and scrub growing on these properties. Pāmu continues to refine its modelling. Data reported in prior years is not directly comparable. Data reflects any additions/reduction in Pāmu's farming portfolio. Due to Overseer FM, this data is reported retrospectively e.g. FY2020 data is the most recent and relates to FY2019.
3. Cumulative area of forestry planting either registered in NZ's Emissions Trading Scheme or targeted for registration. Figures reported as at 31 December (during the financial year).
4. Data from all Pāmu farms' nutrient budgets as prepared using Overseer FM. Data reflects any additions/reduction in Pāmu's farming portfolio. Due to Overseer FM methodology, this data is reported retrospectively e.g. FY2020 data is the most recent and relates to FY2019.
5. LTIFR is the number of employee working hours lost due to injury per 200,000 hours worked by all employees in the year.
6. Safety observations are specific issues raised with Farm Managers by employees as identified by them in their workplaces. Observations frequently avoid near-miss safety incidents and accidents on farm.
7. Number of employees who left during the year as a percentage of the average total of Pāmu employees.
8. Based on analysis of Pāmu's database of employees as at 30 June each year.
9. Pāmu compares pay levels between male and female employees who perform the same or equivalent roles as part of the Company's annual salary review. The pay gap is the percentage difference between the average levels of remuneration of males and females, taking into account differences in hours worked and job experience.
10. Profitable use of financial capital: Earnings before interest, tax, depreciation, amortisation and revaluations (EBITDAR) less depreciation / Average shareholders' equity, debt and redeemable preference shares less revaluation reserves.
11. Profit per dollar of revenue: EBITDAR less Profit on land sales / Total revenue.
12. Financial flexibility: Current assets / Current liabilities (excluding current portion of long term debt on the basis that all debt will be refinanced as it matures).
13. Balance sheet leverage: Net debt / Net debt plus equity.

		Financial Year 2020	Financial Year 2019	Financial Year 2018
FARMS & ANIMALS				
Animal health – dairy herd somatic cell count average (cell count per ml of milk)[14]		146,000	155,000	162,000
Milk solids per cow (kg)		355	327	336
Milk solids per hectare (kg)		843	802	827
Milk solids as a percentage of cow's live weight (%)[15]		77	71	73
Prime lamb carcass weight in season (kg)		17.8	17.9	17.6
Prime steer carcass weight (kg)		312.4	315.4	311.5
Net production per effective hectare (kg)[16,17]		156	157	156
Lambing percentage (%)[18]		135	128	132
EXPERTISE				
Revenue generated per head of livestock ($)[19]	Sheep	140	133	122
	Beef	1,385	1,447	1,403
	Deer	484	590	536
Farms managed using FarmIQ (% of total)[20]		100	100	100
Total area in forestry plantation (hectares)[21]		10,756	9,458	8,529
Market recognition of new products[22]		Launched two smartphone apps to inform winter cropping on-farm planning decisions	Launch of Fertiliser Transformation functionality in Farm IQ Farm Management System	Pāmu Deer Milk wins both Fieldays Grassroots Established Award and Novel Food category at NZ Food Awards
RELATIONSHIPS				
Cattle, sheep and deer under contract (% of total budgeted sales)[23]		56	67	48
Spring Sheep – milking flock size (sheep)[24]		6,000 / 10,000	4,000 / 0	3,600 / 0
Farm IQ – NZ farms using management tools[25]		4,109	3,990	2,078
Focus Genetics – livestock genetic advance over 10 years (industry index, dollars)[26]	Sheep – maternal breeding		FY19 $33.77	FY10 $15.57
	Beef – maternal breeding		FY19 156.00	FY10 $98.33
	Deer – maternal breeding		FY19 16.07	FY09 $5.23
	Sheep – maternal breeding	FY20 $35.29	FY11 $18.72	
	Beef – maternal breeding	FY20 $159.67	FY11 $106.67	
	Deer – maternal breeding	FY20 $17.35	FY11 $6.27	

14. Average somatic cell count across all Pāmu-managed herds for the production season. Lower cell count indicates lower concentration of cells in milk, with a correspondingly lower level of pre-clinical mastitis in cows.
15. Metric based on 460kg liveweight.
16. This is a measure of production per hectare including wool and velvet.
17. Prior year numbers restated (FY2019 was 161, FY2018 was 158)
18. Based on ewes mated, hoggets mated and in-lamb ewes purchased. FY2019 reduction attributable in part to spring storms in 2018.
19. Pāmu revenues for each livestock category divided by the number of production animals sold during the year.
20. Pāmu farms using FarmIQ digital applications and cloud services.
21. Total area of Pāmu-owned plantation forestry as at 31 December (during the financial year).
22. Awards/recognition of products and business developments.
23. Pāmu has contracts with leading primary product processors for supply of finished livestock to market specifications. These underpin income levels across large volumes of production and also ensure supply to processors within time windows that meet their customers' requirements.
24. Spring Sheep produces premium sheep milk infant formula, full cream and fortified milk powders and chewable tablets for domestic sale and export to a growing number of Asian markets. Pāmu owns 50% of this joint venture entity. The first figure shows sheep owned directly while the second figure shows sheep farmed by milk suppliers under contracted milk supply agreements using Spring Sheep's proprietary sheep milking breed.
25. FarmIQ Systems' number of client farms using FarmIQ digital applications and cloud service as at 30 June. Pāmu is a 26% shareholder in FarmIQ.
26. Industry standard measure (breeding index) of genetic worth expressed as expected return per dam joined compared to industry average (base year 1995). Maternal sheep have been improving at $1.66/yr (9%), maternal cattle at $5.30/yr (5%) and maternal deer at $1.11/yr (18%) vs. their respective breeding indices. The following table compares Focus animals to the average of industry maternal breeders, so for example Focus maternal sheep have a breeding index 88% higher than the industry average.

Born 2019	FG	Industry	Difference
Sheep Maternal	$35.29	$18.79	88%
Beef Maternal	$159.67	$139.00	15%
Deer Maternal	$17.35	$10.95	58%

CHAIR AND CHIEF EXECUTIVE REVIEW

Pāmu's strategy – operational excellence on farm and creating value beyond the farm gate – underpinned our approach again this year, but with some strong challenges thrown in.

Of course, the challenge provided by a global pandemic was an event no one could foresee. When combined with the extreme weather events that are an increasingly frequent challenge to pastoral farming, but which we can anticipate and manage, the year was unique. In both cases out team worked hard to make sure we came through the challenges posed by drought and flooding and the very unusual Covid-19 situation, with minimal impact on the business.

THE NUMBERS

Our financial performance is testament to the team's effort. Under our preferred measure of financial performance, Pāmu reported EBITDAR (earnings before interest, tax, depreciation and revaluations) of $65 million. This was up $31 million (91%) from the previous year although $15 million of the increase resulted from the adoption of new accounting standard NZ IFRS 16. Even after adjusting for this $15 million, the business showed revenue gains from strong prices in both meat and dairy, as well as maintaining tight control of underlying operating costs and achieving productivity gains. This is a pleasing result given the disruptive impact of Covid-19 and the drought conditions experienced in the North Island. Although EBITDAR was positive, the company produced a net loss after tax of $24 million. Significant factors contributing to this loss include a $32 million fair value loss on biological assets (mainly livestock), depreciation & amortisation expenses of $29 million and net finance expenses of $22m. The adoption of NZ IFRS 16 this year has resulted in an increase to depreciation and amortisation expenses of $11m and a rise of $12m in net finance expenses. This means that the net impact of the new standard has been to increase the loss after tax by $8m. Looking ahead, we continue to focus on delivering a positive overall performance irrespective of the usual vagaries of weather and commodity prices, while managing the direct costs under our control. The Board was pleased to declare a dividend of $5 million to the shareholder, reflecting this solid performance.

You can read our full financial results for the year on pages 49–82.

DIVERSIFIED AND BEST LAND USE

Our strategic direction (see pages 10–11) focuses on four key drivers and we progressed all four areas in the year under review.

We continued to look at the attributes of the land we farm and evaluate its highest and best use. Some areas will change from traditional livestock farming, although that will continue to be the core of what we do. Increasingly, we are looking to use the land in a

DR WARREN PARKER
CHAIR

STEVEN CARDEN
CHIEF EXECUTIVE

way that achieves complementarity between enterprises and generates superior returns, while safeguarding the environment.

We continued the development of our avocado orchard in Northland (see page 26) and the conversion of conventional dairy systems into organic farms, reflecting the premium that is now paid for organic milk (see page 24). In addition, organic farming is providing valuable insights into how we can lower synthetic inputs into our conventionally farmed properties. We also determined a forestry strategy that will see us increase planting of forests (both native and exotic) on land that is currently least productive for livestock. It will also generate returns from carbon credits (see page 26) and other ecosystem services such as erosion control and honey from pollination.

Land use changes will not come at the expense of traditional farming – in fact we are now producing more per hectare from our farms, despite our total area of farmed land shrinking over the last few years – with land being returned to its owners (leased land and properties returned to iwi in historical Treaty of Waitangi settlements) or sold.

We are being careful that our approach to land use change does not negatively impact our contribution to the communities in which we reside. Pāmu families and teams will continue to live, school, work and spend in their local communities. We share the concern of others about the ongoing viability of rural communities but also recognise some present uses of land are neither sustainable nor optimal from a farm systems perspective. Our strategic focus is to future proof farming by making it productive and profitable – from pastoral, dairy, fibre, forestry and horticulture – and we see this improved viability and resilience benefiting the communities we farm in.

INNOVATION

Stakeholders remind us often that as a farmer of scale and biophysical diversity we owe it to the sector to innovate and try things that smaller farming operations cannot risk doing or assess under different operating environments (see page 20). We agree this is a valuable co-benefit (or industry good) of the technology and systems evaluations we undertake. This year was no exception – we participated in valued partnerships with Manaaki Whenua-Landcare Research, AgResearch, Scion and Massey University. We also continued our deer milking partnership with the McIntyres near Gore and explored best practice animal movement with a virtual collar trial with Agersens, to name a few.

The ongoing success of our fifty percent owned joint venture Spring Sheep Milk, which achieved another year of high growth and good sales globally, is providing a genuine alternative farming option for dairy and sheep farmers wanting to diversify their earnings, lower their environmental footprint and/or try a different style of farming. The initial investment by Pāmu in the Company is a testament to the complementary expertise and resources of the private sector investors who joined us at the beginning. Our 35 percent investment in a new mid-sized dryer facility at the Waikato Innovation Park, through the Melody Dairies Joint Venture will add vital supply chain capacity to enable sheep milking to continue its current growth trajectory. The dryer was completed on time and budget.

Our Focus Genetics subsidiary continued to refine its genetics programme to tightly align to the long-term direction of our livestock farms and support more efficient production, disease tolerance, lower greenhouse gas emissions and a bobby free dairy system through superior beef sires. We appreciate the opportunity

to work alongside other breeders to accelerate genetic progress and undertake nationally important progeny test trials. Focus Genetics is enabling higher productivity animals that benefits all New Zealand farmers.

Similarly, FarmIQ is providing a data platform capability that is driving increased farm efficiency, nutrient management, the mapping of land and its uses, the tracking of livestock, better health and safety, simplified regulatory compliance and streamlined farm audits. The investment into FarmIQ this year by one of the world's largest corporations, Merck, Sharp and Dohme, reflects the world leading software design and work the team is doing. We expect the number of subscribers to continue to grow as land managers seek a comprehensive digital solution to tighter environmental limits and compliance reporting.

THE ENVIRONMENT AND ANIMALS

Covid-19 has shone a light on just how important agriculture still is to the New Zealand economy. As other sectors have been and continue to be adversely impacted by the pandemic, agriculture is again viewed as a core contributor to our economy and its future recovery. With that spotlight comes responsibility of course, and at Pāmu our responsibility – to be caring and effective guardians of our land, our people and our animals – remains paramount.

Our Environment Reference Group (ERG) saw a renewal of membership during the year (see page 40) and continued to guide and challenge Pāmu's environmental practice. Their counsel helps us be a better farmer, even if we don't always agree with their viewpoint. We also formalised a Visionary Vet Group (see page 40) who have a similar mandate to the ERG but with a focus on ways to lift our animal welfare.

Addressing the impacts of intensive winter grazing (IWG) is an issue that Pāmu continues to be very focused on, and we have made many improvements over the last few years and have achieved a 12.5% reduction in winter cropping over the last two years (2018–2020). We can always do better and have committed to make a further 30% reduction in our already low level (less than 3% of our total land area) of IWG by 2023, that will see nil winter crop on many of our properties. We will be especially focused on the most climatically challenging areas for pasture-only farming and will be seeking a 55% reduction in the use of intensively grazed winter crops area on the West Coast by 2023, Canterbury by 60% and our Otago farms by 35%. This represents significant reductions cross all three regions. Our animals will also benefit from this continuous improvement in IWG.

Pāmu has independent verification of the company's animal welfare practices, including our grazing practices. Across all our properties audits take place where Vets check various animal welfare metrics and report up to Pāmu management if any issues are raised. None of our farmers want their animals experiencing prolonged muddy conditions without dry rest areas, but extreme weather events over which we do not have full control can sometimes conspire against even the best IWG plans.

OUR PEOPLE

This year has been another successful one in terms of the health, wellbeing and safety of our people. Significant outcomes included a reduction in harm (a 24% reduction in the Lost Time Injury Frequency Rate and a 33.8% reduction in Lost Time Injury Severity Rate). 'Lead' reporting measures improved by 130% and on-farm Toolbox meetings by 34%. Two new regional safety committees were established. The reduction in

'Week Away From Work' injuries to 8.4 per 1000 workers this year is approximately 60% less than the agriculture sector overall. These positive results reflect the safety ethos now embedded in the Company's culture. We are committed to bringing the same focus to our expanding forestry operations.

We have seen pleasing development of some young leaders this year (see pages 32–34). The development of our talent to become future farming leaders and enjoy career progression is an important part of our people strategy. We take pride in the way our young farming men and women are inspiring those still at school to consider careers in farming.

CONCLUSION

This financial year, and especially the last quarter, has been an extraordinary one for Pāmu, and New Zealand. As an essential service Pāmu was fortunate to be able to continue to operate during the Alert Level 4 lockdown – we are grateful for the privileged position we were in compared to other sectors of the economy.

The performance of the team on farm and in the office, to keep the business running smoothly despite the restrictions imposed by Covid-19 is testament to the dedication of our people. We thank them all for their positivity, and willingness to adapt practices in order to prevent infection, keep everyone safe and maintain continuity of supply.

The Board and Management are committed to pursuing the strategic direction of the Company to lift and reduce the volatility of farm gate returns, lower our environmental impacts and regenerate the stocks of natural capital we draw on, while ensuring risks and costs are managed responsibly. This will enhance the value of Pāmu to the shareholder and the New Zealand agriculture industry. While we do not yet know the full ramifications of Covid-19, we have rigorously assessed our capacity to withstand and capitalise on both adverse and optimistic scenarios. In doing so we will exercise care to balance the responsibilities we have to our people, our animals and our environment and to seek to be excellent at the integrated management of all three.

We sincerely thank Tony Reilly who retired from the Board after six years of excellent service. Tony's knowledge of the sector will be missed. But we were fortunate to have Dr Tanira Kingi (Ngati Whakaue) replace him on the Board. Tanira brings a wealth of experience in land use optimisation, farming systems, public policy design and Māori development will be invaluable to the Board and the Company.

Finally, we thank everyone at Pāmu for their ongoing commitment to ensuring Pāmu succeeds and prospers for future generations.

DR WARREN PARKER
CHAIR

STEVEN CARDEN
CHIEF EXECUTIVE

PĀMU STRATEGY

VISION
A world leader in farming natural resources sustainably to produce premium, high margin food and fibre products.

MISSION
To enrich our land, our people and the future for farming.

WHAT we do in our business

DRIVE consistent excellence in all aspects of our pastoral farming business

CREATE scale and financial materiality in value add dairy businesses

EXPAND forestry, fibre, cropping and horticulture business

MAXIMISE returns and value from our subsidiaries and joint ventures

HOW we use our capitals

Environment

Enrich the environment

People

Develop and attract talented people and ensure their safety and wellbeing

Finance

Redistribute capital to higher earning activities

VALUES that define us

1. GROUNDED
2. GENUINE

Read the stories of how our strategies are being implemented
» PGS 22–35

OUTCOMES we seek continuously

Farms and Animals

Enhance the productivity of our animals and land

Expertise

Digitisation and standardisation to drive performance

Partnerships

Be first choice for customers and partners

Generate a strong financial return to the shareholder in a sustainable way

Lead and share innovation in farming practices, connected to changing consumer needs

Be a company New Zealanders are proud of and want to work for

3 BOLD

4 SHOULDER TO SHOULDER

WHAT PĀMU STAKEHOLDERS SAY IN 2020

Pāmu operates with high awareness of stakeholders' interests and of their views on the major issues facing agriculture. These interests, views and issues shape the operating environment for Pāmu, and for New Zealand food and fibre producers generally. This year, we grew our understanding of the current environment by interviewing a cross section of Pāmu stakeholders.

CHANGE IS THE BIG CONSTANT FOR NEW ZEALAND FOOD AND FIBRE PRODUCERS

And it's happening fast, especially as Covid-19 throws up new challenges. Producers need to be willing and able to respond and to lead where they can.

Pāmu stakeholders are responding to multiple imperatives for change including:

- What farmers and growers produce and how;
- How food and fibre products arrive on consumer markets globally;
- The value that is returned to New Zealand from this production.

The need to change, and various understandings of how change is already occurring, are dominant themes as stakeholders reflect on the material issues of 2020 – economic, social and environmental – most of which are seen to be closely interrelated.

Views vary widely on the relative importance of different imperatives, and on the change scenarios which will best serve farmers and growers, and New Zealand as a whole. All stakeholders believe that making the right changes, big or small, in systems, technologies and thinking will deliver better financial, social and environmental outcomes over time. They are confident that the nation can and should earn a better living in the world from meat and milk proteins, naturally-grown fibre products and plant-based foods and materials, and do so more sustainably in all respects. But achieving this will require some disruption in the status quo, increased investment in new knowledge and technology, and in infrastructure and people.

To some stakeholders, existing systems, technologies and thinking require substantial transformation: a concerted step away from traditional dairying and livestock farming into new crops, products and methods of using natural resources. There are other perspectives which favour retaining and building on current best farming and land-use practices to address many or all issues confronting primary producers and processors. Some stakeholders emphasise a need to engineer incremental change while looking for, and adopting, breakthrough technologies that will lead to a better future than is likely on current trajectories.

For stakeholders, Covid-19 is obviously a critical concern with diverse risks, and some opportunities, to all who are engaged in New Zealand food and fibre production and supply. This concern overlays two sets of change imperatives which loom largest for all stakeholders in 2020 – global market trends in consumer demand and new plant-based foods, and environmental issues which are specific to New Zealand (and sit at the core of our national identity).

"Covid-19 is accelerating changes that we could see coming at some point...the IMF is predicting lower and more volatile food commodity prices, with disrupted supply chains. In addition, we can expect consumers to change their habits after experiencing lockdown."
» Julie Collins, Ministry of Primary Industries & Te Uru Rākau

"New Zealand needs to start moving sideways into a circular bio-economy... away from large scale commodities production and into using our biological resources to produce a wider range of higher value products Some of those will come out of design thinking and of various new technologies... ultimately the bio-economy replaces our use of minerals and petroleum with processes for making full use of plants, and plant-based waste materials."
» Elspeth MacRae, Scion

"There are no perfect farmers... we can all do it better and there's no point in being defensive about that. The job is really one of harnessing best practice today so that poor performers can catch up and at the same time, continuing to raise standards at the top end."
» Peter Reidie, Farmlands Co-operative

"We need to be actively promoting best practices that will reduce environmental impacts and, at the same time, be thinking forward about radically new solutions that will be both sustainable and profitable."
» Laurence Nhan, Synlait

GLOBAL MARKETS ARE PULLING US INTO A FUTURE THAT WILL BE VERY DIFFERENT FROM THE PAST

It is clear to all that changing consumer demands and technology advances in food manufacturing pose big challenges – and perhaps big opportunities – for New Zealand in global markets.

The future is looking very different from the past with, overall, an increase in risk levels for farmers and growers. The immediate future is dominated by the Covid-19 crisis and related geopolitical rivalries. So far in 2020, these have disrupted supply chains for red meat into principal export markets, and they may severely threaten market access to China. Covid-19 is seen to be exaggerating factors that are already obvious to New Zealand export industries including volatility in demand and prices, and market protectionism.

