LANDCORP
NEW ZEALAND

BREAKING NEW GROUND

LANDCORP FARMING LIMITED
ANNUAL REPORT
2015

Landcorp Farming Limited is a State-Owned Enterprise and one of New Zealand's largest farming organisations, farming approximately 140 properties. Landcorp is a leader in New Zealand agriculture and strives for best practice in dairy, sheep, beef and deer farming, for sustainable use of resources and continuous improvement in livestock genetics and farm systems. Landcorp's Pāmu brand simply means "to farm" and reflects the provenance and quality of Landcorp's products and its commitment to productive partnerships.

This Annual Report is dated 25 August 2015 and is signed on behalf of the Board by:

Traci Houpapa MNZM JP
Chairman

Pauline Lockett
Director

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OUR VISION

TO BECOME THE PREMIUM SUPPLIER OF MEAT, MILK AND FIBRE FOR NICHE MARKETS GLOBALLY

OUR PURPOSE

TO TRANSFORM NEW ZEALAND FARMING

KEY FACTS 2014/15

Figures as at 30 June 2015.

NUMBER OF FARMS
140

PERMANENT EMPLOYEES
715

LIVESTOCK TOTAL
78,314
DAIRY CATTLE

LIVESTOCK TOTAL
568,400
SHEEP

LIVESTOCK TOTAL
79,721
BEEF CATTLE

LIVESTOCK TOTAL
100,111
DEER

*carcass weights

LAND AREAS FARMED

OWNED
158,518
hectares

MANAGED
(leased or sharemilked)
225,478
hectares

2014/15 ANNUAL PRODUCTION

11,045* tonnes
SHEEP MEAT

8,684* tonnes
BEEF

19,367 tonnes
MILKSOLIDS

2014/15 ANNUAL PRODUCTION

2,044* tonnes
VENISON

9.8 tonnes
VELVET

3,049 tonnes
SHORN WOOL

PERFORMANCE HIGHLIGHTS 2014/15

$4.9 million net operating profit shows Landcorp resilience in a tough year for New Zealand agriculture.

7 percent growth in finished lamb meat based on Landcorp's industry-best knowledge and practice in sheep farming and supply.

5 percent growth in milksolids - excellence by Landcorp dairy farmers and success with expansion projects.

KEY FINANCIAL DATA

Dollars in millions unless otherwise stated	2014/15	2013/14	2012/13	2011/12	2010/11
Total revenue	224.3	247.0	203.1	215.7	218.5
Net operating profit	4.9	30.0	12.9	27.0	42.2
Total shareholder return	(8.4)	115.9	(1.5)	7.8	132.5
Net profit on equity investment (share capital and retained earnings)	1.9%	11.8%	5.3%	10.8%	17.0%
Total shareholder return / Average shareholders' funds[1]	(0.5%)	7.5%	(0.1%)	0.5%	9.4%
Dividend declared	-	7.0	5.0	20.0	27.5
Total assets	1,774.7	1,748.5	1,694.9	1,662.9	1,663.0
Shareholders' funds	1,412.9	1,427.4	1,316.0	1,332.0	1,351.6
Bank debt	210.7	172.4	228.4	171.3	157.2
Shareholders' funds[1] / Total assets	85.7%	87.8%	84.6%	87.2%	88.4%

[1] Includes redeemable preference shares

Pāmu brand launched – greater recognition of Landcorp product quality, provenance and integrity of environmental and people practices.

Value chains to global markets actively developed – Pāmu wool supplied for Denmark's Glerups indoor shoes.

Spring Sheep Dairy new business – Landcorp formed joint venture producing new, high-value products for global consumers.

KEY OPERATING DATA

	2014/15	2013/14	2012/13	2011/12	2010/11
Total hectares farmed (owned and leased)	383,996	385,086	376,942	375,681	376,156
Total stock units	1,612,460	1,632,233	1,571,448	1,486,115	1,496,256
Permanent employees at 30 June	715	692	668	573	599

LOOKING AHEAD

Chair and Chief Executive's Review

Landcorp is looking ahead with confidence after a tough 2014/15.

The past year tested the company – and most other New Zealand farmers – with many regions extremely dry through summer and autumn, and with sharp falls in milk and lamb prices. Most notable was a 49 per cent cut in farmgate milk prices generally. These conditions further confirm Landcorp's strategy to reduce its exposure to commodity price swings and building a national farming system with lower climatic risk.

For Landcorp, 2014/15 was defined by the tragic loss of two valued employees in fatal accidents. We were deeply saddened by the deaths of Kaye Blance, on the Cape Foulwind dairy complex, and of Steven Bidois on Opouahi Station, in May. Kaye and Steven are much missed by their farming colleagues and all of Landcorp.

These tragedies further strengthen our resolve to make Landcorp the safest work environment in New Zealand agriculture.

PROGRESS

Overall 2014/15 was a year of solid progress in Landcorp's five core areas of strategy. We increased productivity; we developed our supply of higher-value products; we made efficiency gains; we took important next steps for rejuvenating the environment; and we strove to make our farms better places to work.

Indeed Landcorp proved its fundamental resilience – this clearly enhanced by new strategic initiatives – in the face of the extreme dry and weakening product prices. Given these shocks to the industry, our net operating profit of $4.9 million was a creditable result for 2014/15.

$4.9 Million

NET OPERATING PROFIT

Three major factors stand out.

First, Landcorp farmers met deteriorating conditions by rapidly adapting their stock and feed management, and ensuring tight control on input costs. They demonstrated huge knowledge, foresight and resilience to maintain or increase production, and maintain both farm profitability and sound environmental management.

Second, Landcorp held expenses flat with the previous year through highly targeted reduction in spending on feed and fertiliser without compromise to future growth. We continued to work on expanding production capacity for 2015/16 and beyond, with tightly managed growth in spending in key areas that included animal breeding and health.

Third, there was major benefit to our revenues from supply contracts in Landcorp dairying and lamb production. We supplied substantial milk volume to Fonterra through its Guaranteed Milk Price (GMP) scheme at prices well above the general farmgate level that eventuated for 2014/15. This continues to validate our strategy of moving our company away from exposure to commodity price swings.

We also saw significant revenue benefit from prime lamb supply contracts, including supply of Landcorp Supreme-sired lambs into the Tesco Finest programme for UK consumers. We now sell a substantial portion of its own-breed lambs under supply contracts: fixed price contracts favoured the company as spot market prices fell during 2014/15. Similarly our partnership with NZ Merino for our wool has also achieved premium pricing through new customer partnerships.

STRATEGIES

Landcorp and industry-wide experiences of the past year further strengthen our resolve in all areas of strategic development. We are absolutely committed to playing our part in the transformation of New Zealand farming – the latest climatic and product pricing shocks across the industry reinforce yet again the need for determination and urgency with our current programmes and initiatives to achieve that transformation.

Our strategies drive what Landcorp will farm, with a strong focus on aligning the milk, meat and fibre we produce with customers prepared to pay a premium for them.

Our strategies also drive how we farm. The "how" is about farming with greater efficiency and effectiveness in our production systems and our use of Landcorp resources. It is about how we protect and rejuvenate the environment as we farm profitably – and about how we make Landcorp the safest and most enriching workplace in New Zealand farming. Our people, their safety and their development, are the top priority in everyday operations on all farms.

We start 2015/16 with careful assessment of Landcorp's next steps for growth in volume and value, acutely aware of global market trends and of the environmental concerns now associated with agriculture. Plainly, the New Zealand dairy industry must review its position on the same grounds. For Landcorp, dairying will remain a large and profitable component of our business but there are definitely issues to be addressed.

Wairakei Estate has been our major growth project in dairying since the company took on a long-term commitment for sustainable conversion of this land from forestry to farming in 2004. To date, we have established 13 dairy units on part of Wairakei Estate, alongside large areas of native species planting for riparian protection. Landcorp has achieved strong performance on the most mature of these units, now five years in production. Under our commitment to the land owner, we will continue developing more areas of Wairakei Estate with a range of land uses under consideration.