Stakeholders recognise a long-term trend for consumers, and not just the most affluent, to choose foods that are safe and healthy, and that have been produced at limited environmental cost and with ethical treatment of animals and humans. Some stakeholders talk of "the conscious consumer". Covid-19 is serving to expand this new category as people seek more foods that are health- and immune system-enhancing. Domestically, it is noted that consumption of fresh fruit and vegetables has risen in 2020. Globally, heightened consumer interest in healthy eating is seen to favour kiwifruit and horticulture generally, and also pastorally produced meat and milk proteins in certain conditions. This view gives impetus to organic and/or regenerative production systems which, evidence suggests, can bolster an established New Zealand reputation for quality, "natural" foods and earn a premium on consumer markets.

To opponents of genetic engineering (GE), the healthy food demand is further affirmation and they ask: Why would we give up our GE-free point of differentiation just as global markets assign higher value to naturally-produced food and as GE becomes a possible black-mark against new plant-based protein alternatives to red meat?

Health demands and environmental concerns, especially GHG emissions associated with farmed animals, are fuelling consumer interest in plant-based eating – and driving up investment globally in new forms of manufactured food. All stakeholders acknowledge this, most seeing it as a significant threat to traditional sheep and beef production and a threat which is more present than most New Zealanders care to admit. The term "synthetic meat" is generally being replaced with more neutral references to plant-based protein. The threat is most associated with new technology-equipped investors in the US and Europe who have access to large-scale grain and corn production, and high facility with food branding. "What happens when the global fast food chains take up these new foods in place of beef?" asks one stakeholder. There is a common view that New Zealand can compete by diversifying into more plant foods, though not manufactured proteins, and differentiating its meat and milk products around notions of quality, purity and environmental sustainability. To these must be added distinctive branding for appeal to consumers and information that will validate all product claims.

Animal welfare could increasingly be an area where global consumers demand re-assurance, with a focus

"We've got to start with the market, not the farm, and look at the macro trends out there like concern for wellness and the environment… and look afresh at what we produce and how we produce it."
» John Brakenridge, NZ Merino

"There's an intergenerational change going on and meat is no longer centre of the plate… yes, there's a protein gap in Asia still and we can help fill that for some years yet but we've also got to be aware of the coming revolution around protein and the demands of the new consumer."
» Tony Egan, Greenlea Premier Meats

Guests at our 2019 Taste of Pāmu event at the Beehive

on how livestock are fed and treated throughout their lives. In particular, stakeholders see bobby calves in dairying as an issue in need of more urgent, sector-wide attention (not just for the benefit of consumer perception). Most agree that some still-common New Zealand approaches to animal grazing and sheltering are below international standards.

Stakeholders want New Zealand to be the best, and perhaps even last remaining globally, supplier to the world of pastoral farm-produced meat and milk which are valued on traditional and new criteria. There is a strong view that New Zealand can also readily do much more to diversify into new forms of food with speciality, non-bovine and plant-derived milks being one obvious example.

"People won't pay more simply because a product has a lower carbon footprint but it certainly provides a level of comfort and trust for them and it will influence the buying decision... we are investing in our own emissions reduction and also encouraging our suppliers because this will strengthen our sustainability attributes in overseas markets into the future."
» Justin Courtney, Silver Fern Farms

"There's a view that New Zealand farmers are the best in the world but by what measures? True, we have many very good farmers in this country as there are in many other places. Really it's a matter of us being very fortunate with our relatively benign climate and fertile soils... on a range of animal feeding and welfare issues (such as body condition and pain relief), farmers are making progress but still need to do better relative to some other countries."
» Alan McDermott, Pāmu Visionary Vets Group

ADDRESSING ENVIRONMENTAL ISSUES IS CRITICAL TO HOW WE CHANGE AND NAVIGATE NEW ZEALAND'S WAY INTO THE FUTURE

No-one disputes the need to address the underlying realities of environmental issues as they relate to land use and food & fibre production – GHG emissions reduction and carbon capture, climate change adaptation, freshwater protection and restoration, and reversal of biodiversity loss. Stakeholders have a common understanding of how the issues arise and of their power to shape global market perceptions of New Zealand.

They also believe that all Kiwis identify themselves partly or fully through connection with our natural environment and indigenous birdlife. But thereafter, stakeholders have diverse, and sometimes strongly opposing, views on the actions which are advisable or necessary to protect waterways and biodiversity, and address national commitments on emissions reduction.

Some want fundamental change in policy thinking and farming practice, to place highest value on conservation and kaitiakitanga in any use of land and natural resources. In this view, "sustainability" is less important than taking actions directly to avoid or radically reduce negative environmental outcomes from all industries including agriculture. Environmentalist stakeholders see Covid-19 as a wake-up call to the world on the risks of disturbing natural ecosystems. In the same light, these stakeholders oppose any research into or application of genetic modification in plants or animals, regardless of any other possible environmental benefits to New Zealand.

Other stakeholders believe the issues can be addressed substantially with greater use of existing tools and policy frameworks: producers need more information, more resources and more time to adopt new farming systems without heavy disruption to production and income. Regional councils credit most farmers with making real efforts to reduce their environmental footprint as public expectations rise and new regulations take effect. Other stakeholders fault farmers for a bias in rural culture against "calling out" the few poor performers whose polluting of waterways tarnishes the reputation of all. Non-farmer and grower stakeholders want to see faster progress on all environmental issues, acknowledging that this will probably require more government-funded support.

There is definite push back from some industry participants who feel regulatory pressures to lower nutrient run-off and irrigation takes are inequitable, and probably also ineffectual. Farmer representatives contend that 2020 policies on freshwater standards and on Greenhouse Gas (GHG) emissions are flawed fundamentally. They raise serious concerns about the impact on farming and rural communities of incentives for "carbon farming" and of a perceived trend to plant large areas of valuable pastoral land in trees. Contrary views, including that of the Ministry of Primary Industries, hold that fears about the extent of new afforestation are not based on current facts or on full understanding of how economic drivers will always influence a diversity of land use options.

Four general observations are advanced by stakeholders across the board:

- Moves to de-intensify farming by reducing inputs are proving surprisingly effective and have big potential to address water quality and emissions issues in some locations.

"We need to turn this country's dominant decision-making framework on its head and work from the environment out. In national policy setting and in practice on farms, we need to put nature first… what protections need to be in place so that the environment remains intact and functioning as a basis for the economy."
» Marnie Prickett, Pāmu Environmental Reference Group

"Methane needs to come down but, because it is a short-lived gas, not by as much as is currently proposed if we are really prepared to look at its contribution to global warming."
» Andrew Hoggard, Federated Farmers

"Farmers are part of a social contract but many just aren't living up to their side… people want farmers to succeed and they don't mind providing taxpayer support, but in return they do expect farmers to succeed in a genuinely sustainable way."
» Kevin Hackwell, Royal Forest & Bird Society

Waiteti Farm,
near Mangakino

- Use of synthetic nitrogen fertilizers has surged in the past two decades and this should be a principal area of focus for reduction of farm run-off and nitrous oxide emissions.
- Agricultural GHG emissions in New Zealand could be radically offset if this country (and the world) adopted more rigorous accounting for carbon capture in riparian, wetland and other small-lot plantings, and from the rampant regrowth of vast native forest areas which is achievable through increased efforts to eliminate deer and possum pests.
- Emissions intensity in New Zealand food production is lower than in other countries, and this country could opt to defend its record more strongly compared with competitor nations with GHG profiles that are dominated by fossil fuel electricity generation and vehicle transport.

"Integrating trees into the farming business is a land management tool that can increase resilence and create income streams that hedge volatility in livestock prices. Investment made now can create real value downstream."
» Julie Collins, Ministry of Primary Industries & Te Uru Rākau

“Everyone has good intentions but if you’re judged on your financial bottomline that’s what you care about most, not being assessed on your efforts at soil and water conservation… unfortunately there’s ignorance everywhere on critical issues like soil’s reduced carbon carrying capacity and sediment loss into waterways.”
» Allan Kirk, Environment Waikato

FARMERS AND GROWERS ARE STILL VERY RESILIENT – BUT THEY ALSO NEED SUPPORT AND CLEAR GUIDELINES AND PRACTICAL SOLUTIONS

Everyone sees fundamental resilience in New Zealand agriculture, and varying levels of capacity to meet new challenges.

They point to innovations and land-use diversification that followed the 1980s economic restructuring. Some stakeholders believe the Covid-19 crisis will, once again, bring out the best in farmers and growers, and re-affirm the importance of their essential-industry for the nation. Balance sheet stresses of past years are being alleviated by higher product prices and stronger cashflows – and by banks' tighter lending criteria since 2018 and their willingness to work with farmers on debt reduction plans.

There is a widely-held view that most farmers and growers are more adaptive to change than they are given credit for, or even acknowledge themselves. Change is seen as a constant, both in the operating environment and in the capability of primary producers. Some contend that they would, by and large, meet the environmental and animal welfare expectations of global consumers today and the biggest challenge is "how to tell that story".

The contrary view acknowledges resilience but sees this itself is a barrier to the nature and scale of adaptation which is increasingly demanded of them: resilience is a positive response to hardship but at the expense of willingness to innovate and take risks. Stakeholders say substantial mindset change is still necessary among some farmers if the sector is to meet rising expectations on nutrient control and water use management, on carbon emissions accounting and reduction, and on animal traceability and workplace law. These come on top of increasing needs to adjust to climate change and to market-driven production specifications. Some farmers see themselves under unreasonable pressure from the rest of New Zealand, especially on environmental and animal welfare issues.

Overall, stakeholders applaud the innate resilience of New Zealanders who work on the land (and their historical success at meeting challenges) but believe many will need greater, and more targeted, support and guidance if they are to seize opportunities arising from new technologies and knowledge, while also complying with (or surpassing) new environmental standards. That support, some contend, should extend to helping farmers who cannot keep up to exit the industry without unreasonable loss.

"Covid has actually shown the strength of New Zealand's farming and processing system today… boring old commodities are still going strong. If we do a good product well, we do still make a good living."
» Andrew Hoggard, Federated Farmers

"Change has been unrelenting, there's been so much coming at dairy farmers over the past 10 years that many are feeling overwhelmed and run down… How do we become better at supporting one another and collectively managing the changes that are necessary without just putting more things onto the individual farmer?"
» Tracy Brown, Waikato farmer and DairyNZ board member

"The number 8 wire thing doesn't work anymore, especially when primary industry needs to be looking at new land uses, new crops and new products… most of the ideas for these are coming from outside the industry itself."
» Elspeth MacRae, Scion

"There's a widespread lack of awareness among New Zealand farmers around pasture management and livestock feeding in particular – for example, lambing on pasture covers that are too low is a perennial problem on many farms. Good farmers with good animal husbandry know that good animal welfare and higher productivity are closely coupled… animals are sentient beings and it's a win-win when you really take care of your livestock."
» Alan McDermott, Pāmu's Visionary Vet Group

"In Canterbury, farming practices have improved dramatically in the past 10 years and those practices which are absolutely no good are seen far less… It's become much harder to be profitable with the additional constraint on environmental performance and animal welfare unless you really know what you're doing."
» Andrew Parrish, Environment Canterbury

THERE ARE FAILINGS IN INDUSTRY COLLABORATION AND LEADERSHIP – THESE ARE CRITICAL AREAS TO BE WORKED ON

New Zealand has a long history of industry and public-good collaboration between primary producers, processors and government.

In 2020, stakeholders want to see a shake-up in structures and mindsets so that farmers and growers – and the nation – are shown more leadership from the top and future collaborative efforts truly do help them to meet the challenges and seize the opportunities. Such leadership and collaboration is seen also to be critical for maximising the amount and quality of research and development in New Zealand.

Several stakeholders report positive steps in this direction in more recent times but they see much greater scope for a constructive "New Zealand Inc" approach to making economic, social and environmental progress. But more fundamental shifts are awaited. Common criticisms include:

- research & development focussed too heavily on productivity improvement, rather than opportunities to broaden the base of primary industry and its place in global markets;
- inadequate return to farmers and growers from heavy expenditure on Primary Growth Partnership programmes in the past decade;
- research gaps in areas where this country should be a world leader, notably work on methane inhibitors;
- poorly designed government policies which are inconsistently applied and lack realism on farmers' capacity to respond effectively;
- industry bodies pre-occupied with short-term issues and preserving the status quo while ignoring bigger future threats and opportunities;
- valuable knowledge "locked up" in institutions with insufficient effort to share this with industry; and
- lack of low-cost and effective mechanisms to support change in farming and growing enterprises despite broad recognition on the changes necessary.

Stakeholders believe these failings hold New Zealand back – and they agree that all, themselves included, have a part to play in strengthening leadership and collaboration to address critical issues which all now recognise albeit with varying degrees of urgency.

"We really lack a collective understanding of the common good… as a country we spend a lot of time pussy footing around and being side-tracked by issues of the day."
» Tony Egan, Greenlea Premier Meats

"If we really want transformation, we've got to be recognising the enterprises who are operating at the edge of industries and putting wind in their sails so they can inform and inspire the rest… really, too much collaboration has been well intentioned groups working to justify the status quo and that's where most of traditional agriculture sits."
» John Brakenridge, NZ Merino

"To make transformational change we need real collaboration between industry, the CRIs, the universities and government… New Zealand doesn't have enough big companies with the capacity to go solo and fund large-scale R&D".
» Carl Massarotto, Plant & Food Research

"Let's not waste a good crisis (Covid-19)… and actually agriculture has an ongoing crisis in terms of low returns, alternative protein threats in the market, water pollution and climate change. We need real leadership and there has got to be more public investment in farming systems change but it has got to be ecologically sound and work for the long-term, not more of the short-term think which we have been so attached to."
» Kevin Hackwell, Royal Forest & Bird Society

"Who has the responsibility for helping people through the change process and toward the best use of land? Industry and government will need to work together to support the change that is needed and landowners will need to be given time and options to make the required changes."
» Tracy Brown, Waikato farmer and DairyNZ Board member

PĀMU HAS AN IMPORTANT ROLE TO PLAY, HELPING WITH SOME OF THE BIG CHANGES THAT ARE NEEDED

Stakeholder views of Pāmu's role and recent performance are supportive.

There is a generally high level of understanding of the Company's mission and strategies. Stakeholders want to see Pāmu trialling new technologies and practices for enhanced productivity and reduced environmental impact. They see the Company having a role also in experimenting with diverse land uses and crops. Stakeholders see Pāmu as, most of all, being a well-placed "test bed" and exemplar for New Zealand agriculture because of its state ownership, scale, and its diversity of farms and production types. There is an expectation that on-farm learnings (including failures) will be shared, most notably the results of experimentation on the Eyrewell dairy unit (North Canterbury) with different dairying input and associated levels of run-off and emissions.

Environmental, animal welfare, and employee management and wellbeing are the top-of-mind issues for many stakeholders when looking into Pāmu. The Company is expected to display industry best practice on health and safety – and is now recognised as such – and on staff training and on-farm leadership. Stakeholders value Pāmu's role in attracting young people into agriculture with benefits, over time, to the wider industry workforce. Processor companies credit Pāmu with actively supporting their own programmes for suppliers to raise environmental and animal welfare standards; these being increasingly recognised as critical factors in marketplace perceptions of New Zealand products. Stakeholders acknowledge that, ultimately, Pāmu has many expectations to deliver on – and it will not be easy.

As a large public sector land-owning entity, Pāmu is widely understood to have a significant role in Crown settlement of Treaty of Waitangi claims. New Zealand has seen a slowing of formal progress on unsettled claims over the past two years, and there are increased complexities in claim and negotiating processes. Te Arawhiti (The Office for Māori Crown Relations) confirms that Pāmu continues to be constructively engaged with that agency and other stakeholders on every Treaty claim process of relevance to the Company. More generally, Pāmu stakeholders see effective engagement occurring as a matter of course between farm and business managers and local iwi representatives when sensitive decisions are being made on land and water use, with or without local government involvement.

As a State-Owned Enterprise, Pāmu must operate commercially within the Companies Act 1993, the State-Owned Enterprises Act 1986, and Shareholder Expectations Letters issued by Ministers of Crown. The Treasury confirms its stakeholder interest in Pāmu is confined to a monitoring role under the Acts and Ministers' shareholding directives.

"What's the point of Pāmu existing if it is just going to replicate what the rest of us do… you need to be trying a few innovative things, even some crazy ideas, and if they work then show us where and how for the benefit of all New Zealand farmers."
» Andrew Hoggard, Federated Farmers

"Partnership and collaboration are an important part of delivering progress on sustainability challenges. Pāmu has an opportunity to build on their existing activities and demonstrate leadership on key environmental and social issues, and then share their learnings with other farmers."
» Gary Philip, Fonterra

"It's important for Pāmu to connect with local Māori and iwi on issues that are important to them and in a way that is meaningful to them. There are significant benefits to Pāmu's business in doing this well in particular on employment opportunities or environmental issues such as protection of mahinga kai."
» Tracy Brown, Waikato farmer and DairyNZ Board member

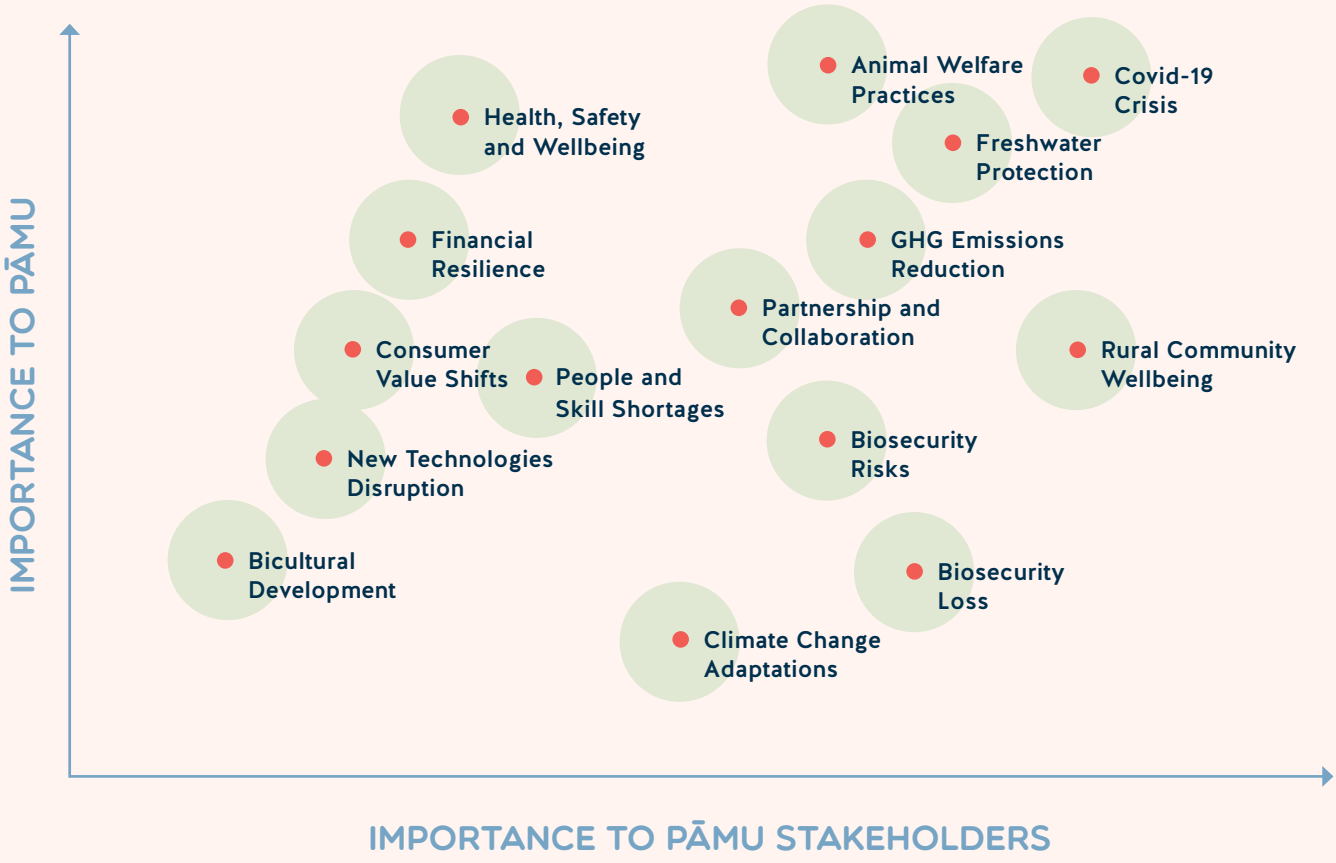
"We acknowledge that potential changes to the future ownership of Pāmu farms, can put constraints on the Company's business planning and operations… we appreciate our excellent dialogue with Pāmu on an ongoing basis."
» Emily Owen, Te Arawhiti

"Pāmu is in the invidious position of having to address the broader issues and help set the policy agenda, while at the same time give practical guidance on good farming especially in the areas of technology and people… it's not easy"
» Tony Egan, Greenlea Premier Meats

"Pāmu's project on Eyrewell is an excellent opportunity to learn about best dairying practices and to test what the farm of the future could look like."
» Laurence Nhan, Synlait

MATERIALITY ISSUES MATRIX

Pāmu and stakeholders view all issues as important. This ordering is indicative only to reflect particular priorities in 2020.



Pāmu thanks 19 stakeholders for sharing their views and expectations across a range of material issues in 2020. We asked Integrated Reporting consultant Martin Freeth to explore the issues in discussion with a cross section of companies, Crown agencies, interest groups and leading farmers, and to report back on key themes. Stakeholders addressed themselves to some or all of 15 material issues which identified with them: the Covid-19 crises; GHG emissions reduction; freshwater protection and restoration; biodiversity loss; animal welfare practices; biosecurity risks; health, safety and wellbeing; financial resilience, bicultural development; consumer value shifts; climate change adaptations; new technologies disruption; partnership and collaboration; people and skill shortages; and rural community wellbeing. The list was not exhaustive, and discussions highlighted the interrelation of many of the issues.

STRATEGIES IN ACTION

INNOVATION

Benchmarking to grow farm system expertise

Higher earnings per hectare can be achieved on most farms. Likewise, nutrient loss into ground water can be reduced or even stopped, and workplace accidents avoided. But these great outcomes require expertise in how all elements of the farming system are managed through the season – expertise on top of the farmer's already deep understanding of animals, land and pasture.

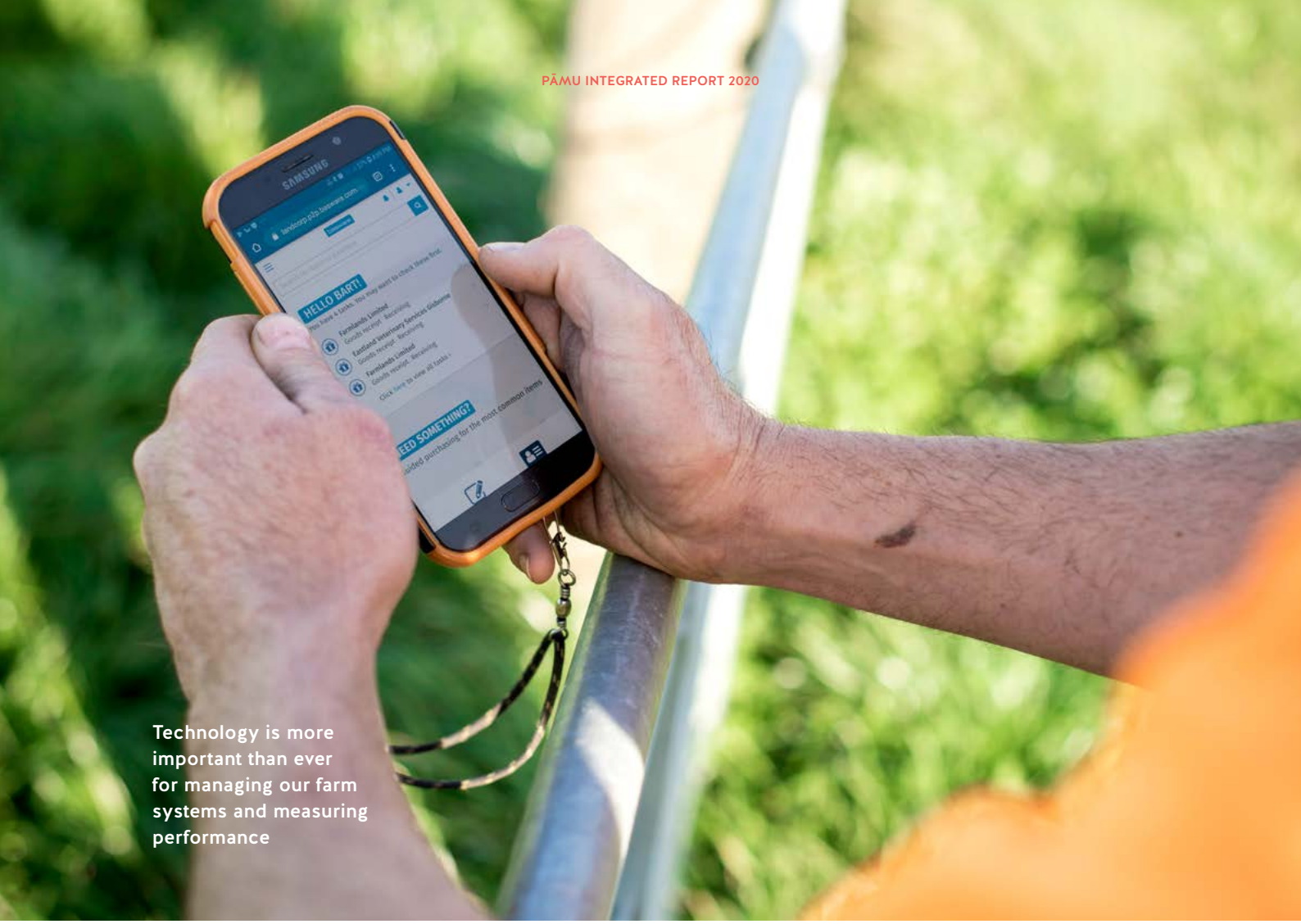
Pāmu is growing such expertise through the digital recording of system inputs and outputs, through the standardisation of all relevant on-farm data, and through tools for farm-by-farm comparison of performance measures and the things which make performance better or worse. In short, Pāmu has put benchmarking to work across its farm network.

Benchmarking is the business discipline of comparing the same processes, or products, in different operating units to identify opportunities for raising performance in those which compare less favourably. It requires excellent data collection and the ability of decision makers to meaningfully compare processes and operating units.

Pāmu has been building a cross-Company digital database of farming system variables for five years – and in 2020, we are providing business and farm managers with Benchmarking tools they can use for truly informed decisions that will lead to improved performance in financial, environmental and people terms.

Managers have at their fingertips standardised data on animal production per hectare, along with revenues, expenses and earnings per hectare for each farm. Each is assigned a capital value (dollars) and hence, a credible number for annual financial return on assets. Land and environmental data are critical as well with one common, objective view available on per-hectare nitrogen applications, pasture growth and nutrient losses. The information also includes gross farm revenue per employee and lost-time injury rates. In all, 36 database tables enable the tracking of 52 key performance indicators – and most of the data is being routinely collected and updated through Pāmu's on-farm use of fast broadband, FarmIQ technology, and the FARMAX and OverseerFM digital systems.

Benchmarking puts data from each farm, presented as both single year numbers and as three-year moving averages, up against comparable data for a Pāmu peer group and for farms in the wider industry. For the livestock farms, data comes from Beef + Lamb New Zealand's 17 regional and farm system benchmark groups.



Technology is more important than ever for managing our farm systems and measuring performance

For internal comparisons, Pāmu livestock farms are grouped into nine operating regions, with one other category for genetics and breeding properties.

It means that managers have an array of comparative data on benchmark farms and farm groups as they strive for improved performance. Ideally, of course, data review and analysis is about learning from "best-in-class" examples in whatever context the farmer is looking to improve.

For Northland Regional Business Manager, Andrew Kirk, the Benchmarking tools are a breakthrough in his team's ability to raise productivity, profitability and more. "Farmers have long sought to learn from each other but they've struggled to quantify the size of the prize and the drivers that will deliver it. Standardised benchmarking is actually making that possible!

"Thanks to the analysis and standardisation work of our in-house specialists, we can tap into Beef + Lamb's benchmarking database and objectively compare all our livestock farms to the rest of the industry... that's already delivering some great insights."

In Northland, the team now know that Pāmu livestock farms have been generating lower revenue per hectare than the industry benchmark, this being due largely to Pāmu's greater reliance on sheep and breeding cows relative to trading cattle. Farm working expenses compare very well in the same industry benchmarking – and the data confirms that Pāmu's Northland farms are generally on less desirable land than their industry peers (average capital value only 54% of the relevant benchmark). Andrew says good results are already being achieved on Pāmu properties as they change livestock policies to include dairy beef cattle systems of the type clearly proven on other farms.

STRATEGIES IN ACTION

HIGHER VALUE DAIRYING

Reducing dairying's environmental footprint, raising profitability

Pāmu is proving the worth of organic bovine dairying, environmentally and financially. Independent analysis of our organic farms – two fully certified and four in transition – shows they are able to significantly outperform equivalent conventional operations.

Pāmu began conversion to organics on the first farms, Earnslaw on the Wairakei Pastoral Dairy Complex and Tasman on the Moutoa Complex, in 2016. They reached full certification mid-last year. The other four units operate organic systems and are part-way through the three-year transition to being certified under the auditing of AsureQuality. Together they produced almost 8% of Pāmu's total 15.8 million kg milksolids during 2019/20.

The organic system involves a major pull-back from the synthetic fertiliser and agrichemical inputs which have become typical, to varying degrees, in conventional dairying. The cows are fed only organically-grown pasture and supplements, no antibiotics are used for animal health, and the farmer uses no inorganic pesticides, herbicides, fertilisers or cleaners. The system requires careful monitoring and data recording to satisfy the rigorous annual audit process of an approved organic certifier.

Organics are part of a comprehensive Pāmu strategy for reducing the environmental footprint across all our dairy farms while, at the same time, managing down input costs to strengthen earnings where possible on individual properties. Over the past five years the strategy has seen: stocking rates reduced; the end of palm kennel extract as supplementary feed (2016); the scaling back of dairy conversions on Wairakei Estate; diversification into higher-value forms of milk including grass-fed only and A2; and a heightened focus on improving genetics, feeding systems and animal welfare.

Critically also, the strategy has involved new initiatives for recruiting, training and leading the Pāmu people whose skills and commitment are so important to performance on every farm. We have stepped up riparian and wetland planting across the portfolio, and every waterway is now fenced. Use of synthetic fertilisers has been cut back significantly across the Pāmu dairying portfolio (with none on organics units).

In 2020, we asked independent consultants BakerAg to assess outcomes from Pāmu's use of the organic system so far and to make comparisons with a conventional dairying peer group.

Pāmu's Pure Organic Milk range– whole milk powder and UHT

Results indicate that nitrogen losses into ground water on organic farms are 30–50% lower without significant differences in productivity and reduction in nitrous oxide emissions to the atmosphere is of the same order. For the first time in New Zealand dairying, the environmental advantages of lower stocking rates and vastly reduced nutrient application to the ground have been quantified.

Profitability is substantially higher also. Earnings per hectare (before financing costs) have been 50-60% higher on the organic farms than on their conventional peers. Milk volume has been lower as expected but earnings have jumped on the back of reduced input costs and of the higher market return on organics. Processors pay premiums for organic milk – and for 2019/20, Fonterra's farmgate price has been $10.19 per kg of milksolids, 38% above the pay-out level for conventionally produced milk.

General Manager – Dairy Operations, Mark Julian says the comparative numbers between organic and conventional are indicative only, and the six farms are also advantaged by operating as part of a broad portfolio. Individual cows can be transferred off the organic system if health issues become too severe, for example. But Mark says four years' experience with organics have certainly proved their worth as a key element to Pāmu's dairying operations – and delivered plenty of learnings for the Company and the New Zealand industry overall.

STRATEGIES IN ACTION

OPTIMISED LAND USE

Growing more trees on less productive land

Trees are the best use of much of Pāmu's less productive land, providing a timber crop along with carbon capture and/or biodiversity gain. This year and beyond, our plantation forestry and other tree planting will continue at a rate consistent with the past few years on land that is not suited for grazing, horticulture or other higher-value cropping.

Pāmu's strategy for best land use across all farms will see another 1,000-2,000 hectares planted annually throughout the decade but only in areas where this makes the best economic and environmental sense.

Planting will be based on farm plans which identify the most suitable tree species and purpose, and integrate this land use with other farming and growing activities on the particular property.

Today, we have more than 10,000 hectares in various forms of commercial plantation. By 2030, we plan for Pāmu to have twice this area in trees with multiple benefits including higher revenue streams from the harvesting of exotic soft woods and from the accrual of New Zealand Units (NZUs) for carbon sequestration.

There will be other benefits in the accelerated development of non-traditional products based on new tree crops, bioplastics being an example, and in the general enhancement of biodiversity across Pāmu's farm portfolio. Bee populations (and honey production) will certainly benefit.

The land will primarily be classed either 6 or 7 under New Zealand's Land Use Classification system. Such areas have one or a combination of these attributes: steep or very steep hillsides, erosion prone, very stony, particularly shallow soils, excessive wetness or low moisture retention capability.

There is no question of Pāmu converting land of high or moderate value for dairying, livestock or cropping into forestry. In fact, we have approximately 60,000 hectares of class 6 or 7 land across the portfolio today. Nor will Pāmu cease or scale back currently-profitable farming operations in the conversion process. Our tree planting options range from radiata pine and douglas fir, to eucalyptus species, to emergent, canopy and shrubby natives.

Avocados are a healthy food of high value in many of New Zealand's export markets – and subtropical Northland is increasingly favoured as the place to grow them. Pāmu is helping lead the way with avocado orchard plantings on approximately 15 hectares on the Kapiro complex, near Kerikeri (see photos opposite). The first commercial crop is due for harvest in 2022/23, for intended supply through the region's well-established avocado post-harvest operator.

STRATEGIES IN ACTION

SMART PARTNERSHIP

Feeding Pāmu cows with Cedenco by-product – a winning combination

Dairy cows on the Wairakei Pastoral Dairy Complex are eating corn by-product from the Gisborne processing plant of Cedenco Foods – bio-circular economics at work today.

Cedenco takes freshly-harvested corn from 25 growers throughout Eastland, and produces high-quality corn puree and corn powder for both domestic and international consumer markets. A small mountain of chopped corn kennel is left over between January and April.

Until 2019, that mountain was treated as a waste stream, available to local farmers who were willing to remove it for animal feed if the season was dry, or potentially sent to landfill.

Mid-last year, Pāmu came to town and sat down with Cedenco. Their contract for removal and supply of corn waste/ corn by-product from the Gisborne plant to covered storage areas at Pāmu's Wairakei Estate farms is an extraordinary win-win for farmer and food processor.

In the months following November 2019, 16,200 tonnes was trucked onto the Pāmu dairying complex as supplementary feed, ready to support as many as 17,000 cows whenever needed during periods of slow or no pasture growth (winter or summer).

Farm Business Manager Louis Weitenberg says the corn by-product's feed value has proved to be as good as, or better, than the more costly maize silage which Pāmu was previously buying from growers in the Waikato and Bay of Plenty. "The cows love it and there is virtually no wastage in the paddock because the corn kennel pieces are so easy for them to pick up... in contrast, wastage rates for maize silage can be around 30%," he says.

Dry matter content of the material from Cedenco would, ideally, be a little higher than the average so far of 23%, but Mr Weitenberg says that is satisfactory and his cows have certainly maintained condition on this supplementary feed. Moreover the corn by-product stores extremely well under cover and any surplus can be distributed to other Pāmu dairy units in the North Island whenever the need might arise.

"Pāmu has helped us overcome what used to be a headache most years," says Rory Dowling, Cedenco Supply Chain Manager. "Our cartage arrangements to Wairakei have worked extremely well and we are looking to supply Pāmu with more in the coming years."

Pāmu's Gareth Hughes andLouis Weitenburg with Cedenco Production Manager Andy Rodway (centre)

Indeed both companies are very keen to extend the relationship beyond an initial two-year contract and include other "waste" material from Cedenco, starting with apple pomace (remains after pressing) from the Company's processing plant in Hastings.

Mr Dowling says Cedenco will make further investment in the latter to facilitate its ability to supply Pāmu with the apple by-product after it was successfully trialled as another form of stock feed earlier in 2020. "We are very interested in building the relationship with Pāmu and our people are thinking about how our operations can be fine-tuned to give our by-products more of the qualities that Pāmu is looking for in stock feed. The arrangement is completely aligned with Cedenco's moves to be a sustainable business with a decreasing environmental impact."

STRATEGIES IN ACTION

DIGITAL TOOLS

Winter grazing with decision guidelines for best practice

Digital tools have huge value in farmers' decision making, especially when complex animal welfare, environmental and profitability issues are involved. Pāmu has added two new smartphone apps to the toolbox – and they will help assist best practice in winter grazing on South Island livestock and dairy farms.

The apps – software that operates between the farmer's hand-held smartphone and Pāmu's central ArcGIS digital platform – help ensure that crop planting and grazing decisions are based on full assessment of the critical variables at every step. As the farmer enters required data in a standard format, the apps respond with decision making guidelines. Not a substitute for the knowledge and common sense of Pāmu's talented and committed farmers but a series of prompts to optimise decision making.

The apps also store data in the ArcGIS platform and hold digital photographs taken of the relevant paddocks and then uploaded to the system. All information can be accessed and analysed by Pāmu's specialist staff and fed back to the farmer – further demonstration of Pāmu's commitment to continuous improvement in farm, animal and environmental management.

Winter grazing is, if done well, a valuable option for feeding beef and dairy herds through cold and wet months of slow or no growth in pasture: crops of fodder beet and other brassicas or root vegetables are planted in Spring, and ready for strip grazing the next winter. Feed costs through those months can be much lower and animals can be maintained in good condition for the next season. But there are heightened risks of effluent and sediment run-off, and of animal discomfort (depending on rainfall, ground conditions and on how well grazing is managed from day to day).

Geospatial Services Manager Bronwyn Rodgers built the first app in-house during 2018-19, remodelling a static decision tree document developed by a colleague into the interactive digital form. During the development phase consultation with business managers verified the practicality of content and usability.

This first app went out to Pāmu farm managers in the southern provinces for their planning last spring. The tool requires them to collect and enter critical data on selected paddocks – data on soil type, land contour, the location of waterways and areas prone to water overflow, stocking rates

Composting barn at Landsdown Farm in Otago is one of the tools we use for shelter and protection of our animals

and more. In response the app provides guidelines for proceeding (or not if the risk to waterways is high).

The second app comes into use once grazing begins – data is collected on actions taken in relation to waterways and overland-flow areas (with options to upload photos for later verification), on soil conditions, and on planning for rainfall and animal welfare considerations.

Senior Business Manager for Southland Scott Harpham says the apps will be extremely useful for every aspect of winter grazing. “Our staff will be thinking ahead just that extra bit more when standing in a paddock with the app open on his or her phone, and running through all the questions that need answering before a particular crop is planted in a particular area,” says Scott. “They will also be great tools for record keeping throughout the winter and for meeting compliance obligations.”

BRONWYN RODGERS
Pāmu Geospatial Services Manager, worked to create the apps for the benefit of our farmers.

STRATEGIES IN ACTION

ON-FARM LEADERSHIP

Growing on-farm leaders with passion for the future

PĀMU IS ALSO IN THE BUSINESS OF GROWING GREAT FARM MANAGERS – PEOPLE OF KNOWLEDGE, SKILL AND COMMITMENT WHO WILL HELP LEAD THIS COMPANY AND NEW ZEALAND AGRICULTURE INTO THE FUTURE. MEET FOUR OF THEM.

Dairy farm manager Rachael Lind is passionate about her cows – and her people. And she applies plenty of knowledge and attention to detail when managing both at Bassets Dairy Unit on the Cape Foulwind Complex.

"If you tell people why decisions are being made and let them know exactly what's driving you, their buy-in is so much greater," says Rachael. "It's also about sharing successes because they're what gets us all through the crappy days... we've built an amazing team on Bassets and that's largely because of the information, guidance and support which I receive as manager from the Pāmu network of managers and specialists."

The team is Rachael and four full-time staff on the 460-hectare farm, where they milked 1060 cows at the peak of the 2019/20 season. Another full-timer comes on for calving. For Rachael, farming is very much about knowing what needs to be done, when and why. "Good farming is about attention to detail, utilisation of feed grown and making the right decisions at the right time. We've got to learn how to farm smarter to get the results."

She relishes all the data collection and analysis provided by Pāmu's digital technology, and the personal confidence she has gained from making those right decisions with senior colleagues always there for guidance and feedback. The results have included a substantial rise in Bassets' profitability, accompanied by reductions in cow somatic cell counts and nutrient loss to the environment.

And that passion for cows? "I grew up on a Marlborough Sounds sheep farm. The day after I left school, I came to work on an uncle and auntie's dairy farm near Westport and I immediately fell in love with cows," says Rachael. That was 20 years ago. Married to Murray and with two young children, she joined Pāmu in 2017 – and she is definitely ready for the next step up when the opportunity arises.