OUR STRATEGIES IN SUMMARY

VOLUME	Grow volumes of milk, meat and fibre produced on properties owned by Landcorp or by partners, in an integrated portfolio of farms using industry-leading knowledge and systems.
VALUE	Integrate more Landcorp-farmed products into global value chains that are based on a deep understanding of consumer demands and the development of niche international markets.
EFFICIENCY	Improve the effectiveness and efficiency of Landcorp operations in support of more productive, profitable and sustainable farming.
ENVIRONMENT	Work on systemic rejuvenation of the environment as an integral part of profitable farming and showcase the practices and systems we use.
PEOPLE	Lead New Zealand farming in people practices by creating its safest and most enriching work environment, where motivated employees have the capabilities to deliver on the other four strategies.

Landcorp and a joint venture partner have recently launched a sheep milking operation on one newly-converted block. Spring Sheep Dairy is an innovative new business to produce dairy products targeted at high value Asian markets. As we go forward on Wairakei Estate, Landcorp will explore multiple farming options for the land given its soil types and climate, and the market opportunities for what we can produce.

We are very aware of effluent run-off issues associated with Wairakei Estate, and the potential impact on ground and surface water. Landcorp engages environmental consultants to do comprehensive monitoring that will ensure we and the land owners have the best information on which to base future decisions. We are comfortable with the sustainability of the now-established dairy units. Environmental issues are to the fore as we weigh all productive alternatives for Wairakei Estate.

Landcorp has also had substantial success in development of the 13 North Island dairy farms acquired by Shanghai Pengxin Group in 2012. Thanks to the owner's investment and Landcorp's farming expertise, these properties have been lifted well above their previous state. Today, they are productive and sustainable. We have largely achieved what Landcorp set out to do three years ago on behalf of New Zealand, and in partnership with Shanghai Pengxin. In light of this and of other developing priorities, both parties can be expected to review the farming agreement between them.

Landcorp has many opportunities to grow volume and increase the value of what it produces. We will do this increasingly in partnership with other parties who want to invest in New Zealand agriculture and who share our values, most notably a deep commitment to kaitiakitanga and to people. In the near term, we look forward to finalisation of the transfer of the Sweetwater dairy complex in Northland to two Iwi, and Landcorp's new partnership with these owners. We will continue to develop and farm Sweetwater for the benefit of the iwi owners and other land-based businesses in the Far North. We are also excited by other Landcorp-Maori and Iwi partnership proposals in the pipeline.

This year we are exploring opportunities to partner with other investors who can bring new capital into New Zealand agriculture alongside Landcorp's farming expertise and connection to markets. Partnering is integral to our volume and value strategies, but partnering only with parties who share our values on the "how" of farming.

Those values are foundation stones for Pāmu Farms of New Zealand – our new brand for growing the market presence of higher value Landcorp products. Pāmu is the Maori word "to farm" in Te Reo. Pāmu stands for the premium New Zealand quality of those products, the integrity of our farming systems and partnerships, and the expertise of our people. Landcorp is proud to be supplying Pāmu wool to Danish footwear producer Glerups. More value chain supply arrangements are coming.

In 2015/16, Landcorp is taking bold steps to demonstrate leadership on environmental issues and sustainable farming - kaitiakitanga in action. Everyday our farm managers take ground conditions, water quality and biodiversity into account as they plan and operate Landcorp properties. We now have an external Reference Group of environmental specialists to give full and frank perspectives on how we farm. This is also the year in which we commit to the research and actions that can make Landcorp carbon neutral by 2025.

PEOPLE

Landcorp can succeed with these strategies and initiatives only through the talent, commitment and hard work of our people. In 2015/16 and beyond, we are stepping up programmes for training and development, initially with a focus on leadership by farm managers. This group makes a particular difference to Landcorp. The Board takes this opportunity to sincerely thank all managers and staff for their contribution in the past year. It was testing – and Landcorp people brought the company through in great shape.

We welcome new recruits to Landcorp as we add capabilities in the Wellington office, and continue developments on Wairakei Estate and in South Island dairy operations. In particular we welcome Sarah Risell to the Executive Team as General Manager Marketing, Mark Julian as General Manager Dairy Operations and Lucy Wills as General Manager People and Safety. We also welcome Eric Roy as a new Director of the company.

FINANCIAL POSITION

Landcorp continues to invest in new technologies, plant and farm infrastructure that will, over time, grow our profitability and sustainability. To support this, bank borrowing was increased during 2014/15 (loans of $211 million at 30 June 2015). We intend reducing this figure in the medium term. Given this intention and the challenging trading conditions currently, the Board has decided that Landcorp will not pay a dividend in 2015. Our dividend policy remains unchanged for future years.

FUTURE

We look ahead to 2015/16 and beyond strengthened by Landcorp's resilience, diverse revenue streams, and by progress made with our strategies for transformation. We take confidence from a longer-term view of global demand growth for high quality milk, meat and fibre products. We are under no illusions, however, about the scale and urgency of changes required by New Zealand agriculture and in particular by the dairy sector.

Landcorp is absolutely committed to leadership, in partnership with others who share our values and aspirations. Our strategies are firmly in place and we are ready to take the next major steps for implementation. We look forward to higher profitability in the future.

Steven Carden
Chief Executive

Traci Houpapa MNZM JP
Chair

OUTLOOK 2016 AND BEYOND

Landcorp has comprehensive strategies for achieving its Vision and Purpose over the long term, as outlined in this report and its Statement of Corporate Intent. Our clear priorities guide strategy implementation in 2015/16 and beyond, and a set of financial targets for the current year.

5%

Landcorp will increase the volume and value of New Zealand meat and wool production, with the company's products becoming 5 per cent or more of total national output and those products being sold increasingly through value chains into global markets.

THE PARTNER OF CHOICE

Landcorp will be the partner of choice for Iwi and other investors seeking to participate in the development and growth of New Zealand farming.

LEAD THE INDUSTRY

Landcorp will demonstrate strong leadership in farming practices that protect and rejuvenate the environment – and in the management and development of people who are leaders in profitable, sustainable and safe New Zealand agriculture.

LEAN

Landcorp will continuously improve its operating efficiency and effectiveness through adoption of LEAN methodologies, and of new farming science, technologies and practices.

TARGETS FOR 2015/16

As a State-Owned Enterprise, Landcorp produces an annual Statement of Corporate Intent (SCI) including targets for financial and operating performance in the year ahead. Financial targets in the Company's 2015 SCI are shown in this table.

Shareholder returns	SCI target 2015/16	Actual 2014/15	SCI target 2014/15
Net operating profit[1]	($9.6 million)[6]	$4.9 million	$31.7 million[5]
Total shareholder return after tax as a percentage of average shareholders' equity	1.9%	(0.5%)	8.7%
Dividend yield[2] (ordinary only)	-	-	0.4%
Dividend payout[2] (ordinary and special)	-	-	94.4%
Return on equity adjusted for IFRS fair value movements and asset revaluations[3]	(0.7%)	1.4%	5.6%
Profitability			
Return on capital employed[4]	0.1%	4.3%	1.7%
Operating margin	7.8%	13.8%	22.8%
Economic value added	(6.8%)	(6.4%)	2.63%
Dividends – Group (ordinary and special)	-	-	$5.0 million
Leverage			
Gearing ratio	14.5%	13.0%	13.4%
Interest cover	1.61 times	2.92 times	4.96 times
Solvency	1.97 times	1.10 times	1.48 times
Capital			
Net capital expenditure (income)	$36.4 million	$60.7 million	$45.5 million

1. On January 27 2015 when the company announced its half year results, the company advised that at that time it expected a net operating profit of between $1.0 million and $6.0 million for 2014/15. The announcement may be viewed on our website www.landcorp.co.nz

2 Dividends are for years ending 30 June, payment to shareholders occurring in October.

3 Net operating profit / Average shareholders' equity less revaluation reserves.

4 Earnings before interest and tax / Average shareholders' equity less revaluation reserves.

5. SCI target assumed a weighted average milk price of $6.88, the actual weighted average milk price was $5.40.

6. Assumes a weighted average milk price of $4.57.

GROW PRODUCTION VOLUMES

Landcorp is growing production volumes of meat, milk and fibre to increase profitability without compromising environmental sustainability. Volume growth comes from strengthening the productive capacity on properties owned either by Landcorp or by others who share our drive for higher productivity on farms that are profitable and sustainable.