RACHAEL LIND

Buller Dairy Group Operations Manager Jack Raharuhi bases his deep confidence in the future of Pāmu's West Coast dairying operations on 10 years' solid work experience. In that time, he has seen the Company's big investment in land, infrastructure and people across the Cape Foulwind and Weka Dairy Complexes. Indeed, Jack's career has been part of that investment, from his recruitment as a 17-year-old dairy hand to his present-day management capabilities – and to his winning of the 2020 Zanda McDonald Award for passion about agriculture and commitment to making a difference.

"Pāmu has written big cheques in this region over the years and now we're seeing the soil really develop, and production and profitability are increasing well. We've also built a very professional culture with people who are fully engaged in the business," says Jack. He credits his own personal growth and acquisition of farming and management skills to the Company's long-term programmes for young farmers. "I really appreciate the investment made in me, and developing my strengths."

Today, Jack is paying it back, putting his experience and skills into leadership of all training and health & safety activities across Pāmu's 10 dairy farms, two support properties and two machinery syndicates on the West Coast (with 65 staff in all). He passionately believes that engaged and knowledgeable people make all the difference to a farm's performance in every respect.

Jack's responsibilities also include farm business management of four dairy units and a syndicate on Cape Foulwind, where investment in pasture, systems and people certainly paid off in 2019/20 with record production and increased earnings. Environmental outcomes are critical too, and Jack's attention to pasture management using species more suited to the farms' soils enabled 26% reduction in nitrogen applications over two years. "We're going more for quality of feed than quantity... the future on these farms is very exciting."

JACK RAHARUHI

For Waiteti Farm manager Carl Carmicheal, Pāmu is the best of both worlds: farm management opportunity to pursue exactly the goals he wants for his property while also having membership of a highly professional farming team. "I know what I want to achieve on Waiteti to make this a really profitable operation over the next five years, and I thoroughly enjoy the connection with other Pāmu farm managers to share experiences and ideas."

Waiteti is a 748-hectare property in the central North Island with extensive sheep breeding and finishing, and cattle and deer finishing operations. Carl arrived as manager a year ago as the next step in a Pāmu career that started in 2014 when he joined Te Wharua Farm in the nearby King Country as general hand. In fact, he started his working life in a building apprenticeship. "I always wanted to go farming and decided that being a builder would be a useful trade to have as well," says Carl. "I'd always be able to build things on farm."

After 10 years in that trade, mainly in Taranaki, Carl moved on to Te Wharua and progressed through various roles to become the farm's Stock Manager. His farming talents were recognised with selection as a Beef + Lamb New Zealand Industry Future Leader last year, this including attendance at an International Beef Alliance conference in Brazil.

Carl is definitely a team player, demonstrated also through an impressive career in representative rugby. In each of the past two years, the 111 kg prop was selected into the All Blacks Heartland XV: he captains the King Country team and has been playing provincial rugby since 2006.

Further ahead, Carl makes no secret of his aspiration to farm ownership himself. Meantime, the learnings as a Pāmu team member continue, most recently in how to manage through an abrupt and severe drought (February–March 2020). "We've bounced back well with our capital stock in good condition after what's been a relatively mild winter."

CARL CARMICHEAL

Stock Manager, Victoria Madgwick cannot imagine a better place to grow her farming skills than Lynmore Farm. She came onto the large Te Anau sheep and beef breeding and finishing property as a shepherd in early 2019 – and this season she has full-on responsibility for 3,000 in-lamb ewes, plus 200 yearling steers.

"The opportunities I'm getting at Pāmu would take much longer to come along anywhere else… I'm really enjoying the challenge, and knowing that I can always talk to my boss and the other stock managers about what I am doing each day takes away most of the stress," says Victoria.

Lynmore is giving her the chance to apply knowledge and skills acquired over two years at Telford Rural Education, where Victoria completed agriculture and veterinary technician diplomas.

The Balclutha campus was a long way from home, in Waihi where she grew up on a dairy farm. After Telford, Victoria wanted sheep and beef experience and jumped at an entry-level role with Pāmu. In fact she has been such a good fit with angus cattle, swede paddocks and the rolling high country of Southland that this North Islander now talks with a slight southern burr.

Promotion in March 2020 makes Victoria one of three stock managers on 2,500 hectare-Lynmore (eight staff in total), and she is now also managing a shepherd. "My ultimate goal is farm ownership, and it's great to be given more responsibility and experience at this stage," she says. Te Anau has had a relatively mild winter, and Victoria has been learning the finer points of efficiently grazing her ewes and steers on huge crops of swedes and kale.

VICTORIA MADGWICK

Whānau and family are an important part of life at Pāmu

PĀMU BOARD AND MANAGEMENT

Board of Directors

DR WARREN PARKER, CHAIR

Dr Warren Parker was appointed as Chair of the Board in 2019. Warren is a former chief executive of Scion and Landcare Research, and was previously chief operating officer of AgResearch. He currently holds board roles at Quayside Holdings, Predator Free 2050 Ltd, Farmlands Co-Operative Society, Genomics Aotearoa and is the chair of the Forestry Ministerial Advisory Group. Warren has a PhD in animal science and was previously a Professor of Agribusiness and Resource Management at Massey University.

JO DAVIDSON, PERFORMANCE & SAFETY COMMITTEE MEMBER

Jo was appointed to the Board in 2019. She is a business advisor working with businesses on company purpose, brand and marketing projects to achieve sustainable profit and growth in New Zealand and international markets. Jo has had an extensive executive career in FMCG, manufacturing and agribusiness sectors in NZ and overseas.

CHRIS DAY, AUDIT & RISK COMMITTEE CHAIR

Chris joined the Board in May 2012 and acted as Chair for part of 2018. Chris is the Chief Transformation Officer for Silver Fern Farms and is also a Director of Datacom. An experienced business leader, he has a background in finance, technology and leadership at executive and governance levels for local and international businesses. Chris grew up on a livestock farm in Wairarapa where his family has farmed since the 1850s.

HAYLEY GOURLEY, AUDIT & RISK COMMITTEE MEMBER

Hayley was appointed to the Board in May 2018. She is the Agri Divisional Manager at Skellerup and prior to that was General Manager, Country Banking New Zealand at Rabobank. Experienced in commercial agribusiness and as a people leader, she has more than 20 years' experience, in New Zealand and globally; leading, financing, advising and working in agribusinesses throughout the value chain. Hayley grew up on a dairy farm in Karamea on the West Coast of New Zealand.

NIGEL ATHERFOLD, DEPUTY CHAIR , PERFORMANCE & SAFETY COMMITTEE CHAIR

Nigel was appointed to the Board in 2018. He has over 25 years' experience in finance covering corporate finance, risk management, and banking. He is currently a director and shareholder of TDB Advisory Limited – a corporate finance and economics advisory company. Nigel is a director of a number of other primary industry based companies including Pāmu related entities Melody Dairies GP Limited and Spring Sheep Dairy NZ Management Limited.

DOUG WOOLERTON, PERFORMANCE & SAFETY COMMITTEE MEMBER

Doug was appointed to the Board in 2019. At a young age he was elected to a cooperative dairy company board and served for ten years. His interest in politics saw him move from farming to a political career serving twelve years as a Member of Parliament. Doug has worked as an independent political consultant advocating for businesses and assisting them to have their concerns heard by the government. Doug grew up on the family farm in the Waikato with three brothers all of whom became dairy farmers.

DR TANIRA KINGI, PERFORMANCE & SAFETY COMMITTEE MEMBER

Dr Tanira Kingi (Ngati Whakaue/ Te Arawa) was appointed to the Board in July 2020. Tanira has an extensive background in agricultural systems, land economics and forestry and is the research leader at Scion. He has a PhD in agricultural economics from the Australia National University and an MAppSci (Hons) from Massey University. He was previously a member of Pāmu's Environment Reference Group. Tanira has held governance positions for almost 30 years and is the chair of the Te Arawa Primary Sector Group (Te Arawa Arataua).

BELINDA STOREY, AUDIT & RISK COMMITTEE MEMBER

Belinda was appointed to the Board in 2018. A climate economist, she is a principal investigator with the Deep South National Science Challenge. She has an MBA from Columbia University of New York and a Masters from the University of Canterbury. As Managing Director of Climate Sigma she provides scenario analysis and asset valuation on climate change risk. Belinda has advised executive teams locally and internationally on organisational performance. Belinda was raised on a dairy farm in the North Waikato.

Leadership Team

To read more about our leadership team, please visit our website: pamunewzealand.com

STEVEN CARDEN
CHIEF EXECUTIVE OFFICER

MARK JULIAN
GENERAL MANAGER – DAIRY OPERATIONS

ALISTAIR MCMECHAN
GENERAL COUNSEL AND COMPANY SECRETARY

STEVEN MCJORROW
CHIEF FINANCIAL OFFICER

STEPHEN TICKNER
GENERAL MANAGER – LIVESTOCK OPERATIONS

BERNADETTE KELLY
GENERAL MANAGER – PEOPLE, SAFETY AND WELLBEING

ANDREW SLIPER
GENERAL MANAGER – FORESTRY AND HORTICULTURE

SARAH RISELL
GENERAL MANAGER – PĀMU FOODS

GOVERNANCE AND STATUTORY DISCLOSURES

Introduction to our governance framework

The Directors and Management of Pāmu are committed to effective and robust governance. This section sets out the systems and processes underlying Pāmu's governance framework.

As a State-Owned Enterprise, Pāmu's principal objective is to operate as a successful business that is:

- as profitable and efficient as a comparable business not owned by the Crown;
- a good employer; and
- an organisation that exhibits a sense of social responsibility by having regard to the interests of the communities in which it operates and by endeavouring to accommodate or encourage those interests when able to do so.

Pāmu is ultimately accountable to its shareholding Ministers (the Minister of Finance and the Minister for State-Owned Enterprises), who are supported by the Commercial Operations team at Treasury. Accountability is primarily achieved by issuing and reporting against Pāmu's annual Statement of Corporate Intent which sets out Pāmu's objectives, nature and scope of activities, and financial and non-financial performance measures. In addition, the shareholding Ministers issue an annual letter of expectations and the Company maintains regular engagement with the Treasury.

THE BOARD

The Board is appointed by the shareholding Ministers and is currently comprised of eight non-executive independent Directors (including the Chair). Shareholding Ministers appointed Jo Davidson to the Board with effect from 1 September 2019 and Tanira Kingi to the Board with effect from 1 July 2020 (the latter replacing Tony Reilly whose term expired on 30 June 2020).

The Board is responsible to the shareholding Ministers for guiding and overseeing Pāmu's operations. Pāmu's Board Charter sets out how the Board discharges its responsibilities and powers.

The Charter requires Directors to:

- observe high standards of ethical and moral behaviour;
- act in the best interests of the Shareholders;
- ensure that Pāmu acts as a good corporate citizen taking into account environmental, social and economic issues;
- recognise the legitimate interests of all stakeholders including staff; and
- ensure that staff are remunerated and promoted fairly and responsibly.

Under the Charter, the Board may establish committees from time-to-time to assist it by focusing on specific governance responsibilities in more detail, reporting and making recommendations to the Board as appropriate.

The Board currently has two permanent committees:

- The Audit & Risk Committee deals with financial accounting and reporting issues, and oversees Pāmu's risk management framework
- The Performance & Safety Committee deals with remuneration, health and safety, and staff training and development.

In addition, during the year under review, the Board established a special purpose Board committee (the Pāmu Foods Committee) to oversee the development of a revised strategy for Pāmu's value-added foods business. The Committee was disestablished in June 2020.

BOARD AND COMMITTEE MEETINGS

The Board and Board Committees met regularly throughout the year in person and by audio visual means, and conducted some business by circular resolution in lieu of meeting. Meetings for the year ending 30 June 2020 are set out in the following table.

Director	Board meetings (12 meetings)	Audit & Risk Committee (4 meetings)	Performance & Safety Committee (5 meetings)
Warren Parker	12	4	5
Nigel Atherfold	12	4	1
Chris Day	10	4	
Jo Davidson*	10		4
Hayley Gourley	11	4	
Tony Reilly	11		5
Belinda Storey	12		5
Doug Woolerton	12		5

* Jo Davidson was appointed 1 September 2019

The Pāmu Foods Committee (the special purpose committee referred to above) consisted of Jo Davidson (Chair), Chris Day and Hayley Gourley and met 11 times.

During the year, Pāmu had Board observers attend meetings as part of the Agri-Women's Development Trust Escalator Programme: Jan Early (six meetings) and Charlotte Westwood (one meeting).

PĀMU'S ADVISORY GROUPS

Pāmu has two advisory groups that assist the Company by providing insight, challenge and different perspectives on areas critical to our operations and strategy. The Environment Reference Group (ERG) guides and challenges Pāmu's environmental practice and the Visionary Vets Group (VVG) focuses on ways to lift our animal welfare practice and standards. Membership of the two groups is:

ERG	VVG
Marnie Prickett, Chair	**Alan McDermott, Chair**
Naomi Aporo*	Dr Alison Dewes
Dr Bruce Campbell*	Dr Mark Bryan
Sally Lee*	Dr Ginny Dodunski
Helen Marr*	Dr Arnja Dale
Dr Tanira Kingi**	Dr Helen Beattie
Tom Kay***	Dr Karl Weaver

* All joined in May 2020, replacing Guy Salmon, Dr Mike Joy and Dr Dan Hikuroa.
** Dr Kingi resigned in June 2020 following appointment to the Pāmu Board.
*** Tom Kay is a maternity leave replacement for ERG member, Annabeth Cohen.

RISK MANAGEMENT

The Board has adopted a risk appetite statement which acts as a link between Pāmu's strategic objectives and its risk management framework. The Board is ultimately accountable for risk. The Board has delegated the oversight of the risk framework (including the risk register and monitoring the internal audit programme) to the Audit & Risk Committee.

The Chief Executive is charged with the day-to-day management of Pāmu. The Company operates under a detailed delegated authority structure, and the Board approves operational and financial policies.

KPMG is Pāmu's current external auditor appointed by the Office of the Auditor-General and PricewaterhouseCoopers performs the independent internal audit function for Pāmu.

SUBSIDIARIES

Pāmu's subsidiaries and their respective purposes are:

Subsidiary	Purpose
Landcorp Holdings Ltd	Ownership vehicle for properties that are subject to the Protected Land Agreement between the Crown and Landcorp Farming (land to be used in Treaty of Waitangi settlements).
Landcorp Estates Ltd	Develops and sells land of higher value for uses other than farming.
Landcorp Pastoral Ltd	Holding company for Pāmu's interests in Focus Genetics Limited Partnership (100% since September 2014), a limited partnership to enhance and market genetics in sheep, cattle and deer, and Spring Sheep Dairy NZ Limited Partnership (50% interest, established June 2015), a sheep milking joint venture.

INTERESTS REGISTER

Entries made in the interests register during the year covered particulars of Directors' interests, Directors' remuneration and Directors' and Officers' liability insurance. The following are particulars of general notices of disclosure of interest as at 30 June 2020:

Director	Organisation	Position
Warren Parker	Quayside Holdings Ltd	Director, Chair Remuneration Committee
	Quayside Properties Ltd	Director
	Quayside Securities Ltd	Director
	Predator Free 2050 Ltd	Director
	Farmlands Cooperative Society Ltd	Director
	Griffith Enterprise Advisory Board	Chair
	Forestry Ministerial Advisory Group	Chair
	Genomics Aotearoa Advisory Board	Director
	Warren's Insights Ltd	Director and shareholder
	Landcorp Holdings Ltd	Director
	Landcorp Estates Ltd	Director
	Landcorp Pastoral Ltd	Director
	Focus Genetics Management Limited	Director

Director	Organisation	Position
Nigel Atherfold	TDB Advisory Ltd	Director and shareholder
	Ngāi Tahu Farming Ltd	Director
	Rural Equities Ltd (and subsidiaries)	Director
	Terracostosa Ltd (and subsidiaries)	Director
	GT & Company Ltd	Director and shareholder
	Dairy Investment Fund Ltd	Shareholder
	Open Country Dairy Ltd	Shareholder
	NZ Milk Trading Company Ltd	Director and shareholder
	Melody Dairies GP Ltd	Director
	Spring Sheep Dairy NZ Management Limited	Director
Chris Day	Datacom Group Ltd	Director and Chair of Audit Committee
	Silver Fern Farms Ltd	Chief Transformation Officer
	C W & CR Day Trust	Trustee
	Fairholm Farming Ltd	Director and Shareholder
	Landcorp Holdings Ltd	Director
	Landcorp Estates Ltd	Director
	Landcorp Pastoral Ltd	Director
Jo Davidson	LiquidStrip Ltd	Advisory Board member
Hayley Gourley	The Lake Road Partnership	Partner
	Skellerup Industries Ltd	Agri Divisional Manager
	Skellerup Rubber Products Jiangsu Ltd	Director
Tanira Kingi	Scion	Senior Scientist and Research Leader
	Pukeroa Holdings Ltd	Director
	Pukeroa Lake Front Holdings Ltd	Director
	Whakaue Holdings Ltd	Director
	Whakaue Farming Ltd	Chair
	Te Arawa Management Ltd	Director
	Te Arawa Primary Sector Group	Chair
	Kahui Wai Maori (MfE)	Ministerial Appointment
	Primary Sector Climate Change Commitment (He Waka Eke Noa)	Ministerial Appointment
	Xerra Earth Observation Institute Science Advisory Group	Member
Belinda Storey	Climate Sigma Ltd	Director
	Endeavour Research Programme	Programme Managing Director
Doug Woolerton	The Lobbyist Ltd	Director and shareholder

USE OF COMPANY INFORMATION

No requests were received from Directors to use Company information that they obtained in their capacity as Directors and that would not otherwise have been available to them.

COMPANY DONATIONS

During the year, Pāmu made donations of $42,888, and undertook community and event sponsorship of $9,218.

DIRECTORS' REMUNERATION AND OTHER BENEFITS

Directors' fees (including fees for chairs of Board Committees) for the year to 30 June 2020 were as follows:

Warren Parker (includes fees for directorship of Focus Genetics Management Limited from 1 November 2019)	$83,866
Nigel Atherfold (includes fees as Deputy Chair from 1 September 2019 and fees for directorships of joint venture companies Melody Dairies GP Limited and Spring Sheep Dairy NZ Management Limited)	$71,143
Chris Day (Chair of Audit & Risk Committee)	$41,250
Jo Davidson (appointed 1 September 2019)	$30,467
Hayley Gourley (includes fees for directorship of Focus Genetics Management Limited to 31 October 2019)	$41,893
Tony Reilly (Chair of Performance & Safety Committee)	$41,250
Belinda Storey (includes fees for directorship of joint venture Pāmu Academy Limited to 2 August 2019)	$37,893
Doug Woolerton	$36,560
Total fees	**$384,322**

No remuneration or other benefits were paid to the Directors of Landcorp Estates Limited, Landcorp Pastoral Limited or Landcorp Holdings Limited.

In addition to fees, the Company provided a budget of $24,000 (total) towards Director continuing professional development.

INDEMNITY AND INSURANCE

Pāmu has arranged Directors' and Officers' insurance which covers risks normally covered by such policies and includes separate cover to meet defence costs. In addition, as permitted by Pāmu's constitution, Directors and Officers are indemnified by the Company to the extent permitted by law for potential liabilities that they might incur for actions or omissions in their capacity as Directors or Officers.

EMPLOYEES' REMUNERATION AND OTHER BENEFITS

Set out below are the numbers of current and former employees whose total remuneration was within the specified bands. Remuneration is inclusive of base salary, performance incentives and other benefits such as employer superannuation contributions, health and life insurance and accommodation.

Dollars In Thousands	No of Employees
100–109	41
110–119	26
120–129	22
130–139	17
140–149	11
150–159*	5
160–169*	4
170–179	5
180–189	6
190–199	6
200–209	3
210–219	1
220–229	1
230–239	2
240–249	2
250–259*	1
260–269	1
320–329	1
350–359	3
360–369	1
370–379	1
690–699	1

Please note: the number of employees by band provided in the 2019 Annual Report is inconsistent with 2020 and previous years, the 2019 remuneration band information only included base salary and incentive schemes, omitting other employee benefits usually included.

* The asterisk indicates remuneration bands that included at least one former employee who received a severance payment, without which they would not have been in that band.

EXECUTIVE REMUNERATION

Pāmu's remuneration policy seeks to provide a sustainable remuneration system that recognises individual contribution, incentivises performance, provides a mix of rewards, and is compelling relative to the market(s) in which we compete for talent.

Total remuneration at Pāmu comprises two components: fixed remuneration and short-term performance incentives.

The Performance & Safety Committee (P&S Committee) reviews the annual performance appraisal outcomes for all members of the Leadership Team and approves the outcomes for all members other than the Chief Executive. The Chief Executive's remuneration is approved by the Board on the recommendations of the P&S Committee. The review takes into account external benchmarking to ensure competitiveness with comparable market peers, along with consideration of an individual's performance, skills, expertise and experience.