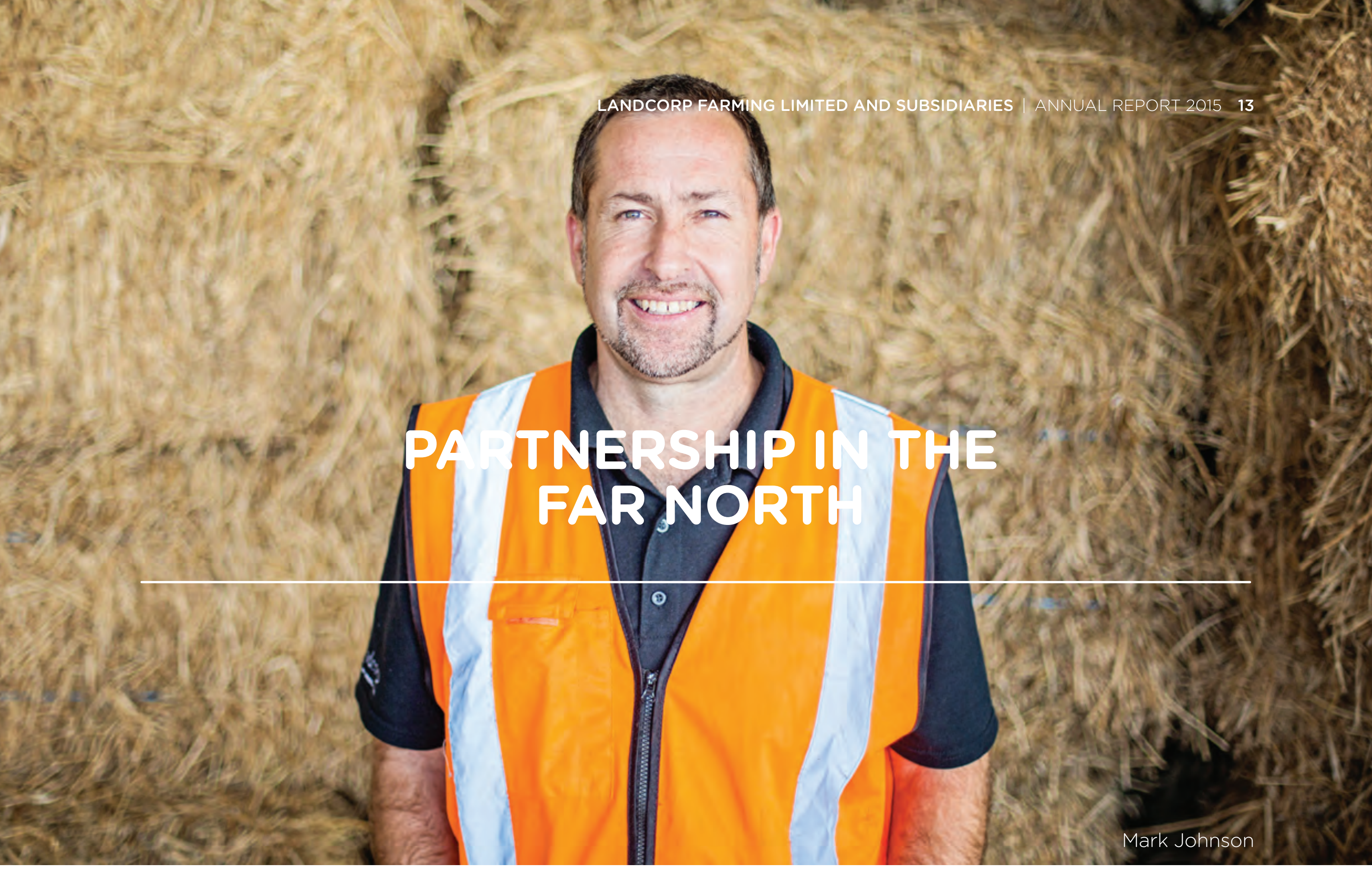
We are investing for future growth by: enhancing plant, infrastructure and natural features on farms; adopting new science and systems; and developing the knowledge and experience of our people. Our intention is for Landcorp to grow its volume across an integrated portfolio of farms. We will look at inviting other parties to invest in Landcorp farms where this would have clear economic benefit to us and to New Zealand. In the future, we see Landcorp developing and managing properties which together supply at least 5 per cent of the nation's meat and fibre products, of the highest quality.

KEY PRODUCT VOLUME INITIATIVES

Continuous improvement in dairy and livestock productivity. Landcorp plans for further genetic advances in flocks and herds, increased precision in farm and livestock management, greater extension of best-available knowledge and technology, and production growth on recently-converted dairy units. Significant product volume increases are targeted for 2015/16, along with industry-leading rates of lambing, calving and fawning.

Ongoing investment to strengthen productive capacity. Landcorp will continue to sensibly invest in its capital expenditure programme for 2015/16, including new dairy sheds, irrigation, pasture renewal, fencing and other infrastructure on selected farms.

Develop further partnership opportunities with Iwi and others. Landcorp looks to finalise partnership arrangements with new Iwi owners on the Sweetwater dairy complex, Northland, and progress other proposed farming partnerships during 2015/16. Other opportunities to work with potential investors will be explored in the year.



PARTNERSHIP IN THE FAR NORTH

Mark Johnson

Landcorp is partnering with Te Rarawa and Ngai Takoto – and that spells growth for both the Sweetwater dairy complex and the Far North economy.

The two Iwi will acquire ownership of Sweetwater under a Treaty of Waitangi settlement, with plans for Landcorp to remain a working partner for many years. Together we intend to farm and further develop the 2480-hectare complex under a joint-management and profit-sharing arrangement. It is a venture aimed at growing value for both Iwi and for Landcorp, while also seeing Sweetwater become a model for development for other agricultural businesses in the Far North.

Farm Business Manager Mark Johnson says Landcorp is ready for the next stage of a development programme that has so far put Sweetwater among Northland's best-performing dairy operations. It has three units that milked a total of 2800 cows at the peak of the 2014/15 season, and a dairy support farm that has enabled the complex to become self-sufficient.

Mark says Sweetwater – flat and rolling country with sandy, peat soils to the west of Kaitaia – turned on its first centre pivot irrigation during the past year. It has further water consents available. "With more irrigation and conversion of existing support land to dairying, we have the opportunity to grow the dairy herd and strengthen the business," says Mark.

"In doing this, we will also enable collaboration with other Maori-owned farming entities in the region and provide them with dairy support opportunities that benefit both them and Sweetwater. We can achieve all this while holding fast to core Landcorp values of looking after our people and our animals, and providing good stewardship of the environment."

Hemi Toia, General Manager of Te Rarawa Investment Company, says Te Rarawa and Ngai Takoto take a long-term view of Sweetwater's potential in context of the partnership with Landcorp. "We think profit-sharing with Landcorp, rather than share milking, is the best approach for aligning all the partners' interests and resources, and for growing the capacity of the complex."

Hemi foresees Sweetwater becoming a catalyst for further business growth in the region's economy. "Land is the core asset base for Maori in the Far North and perhaps our joint venture can become the model for further development of agricultural businesses here. That means bringing more Maori land owners together and doing more things with non-Maori partners, as well as looking at all production options on the land and at how to grow training and employment opportunities for our people," says Hemi.

Landcorp has long managed Sweetwater in consultation with the two Iwi, partly in anticipation of the Treaty settlement which formally concludes with the passage of Te Hiku Claims Settlement Bill in Parliament (expected to occur before by the end of 2015.). "It's going to be exciting to see what we can achieve for Sweetwater and for the region through this change in ownership and the new farming partnership agreement," says Mark.

SUPPLY PRODUCTS OF HIGHER VALUE

Landcorp is developing its supply of higher value products by working more closely with supply chain partners and bringing production closer to customer and market requirements. By shifting to this approach, we focus on what customers need, collectively create more value and reduce volatility in our revenues and enhance margins on more of our milk, meat and fibre.