External benchmarking is commissioned from an expert party, Ernst & Young (EY). EY is required to declare independence of any management influence in the collation of the information provided. Additionally PriceWaterhouseCoopers (PwC) provides comparator market information. External benchmarking for non-executive remuneration is requested by Pāmu's management and provided again by EY, with comparator market information from Federated Farmers, BakerAg and PwC's corporate services surveys. Due to Covid-19 and the State Services Commissioner's directive on pay restraints for executive salaries, and Pāmu management's decision to restrict pay increases across the organisation, benchmarking was not required this year.

FIXED REMUNERATION

Pāmu offers an employee remuneration package which comprises a competitive base salary supplemented by a range of benefits appropriate to employee needs and job requirements. Pāmu's policy is to pay fixed remuneration to the fixed pay market median.

EXECUTIVE SHORT-TERM PERFORMANCE INCENTIVES

Short Term Incentives (STIs) are designed to recognise performance where Pāmu's Board approves the activation of the scheme. There is no assurance of incentives being paid.

Incentive target values are currently set at the commencement of employment as a percentage. The Chief Executive's STI was renegotiated in 2017 from a dollar value incentive to a percentage total fixed remuneration.

- Chief Executive is 30% of Total fixed Remuneration.
- All other executives are 20% of Base Salary.

Pāmu Key Performance Indicator's (KPIs) are aligned to individual and Company achievement and a proportion of the STI percentage is focused on either Company or individual, the ratio can change year to year on Board direction. For FY2020 KPIs were arranged as below.

- Chief Executive: 50% Company: 50% Individual
- All other Executives: 50% Company: 50% Individual

KPI measures success at the end of the financial year. KPIs for FY2020 were aligned to the achievement of the Strategy and Business Plan across the six capitals. They were either shared across functions or individually focussed. Shared KPI objectives created focus on the Company priorities.

KPIs are percentage rated at the end of the financial year, aligned to performance levels of Threshold, Target and Stretch. Stretch performance levels allow employees to be rewarded for exceptional performance. Stretch targets allow recognition up to 120%.

EXECUTIVE LONG-TERM PERFORMANCE INCENTIVES

The Chief Executive was eligible for a payment under Pāmu's Long Term Incentive (LTI) scheme for FY2020. The LTI methodology is set out in detail in Pāmu's Half Year Report for the Six Months Ended 31 December 2019. The LTI scheme has been discontinued and no longer forms part of the Chief Executive's potential remuneration package.

Total remuneration for 2020

CHIEF EXECUTIVE'S REMUNERATION (FY2020 AND FY2019)

	Salary $	Benefits* $	Subtotal $	STI $	LTI $	Pay For Performance $	Total Remuneration $
FY2020	613,384	3,120	616,504	82,483	0	82,483	698,987
FY2019	607,689	3,120	610,808	185,142	0	185,142	795,950

* Pāmu's Chief Executive has one benefit, a car park. There is no Kiwisaver, insurance or medical within the current package. Actual salary paid includes holiday pay paid as per NZ legislation.

FIVE YEAR SUMMARY – CHIEF EXECUTIVE'S REMUNERATION

	Financial Year	Total Remuneration paid	Percentage STI Individual* %	Percentage STI Company Performance*
Chief Executive Steven Carden	FY2020	$698,987	93%	108%
	FY2019	$795,950	75%	25%
	FY2018	$769,652	104%	105%
	FY2017	$574,492	90%	112%
	FY2016	$572,196	100%	0%

* Total remuneration paid includes STI individual and STI company performance payments from the previous year, which are typically paid in September of current FY.

BREAKDOWN OF CHIEF EXECUTIVE'S PAY FOR PERFORMANCE (FY2020)

	Description	Performance Measures	Percentage achieved %
STI	Set at 30% of Total Fixed Remuneration. Based on financial and non-financial measures	50% Company performance	108%
		50% Individual performance	93%
LTI	In 2017 the Pāmu Board agreed an LTI for the CE only; maximum payment 25% of total fixed remuneration	Enterprise Value performance summed across the LTI period	0%

FY2021 CHIEF EXECUTIVE REMUNERATION STRUCTURE

	Salary $	Benefits $	Subtotal $	STI** at Target	LTI***	Pay For Performance Subtotal STI & LTI	Total Remuneration at Target $
FY2021	613,605	3,120	616,725	185,018	0	185,018	801,743

** STI Performance Incentive constitutes 50% Company performance and 50% individual performance.
*** There is no LTI scheme in the CE's current employment agreement.

CHIEF FINANCIAL OFFICER'S REMUNERATION

In FY2020, the Chief Financial Officer received remuneration totalling $373,895. This amount included a $31,126 STI payment for FY2019, the remaining $342,769 includes base salary and benefits. No LTI payment was made and will not be paid as not part of CFO agreement.

GENERAL MANAGER PĀMU FOODS

In FY2020, the next highest paid executive (General Manager Pāmu Foods) received remuneration totalling $360,758. The STI payment for FY2019 of $29,677 paid with the remaining $331,081 constituting base salary and benefits. Again there is no LTI agreement therefore there has not and will not be an LTI payment.

TARGETS FOR 2019/20

As a State-Owned Enterprise, Landcorp Farming Limited prepares an annual Statement of Corporate Intent (SCI) including targets and budget forecasts for financial performance during the year ahead.

The 2019/20 financial targets and forecasts for 2020/21, including those in the SCI, are shown in the table below.

Shareholder Returns	Actual 2019/20	Target 2019/20
Total Shareholder Return[1] %	(5.3)%	0.7%
Return on Equity, adjusted for IFRS Fair Value[2] %	3.6%	1.9%
Dividend Yield %[4]	0.4%	0.3%
Dividend Payout %	22.4%	192.3%
Profitability & Efficiency		
EBITDAR[5] $m	65	61
Net (loss)/profit after tax $m	(24)	10
Operating cashflow after capex $m	(1)	(31)
Return on Capital Employed[6] %	2.9%	3.1%
Operating Margin[7] %	23.9%	24.0%
Dividends Declared – Group (ordinary and special) $m	5.0	5.0
Leverage & Solvency		
Gearing[9] %	13.4%	13.3%
Interest Cover[10] times	2.95	2.59
Solvency[11] times	5.0	4.0

1. The total of equity movement during the year and dividend paid / Equity opening balance
2. Net Profit after tax less fair value revaluations / Average shareholders' equity less revaluation reserves
3. Net profit after tax/average equity
4. Dividends declared / Average shareholders' equity
5. Earning Before Interest, Tax, Depreciation, Amortisation and Revaluations
6. EBITDAR less depreciation / Average shareholders' equity, debt and redeemable preference share less revaluation reserves
7. EBITDAR less profit on land sales / Total Revenue

The Owners Expectation Manual was updated in April 2020, including a number of financial targets which are applicable for the 2020/21 – 2023/24 Statement of Corporate Intent. The 2020/21 financial targets are shown in the table below.

Shareholder Returns	Target 2020/21
Total Shareholder Return[1] %	(0.1%)
Return on Equity[3] %	0.0%
Dividend Yield %[4]	0.0%
Profitability & Efficiency	
EBITDAR[5] $m	35
Net (loss)/profit after tax $m	(1)
Operating cashflow after capex $m	(38)
Operating Margin[8] %	16.5%
Return on Invested Capital %	0.8%
Dividends Declared – Group (ordinary and special) $m	0.0
Leverage & Solvency	
Gearing[9] %	16.3%
Debt and lease liability to EBITDAR times	14.5
Interest Cover[12] times	2.04
Solvency[11] times	4.4
Solvency (including current debt) times	0.9
Debt to EBITDAR[13] times	7.6
Revenue Growth[14]	0.9

8. 2020/21 definition: EBITDAR less non-operating items / Operating Revenue
9. Net Debt / Net debt plus equity
10. EBITDAR / Net Interest
11. Current assets / Current liabilities (excluding current portion of long term debt on basis that all debt will be refinanced as it matures)
12. Covenant Interest Cover calculation as agreed with banks (differs from the SCI as that is based on the Owners' Expectation Manual methodology)
13. Bank loans less cash / EBITDAR less non-operating items
14. Operating Revenue current year / operating revenue prior year

KEY FINANCIAL DATA OVER FIVE YEARS

Shareholder Returns	2019/20	2018/19	2017/18	2016/17	2015/16
Total revenue	251.0	241.0	247.1	230.9	210.0
EBITDAR[1]	65.0	34.0	48.5	35.6	25.5
Net (loss)/profit after tax	(24.0)	(11.0)	34.2	51.9	11.5
Total comprehensive income	(79.0)	(65.0)	29.3	56.8	(2.9)
Total shareholder return %[2]	(5.3)	(4.7)	2.2	3.9	(0.1)
Return on equity, adjusted for IFRS Fair Value %[3]	3.6	1.6	1.6	1.2	(0.4)
Dividend declared	5.0	5.0	5.0	–	–
Total assets	1,938.0	1,782.0	1,857.5	1,814.2	1,786.3
Total equity	1,347.0	1,428.0	1,497.3	1,465.6	1,411.2
Bank debt	214.0	223.0	209.1	206.9	219.6
Shareholders funds[4] / Total assets %	74.0	85.0	86.0	86.3	85.0

1 EBITDAR is earnings before interest, tax, depreciation, amortisation and revaluations
2 The total of equity movement during the year and dividend paid / Equity opening balance
3 Net Profit after tax less fair value revaluations / Average shareholders' equity less revaluation reserves
4 Shareholders funds includes redeemable preference shares

FINANCIAL AND OPERATING REVIEW

Pāmu achieved EBITDAR (earnings before interest, tax, depreciation, amortisation and revaluations) of $65 million for the year ended 30 June 2020, based on a strong performance in dairy and livestock farming operations despite climatic and Covid-19 head winds.

The result was an increase of $31 million compared to the prior year and reflected strong uplifts in revenue ($10 million), lower costs due to the adoption of the new accounting standard NZ IFRS 16 ($15 million) and a gain on the sale of Westland shares ($6 million). Underlying operating expenses were carefully controlled and remained flat.

ADOPTION OF NZ IFRS 16

As required by law this is the first year of reporting under the new accounting standard NZ IFRS 16. The effect of the new standard is that $15 million of lease rental expenses previously reported within EBITDAR have been replaced by additional depreciation ($11 million) and interest expenses ($12 million) below EBITDAR.

NET LOSS AFTER TAX

Although EBITDAR was positive Pāmu recorded a net loss after tax of $24 million (2018/19: $11 million) after recognising depreciation and amortisation charges, net finance expenses and impairment losses on property, plant and equipment.

As noted above, depreciation and finance expenses included, for the first time, an additional $23 million associated with the Company's leasing of assets in accordance with the requirements of NZ IFRS 16. Leased assets largely comprise land on the Wairakei Estate (a total of 14,810 hectares at 30 June 2020). Total depreciation and amortisation expenses for 2019/20 rose to $29 million including $11 million attributable to leased assets (2018/19: $17 million), while net finance expenses rose to $22 million including $12 million in respect of leased assets (2018/19: $11 million). The net loss of $24 million includes a fair value loss on biological assets of $32 million (2018/19: $22 million), an impairment loss on farm property plant and equipment of $9 million ($2018/19 $3 million fair value gain) offset by a tax benefit of $8 million (2018/19: $3 million benefit).

The loss on biological assets reflects lower livestock values across deer, sheep and beef classes, with values of dairy animals remaining flat.

REVENUES

The growth in farm operating revenues was driven by higher prices for beef, lamb and milk which more than offset the effects of slightly reduced production. This reduction reflects the impact of drought across most of the North Island during January-March 2020, the effects of which were mitigated by Pāmu's managed response aimed at ensuring the continued good condition of stock to retain productive capacity for the year ahead. There was also a planned decrease in cow numbers on some dairy farms. During the year, the total area of land under management reduced by 1,202 hectares to 365,627 as at 30 June 2020.

Livestock revenues from the breeding, growing and sale of cattle, sheep and deer were up 2.4% to $127 million in the year (2018/19: $124 million). New Zealand beef prices surged in the first half of 2019/20, mainly on demand from China, although they eased back thereafter to near the previous year's level. Pāmu supplied 11,502 tonnes of beef to processors, marginally down from 2018/19 (11,562).

Sheep meat supply was reduced by 3.7% to 7,414 tonnes in the latest year, although Pāmu's average lamb carcass weight was up slightly. Lower tonnage reflected the drought and also Pāmu's policy to reduce sheep numbers on most North Island livestock farms, while expanding beef production based on calves largely supplied from the Company's dairy business. The total lamb crop in spring 2019 was 403,051 animals, continuing a phased decline from previous years. Nationally, lamb prices increased in the first half of the year before falling back through the summer and autumn months.

New Zealand venison prices fell sharply through 2019/20, most obviously in response to Covid-19 and its impact on food service sectors in North America and Europe. The farmgate price for venison was 32% lower in June 2020 than its level of 12 months earlier. Pāmu increased its venison supply to 2,039 tonnes during 2019/20, while slightly reducing the size of breeding herds (47,477 at 30 June).

Wool revenue was down to $3 million (2018/19: $4 million) as the Company sold a reduced volume of 1,786 tonnes and market prices fell more than 30% through the year. Income from forestry fell to $2 million (2018/19: $4 million) on a reduced volume of sales, with New Zealand log prices remaining steady on continued demand from China.

Milk revenue was up 16.3% to $107 million (2018/19: $92 million) as Pāmu continued to increase productivity in its dairy business and to benefit from higher New Zealand milk prices. The Company received an average $7.23 per kilogramme of milk solids ("kgMS"), up 14% on the previous year ($6.36). The year saw a decline in production to 15.8 million kgMS (2018/19: 16.4 million kgMS), with Pāmu milking significantly fewer cows at the season's peak (43,740 compared with 49,995 in 2018/19). Enhanced feeding systems and continued strong focus on animal health saw a 12% lift in average kgMS produced per cow to 355 kgMS (2018/19: 327 kgMS). The dairy business achieved these outcomes while managing through the North Island's dry summer, officially recognised as a "severe drought" in Waikato and Northland.

Pāmu received $12 million in income from other business activities, down from $17 million in 2018/19, due to a reduction in provision of grazing and feed to other farmers. Revenue on the latter was down to $5 million from $9 million in the prior year, with the fall more than offset by advantages to the Company's own farming operations. Carbon credit revenue derived from the allocation of New Zealand Units ("NZUs") resulted in revenue of $3 million (2018/19 $3 million).

EXPENSES

Pāmu recorded a $1 million reduction in farm working and maintenance expenses to $102 million (2018/19: $103 million) largely through enhanced pasture management and related cost savings on cropping and feed supplements. There was no reduction in spending on animal health or farm repairs and maintenance through 2019/20 as the Company continued to focus on productivity gains and achieving high operational standards in every area of livestock farming and dairying.

Total operating expenses for the year were $191 million (2018/19: $206 million), with the net $15m reduction attributable to the adoption of NZ IFRS 16.

Personnel costs were up 9.7% to $68 million (2018/19: $62 million) due to a $2m provision for outstanding holiday pay which may be payable due to a recent change in the interpretation of the relevant section of the Holidays Act 2003, along with higher short-term incentive payments reflecting the increased EBITDAR. At 30 June 2020, the Company had 658 employees compared with 636 a year earlier.

WESTLAND SHARE SALE

Pāmu realised a $6 million gain on the sale of its shares in Westland Milk Products in July 2019. A large majority of the co-operatives 350 shareholders, Pāmu included, voted to approve the Company's sale to Yili Group of China as the best option for future dairying on the West Coast. The $6 million gain contributed to 2019/20 EBITDAR.

NET RESULTS AND TOTAL COMPREHENSIVE INCOME

Total comprehensive income, which includes the EBITDAR result and all other factors contributing to the net profit or loss after tax, was a loss of $79 million for the year (2018/19: $65 million). The two significant items in comprehensive income are a fair value loss of $61 million on land and improvements as farm values have declined across the industry and a $9 million fair value gain on carbon credits. Pāmu is required to include valuation outcomes in the Statement of profit or loss and other comprehensive income under NZ IFRS, but considers EBITDAR to be the most meaningful measure of the Company's operating performance in every financial reporting period.

BALANCE SHEET

Total assets increased to $1,938 million at 30 June 2020 (June 2019: $1,782 million) due largely to the first-time inclusion of $240 million in leased assets under NZ IFRS 16. Total assets at the latest balance date reflect valuation reductions in livestock, share investments and some property, plant and equipment.

Total liabilities increased to $591 million (June 2019: $354 million) with the inclusion of $248 million in lease liabilities. Pāmu had reduced bank borrowings at 30 June 2020 of $214 million (June 2019: $223 million) despite the absence of any property sale proceeds during the latest year. The Company's improved position reflected the strength of net cashflows from operating activities during 2019/20. These increased to $55 million (2018/19: $24 million) due to higher livestock and dairy business revenues, although the 2019/20 operating cashflow figure excludes $15m of operating lease payments due to the adoption of NZ IFRS 16. At 30 June 2020, the ratio of shareholders' funds (including redeemable preference shares) to total assets was 74%.

Carl Carlmichael,
Farm Manager of
Waiteti Farm

FINANCIAL STATEMENTS

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2020

	Note	Group 2020 $m	Group 2019 $m
Revenue			
Farm operating	3	239	224
Other business activities	4	12	17
		251	241
Operating expenses			
Farm working and maintenance	5	102	103
Personnel	6	68	62
Other	7	21	41
		191	206
(Loss) from equity accounted investments		(1)	(1)
Realised gain on sale of shares		6	–
Earnings before interest, tax, depreciation, amortisation and revaluations		**65**	**34**
Depreciation and amortisation	8	(29)	(17)
Net finance expenses	9	(22)	(11)
Fair value (loss) on financial instruments	10	(5)	(1)
Fair value (loss) on biological assets	11	(32)	(22)
Impairment (loss)/reversal on property, plant and equipment	21	(9)	3
Net (loss) before tax		**(32)**	**(14)**
Tax benefit	12	8	3
Net (loss) after tax		**(24)**	**(11)**
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Fair value (loss) on land and improvements	21	(61)	(47)
Fair value (loss) on share investments		(1)	(12)
Fair value gain on carbon credits	20	9	2
Tax (expense)/benefit recognised in equity	12	(2)	3
Total comprehensive income		**(79)**	**(65)**

The accompanying notes form part of these financial statements.

STATEMENT OF MOVEMENTS IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2020

	Note	Share capital $m	Retained earnings $m	Share revaluation reserve $m	Asset revaluation reserve $m	Total equity 2020 $m
Balance at 1 July 2019		**125**	640	1	662	1,428
Net (loss) after tax		–	(24)	–	–	(24)
Dividend paid		–	(5)	–	–	(5)
Fair value movement		–	–	(1)	(52)	(53)
Tax benefit recognised in equity		–	–	–	(2)	(2)
Realised loss on share sales		–	(1)	1	–	–
Net transfers under Protected Land Agreement		–	3	–	–	3
Balance at 30 June 2020	26	**125**	**613**	**1**	**608**	**1,347**

	Note	Share capital $m	Retained earnings $m	Share revaluation reserve $m	Asset revaluation reserve $m	Total equity 2019 $m
Balance at 1 July 2018		**125**	**623**	**13**	**736**	**1,497**
Net (loss) after tax		–	(11)	–	–	(11)
Dividend paid		–	(5)	–	–	(5)
Fair value movement		–	–	(12)	(45)	(57)
Tax benefit recognised in equity		–	–	–	3	3
Realised gains on farm sales		–	9	–	(9)	–
Reclassification of reserves relating to prior period sales		–	23	–	(23)	–
Net transfers under Protected Land Agreement		–	1	–	–	1
Balance at 30 June 2019	26	**125**	**640**	**1**	**662**	**1,428**

The accompanying notes form part of these financial statements.

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2020

	Group 2020 $m	Group 2019 $m
Cash flows from operating activities		
Receipts from customers:		
Livestock	146	147
Milk	100	93
Other receipts from customers	22	19
Payments to suppliers	(139)	(159)
Payments to employees	(62)	(66)
Interest paid	(12)	(10)
Net cash inflows from operating activities	**55**	**24**
Cash flows from investing activities		
Proceeds from sale of land and improvements	1	–
Proceeds from sale of other property, plant and equipment	4	15
Proceeds from sale of share investments	13	–
Purchase and development of land and forestry	(18)	(20)
Purchase of other property, plant and equipment and intangibles	(14)	(17)
Purchase of shares and interests in joint venture investments	(9)	(11)
Net cash outflows from investing activities	**(23)**	**(33)**
Cash flows from financing activities		
Net borrowing (payments)/receipts	(9)	14
Payment of lease liabilities	(15)	–
Dividends paid	(5)	(5)
Net Cash (outflows)/inflows from investing activities	**(29)**	**9**
Net change in cash and cash equivalents	3	–
Cash and cash equivalents at beginning of year	2	2
Cash and cash equivalents at end of year	**5**	**2**

Cash and cash equivalents comprise cash balances held with registered New Zealand banks.