Our strategy includes committing more products on fixed price contracts, while leveraging Landcorp resources and expertise into new products and new markets. Integral to this is our new product brand – Pāmu Farms of New Zealand – a brand founded in the absolute integrity of our products and supply chain partnerships, along with the expertise and passion of our people, and the New Zealand provenance of our products. We are also developing new products – sheep milk among them – that draw on Landcorp's proven capabilities.

KEY VALUE CHAIN INITIATIVES

Grow market recognition of the Pāmu brand. Landcorp launched our new product brand, Pāmu, in 2015. The brand was applied first to strong wool supplied for inclusion in indoor Glerups footwear, designed and made in Denmark.

Spring Sheep Dairy milk production on St Kilda Farm, Wairakei Estate. Landcorp, in a joint venture with SLC Ventures, is producing milk from a unique flock of 3000 East Friesian ewes. The milk is destined for a new branded range of consumer products in high value Asian markets.

Tesco Finest lamb supply next steps in 2015/16. Landcorp has contracted for substantial supply of to-specification lambs for a sixth consecutive period in partnership with Silver Fern Farms, with first shipments of this period starting in December 2015.

Milksolids price set for supply to Fonterra. Landcorp has again secured a significant volume of supply for 2015/16 within Fonterra's Guaranteed Minimum Price scheme at prices above the $3.85 per kg of milksolids forecast issued in early August 2015.

New products under development. In partnership with others, Landcorp is exploring opportunities for production and market supply of selected high-value products, including Manuka honey and deer leather.

CASE STUDY

WOOL VALUE CHAIN FOR GLERUPS INDOOR SHOES

Pāmu wool and Danish innovation are keeping feet warm around the world, through a value chain that links Landcorp and The New Zealand Merino Company with Glerups of Aarhaus.

The Danish innovation is the unique Glerups design and manufacture of felt indoor shoes made with 100% pure, natural wool. The feet are those of an increasing number of Europeans, North Americans and others who love the comfort and warmth of the indoor footwear known simply as "Glerups".

The value chain is the creation of The New Zealand Merino Company (NZM) – a global marketer with the wool knowledge and networks to source and supply fibre of the quality and provenance demanded by Glerups. And the Pāmu wool is grown and harvested on 12 of New Zealand's 's finest sheep farms, each a Landcorp property in the North Island or Canterbury.

In 2014/15, Landcorp entered a two-year contract to supply more than 90 tonnes of strong wool to Glerups' specifications. Pāmu wool conveys premium New Zealand quality and the integrity of its production involving high standards of safety, animal welfare and environmental stewardship.

The wool is exported as tops and manufactured into the felt footwear at the Glerups factory, prior to distribution from the Danish provincial region of Aars. The company – also supplied by NZM with other wool types from other growers in this country – is selling Glerups online and through local retailers in 20 countries.

The family-owned Glerups traces its innovative design back to matriarch Nanny Glerup who hand-made and sold the first pair in 1993. Two Glerups directors visited New Zealand last year, meeting all local participants in the value chain (including top-maker and exporter Chargeurs Wool).

NZM identified the best wool blend for Glerups and introduced the directors to wool growers who could supply exactly what was needed. Marketing Manager Gretchen Foster says the Danish visitors wanted to understand not just technical aspects of the wool and its processing, but also how our sheep farms operate. "They got to see the passion in the eyes of Landcorp people as they discussed how they care for their animals and their land to produce the best wools and as they saw the quality of Glerups for themselves," says Gretchen.

Her comment is echoed by Meringa Station Manager Graham Sinnamon who relishes being a value chain-based wool grower. "To know we are supplying for Glerups its very rewarding. Until now we've never known where the wool ends up after sale and so to see an end product of such quality is really satisfying," says Graham.

Glerups worldwide sales are growing approximately 20% per annum and the company has indicated to NZM its desire for greater security of supply at the right specifications and in the right quantities, longer term. Glerups directors are due to visit New Zealand again in 2015/16. They can look forward to a warm welcome on Landcorp farms.

STRATEGY

EFFICIENCY

BOOST EFFICIENCY AND EFFECTIVENESS

Landcorp is moving to more efficient and effective practices and systems across the business. There are potentially huge gains in drawing on our peoples' ideas for improving on-farm work practices and on their accumulated knowledge of productivity. Landcorp is leading the way on the application of LEAN methodologies in agriculture and on systematic information sharing among farm managers. These programmes augment company-wide data collection and analysis using the Farm Management System.

Our strategy is also to maximise the advantages in Landcorp's large scale and capabilities as a corporate farmer. We have integrated operations across different farms and regions to support growth in production volumes and value chain commitments, while maintaining sufficient flexibility in the use of individual farms. We are also keeping under review both our land ownership in various regions and our options to farm land owned by other parties. We will make efficient and effective use of all Landcorp capital and resources.

KEY EFFICIENCY INITIATIVES

LEAN work principles and behaviours on all dairy farms. Landcorp is rolling these out to all dairy farms during 2015/16, aimed at greater efficiency in the use of resources and staff time, and less waste. LEAN will be extended to livestock farms thereafter.

Farm Management System (FMS) operational throughout Landcorp. Farm managers are increasingly adept at data entry and use of FMS for analysis and decision making. Training continues for increased use of the Farmax feed budgeting system.

Streamlined red meat production system. Landcorp is working to optimise operations across its 70 livestock farms, with more focus on finishing animals for meat production on a wider spread of properties and with farm managers pooling more of their knowledge through regular workshops and FMS reporting.

Farm portfolio efficiencies. Ongoing review of land use options has seen Landcorp relinquish part of the Rolls Peak, non-dairy block on Wairakei Estate in 2015/16, and also withdraw from a Shanghai Pengxin-owned farm in the Central North Island.

Project Simple to streamline work processes. Landcorp is investigating a re-engineered procure-to-pay process and system in 2015/16 with other process efficiencies also planned.

CASE STUDY

BROADLANDS GOES LEAN

Broadlands Dairy Unit Team

The LEAN approach to farming is definitely paying off on the Broadlands dairy unit. Staff members are constantly fine-tuning the operation, the cows are healthier and profit is up. Farm Business Manager Matt Johnson is in no doubt about the efficiencies that LEAN tools and behaviours have brought.

Broadlands, a 525 hectare unit on Wairakei Estate, was Landcorp's trial farm for LEAN during the second half of 2014/15. The same tools and practices are now being introduced on Matt's other four Wairakei units (beginning what will become a business-wide roll-out). "It really makes a difference when everyone on farm understands the big picture behind key decisions, and they can be actively engaged in identifying issues and contributing to solutions," he says.

The LEAN approach was developed internationally for large-scale manufacturing. Landcorp is adapting it to farming with the same focus on people doing only what adds value to production (and ultimately, to customers), and on the elimination of waste in how time and resources are used. The company brought in LEAN consultants in to work with Broadlands Farm Manager Jacob Ratu and his five staff, first learning from each what their daily work involved and how they could influence performance targets for the unit. Staff safety was the first consideration.

Broadlands team members now add information daily to a scorecard of key measures and observations in the farm office – information on cow health, feed cover, workplace incidents and more. Each week, the team meets to discuss what has been happening and why, with every member encouraged to speak and contribute ideas.

"With LEAN, we treat the scorecard as a basis for communication that involves everyone on farm so they understand the 'why' for decisions that are being made and then take responsibility for doing their particular bit to improve things and achieve results," says Matt.

Negative trends are now spotted sooner and remedial steps taken before they escalate. "We are much more proactive in identifying small problems and fixing them quickly," says Matt.

Broadlands, milking 1700 cows at the season's peak, recorded somatic cell counts among the lowest in Landcorp during 2014/15, and also excelled at cost control. Matt attributes these in part to the LEAN tools and behaviours. "On this farm we have a safe, happy and engaged team ... there's been a massive amount of growth."

The approach and its information sharing by staff has other benefits, including the fact that institutional knowledge on each farm is no longer held only by one or a few people (and perhaps lost when they leave). On Broadlands, says Matt, "I can walk in at any time and see exactly what is happening. The information is great and I know that Jacob and his team are just getting on with what needs to be done, which frees me up to deal with other, big picture issues."