The accompanying notes form part of these financial statements.

RECONCILIATION OF PROFIT AND OPERATING CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2020

	Note	Group 2020 $m	Group 2019 $m
Net (loss) after tax		(24)	(11)
Non-cash items			
Non-cash livestock growth and aging		3	2
Carbon credit allocation	20	(3)	(3)
Depreciation and amortisation	8	29	17
Fair value movements	10,11	37	23
Milk futures unrealised loss (cash component)	10	(5)	-
Lease interest	9	12	-
Impairment loss/(reversal) on property, plant and equipment	21	9	(3)
Tax benefit	12	(8)	(3)
Movements in working capital			
Inventories		1	3
Accounts receivable		5	(4)
Accounts payable and accruals		(1)	(1)
Employee entitlements		5	(2)
Items classified as investing activities			
Net gain on movement of assets		(3)	1
Change in accounts receivable due to capital items		(3)	4
Change in accounts payable due to capital items		1	1
Net cash inflows from operating activities		**55**	**24**

The accompanying notes form part of these financial statements.

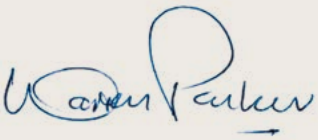
STATEMENT OF FINANCIAL POSITION

FOR THE YEAR ENDED 30 JUNE 2020

	Note	Group 2020 $m	Group 2019 $m
Assets			
Cash and cash equivalents		5	2
Accounts receivable	13	38	43
Inventories	14	12	13
Property held for sale	15	27	27
Livestock	16	273	305
Forests	17	38	37
Equity accounted investments	18	24	17
Share investments	19	38	45
Intangible assets	20	36	25
Property, plant and equipment	21	1,207	1,268
Leased assets	22	240	–
Total assets		**1,938**	**1,782**
Liabilities			
Bank loans	23	214	223
Accounts payable and accruals		14	15
Employee entitlements		13	8
Interest rate derivatives	24	12	12
Deferred tax liability	12	3	9
Lease liabilities	22	248	-
Redeemable preference shares	25	87	87
Total liabilities		**591**	**354**
Shareholders' funds			
Share capital		125	125
Retained earnings		613	640
Share revaluation reserve		1	1
Asset revaluation reserve		608	662
Total shareholders' funds	26	**1,347**	**1,428**
Total equity		**1,347**	**1,428**
Total equity and liabilities		**1,938**	**1,782**

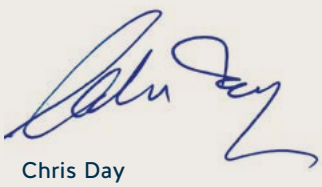
Landcorp's Board of Directors authorised the financial statements for issue on 26 August 2020.

Signed on behalf of the Board



Dr. Warren Parker
Chair

26 August 2020



Chris Day
Chair of Audit and Risk Committee

26 August 2020

The accompanying notes form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2020

NOTE 1: BASIS OF ACCOUNTING

Reporting entity

The financial statements presented are those of Landcorp Farming Limited ("Landcorp") together with its subsidiaries, joint ventures and associates (the "Group"). Landcorp is a profit-oriented company, incorporated and domiciled in New Zealand. Landcorp was established under the State-Owned Enterprises Act 1986 and registered under the Companies Act 1993. Landcorp's ultimate parent is the Crown, which owns 100% of Landcorp's shares, held beneficially by the Minister of Finance (50%) and the Minister for State-Owned Enterprises (50%).

Landcorp is primarily a pastoral farming company, with a growing focus on exploring alternative uses for land in its portfolio, including additional forestry and horticulture. It also has a developing foods business marketing premium dairy and meat products under the Pāmu brand around the world. Subsidiary companies are involved in land development, land management, farm technology and developing genetically superior sheep, cattle and deer breeds. All material subsidiaries and equity accounted investees are incorporated or formed and domiciled in New Zealand.

Basis of preparation

Landcorp prepares its financial statements in accordance with New Zealand Generally Accepted Accounting Practice ("NZ GAAP") under the Companies Act 1993 and the Financial Reporting Act 2013. NZ GAAP consists of New Zealand equivalents to International Financial Reporting Standards ("NZ IFRS"), and other applicable Financial Reporting Standards, as appropriate for profit-oriented entities.

The financial statements have been prepared using a historical cost basis, except where otherwise stated in specific accounting policies contained in the accompanying notes. The presentation and functional currency used to prepare the financial statements is New Zealand dollars, rounded to the nearest million dollars ($m). The financial statements have been prepared on a GST-exclusive basis except billed receivables and payables which include GST.

Basis of consolidation

The consolidated financial statements include those of Landcorp and its subsidiaries, accounted for using the acquisition method of consolidation, and the results of its equity accounted investees (associates and joint ventures) accounted for using the equity method.

All significant intercompany balances and transactions are eliminated on consolidation. Transactions with jointly controlled entities are eliminated to the extent of Landcorp's interest in the entity.

A list of subsidiaries and equity accounted investees is shown in note 33.

Critical accounting judgements, estimates and assumptions

The preparation of these financial statements requires management to make judgements, estimates and assumptions concerning the future that affect the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

The principal areas of judgement used in the preparation of these financial statements are set out below. Further details are included within the relevant note.

- Note 16 – Livestock – valuation of livestock
- Note 17 – Forests – valuation of forests
- Note 18 – Equity accounted investments – valuation of investments
- Note 21 – Property, plant and equipment – valuation of land and buildings

NOTE 1: BASIS OF ACCOUNTING (continued)

Covid-19 pandemic

On 11 March 2020 the World Health Organisation declared a global pandemic as a result of the outbreak and spread of Covid-19. New Zealand moved to Alert Level 4 on 25 March 2020, under which everyone except those working in essential services were required to return home and stay there for an initial period of four weeks. Landcorp, as a company involved in the farming and agriculture sector, was designated an essential service under the Covid-19 alert level framework, and continued to operate as usual whilst observing the relevant safety precautions. Staff in administrative centres such as Wellington and Auckland were able to work remotely. The impact of the pandemic on the Company's operations is being closely monitored but at present is limited.

It is impossible to distinguish with complete certainty the impact of Covid-19 on commodity prices in isolation from other factors including the timing of Covid-19 outbreaks in various international markets, currency fluctuations and unrelated or coincidental changes in market demand. Looking to the future, Landcorp's livestock sales occur predominantly in the second half of the financial year and at present there are no signs of such disruption, but the situation remains fluid. The generation of milk revenue is subject to similar supply chain risks but experience to date suggests that the milk supply chain is more robust due to the nature of the product.

As indicated in note 21 there have been insufficient rural property transactions since 25 March 2020 to assess the impact (if any) of Covid-19 on land values.

Fair value hierarchy

A number of Landcorp's accounting policies and disclosures require the measurement of fair values. Fair value is the price that would be received upon sale of an asset or paid to transfer a liability in an orderly transaction between participants at the measurement date. The fair value hierarchy provides an indication about the reliability of inputs used to determine fair value. When measuring the fair value of an asset or liability, Landcorp uses market observable data as far as possible. An explanation of each level 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: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these financial statements are disclosed within each of the applicable notes. These policies have been consistently applied to all the periods presented, unless otherwise stated. Where necessary, comparative information has been reclassified to achieve consistency with the current period's presentation.

Changes in accounting policies

The Group has adopted NZ IFRS 16 Leases ("NZ IFRS 16") from 1 July 2019, using the modified retrospective approach under which comparative information has not been restated.

The Group holds leases for farm land, buildings and telecommunications equipment. Landcorp previously classified its leases as operating leases and costs were recognised on a straight-line basis over the life of the lease. NZ IFRS 16 requires Landcorp to recognise leased assets and liabilities in the Statement of Financial Position for leases that the Group is committed to, by measuring the present value of remaining lease payments, discounted using Landcorp's incremental borrowing rate. On transition to NZ IFRS 16 Landcorp recognised leased assets and liabilities of $251m, at Landcorp's weighted average incremental borrowing rate of 4.72%. At inception, there was no difference to recognise in retained earnings. Further details are disclosed in note 22.

The standard also changes the way in which costs are now recorded in relation to those leases. Operating lease costs have been replaced with a depreciation charge on leased assets and an interest expense in respect of lease liabilities. Depreciation on leased assets is included within depreciation and amortisation and interest expense on the lease liability is a component of net finance expenses, within the Statement of Profit or Loss. During the year ended 30 June 2020, the Group recognised $11m of lease depreciation and $12m of lease interest from these leases, offset by a reduction in other operating expenses by $15m.

Adoption status of relevant new financial reporting standards and interpretations

There are currently no accounting standards or interpretations issued but not yet effective that are relevant to Landcorp.

NOTE 3: FARM OPERATING REVENUE

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

Livestock revenue from livestock sales is recognised following the delivery of stock. Various forms of livestock sales contracts are held with meat processors. These contracts either fix prices in advance or allow livestock to be sold at the prevailing spot rate. Livestock growth (aging) is recognised based on pre-determined standard values approved by the Board. Livestock revenue includes the recognition of net gains or losses arising from sales to customers, as well as volume changes arising due to the birth, growth and death of livestock. Any value change arising from a change in livestock numbers is calculated by assigning an internally assessed annual value to each livestock class.

Milk revenue is recognised following collection by the milk processor using the processor's most recent forecast price and dividend information. Differences between forecast and actual revenue for the current year are accounted for in the following financial year.

Landcorp holds New Zealand Stock Exchange ("NZX") milk price futures in order to manage commodity risk. The fair value gains or losses on these futures are reported as a component of fair value movements on financial instruments within the Statement of Profit or Loss. The full amount of any realised gains or losses on futures is accounted for within milk revenue in the year that settlement occurs.

Wool revenue is recognised following delivery to the wool broker. Various forms of sales contracts are held which either fix prices in advance or allow wool to be sold at the prevailing spot rate.

Forestry revenue is recognised from the harvest and sale of timber together with revenue attributable to the growth of forest stands. Forestry logs are sold at the market rate net of harvesting costs.

	Group 2020 $m	Group 2019 $m
Livestock	127	124
Milk	107	92
Wool	3	4
Forestry	2	4
Total farm operating revenue	**239**	**224**

Livestock revenue

	Note	Sheep $m	Beef $m	Dairy $m	Deer $m	Group 2020 $m
Livestock sales		61	41	24	18	144
Livestock purchases		(9)	(2)	(3)	-	(14)
Birth of animals	16	14	9	8	8	39
Growth of animals	16	22	28	20	9	79
Livestock losses	16	(5)	(2)	(3)	(2)	(12)
Book value of livestock purchased	16	4	2	2	-	8
Book value of livestock sold	16	(36)	(35)	(30)	(16)	(117)
Total livestock revenue		**51**	**41**	**18**	**17**	**127**

	Note	Sheep $m	Beef $m	Dairy $m	Deer $m	Group 2019 $m
Livestock sales		63	54	18	23	158
Livestock purchases		(10)	(7)	(2)	-	(19)
Birth of animals	16	15	9	11	8	43
Growth of animals	16	21	23	22	9	75
Livestock losses	16	(6)	(2)	(3)	(2)	(13)
Book value of livestock purchased	16	4	5	1	-	10
Book value of livestock sold	16	(37)	(46)	(30)	(17)	(130)
Total livestock revenue		**50**	**36**	**17**	**21**	**124**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2020

NOTE 3: FARM OPERATING REVENUE (continued)

Milk revenue	Note	Group 2020 $m	Group 2019 $m
Milk revenue		107	93
Prior season realised milk futures loss transfer from Fair value loss on financial instruments	10	–	(1)
Total milk revenue		**107**	**92**

During the year ended 30 June 2020, Fair value movements on financial instruments within the Statement of Profit or Loss included $5m (2019: nil) of unrealised fair value losses from milk price futures relating to current and future seasons. Further details are disclosed in note 10.

NOTE 4: OTHER BUSINESS ACTIVITIES

	Note	Group 2020 $m	Group 2019 $m
Grazing and feed income		5	9
Carbon credit allocation	20	3	3
Lease income		1	1
Other business activities		3	4
Total other business activities		**12**	**17**

NOTE 5: FARM WORKING AND MAINTENANCE

	Group 2020 $m	Group 2019 $m
Cropping and feed costs	34	36
Pasture maintenance	24	23
Repairs and maintenance	14	14
Animal breeding and health	17	17
Shearing	5	6
Other farm working expenses	8	7
Total farm working and maintenance	**102**	**103**

NOTE 6: PERSONNEL

	Group 2020 $m	Group 2019 $m
Staff remuneration	63	57
Superannuation expense	2	2
Other personnel costs	3	3
Total personnel	**68**	**62**

Staff remuneration includes a provision for outstanding holiday pay which may be payable due to a recent change in the interpretation of the relevant section of The Holidays Act 2003.

NOTE 7: OTHER OPERATING EXPENSES

	Group 2020 $m	Group 2019 $m
Rent and rates	3	17
Electricity	4	4
Fuel	3	3
Professional services	5	6
Inventory write down	–	4
Other operating expenses	6	7
Total other operating expenses	**21**	**41**

Included in professional services are statutory audit fees of $0.3m (2019: $0.3m).

NOTE 8: DEPRECIATION AND AMORTISATION

	Note	Group 2020 $m	Group 2019 $m
Amortisation – Software	20	(1)	–
Depreciation – Property, plant and equipment	21	(17)	(17)
Depreciation – Leased assets	22	(11)	–
Total depreciation and amortisation		**(29)**	**(17)**

NOTES TO THE FINANCIAL STATEMENTS
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NOTE 9: NET FINANCE EXPENSES

	Group 2020 $m	Group 2019 $m
Finance expenses		
Interest expense on borrowings	(6)	(8)
Interest expense on interest rate derivatives	(4)	(3)
Interest expense on lease liability	(12)	–
Total net finance expenses	**(22)**	**(11)**

NOTE 10: FAIR VALUE (LOSS) ON FINANCIAL INSTRUMENTS

	Note	Group 2020 $m	Group 2019 $m
Interest rate derivatives		–	(2)
Realised milk futures loss transferred to milk revenue	3	–	1
Unrealised milk futures loss		(5)	–
Total fair value (loss) on financial instruments		**(5)**	**(1)**

Gains and losses on milk futures are settled in cash each business day. These gains and losses are classified as unrealised until the underlying futures contracts are closed out.

NOTE 11: FAIR VALUE (LOSS) ON BIOLOGICAL ASSETS

	Note	Group 2020 $m	Group 2019 $m
Effect of price changes on livestock	16	(29)	(20)
Effect of price changes on forestry	17	(3)	(2)
Total fair value (loss)/gain on biological assets		**(32)**	**(22)**

NOTE 12: TAX

Tax benefit reflects the impact of both current and deferred tax. Current tax is the expected tax payable on the taxable income for the year and any adjustment to tax payable for previous years based on applicable tax law. Deferred tax is provided for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the tax base of those assets and liabilities, using tax rates enacted or substantially enacted at balance date. A deferred tax asset relating to unused tax losses is only recognised to the extent that taxable profits will be available against which tax losses can be utilised. Tax expense is recognised in the Statement of Profit or Loss, unless it relates to an item recognised in Other Comprehensive Income.

Tax benefit	Group 2020 $m	Group 2019 $m
Current tax	–	–
Deferred tax	8	3
Total tax benefit	8	3
Reconciliation between tax benefit and accounting profit		
Net (loss) before tax	(32)	(14)
Tax benefit at the New Zealand tax rate 28% (2019: 28%)	9	4
Adjusted for the tax effect of:		
Prior period adjustment	–	(8)
Non-assessable income	7	9
Non-deductible expenses	(8)	(2)
Total tax benefit	8	3

The Group has tax losses of $154m (2019: $159m) with a tax effect of $43m (2019: $44m) available to be carried forward to be offset against taxable income in future periods.

Deferred tax liability

Deferred tax assets and liabilities are presented as a net asset/(liability) in the Statement of Financial Position. The movement in deferred tax assets and liabilities is provided below:

	Tax losses recognised $m	Biological assets $m	Property, plant and equipment $m	Other $m	Group 2020 $m
Balance as at 1 July 2019	44	(36)	(17)	–	(9)
Amount recognised in Profit or Loss	(1)	4	4	1	8
Amount recognised in Other Comprehensive Income	–	–	(2)	–	(2)
Balance as at 30 June 2020	43	(32)	(15)	1	**(3)**

	Tax losses recognised $m	Biological assets $m	Property, plant and equipment $m	Other $m	Group 2019 $m
Balance as at 1 July 2018	45	(47)	(14)	1	(15)
Amount recognised in Profit or Loss	(1)	11	(6)	(1)	3
Amount recognised in Other Comprehensive Income	–	–	3	–	3
Balance as at 30 June 2019	44	(36)	(17)	–	**(9)**

Imputation credits

Imputation credits available for use in subsequent reporting periods are nil (2019: $0.3m).

NOTE 13: ACCOUNTS RECEIVABLE

Receivables are recognised at amortised cost, less any provision for impairment. Receivables are assessed for indicators of impairment using the expected credit loss model at each balance date.

	Group 2020 $m	Group 2019 $m
Trade debtors	6	10
Milk income receivable	19	17
Other receivables and prepayments	13	16
Total accounts receivable	**38**	**43**

Accounts receivable are classified current if they are expected to be settled within 12 months.

	Group 2020 $m	Group 2019 $m
Current	31	34
Non-current	7	9
Total accounts receivable	**38**	**43**

NOTE 14: INVENTORIES

Inventories are stated at the lower of cost or net realisable value. Agricultural produce relates predominately to feed on hand either purchased or produced on farm. Costs include all expenses directly attributable to the purchase or production process. Agricultural produce is expected to be consumed in the following financial year. Pāmu branded product is measured at the lower of cost and net realisable value on a weighted average basis.

	Group 2020 $m	Group 2019 $m
Agricultural produce	11	12
Pāmu branded product	1	1
Total inventories	**12**	**13**

During the year, no Pāmu branded milk powder was written down (2019: $4m).

NOTE 15: 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. They comprise farm land and associated buildings. Properties that are the subject of Treaty settlements may sometimes be classified as held for sale for periods greater than one year due to final negotiation of settlement terms. As these properties are still likely to be purchased by claimants, Directors consider it 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. The Group currently holds three properties for sale with a carrying value of $27m (2019: $27m).

NOTE 16: LIVESTOCK

Livestock are recorded at fair value less estimated point-of-sale costs. Value changes that form part of Landcorp's livestock management policies, including animal growth and changes in livestock numbers, are recognised within revenue in the Statement of Profit or Loss. Changes in value due to general livestock price movements are beyond Landcorp's control and so do not form part of Landcorp's livestock management policies. These value changes are recognised in the Statement of Profit or Loss within fair value movement in biological assets.

Livestock valuations at 30 June 2020 were provided by independent valuers. These market values reflect livestock of similar weight and age throughout New Zealand.

	Note	Sheep $m	Beef $m	Dairy $m	Deer $m	Group 2020 $m
Balance at 1 July 2019		**84**	**87**	**91**	**43**	**305**
Birth and growth of animals	3	36	37	28	17	118
Livestock losses	3	(5)	(2)	(3)	(2)	(12)
Book value of livestock purchased and sold	3	(32)	(33)	(28)	(16)	(109)
Fair value (loss)/gain	11	(7)	(7)	1	(16)	(29)
Balance at 30 June 2020		**76**	**82**	**89**	**26**	**273**

	Note	Sheep $m	Beef $m	Dairy $m	Deer $m	Group 2019 $m
Balance at 1 July 2018		**83**	**112**	**95**	**50**	**340**
Birth and growth of animals	3	36	32	33	17	118
Livestock losses	3	(6)	(2)	(3)	(2)	(13)
Book value of livestock purchased and sold	3	(33)	(41)	(29)	(17)	(120)
Fair value (loss)/gain	11	4	(14)	(5)	(5)	(20)
Balance at 30 June 2019		**84**	**87**	**91**	**43**	**305**

Livestock are classified as current if they are intended to be sold within one year.

	Group 2020 $m	Group 2019 $m
Current	84	96
Non-current	189	209
Total value of livestock	**273**	**305**

Livestock numbers comprised of:

	Group 2020	Group 2019
Sheep	433,907	439,899
Beef	80,426	79,747
Dairy	73,364	73,883
Deer	86,207	88,803

NOTE 17: FORESTS

Landcorp's forests are standing trees which are managed as an ancillary activity to farming. Land is allocated to forestry when it is considered its highest and best use. Forest establishment and direct management costs are recorded as planting costs. Forestry stands below ten years of age are valued at cost. After ten years, any forestry stands over two hectares in size are recorded at fair value. Forestry stands of less than two hectares are not valued as they are not considered economically viable to harvest. Value changes that form part of Landcorp's forestry management policies relating to forestry growth are recognised within revenue in the Statement of Profit or Loss. Changes in value due to movements in forestry prices are beyond Landcorp's control and so do not form part of Landcorp's forest management policies. These value changes are recognised in the Statement of Profit or Loss within fair value movement in biological assets.

Forestry valuations at 30 June 2020 were provided by independent valuers. These market values reflect the specific characteristics of the forests and recent sales in both the domestic and export log market. The valuation is for productive tree crops only and excludes the value of land and improvements and any value arising from participation in the Emissions Trading Scheme ("ETS") (refer to note 20).

	Note	Group 2020 $m	Group 2019 $m
Forests value at start of year		**37**	**36**
Planting		5	4
Growth		1	1
Book value of forests harvested/sold		(2)	(2)
Fair value (loss)	11	(3)	(2)
Forests value at end of year		**38**	**37**

Forests are classified as current if they are intended to be harvested within one year.

	Group 2020 $m	Group 2019 $m
Current	2	4
Non-current	36	33
Forests value at end of year	**38**	**37**

The age of Landcorp's forests are shown below:

	Group 2020 Hectares	Group 2019 Hectares
Between 0–5 years	4,317	3,689
Between 6–10 years	4,323	3,870
Between 11–25 years	1,977	1,968
Greater than 25 years	251	255
Total hectares planted	**10,868**	**9,782**

NOTE 18: EQUITY ACCOUNTED INVESTMENTS

Investments in equity accounted investees are initially recognised at cost and the carrying value is increased or decreased to recognise the share of surplus or deficit of the entity after the date of acquisition. Distributions received from the investee reduce the carrying amount of the investment. Cash contributions made to the investee increase the carrying amount of the investment. When Landcorp's share of losses exceeds its investment, a liability is recognised to the extent that Landcorp has incurred a constructive or legal obligation. The carrying value of investments are reviewed annually for indicators of impairment and carrying values are adjusted accordingly if required. A list of equity accounted investees is shown in note 33. The carrying values of equity accounted investments have been reviewed for signs of impairment in light of Covid-19 developments but no adjustments have been deemed necessary.

	Group 2019 $m	Cash contributions $m	Profit/(loss) from continuing operations $m	Group 2020 $m
Farm IQ Systems Ltd	1	–	–	1
Melody Dairies Limited Partnership	7	5	–	12
Spring Sheep Dairy Limited Partnership	6	3	(2)	7
Wharewaka East Ltd	3	–	1	4
Total equity accounted investments	**17**	**8**	**(1)**	**24**

	Group 2018 $m	Cash contributions/ (distributions) $m	Profit/(loss) from continuing operations $m	Group 2019 $m
Farm IQ Systems Ltd	1	1	(1)	1
Melody Dairies Limited Partnership	–	7	–	7
Spring Sheep Dairy Limited Partnership	4	3	(1)	6
Wharewaka East Ltd	1	–	2	3
Total equity accounted investments	**6**	**11**	**–**	**17**

NOTE 19: SHARE INVESTMENTS

	Group 2020 $m	Group 2019 $m
Share investments at fair value through Profit or Loss:		
Westland Co-operative Dairy Company Limited	–	5
Other	1	1
Share investments at fair value through Other Comprehensive Income:		
Fonterra Co-operative Group Limited	24	27
Waimakariri Irrigation Limited	10	9
Ravensdown Limited	2	2
MHV Water Limited	1	1
Total share investments	**38**	**45**

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. Landcorp 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.

NOTE 20: INTANGIBLE ASSETS

Genetic royalties

Genetic royalties goodwill is the excess of purchase consideration over the net identifiable assets of the Focus Genetics Group acquired. The value of goodwill is tested for impairment annually. Goodwill is deemed to have an indefinite life.

Carbon credits

As a forester, Landcorp is allocated emission credits ("NZUs") and will incur liabilities through the ETS. Landcorp has applied for and received credits on pre-1990 forestry plantations. In the event that pre-1990 forests are deforested, a deforestation liability would be incurred. Landcorp has also claimed and received credits on its post-1989 forest carbon sequestration. When credits are received, they are recognised as revenue at the market determined price. Should these plantations be harvested and/or deforested, a liability would be incurred up to a maximum of the credits received. Carbon credits are deemed to have an indefinite life as they carry no expiry date.

At 30 June 2020, Landcorp held 927,257 post-1989 NZUs (2019: 796,830 units) and 143,460 pre-1990 NZUs (2019: 143,460 units). Landcorp NZUs are revalued at each reporting date and any fair value movement is reflected within Other Comprehensive Income. Had the Group's carbon credits been measured on a historical cost basis, their carrying amount would have been $17m (2019: $14m).

Software

Acquired software is capitalised at purchase price plus costs incurred to bring to the software into use. Any costs incurred internally in developing computer software are also recognised as intangible assets. Software costs are amortised over three years on a straight-line basis.

	Genetic royalties $m	Carbon credits $m	Software $m	Group 2020 $m
Opening balance	2	21	6	29
Additions	–	3	–	3
Revaluations	–	9	–	9
Balance at end of year	2	33	6	41
Accumulated amortisation				
Opening balance	–	–	(4)	(4)
Amortisation	–	–	(1)	(1)
Balance at end of year	–	–	(5)	(5)
Total intangible assets	2	33	1	36

	Genetic royalties $m	Carbon credits $m	Software $m	Group 2019 $m
Opening balance	2	16	5	23
Additions	–	3	1	4
Revaluations	–	2	–	2
Balance at end of year	2	21	6	29
Accumulated amortisation				
Opening balance	–	–	(4)	(4)
Amortisation	–	–	–	–
Balance at end of year	–	–	(4)	(4)
Total intangible assets	2	21	2	25

NOTE 21: 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 impairment losses.

Fair value is based on periodic valuations by an independent valuer. The valuations use 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. Full property valuations are undertaken every three years and the last valuation was performed on 30 June 2019. In years where there is not a full valuation, a material change assessment of the property portfolio is performed. Upon identification of a material change an indexation to market price is carried out. 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. Asset additions that occur between revaluations are initially recorded at cost. Gains and losses on disposal are determined by comparing the disposal proceeds with the carrying amount of the asset.

The valuation also considers the price effects of various legal obligations placed on Landcorp's 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 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.

Since the full revaluation in June 2019 there is evidence that the rural property market has declined. As a result, the Group have engaged with valuers to review and index property prices to market valuations. This has resulted in a decrease in the value of property assets of $70m at June 2020. It should be noted that this decrease in value relates to the period from 1 July 2019 until 31 March 2020. It has not yet been possible to estimate any impact on values since 31 March 2020 caused by the economic dislocation related to Covid-19. This is primarily due to the absence of market transactions that could be used to complete a robust review of current book values. The Directors will continue to monitor the situation closely and if necessary will adjust property values in light of market evidence that becomes available in coming months.

Leased land and improvements are held at cost.

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

All other 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 over their useful lives. The useful lives of property, plant and equipment are as follows:

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

NOTE 21: PROPERTY, PLANT AND EQUIPMENT (continued)

	Land and improvements				
	Freehold land and buildings $m	Leasehold improvements $m	Protected land $m	Plant and equipment $m	Group 2020 $m
Opening balance	1,071	74	94	132	1,371
Additions	15	1	2	10	28
Disposals	(1)	–	–	(8)	(9)
Impairment (loss) recognised in profit and loss	(9)	–	–	–	(9)
Fair value movement of land and improvements	(61)	–	–	–	(61)
Reversal of depreciation on revaluation	(3)	–	–	–	(3)
Balance at end of year	1,012	75	96	134	1,317
Accumulated depreciation					
Opening balance	–	(9)	(1)	(93)	(103)
Depreciation	(3)	(2)	–	(12)	(17)
Disposals	–	–	–	7	7
Reversal of depreciation on revaluation	3	–	–	–	3
Balance at end of year	–	(11)	(1)	(98)	(110)
Total property, plant and equipment	**1,012**	**64**	**95**	**36**	**1,207**

	Land and improvements				
	Freehold land and buildings $m	Leasehold improvements $m	Protected land $m	Plant and equipment $m	Group 2019 $m
Opening balance	1,106	70	107	134	1,417
Additions	17	4	2	8	31
Disposals	–	–	(15)	(10)	(25)
Impairment reversal recognised in profit and loss	3	–	–	–	3
Fair value movement of land and improvements	(47)	–	–	–	(47)
Reversal of depreciation on revaluation	(8)	–	–	–	(8)
Balance at end of year	1,071	74	94	132	1,371
Accumulated depreciation					
Opening balance	(5)	(8)	(1)	(88)	(102)
Depreciation	(3)	(1)	–	(13)	(17)
Disposal	–	–	–	8	8
Reversal of depreciation on revaluation	8	–	–	–	8
Balance at end of year	–	(9)	(1)	(93)	(103)
Total property, plant and equipment	**1,071**	**65**	**93**	**39**	**1,268**

Total land and improvements includes work in progress of $0.2m at 30 June 2020 (2019: $0.3m).

NOTE 21: PROPERTY, PLANT AND EQUIPMENT (continued)

Had the Group's freehold land and buildings (other than land and buildings classified as held for sale) and protected land been measured on a historical cost basis, their carrying amount would have been freehold land $566m (2019: $549m) and buildings on freehold land $59m (2019: $68m).

Freehold land and buildings are revalued on a regional basis, comprising of the following property portfolios:

	North Island Dairy $m	South Island Dairy $m	North Island Livestock $m	South Island Livestock $m	Group 2020 $m
Opening balance	68	186	447	370	1,071
Additions	2	2	7	4	15
Farms transferred	–	(6)	–	6	–
Disposals	–	–	(1)	–	(1)
Impairment (loss) recognised in profit and loss	–	(6)	(2)	(1)	(9)
Fair value movement of land and improvements	(7)	(13)	(16)	(25)	(61)
Reversal of depreciation on revaluation	–	(1)	(1)	(1)	(3)
Balance at end of year	63	162	434	353	1,012
Accumulated depreciation					
Opening balance	–	–	–	–	–
Depreciation	–	(1)	(1)	(1)	(3)
Reversal of depreciation on revaluation	–	1	1	1	3
Balance at end of year	–	–	–	–	–
Total freehold land and buildings	**63**	**162**	**434**	**353**	**1,012**

	North Island Dairy $m	South Island Dairy $m	North Island Livestock $m	South Island Livestock $m	Group 2019 $m
Opening balance	75	195	438	398	1,106
Additions	–	9	2	6	17
Farms transferred	–	10	–	(10)	–
Impairment reversal recognised in profit and loss	(1)	(2)	7	(1)	3
Fair value movement of land and improvements	(6)	(24)	3	(20)	(47)
Reversal of depreciation on revaluation	–	(2)	(3)	(3)	(8)
Balance at end of year	**68**	**186**	**447**	**370**	**1,071**
Accumulated depreciation					
Opening balance	–	(1)	(2)	(2)	(5)
Depreciation	–	(1)	(1)	(1)	(3)
Reversal of depreciation on revaluation	–	2	3	3	8
Balance at end of year	–	–	–	–	–
Total freehold land and buildings	**68**	**186**	**447**	**370**	**1,071**

NOTE 22: LEASES

The Group leases farm land, office buildings and telecommunications equipment. For all leases the Group recognises assets and liabilities in the Statement of Financial Position. Leased assets and liabilities are initially recognised at the present value of remaining unpaid lease payments discounted by Landcorp's incremental borrowing rate. Thereafter leased assets are depreciated over the life of the lease and lease liabilities reduce as lease payments are made.

The Group leases land in Wairakei, north east of Taupō used predominantly for dairy farming. The lease was entered into in 2004 with land being handed over progressively during the lease term which ceases in 2049. The land handed over has previously been used for forestry, and the lease requires Landcorp to convert this land to pastoral farming. Lease payments can vary depending on market valuations. At 30 June 2020, approximately 14,810 hectares of land had been handed over across 12 transfers. The final parcel of land is expected to be handed over in 2032 when approximately 14,893 hectares would have been leased.

Other leases held by the Group vary in length. Some leases include options to renew the lease for an additional period after the end of the contract term.

Details of the Group's leased assets are as follows:

	Wairakei Estate $m	Other leases $m	Group 2020 $m
Opening balance	238	13	251
Additions	–	–	–
Balance at end of year	**238**	**13**	**251**
Accumulated depreciation			
Opening balance	–	–	–
Depreciation	(8)	(3)	(11)
Balance at end of year	(8)	(3)	(11)
Total leased assets	**230**	**10**	**240**

The undiscounted maturity analysis of lease liabilities is as follows:

	Less than one year	One to five years	More than 5 years	Group 2020 $m
Lease payments	15	92	354	461
Interest expense on lease liability	(12)	(67)	(134)	(213)
Total lease liabilities	**3**	**25**	**220**	**248**

The Group acts as a lessor for farm land 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. The lease terms are of various lengths and some leases include rights of renewal. The undiscounted lease payments to be received are as follows:

	Group 2020 $m
Less than one year	1
One to five years	3
More than 5 years	8
Total undiscounted lease income	**12**

NOTE 23: BANK LOANS

Bank loans are the drawn components of bank cash advance facilities. The facilities may be borrowed against, or repaid, at any time by Landcorp. The facilities are subject to a negative pledge agreement which means that Landcorp 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.

Cash advance facilities are as follows:

	Within one year $m	One to five years $m	Group 2020 $m
Drawn	30	184	214
Undrawn	–	101	101
Total bank loans	**30**	**285**	**315**

	Within one year $m	One to five years $m	Group 2019 $m
Drawn	36	187	223
Undrawn	54	38	92
Total bank loans	**90**	**225**	**315**

Financial guarantees

The Group is party to two primary growth partnerships ("PGPs") with the Ministry for Primary Industries ("MPI") and other parties (Spring Sheep Dairy Limited Partnership and Manuka Research Partnership (NZ) Limited). MPI requires shareholder guarantees as a condition of providing funding and accordingly, Landcorp has provided limited guarantees in respect of those PGPs. In addition, Landcorp Pastoral Limited has provided a limited shareholder guarantee of Spring Sheep Dairy Limited Partnership's indebtedness to its lender, ASB.

NOTE 24: INTEREST RATE DERIVATIVES

Interest rate derivatives are valued at fair value ('exit price' basis). Accrued interest is calculated based on the market 90 day rate which was 0.49% at balance date (2019: 1.70%) and is removed from the revaluation provided by each swap provider. Any fair value gains or losses on these financial instruments are reported in the Statement of Profit or Loss.

	Group 2020 $m	Group 2019 $m
Current	–	–
Non-current	12	12
Total interest rate derivatives	**12**	**12**

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NOTE 25: REDEEMABLE PREFERENCE SHARES

Redeemable preference shares were issued as a capital injection under the terms of the Protected Land Agreement to protect certain land. They carry no voting rights and are not eligible for dividends or any share of net assets on wind-up. When requested, Landcorp 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.

Redeemable preference shares represent a contractual obligation to the share owner and they are considered a financial liability.

	Group 2020 $m	Group 2019 $m
Value at start of period	87	100
Transferred back to the Crown	–	(13)
Total redeemable preference shares	**87**	**87**

NOTE 26: CAPITAL MANAGEMENT

The Group considers its capital as comprising all the components of Shareholders' Funds.

	Group 2020 $m	Group 2019 $m
Share capital	125	125
Retained earnings	613	640
Share revaluation reserve	1	1
Asset revaluation reserve	608	662
Total shareholders' funds	**1,347**	**1,428**

Under the State-Owned Enterprises Act 1986, Landcorp's ordinary shares may only be owned by the Minister of Finance and the Minister for State-Owned Enterprises. This prevents Landcorp from raising capital from other sources.

Landcorp manages its capital to maintain a satisfactory debt to equity ratio as well as to ensure that banking covenants are complied with.

COMPONENTS OF CAPITAL

Share capital

Landcorp's share capital is held equally by the Minister of Finance and the Minister for State-Owned Enterprises. Ordinary shares carry one vote per share and carry the right to participate in dividends. There are 125,000,000 authorised shares
on issue (2019: 125,000,000). All shares are fully paid up.

Retained earnings

Retained earnings comprises Landcorp'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. When revalued shares are sold, the portion of the share revaluation reserve relating to those shares is effectively realised and transferred directly to retained earnings.

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. On sale of a revalued asset, the portion of the asset revaluation reserve relating to that asset is effectively realised and transferred directly to retained earnings.

NOTE 27: DIVIDENDS PAID

	Group 2020 Cents per share	Group 2019 Cents per share	Group 2020 $m	Group 2019 $m
Ordinary shares – final dividend	4.00	4.00	5	5
Total dividends paid	**4.00**	**4.00**	**5**	**5**

NOTE 28: VALUATION OF FINANCIAL INSTRUMENTS

Landcorp is a party to financial instruments as part of its normal operations. The Group classifies it financial assets in three categories: at amortised cost, at fair value through Profit or Loss and at fair value through Other Comprehensive Income. The classification of financial assets depends on the business model within which the financial asset is held and its contractual cash flow characteristics. The Group classifies its financial liabilities in two categories: at amortised cost and at fair value through Profit or Loss.

Classification of financial assets and financial liabilities

The Group categorises financial assets and liabilities carried at fair value into a fair value hierarchy (refer to note 1) based on the observability of inputs used to measure fair value. The following table sets out the classification of financial asset and liability categories according to the measurement bases together with the carrying amount as reported in the Statement of Financial Position.

	Amortised Cost	Fair value hierarchy			Group 2020 $m
		Level 1	Level 2	Level 3	
Accounts receivable	38	–	–	–	38
Share investments at fair value through Profit or Loss	–	–	1	–	1
Share investments at fair value through Other Comprehensive Income	–	34	3	–	37
Total financial assets	38	34	4	–	76
Accounts payable and accruals	14	–	–	–	14
Interest rate derivatives	–	12	–	–	12
Bank loans	214	-	–	–	214
Total financial liabilities	228	12	–	–	240

	Amortised Cost	Fair value hierarchy			Group 2019 $m
		Level 1	Level 2	Level 3	
Accounts receivable	43	–	–	–	43
Share investments at fair value through Profit or Loss	–	–	6	–	6
Share investments at fair value through Other Comprehensive Income	–	36	3	–	39
Total financial assets	43	36	9	–	88
Accounts payable and accruals	15	–	–	–	15
Interest rate derivatives	–	12	–	–	12
Bank loans	223	–	–	–	223
Total financial liabilities	238	12	–	–	250

Landcorp recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred. There have been no transfers during this year (2019: none).

NOTE 29: RISK MANAGEMENT

The Landcorp Board has adopted a risk appetite statement which acts as a link between the strategic objectives of a company and its risk management framework. The Board, as the governing body, is ultimately accountable for risk and has delegated the oversight of the risk framework (including risk register and monitoring the internal audit programme) to the Audit and Risk Committee. In addition, Landcorp has a Treasury Management Committee ("TMC"). The TMC is chaired by the Chief Financial Officer and comprises, the Financial Controller, and External Treasury Advisor. A quorum is three members, one of which must be the Chief Financial Officer or in their absence the Chief Executive. The TMC meets on a bi-monthly basis to co-ordinate and oversee the operation of the Company's treasury function and to monitor financial risks. Details of financial risks and risk management policies are explained below.

Risks due to agricultural activities

Agricultural risks

Landcorp's geographic spread of farms usually allows a high degree of mitigation against adverse climatic (e.g. drought or flooding) and environmental (e.g. disease outbreaks, biosecurity) effects at a regional level. When adverse climatic events occur the Company will often seek to accommodate livestock on other Landcorp properties.

The geographic spread of Landcorp's forestry assets provides a high degree of risk mitigation against risks associated with forestry, such as fire and disease.

Landcorp has environmental policies and procedures aimed at supporting the business while ensuring compliance with environmental and other laws. Environmental policies are designed to be compliant with laws in target export markets in addition to New Zealand.

Mycoplasma bovis

Landcorp has no active cases of Mycoplasma Bovis. Nationwide, Mycoplasma Bovis has been contained to only four active cases which are fully quarantined. This along with the Group's own controls will make it highly unlikely that our cattle will come in contact with infected animals.

Financing risk

The nature of pastoral farming means that most of Landcorp's revenue is received in the second half of the financial year, whereas expenses are incurred throughout the year. Landcorp manages this financing risk through budgeting and actively managing working capital requirements, as well as maintaining credit facilities at levels sufficient to meet financial commitments as they fall due.

Market risk

Commodity price and volume risk

Landcorp has multiple revenue streams from livestock (sheep meat, beef and venison), as well as generating milk revenue and this diversification also assists in lowering the commodity risk related to the price of any single commodity.