STRATEGY

ENVIRONMENT

REJUVENATE THE ENVIRONMENT

Landcorp is working to rejuvenate the environment on and around its farms, while retaining a strong focus on productivity and profitability. Environmental considerations are integral to all farm planning and operations. We are seeking to make the best use of science and technology to protect soil and water quality, and to minimise nutrient losses and carbon emissions in our land use and farming practices.

Landcorp is showing leadership on profitable and sustainable farming in New Zealand through its operations every day, and through its engagement with environmental stakeholders and local communities. We have opened dialogue with various parties – and will increasingly open farm gates to visitors, including other farmers. On behalf of all New Zealand, Landcorp is committing itself to a goal of carbon neutrality by 2025.

KEY ENVIRONMENTAL INITIATIVES

Every Landcorp farm operating to its own Land and Environment Plan. These plans identify the most profitable and environmentally-sustainable use of each area on the farm. The options include afforestation or retirement from production. Under these plans, farm managers have practical tools to manage nutrient use, and to monitor ground water and soil conditions to a very high Landcorp standard. In 2014/15 a further 215 hectares were protected under covenants (total of 16,161 hectares).

External Reference Group advising Landcorp on all environmental matters. We have established a group of independent scientists and business people to work with us and challenge us on all environmental aspect of our plans and practices.

On Wairakei Estate, rigorous monitoring of ground water quality. Landcorp has engaged Lincoln AgriTech as experts to lead an expanded monitoring programme. Results will provide Landcorp and the Wairakei Estate owners with scientific knowledge on likely future leaching into the Waikato River, and support modelling on possible alternative economic uses of the land.

Creation of "Future Farms" testing grounds. Landcorp is looking to set up a "Future Farm" to prototype new ways of using and integrating technology, innovation and farm systems to improve the profitability of farms while significantly lowering the environmental impact of those farms. The aim is to set up a dairy farm to challenge accepted thinking and ways of doing things, in a safe and controlled environment to provide a series of proven technologies and systems that can be rolled out across Landcorp's farms. Our Future Farm will become a centre of innovation, farmed by Landcorp and overseen by an expert steering group.

Steps for making Landcorp carbon neutral. We plan increased tree planting and faster take-up of "climate smart" farming. Our programme includes exploring precision technologies for fertiliser application, for minimising nutrient losses and for boosting soil carbon, alongside systems that identify and remove least-efficient livestock from farms. Landcorp is also exploring options for increasing on-farm renewable energy generation.

CASE STUDY

EWEBURN PRODUCES VENISON AND BIODIVERSITY

Eweburn Station

Biodiversity in native species can flourish alongside profitable farming. Landcorp's Eweburn Station proves the point. This deer breeding and finishing property on the glacial terraces of Te Anau basin, Southland, has been recognised for excellence in sustainable farming in the 2015 Deer Industry Environmental Awards.

Eweburn stands out for its regeneration of native vegetation and the water quality in its high country streams and wetlands – these resulting from great care in farm planning, fencing and stock management. Native trees and scrubland species grow plentifully in Eweburn's gullies and riparian areas. Koura, eels and invertebrate species abound in its waterways.

The 3900-hectare station has a key role in Landcorp's production of premium venison, with 5000 in-fawn hinds wintered through 2015 alongside a sizeable herd of animals in their finishing stages. Eweburn also produces Lamb Supreme-sired lambs for the Tesco Finest programme and breeds Angus cattle for finishing on other Landcorp farms in the region.

Farm Manager Ray Tibbles is meticulous about every aspect of production and how this is integrated with Eweburn's Land and Environment Plan. "Mostly it is common sense … we want to make stock handling easy and that goes with keeping them out of wetlands and streams," says Ray. "We've made every effort to protect areas of particular natural value. We give thought all the time to how each part of the farm is used."

Manager of Eweburn for 25 years, Ray has planned and overseen its conversion to large-scale deer farming. The process has included, so far, protecting 650 hectares or 16% of the total area (including 432 hectares under covenant) and building 240km of deer fences, much of them keeping stock well clear streams and wetlands.

In the environmental awards, Ray and his three staff have won the NZ Landcare Trust Award for "action on the ground" that demonstrates "a strong level of leadership through identification of risk areas on their property, implementation of mitigation tools and adoption of farming systems to ensure long term sustainability".

The judges say Eweburn has been developed with sustainability and water quality in mind. They commend the protection of waterways and native bush cover, and the constant matching of stocking rates with land conditions. "The planning and foresight that goes into day-to-day operations, as well as the seasons ahead, demonstrate passion for the business and great farm management skills," they say.

Eweburn's development also owes much to the Queen Elizabeth II National Trust's Southland Advisor, Mark Sutton, and his advice on projects to protect water quality and regenerate native cover. For 15 years, Mark watched biodiversity re-emerge in streams, wetlands and other fenced areas by keeping stock out and creating buffer zones. "On Eweburn, we see a farmer who really understands the connection between agriculture and the environment. So much can be achieved by doing a few simple things that result in no loss to the farm or production," says Mark, who is also field officer for Southland's Waiau Trust. "Landcorp as a company is very responsive to environmental concerns but it still takes farm managers on the ground to get the results."

LEAD ON SAFETY AND PEOPLE DEVELOPMENT

Landcorp is striving to be the safest, most enriching work environment for people in New Zealand agriculture. Safety is the top priority wherever people work on our farms, at any time. We are encouraging all employees to have a safety first mindset – and equipping them with the information and tools needed to stay safe, and to learn from near-miss incidents.

We are developing the knowledge and capabilities that Landcorp people need to deliver on our vision, purpose and strategies. Our learning and development programmes are designed to meet the needs of the individual employee, of the company and of New Zealand agriculture. People development is fundamental to Landcorp's industry leadership. We have a particularly strong focus on developing the acumen and skills of farming leaders.

KEY PEOPLE-LEADING INITIATIVES

Play it Safe next phase for workplace safety. Landcorp continues to promote a safety-first mindset among employees and encourage behavioral change based on the Play it Safe campaign launched in early 2014. We are now into the "continuity" phase with a focus on personal accountabilities, simple processes for hazard identification and management, and advisory support for staff in the field.

Quads no longer used on dairy farms. Rigorous assessment of quads has resulted in Landcorp withdrawing these from all dairy units and introducing tighter use guidelines on livestock farms from July 2015.

More learning from accidents and near-miss incidents. Landcorp is gathering new insights on health & safety and sharing these through a Safety Focus Group of employees and a Leaders Forum of executives and farm managers. Monthly reporting of near-miss incidents has jumped 219% since January 2014.

Industry leadership on health & safety in agriculture. Landcorp has established a group of like-minded organisations to share H&S benchmarking and ideas initiatives. We are also helping WorkSafe on its "Safer Farms" campaign. In 2015, Landcorp won the "ACC best leadership of an industry" category of the New Zealand Workplace Safety Awards – and we will continue building on our role as industry leaders.

CASE STUDY

FARM MANAGERS OF ACUMEN AND SKILL


Ian Nelson

Farm managers make a huge difference to Landcorp. Their business acumen and capacities for self-management and team leadership are critical to our business. Farm managers are, therefore, the first group to go through the new Landcorp Leadership Development Programme.

The programme is aimed at helping managers on all 140 farms to strengthen their thinking, management and leadership skills. Farm managers are developing their capacity to demonstrate Landcorp's four values on the job each day, supported by their own personal values and by their strengths as managers and leaders.

The programme is divided into three modules, each delivered in an intensive one day workshop for eight to 12 farm managers (with "home work" to follow). The first module builds business acumen by creating greater awareness of the "big picture" factors that drive decision-making in Landcorp, including global market trends and government policy settings. "Managers are being helped to understand and analyse the world in which they operate and produce," says Celyn Fenwick, Learning and Development Adviser. "They are thinking more about scenarios beyond the farm gate that might impact on Landcorp, and about how their own decisions can make us more resilient and better at taking advantage of opportunities that might be arising."

The second module is about self-management. Managers are encouraged to reflect on their personal values and beliefs, and on how these help (or hinder) them in achieving what they want on the job. There is a big focus also on leadership qualities - those qualities already held by the individual manager and those to which they aspire.