Landcorp is exposed to risks arising from fluctuations in the price and sales volume of milk, livestock and forestry. Commodity price risk for milk is managed through the sale of milk price futures, which are available through the NZX. Landcorp maintains milk price hedging between specified minimum and maximum risk control limits based on a three-year milk production volume forecast covering the current season, next season and season thereafter. The minimum and maximum limits are linked to prevailing milk futures prices requiring management to hedge more at higher prices and less at lower prices.

To mitigate commodity price risk for livestock, Landcorp's policy is to fix up to 50% of sales revenue within one year and up to 25% between one and two years by entering into fixed price contracts and/or "guaranteed minimum price/schedule plus" contracts directly with processors.

NOTE 29: RISK MANAGEMENT (continted)

Interest rate risk

Interest rate risk is the risk of loss arising from changes in interest rates. Landcorp is exposed to interest rate risk on borrowings used to fund investment and ongoing operations. Landcorp has an interest rate risk management policy designed to identify and manage interest rate risk in order to provide greater certainty of funding costs. Management monitors the level of interest rates on an ongoing basis, and will fix the rates of interest payable using derivative financial instruments. Forward rate agreements, interest rate swaps and interest rate options may be used for risk management purposes and to maintain policy compliance. Liabilities which are interest rate sensitive will mature or re-price within the periods shown in the table.

	Note	Within one year $m	Two to three years $m	Four to five years $m	Greater than five years $m	Group 2020 $m
Bank loans	23	214	–	–	–	214
Interest rate derivatives		(100)	30	60	10	–
Net interest rate exposure		**114**	**30**	**60**	**10**	**214**

	Note	Within one year $m	Two to three years $m	Four to five years $m	Greater than five years $m	Group 2019 $m
Bank loans	23	223	–	–	–	223
Interest rate derivatives		(100)	30	20	50	–
Net interest rate exposure		**123**	**30**	**20**	**50**	**223**

Sensitivity analysis

The effect of a 1% increase/decrease in interest rates on Landcorp's net profit before tax is a decrease/increase of $1m (2019: $1m) on finance expenses. The effect has been estimated after the effect of any hedging instruments used in the year.

Foreign currency risk

Foreign currency risk is the risk of adverse impacts on cashflow caused by fluctuations in foreign exchange rates. Landcorp is exposed to both direct and indirect foreign currency risk. Indirect risk exposure arises where the value of NZ$ denominated earnings fluctuate due to currency movements, for example when livestock processors sell meat into overseas markets. Direct risk arises where Landcorp has receipts or makes payments denominated in foreign currency.

To mitigate direct foreign currency risk, sales revenue and expenditure denominated in foreign currency derived from a contract where the value exceeds $50k is fully hedged when the contract is signed using foreign currency derivatives such as forward foreign exchange contracts and foreign currency options. Direct foreign currency hedging in place at 30 June 2020 was nil (2019: $0.5m).

NOTE 29: RISK MANAGEMENT (continued)

Credit risk

Credit risk is the risk of loss arising from a counterparty to a contract failing to discharge its obligations. In the normal course of its business, Landcorp incurs credit risk from trade and other receivables. Landcorp has developed a credit policy to manage credit risk exposure. As part of this policy, credit evaluations are performed on all customers requiring credit over a certain amount. New credit limits greater than $3m require approval by the Board. At balance date Landcorp's maximum credit exposure related to accounts receivable and there were no significant concentrations of credit risk except for milk customers. The status of accounts receivable at balance date was:

	Note	Group 2020 $m	Group 2019 $m
Not yet due		38	42
Past due – up to 30 days		–	1
Total accounts receivable	13	**38**	**43**

Landcorp completes an expected credit loss assessment on trade and other receivables at balance date to estimate possible default events over the life of these financial instruments. At 30 June 2020 Landcorp did not expect the non-performance of any obligations (2019: none).

Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in raising funds at short notice to meet financial commitments. Landcorp actively manages its funding facilities to ensure that no more than 40% of its total debt facilities mature in one financial year, and no more than 40% of its total debt facilities are with a single bank. Landcorp regularly forecasts funding requirements. The three-year Business Plan is used to forecast the longer-term funding requirement. The policy requires that committed funding facilities are $10m greater than current quarter peak requirements.

The table below analyses the Group's financial liabilities by period of contractual maturity. Total amounts do not match to the Statement of Financial Position and related notes as contractual flows are the absolute non-discounted amount of future cashflows, including forecast interest expense on interest-bearing liabilities.

	Note	Within one year $m	One to five years $m	No fixed maturity $m	Group 2020 $m
Accounts payable and accruals		14	–	–	14
Bank loans	23	35	188	–	223
Interest rate derivatives	24	5	8	–	13
Redeemable preference shares	25	–	–	87	87
Total contractual maturity		**54**	**196**	**87**	**337**

	Note	Within one year $m	One to five years $m	No fixed maturity $m	Group 2019 $m
Accounts payable and accruals		15	–	–	15
Bank loans	23	42	192	–	234
Interest rate derivatives	24	4	9	–	13
Redeemable preference shares	25	–	–	87	87
Total contractual maturity		**61**	**201**	**87**	**349**

NOTE 30: CAPITAL COMMITMENTS

	Group 2020 $m	Group 2019 $m
Contracted capital commitments	–	5

NOTE 31: CONTINGENT ASSETS AND LIABILITIES

At 30 June 2020 Landcorp had no contingent assets and the following contingent liability:

Focus Genetics Group

Focus Genetics Limited Partnership is involved in proceedings brought by an Australian-based former genetic breeding partner for breach of contract, breach of the Fair Trading Act and negligence. The claim seeks damages of not less than AU$1.8m, plus costs, and ancillary orders in relation to animals and data. Focus Genetics Limited Partnership is defending the claim and has issued a counterclaim. The claim and associated defence costs will be partially covered by the Group's professional indemnity insurance.

NOTE 32: RELATED PARTIES

Ultimate controlling party

The ultimate shareholder of the Group is the Crown. The Group undertakes many transactions with other Crown entities, state owned enterprises and government departments.

Transactions with subsidiaries and jointly controlled entities

During the year Landcorp Farming entered into the following transactions with related parties (received/(paid));

	Group 2020 $m	Group 2019 $m
Melody Dairies Limited Partnership – cash contributions	(5)	(7)
Spring Sheep Dairy Limited Partnership – cash contributions	(3)	(3)

At 30 June 2020, $7m was included in accounts receivable as owing from Wharewaka East Ltd (2019: $9m).

At 30 June 2020, $2m was included in accounts receivable as owing from the Crown in accordance with the Protected Land Agreement (2019: $4m).

No other transactions or balances with related party entities are considered material. No expense has been recognised in the current year for bad or doubtful debts in respect of amounts owed by related parties (2019: none).

Key management personnel compensation

Key management personnel have been defined as the Directors, the Chief Executive Officer and the executive team for the Group, who have responsibility for planning, directing and controlling the activities of Landcorp.

Short-term employment benefits paid to the Chief Executive Officer and the executive team for the Group during the year were $3.1m (2019: $3.4m). These amounts include at-risk incentive payments for the prior year.

Post-employment benefits paid to the Chief Executive Officer and the executive team for the Group during the year were $0.1m (2019: $0.1m).

Directors fees paid during the year were $0.5m (2019: $0.5m).

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2020

NOTE 33: SUBSIDIARY COMPANIES AND JOINTLY CONTROLLED ENTITIES

Subsidiaries	Principal activity	Balance date	Percentage held 2020	2019
Landcorp Estates Ltd	Property development	30 June	100%	100%
Landcorp Pastoral Ltd	Invests in Focus Genetics and Spring Sheep	30 June	100%	100%
Landcorp Holdings Ltd	Holding protected land	30 June	100%	100%
Landcorp Pastoral Ltd has the following subsidiaries:				
Focus Genetics Limited Partnership	Development and sale of genetically superior sires	30 June	100%	100%
Focus Genetics Limited Partnership has the following subsidiaries:				
Focus Genetics UK Ltd	Livestock genetics	30 June	100%	100%
Focus Genetics S.A. Ltd	Livestock genetics	30 June	100%	100%
Focus Genetics Australia Pty Ltd	Livestock genetics	30 June	100%	100%
Rissington Uruguay SA	Livestock genetics	30 June	100%	100%

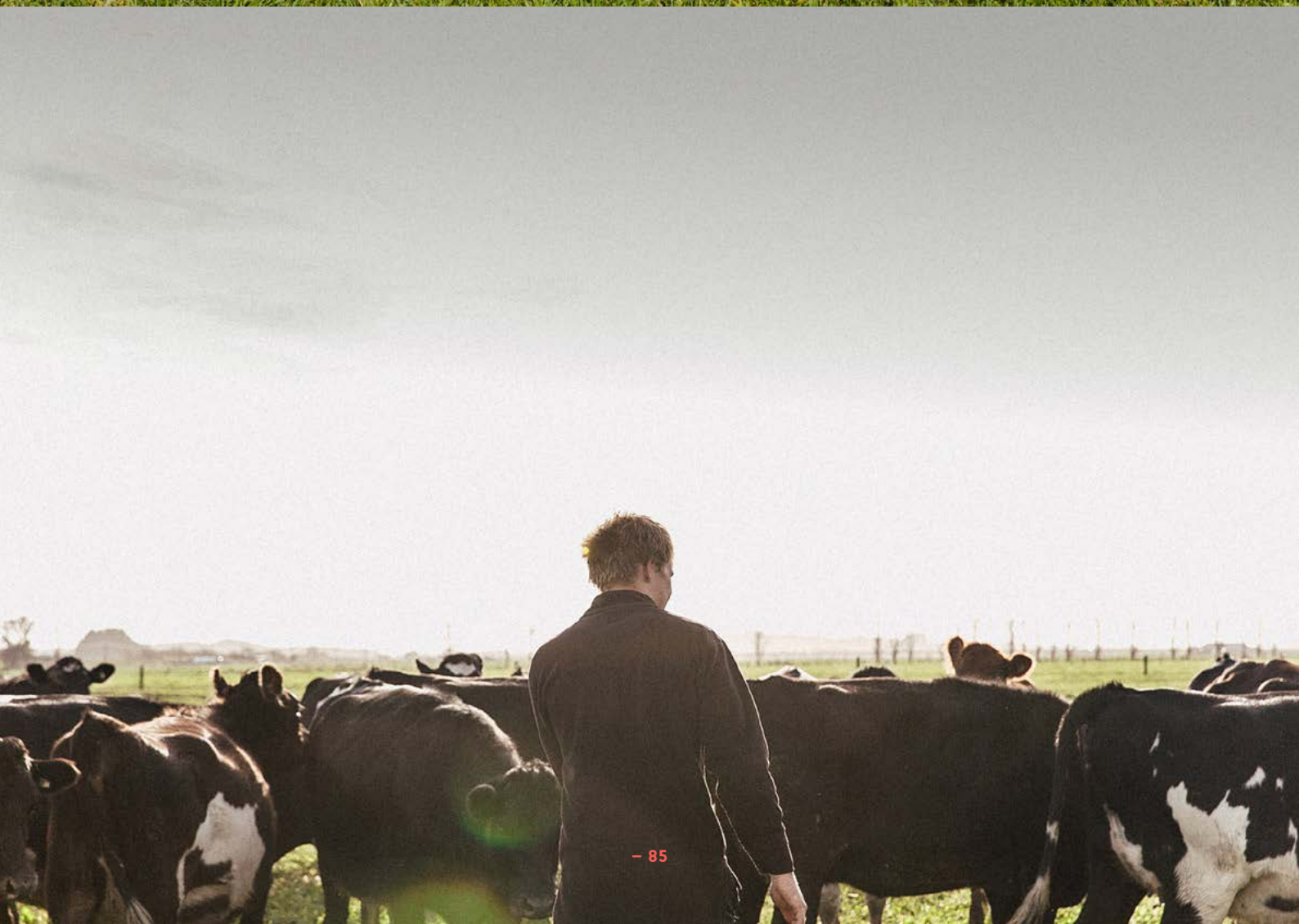
Joint ventures	Principal activity	Balance date	Percentage held 2020	2019
Wharewaka (2003) Ltd	Property development	31 March	0%	50%
Wharewaka East Ltd	Property development	31 March	50%	50%
Spring Sheep Dairy Limited Partnership	Production and marketing of sheep milk products	30 June	50%	50%
Sweetwater Farms Unincorporated Joint Venture	Dairy farming	30 June	33%	33%
Pāmu Academy Ltd	Health and safety leadership training	30 June	0%	50%

Associates		Balance date	Percentage held 2020	2019
Farm IQ Systems Ltd	Development and licensing of farm management software	30 June	26%	30%
Farm IQ PGP Ltd	Research and development of an integrated red meat value chain PGP (completed)	30 June	18%	18%
Melody Dairies Limited Partnership	Specialist milk drying services	30 June	35%	0%
Mānuka Research Partnership (NZ) Limited	PGP examining plantation of mānuka trees for honey	30 June	10%	10%

NOTE 34: SUBSEQUENT EVENTS

On 26 August 2020, the Directors approved a dividend of $5m (2019: $5m) to be paid on 31 August 2020.

Farm dogs are
a big part of
our farm families



INDEPENDENT AUDITORS' REPORT

TO THE READERS OF LANDCORP FARMING LIMITED'S GROUP FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

The Auditor-General is the auditor of Landcorp Farming Limited Group (the Group). The Auditor-General has appointed me, Sonia Isaac, using the staff and resources of KPMG Wellington, to carry out the audit of the financial statements of the Group on his behalf.

OPINION

We have audited the financial statements of the Group on pages 54 to 82, that comprise the statement of financial position as at 30 June 2020, the statement of profit or loss and other comprehensive income, statement of movements in equity and statement of cash flows for the year ended on that date and the notes to the financial statements that include accounting policies and other explanatory information.

In our opinion the financial statements of the Group:

- present fairly, in all material respects:
  - its financial position as at 30 June 2020; and
  - its financial performance and cash flows for the year then ended; and
- comply with generally accepted accounting practice in New Zealand in accordance with New Zealand equivalents to International Financial Reporting Standards and International Financial reporting standards.

Our audit was completed on 26 August 2020. This is the date at which our opinion is expressed.

The basis for our opinion is explained below. In addition, we outline the responsibilities of the Board of Directors and our responsibilities relating to the financial statements, and we explain our independence.

IMPACT OF COVID-19

Without modifying our opinion, we draw attention to the disclosures about the impact of Covid-19 on the Group as set out in notes 1 and 21 to the financial statements.

BASIS FOR OUR OPINION

We carried out our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the Professional and Ethical Standards and the International Standards on Auditing (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board. Our responsibilities under those standards are further described in the Responsibilities of the auditor section of our report.

We have fulfilled our responsibilities in accordance with the Auditor-General's Auditing Standards.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

RESPONSIBILITIES OF THE BOARD OF DIRECTORS FOR THE FINANCIAL STATEMENTS

The Board of Directors is responsible on behalf of the Group for preparing financial statements that are fairly presented and that comply with generally accepted accounting practice in New Zealand.

The Board of Directors is responsible for such internal control as it determines is necessary to enable it to prepare financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors is responsible on behalf of the group for assessing the Group's ability to continue as a going concern. The Board of Directors is also responsible for disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

The Board of Director's responsibilities arise from the State Owned Enterprises Act 1986.

RESPONSIBILITIES OF THE AUDITOR FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the financial statements, as a whole, are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit carried out in accordance with the Auditor-General's Auditing Standards will always detect a material misstatement when it exists. Misstatements are differences or omissions of amounts or disclosures, and can arise from fraud or error. Misstatements are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decisions of readers taken on the basis of these financial statements.

We did not evaluate the security and controls over the electronic publication of the financial statements.

INDEPENDENT AUDITORS' REPORT

As part of an audit in accordance with the Auditor-General's Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. Also:

- We identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- We obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.
- We conclude on the appropriateness of the use of the going concern basis of accounting by the Board of Directors and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements, or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- We evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- We obtain sufficient appropriate audit evidence regarding the financial statements of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and the performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Our responsibilities arise from the Public Audit Act 2001.

INDEPENDENCE

We are independent of the Group in accordance with the independence requirements of the Auditor-General's Auditing Standards, which incorporate the independence requirements of Professional and Ethical Standards 1 (revised): *Code of Ethics for Assurance Practitioners* issued by the New Zealand Auditing and Assurance Standards Board.

Other than the audit, we have no relationship with or interests in the Group.

Sonia Isaac
KPMG Wellington

On behalf of the Auditor-General
Wellington, New Zealand

COMMUNITY, PARTNERSHIPS AND AWARDS

Pāmu's farms around New Zealand are active members of all the communities they are located in.

From the money they spend locally, to the schools, churches and community groups they belong to, Pāmu families share a love of living in rural New Zealand.

Throughout the year we open our farms to a range of community events. We also throw our support behind rural based initiatives such as the IHC Calf Scheme and the Rural Communities Trust, shearing and wool handling competitions along with our own community focussed initiatives. This year for example our Taupō based farms led a food drive for those who were doing it tough due to Covid-19 (see photo).

We also invest in our farms which benefits the local community. For example, the rebuild of the historic Molesworth Homestead following the Kaikoura earthquake, which opened this year (see photo) saw local contractors and suppliers employed to restore the homestead to its former glory.

We partner with a wide range of organisations and famers who are collectively working to innovate in the agri-sector. Some of the exciting partnerships we have been involved in this year included working with Lincoln University, Ballance Agri-Nutrients, Fertigation Systems, MPI (Sustainable Farming Fund) Irrigation NZ and Molloy Ag to trial fertigation which is seeing very positive reductions in the amount of fertiliser applied to pasture.

Our Focus Genetics team has been busy, with ongoing partnerships with Beef & Lamb Genetics, Massey University AgResearch, Deer Industy NZ, and NZ sheep and cattle breeders to deliver a range of potentially far reaching projects including the South Island Genomic Calibration Flock, Dairy Beef Progeny Test, Beef Progeny test, Ongoing data supply for R&D on issues such as lamb survival, internal parasites, facial eczema and deer growth rate patterns. We have also been involved in pioneering greenhouse gas emmissions research, including using PAC chambers to develop breeding values for sheep and supplying rumen samples across species for biome genotyping.

With the same partners we are researching how to proceed together on industry challenges across all species such as feed efficiency, cross breed analysis, genetic linkage and development of new traits such as conformation and stability.

We always welcome enquiries from potential partners who want to collaborate to help the agricuture sector innovate for the benefit of all farmers.

We also work with non-government organsations on a range of environmental

Minister of Conservation Hon Eugenie Sage (second from the left) opened the rebuilt Molesworth Homestead

projects. This included the ongoing protection of land with unique biodiversity through the QEII National Trust and working with the Kiwis4Kiwis organisation on kiwi avoidance training on our Northland farms.

In July three of our farms took out top awards in the Silver Fern Farms *Pasture to Plate Awards*, and our Renown farm won awards in soil management, sustainability, water management and agri-science at the Waikato Ballace Farm Environment Awards. Two of our managers – Stephen Smillie (Hawke's Bay/Wairarapa) and Krishna Dhakal (West Coast) were named Regional farm managers of the year at the Dairy Industry Awards, with a range of other staff receiving place and merit awards as well.

And we were pleased to again be recognised with a Bronze award at the 2020 Australasian Reporting Awards (ARA) for our 2019 Integrated Report.

Our Taupō team helping the community with a food drive

To receive such an award integrated reports must provide a balanced and reasonable picture of the Company's economic, environmental, and social performance; facilitate comparability, benchmarking and assessment of performance; and address issues of concern to stakeholders.

The team at Wharekopae Farm, near Gisborne

Getting from A to B on Waiteti Farm.

DIRECTORY

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Wellington 6140

AUDITOR

Sonia Isaac, KPMG
(under appointment of
the Auditor-General)

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ASB Bank Limited

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pamunewzealand.com

FURTHER INFORMATION

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Dr Warren Parker, Chair

Nigel Atherfold

Chris Day

Jo Davidson

Hayley Gourley

Dr Tanira Kingi

Belinda Storey

Doug Woolerton

LEADERSHIP TEAM

Steven Carden,
Chief Executive Officer

Steven McJorrow,
Chief Financial Officer

Mark Julian,
GM Dairy Operations

Stephen Tickner,
GM Livestock Operations

Alistair McMechan,
General Counsel and Company Secretary

Sarah Risell,
GM Pāmu Foods

Andrew Sliper,
GM Forestry and Horticulture

Bernadette Kelly,
GM People, Safety and Wellbeing

PĀMU™

LANDCORP FARMING LIMITED
INTEGRATED REPORT FOR THE
YEAR ENDED 30 JUNE 2020