The third aims to equip managers with particular tools for more effective leadership of on-farm teams. These skills include the ability to give staff effective and constructive feedback on their performance, and guidance on what needs to change. "Farm managers are really key to building a mindset among our people that will lead to safe and highly productive work practices every day, regardless of who might be looking on," says Celyn.

From Waitere Farm, northern Hawkes Bay, Manager Bart Cheetham says the programme has been great for strengthening some of his core beliefs, stretching his mind on the big issues around agriculture and giving him new skills for leading his team. "The idea, for example, that we each need to polish the lens through which we view the world certainly rings true with me. When we step back from any issue and try looking at it with an unbiased view, there is usually a good solution," says Bart. "I've always liked to get the ideas flowing with my team although I'm becoming a much better listener than I was."

Ian Nelson of the Endeavour dairy unit on Wairakei Estate is another manager who has enjoyed the sessions. "I've always liked to empower my guys to take ownership of their part of the farm from day-to-day … this has renewed my enthusiasm and given me new ideas for doing more with the team."

BOARD OF DIRECTORS

2015

Traci Houpapa
MNZM, JP, MBA

Traci was appointed to the Landcorp Board in May 2010 and was appointed Chairman in May 2015 following nearly a year as acting Chairman. She specialises in strategic and economic development, advising public and private sector clients throughout New Zealand. Traci is an experienced company director, and holds a number of directorships and Ministerial appointments. She chairs the Federation of Maori Authorities, Te Uranga B2 Incorporation and the National Advisory Council for the Employment of Women. Traci also holds governance roles on the Waikato River Authority, Nga Pae O Te Maramatanga Centre for Research Excellence, Diverse NZ Inc, the Rural Broadband Initiative (RBI) National Advisory Committee and Strada Corporation, the Ontario Teachers' Pension Plan NZ Forestry Investments Limited, Pengxin NZ Farm Management Limited, Ururangi Limited and the Asia NZ Foundation.

John Brakenridge
MBA

John was appointed to the Landcorp Board in May 2011. He is the Chief Executive of The New Zealand Merino Company (NZM), an integrated sales, marketing, and innovation company focused on redesigning the merino industry and complementary areas of New Zealand's primary industry. John has lived and worked in the USA, the Middle East and Europe. He holds an MBA from the University of Canterbury and has completed post-graduate study at the Stanford University Graduate School of Business. In 2013, John was selected as the winner of the KPMG Leader: Outstanding Contribution to International Business in the New Zealand International Business Awards, while NZM won the AUT Business School: Most Innovative Business Model in International Business award. John is a director of Alpine Origin Merino Limited and a member the Medbury School Trust Board.

Nikki Davies-Colley
BBS, MBA (Dist), ANZIM, AFInstD, MAICD

Nikki was appointed to the Landcorp Board in May 2012. She has farmed cattle, sheep and trees in Titoki, Northland since 1985. The family farm is now leased to a new generation of farmers. She has owned and managed companies involved in forest and harvest management, mainly on farm scale woodlots, as well as large scale logging, since 1992. She has been involved in governance roles since 1994. Nikki is currently Chairman of Northpower Limited and of Farmlands Cooperative Society Limited.

Chris Day
BBS, CA, CTP, CMInstD

Chris was appointed to the Landcorp Board in May 2012. He is Chief Financial Officer of Z Energy Limited. A Chartered Accountant, he has a range of international and New Zealand business experience in executive and governance roles. Chris grew up on a sheep and beef farm at Pahiatua in North Wairarapa, with his family having farmed in Wairarapa since the 1850s.

Pauline Lockett

B.Com, ACA

Pauline was appointed to the Landcorp Board in May 2012. She is a Fellow Chartered Accountant and is currently the chair of the Taranaki District Health Board. She was a partner of PricewaterhouseCoopers for 20 years until retirement in June 2010. During that time she acted in an advisory capacity to her many varied clients, a significant number of whom were farming clients.

David Nelson

Dip. Ag (Massey), MInstD

David was appointed to the Landcorp Board in May 2013. David's commitment to agriculture is reflected in his own sheep and beef farming business as well as numerous agricultural organisations he governs or has involvement with. He brings extensive expertise in all aspects of agriculture within NZ, international dairy experience alongside a sound understanding of market requirements, training and development of young people. His governance career includes current directorship of Landcorp Farming and past chairman of Taratahi Agricultural training organisation, as well as various local and regional organisations.

Tony Reilly

B.Agr.Com. N Sch. FInstD

Tony was appointed to the Landcorp Board in July 2014. He has been involved in agricultural governance, particularly in the dairy sector since 1995. Tony has a background in farm consultancy. He was awarded a Nuffield scholarship to study in Europe, and was a director of the NZ Dairy Board, and Kiwi Dairy Co-op up to the formation of Fonterra. He is currently a director of Ravensdown Fertiliser Co-op Limited and Network Tasman Limited. Tony grew up on and still farms the family dairy farm in Golden Bay, with a strong emphasis on environmental sustainability and intergenerational stewardship.

Eric Roy

QSO, JP

Eric was appointed to the Board in May 2015. He spent two decades serving Southland as an electorate and list MP for the National Party. He retired from Parliament in 2014 and was appointed a Companion of the Queen's Service Order for services as a Member of Parliament in the 2015 New Year Honours. Before entering parliament Eric was involved in a wide range of farming organisations and commercial activities. Eric currently farms three properties in Southland involved with deer, beef, sheep, and dairy support.

LEADERSHIP TEAM

2015

Steven Carden
Chief Executive Officer

Steve McJorrow
Chief Financial Officer

Lucy Wills
General Manager
People and Safety

Sarah Risell
General Manager
Marketing

Graeme Mulligan
General Manager
Livestock Operations

Phil McKenzie
General Manager
Property and Environment

Mark Julian
General Manager
Dairy Operations

Andrew MacPherson
General Manager
Commercial Development

Anna Cassels-Brown resigned as General Manager, People and Capability on 24 July 2015.

FINANCIAL REVIEW 2014/15

Landcorp Farming recorded a net operating profit of $4.9 million for the year ended 30 June 2015, down from $30.0 million in the previous year.

The decline was due to a 9.2 per cent fall in revenue as Landcorp, along with all other New Zealand dairy producers, experienced a sharp reduction in the level of milksolids payout compared with the record high in 2013/14. The impact on net operating profit of lower revenue was reduced somewhat as the Company held its expenditure virtually flat in the latest year compared with 2013/14.

The total shareholder return (also known as total comprehensive income) for 2014/15 was a $8.4 million loss (2013/14: $115.9 million gain). The latest year's $4.9 million net operating profit was more than offset by a $21.6 million loss on livestock revaluation at 30 June 2015, due to market price changes, and a $6.8 million loss arising from price changes on financial instruments. Other income items included a gain of $11.7 million on revaluation of land and improvements, and of $4.0 million loss on available-for-sale financial assets. Total shareholder return varies greatly from year-to-year due to volatility in the industry values of livestock and land.

REVENUE

Income on farm products fell 11.7 per cent to $213.5 million (2013/14: $241.7 million), reflecting the milk price drop and also a marked decline in lamb prices. Industry-wide dairy returns to producers were at their lowest level for eight years with the forecast Fonterra cash payout for 2014/15 falling to $4.60-$4.70 per kilogram of milksolids (2013/14: $8.50).

Landcorp lifted its milk volume to 19.5 million kilograms (including production on farms owned by Shanghai Pengxin Group). The increase reflected the addition of more dairy units on Wairakei Estate in time for the 2014/15 season, expansion projects on the Maronan and Eyrewell complexes in Canterbury, and a particularly strong performance on the Moutoa complex in Manawatu. The lower payout reduced Landcorp's milk revenue by 31.7 per cent to $88.1 million (2013/14: $129.0 million).

The contraction would have been significantly sharper had Landcorp not secured significant volume of supply to Fonterra under the Guaranteed Milk Price scheme at prices that were above the final payout level. While total milk production was up, milksolids per hectare across all Landcorp dairy operations was down to 886 kilograms (2013/14: 944 kilograms). This reflected the prudent reduction of spending on supplementary feed, protecting farm profitability as milksolids payout forecasts declined through the year.

Lower milk revenue was offset partly by 12.8 per cent growth in Landcorp livestock revenues to $111.3 million (2013/14: $98.7 million). This reflected higher prices for beef in the latest year, along with significant growth in lamb production. The national beef indicator price to farmers surged during the first half and while it eased thereafter, there was an overall 10 per cent rise in 2014/15. This was due largely to increased demand from North America. In contrast, the lamb market indicator price slipped 15 per cent as demand for New Zealand sheepmeat weakened in China and other export markets.

Landcorp tonnages of beef and sheepmeat production increased 4 per cent and 12 per cent respectively in 2014/15 compared with the previous year. The company finished approximately 430,000 new season lambs with more than a third of these sold on fixed price contracts. This included another season of supply into the Finest* programme of UK supermarket group Tesco. The fixed prices to Landcorp were mostly higher than the year's average of schedule prices on offer to lamb producers generally. Overall sheepmeat revenue was up 2.9 per cent in the latest year, while beef revenue was up 31.6 per cent.

Landcorp consolidated its deer breeding and finishing herds through 2014/15 as venison prices remained flat. Deer revenue was down 5.2 per cent, although there was some benefit from a 25 per cent jump in velvet prices.

Wool revenue increased to $10.7 million in 2014/15 (2013/14: 9.1 million) as market prices rose in response to New Zealand dollar depreciation and higher demand from overseas wool buyers. The crossbred indicator price rose 8 per cent through the latest year, after reaching its highest level for four years. Landcorp increased shorn wool production to 3000 tonnes, a portion of this committed to supplying Glerups, the Denmark-based indoor shoe manufacturer, under a contract through The New Zealand Merino Company.

Landcorp farm production levels were impacted by tough growing conditions as most of New Zealand had a much drier, hotter summer than usual. East coast regions of the lower North Island and the South from Marlborough to Otago were in drought during February-March, as were parts of Waikato. Dry conditions continued through autumn in these regions, although some western North Island areas had high rainfall. The final month of 2014/15 turned colder and wetter than usual across most of New Zealand.

Landcorp farms showed resilience in the face of these extremes, with a strong emphasis on feed budgeting and timely adjustment of flock and herd numbers. The Farm Management System capabilities were of significant value along with cooperation and information sharing across Landcorp's 70 livestock farms and its dairy operations. Farms met their lamb supply contract commitments. Milk production growth reflected the company's irrigation capacity in Canterbury and on Wairakei Estate, the addition of new dairy sheds in the latest year and continued on-farm productivity gains.

Landcorp had no significant income from farm land sales during 2014/15.

EXPENSES

Landcorp increased total expenses by only 0.9 per cent in 2014/15 to $208.8 million (2013/14: $207.0 million) despite growth in some dairying and other operations during the latest year. The Company met the tough growing conditions and weakness in some product prices with spending restraint. Farm working expenses were held almost flat at $91.1 million (2013/14: $92.2 million), while maintenance spending was up slightly to $14.0 million.

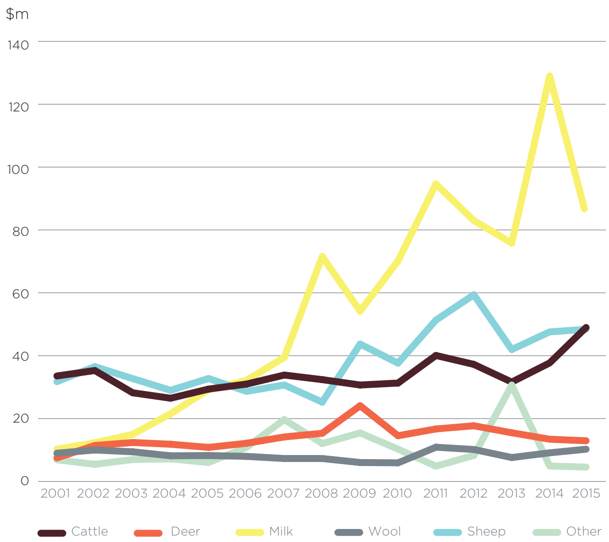
Landcorp had 715 full-time permanent employees at 30 June 2015 (2014: 692), the increase coming mainly from growth in operations on Wairakei Estate. Personnel costs were up slightly to $57.6 million (2013/14: $56.7 million). Landcorp staff forewent any bonus payments related to Company-wide performance in the latest year.

BALANCE SHEET

Total assets increased to $ 1,774.7 million at 30 June 2015 (2014: $1,748.5 million). This reflected the gain on revaluation of land and improvements, which was partly offset by revaluation losses on Landcorp's livestock at balance date (due to lower market prices). Bank borrowings were up to $210.7 million on 30 June 2015, compared with $172.4 million in June 2014. The Company had been able to repay $56 million of debt in 2013/14 using proceeds from two substantial farm sales during that year. As noted, there were no significant sales of land in 2014/15.

At 30 June 2015, the ratio of shareholders' funds (including redeemable preference shares) to total assets was 85.7 per cent (2014: 87.8 per cent). Landcorp will retain a conservative balance sheet while continuing to invest in initiatives across the five core areas of strategy.

REVENUE SOURCES



FINANCIAL STATEMENTS

AND DISCLOSURE INFORMATION

STATEMENT OF COMPREHENSIVE INCOME

for the year ended 30 June 2015

	Note	Group 2015 $m	Group 2014 $m	Parent 2015 $m	Parent 2014 $m
Revenue					
Livestock	6	111.3	98.7	111.3	98.7
Milk	7	88.1	129.0	88.1	129.0
Wool		10.7	9.1	10.7	9.1
Forestry		2.4	3.7	2.4	3.6
Other produce		1.0	1.2	1.0	1.2
		213.5	**241.7**	**213.5**	**241.6**
Income from equity accounted investments		-	0.4	0.3	0.4
Other gains and losses		0.2	(1.4)	-	(2.0)
Other income		10.6	6.3	7.4	7.4
		224.3	**247.0**	**221.2**	**247.4**
Expenses					
Farm working expenses	8	91.1	92.2	85.6	89.6
Personnel	9	57.6	56.7	57.6	56.7
Depreciation and amortisation		15.4	14.4	14.6	14.1
Maintenance		14.0	13.4	14.0	13.3
Other operating expenses	10	30.7	30.3	32.2	31.1
		208.8	**207.0**	**204.0**	**204.8**
Net Profit before Interest, Property Sales and Revaluations		**15.5**	**40.0**	**17.2**	**42.6**
Interest income		-	-	0.3	0.5
Interest expense		(10.6)	(10.0)	(10.7)	(10.1)
Net Finance Costs		(10.6)	(10.0)	(10.4)	(9.6)
Net Operating Profit		**4.9**	**30.0**	**6.8**	**33.0**
Profit on sale of land		-	0.1	-	0.1
Revaluation Gains and Losses					
Gain due to price changes on forests		1.9	0.4	1.8	0.3
Gain/(Loss) due to price changes on livestock	6	(21.6)	36.7	(21.6)	36.7
Gain due to price changes on financial instruments		(6.8)	2.1	(6.8)	2.1
Gain/(Loss) on revaluation of property, plant and equipment		(2.8)	1.8	(2.8)	1.8
Net Profit/(Loss) before Tax		**(24.4)**	**71.1**	**(22.6)**	**74.0**
Tax (expense) income	17	4.4	(16.4)	3.7	(17.9)
Net Profit (Loss) after Tax		**(20.0)**	**54.7**	**(18.9)**	**56.1**

	Note	Group 2015 $m	Group 2014 $m	Parent 2015 $m	Parent 2014 $m
Other Comprehensive Income					
Gain/(Loss) on revaluation of land and improvements		11.7	67.6	11.7	67.8
Revaluation (gains)/losses transferred to and recognised in profit and loss		2.8	(1.8)	2.8	(1.8)
Gain/(Loss) on revaluation of available-for-sale financial assets		(4.0)	(7.9)	(4.0)	(7.9)
Gain/(Loss) due to price changes on intangible assets		0.6	0.8	0.5	0.7
Revaluations transferred to profit or loss on disposal of available-for-sale financial assets		-	-	-	-
Income tax on income and expense recognised in equity		0.5	2.5	0.5	2.5
Total Comprehensive Income		**(8.4)**	**115.9**	**(7.4)**	**117.4**

The accompanying notes form part of these financial statements.

The Directors note that the Net Profit after Tax as reported under NZ IFRS includes significant revaluation gains/(losses) on livestock and financial instruments used for interest rate hedging. These gains and losses are valued at a particular time and do not represent cash flows that are received in the ordinary course of business. Accordingly, Landcorp's dividend is based on Net Operating Profit.

STATEMENT OF MOVEMENTS IN EQUITY

for the year ended 30 June 2015

	Note	Group 2015 $m	Group 2014 $m	Parent 2015 $m	Parent 2014 $m
Ordinary Shares					
Balance beginning of year		125.0	125.0	125.0	125.0
Balance end of year	15	**125.0**	**125.0**	**125.0**	**125.0**
Retained Earnings					
Balance beginning of year		129.5	118.2	248.5	236.2
Net profit/(loss) after tax		(20.0)	55.1	(18.9)	56.1
Transfer (to)/from revenue reserves		28.4	(38.8)	28.4	(38.8)
Dividends paid	16	(7.0)	(5.0)	(7.0)	(5.0)
Balance end of year	15	**130.9**	**129.5**	**251.0**	**248.5**
Revenue Reserves					
Biological assets revaluation reserve					
Balance beginning of year		127.2	90.5	126.4	89.7
Transfer from/(to) retained earnings		(21.6)	36.7	(21.6)	36.7
Balance end of year	15	**105.6**	**127.2**	**104.8**	**126.4**
Financial assets revaluation reserve					
Balance beginning of year		(16.1)	(18.2)	(16.1)	(18.2)
Transfer from/(to) retained earnings		(6.8)	2.1	(6.8)	2.1
Balance end of year	15	**(22.9)**	**(16.1)**	**(22.9)**	**(16.1)**
Fair Value Reserve					
Balance beginning of year		12.9	20.8	15.2	23.1
Revaluation of available-for-sale financial assets		(4.0)	(7.9)	(4.0)	(7.9)
Net tax effect on revaluation		0.2	-	0.2	-
Balance end of year	15	**9.1**	**12.9**	**11.4**	**15.2**
Asset Revaluation Reserves					
Intangible assets					
Balance beginning of year		(1.1)	(1.9)	(1.2)	(1.9)
Net value change during year		0.6	0.8	0.5	0.7
Balance end of year	15	**(0.5)**	**(1.1)**	**(0.7)**	**(1.2)**
Freehold land and improvements					
Balance beginning of year		747.0	702.1	645.8	592.1
Transfers to property held for sale		-	(16.6)	-	(16.6)
Transfers to other equity on sale		-	(8.8)	-	-
Transfers from property held for sale		8.0	-	8.0	-
Net value change during year	14	11.6	69.6	11.6	69.6
Revaluation (gains)/losses recognised in profit and loss		2.8	(1.8)	2.8	(1.8)
Tax effect of reserve movements		0.3	2.5	0.3	2.5
Balance end of year	15	**769.7**	**747.0**	**668.5**	**645.8**

	Note	Group 2015 $m	Group 2014 $m	Parent 2015 $m	Parent 2014 $m
Property held for sale					
Balance beginning of year		20.5	42.1	18.4	39.5
Transfers from freehold land and buildings		-	16.6	-	16.6
Transfers to freehold land and buildings		(8.0)	-	(8.0)	-
Transfers to other equity on sale		-	(36.2)	-	(35.9)
Value change during year		0.1	(2.0)	0.1	(1.8)
Balance end of year	15	**12.6**	**20.5**	**10.5**	**18.4**
Other Equity					
Balance beginning of year		282.5	237.4	256.3	220.4
Transfers from asset revaluation reserves		-	45.0	-	35.9
Capital expenditure reimbursed by the Crown		0.9	1.6	-	-
Assets transferred to the Crown		-	(1.5)	-	-
Balance end of year	15	**283.4**	**282.5**	**256.3**	**256.3**
Non-Controlling Interest					
Balance beginning of year		0.9	1.3	-	-
Acquisition of subsidiary with non-controlling interests		(0.9)	-	-	-
Net loss after tax		-	(0.4)	-	-
Balance end of year		**-**	**0.9**	**-**	**-**
Total Equity					
Balance beginning of year		1,428.3	1,317.3	1,418.3	1,305.9
Net profit/(loss) after tax		(20.0)	54.7	(18.9)	56.1
Other comprehensive income:					
Gain/(Loss) on revaluation of land and improvements		11.7	67.6	11.7	67.8
Revaluation (gains)/losses transferred to and recognised in profit and loss		2.8	(1.8)	2.8	(1.8)
(Loss)/Gain on revaluation of available-for-sale financial assets		(4.0)	(7.9)	(4.0)	(7.9)
Gain/(Loss) on revaluation of intangible assets		0.6	0.8	0.5	0.7
Income tax on income and expense recognised in equity		0.5	2.5	0.5	2.5
Dividends paid		(7.0)	(5.0)	(7.0)	(5.0)
Capital expenditure reimbursed by the Crown		0.9	1.6	-	-
Assets transferred to the Crown		-	(1.5)	-	-
Acquisition of subsidiary with non-controlling interests		(0.9)	-	-	-
Balance end of year		**1,412.9**	**1,428.3**	**1,403.9**	**1,418.3**

The accompanying notes form part of these financial statements.

STATEMENT OF CASH FLOWS

for the year ended 30 June 2015

	Note	Group 2015 $m	Group 2014 $m	Parent 2015 $m	Parent 2014 $m
Operating Activities					
Cash was received from:					
Receipts from customers					
Livestock		134.6	109.5	134.6	109.5
Milk		99.2	117.1	98.8	117.1
Other receipts from customers		24.0	32.0	16.2	40.4
Interest received		-	-	0.3	0.5
Dividends received from equity accounted joint investments		-	0.5	-	-
Other dividends received		-	0.1	-	1.1
Income tax received		0.3	1.5	-	-
		258.1	**260.7**	**249.9**	**268.6**
Cash was applied to:					
Payments to suppliers		161.1	152.2	158.6	171.6
Payments to employees		57.0	52.2	57.0	52.2
Interest paid		11.3	10.2	11.4	10.2
Net GST (received) paid		(0.8)	(0.1)	(0.1)	(0.3)
		228.6	**214.5**	**226.9**	**233.7**
Net Cash Flows from Operating Activities		**29.5**	**46.2**	**23.0**	**34.9**
Investing Activities					
Cash was received from:					
Sale of land and improvements		4.9	57.3	1.4	55.1
Sale of other property, plant and equipment		(0.4)	8.5	0.6	2.9
Sale of other investments		-	-	-	-
		4.5	**65.8**	**2.0**	**58.0**
Cash was applied to:					
Purchase and development of land		42.5	31.0	41.3	29.7
Purchase of other property, plant and equipment		15.5	16.8	14.0	16.1
Purchase of intangible assets		0.1	0.8	-	0.8
Purchase of shares and advances		5.3	-	0.5	-
Purchase of livestock		1.8	1.4	0.1	1.4
Net subsidiary investment		-	-	1.4	(15.4)
		65.2	**50.0**	**57.3**	**32.6**
Net Cash Flows from Investing Activities		**(60.7)**	**15.8**	**(55.3)**	**25.4**

	Note	Group 2015 $m	Group 2014 $m	Parent 2015 $m	Parent 2014 $m
Financing Activities					
Cash was received from:					
Net borrowing receipts		38.1	-	38.2	-
		38.1	**-**	**38.2**	**-**
Cash was applied to:					
Net borrowing payments		-	56.0	-	56.0
Dividends paid	16	7.0	5.0	7.0	5.0
		7.0	**61.0**	**7.0**	**61.0**
Net Cash Flows from Financing Activities		31.1	(61.0)	31.2	(61.0)
Net Change in Cash and Cash Equivalents		**(0.1)**	**1.0**	**(1.1)**	**(0.7)**
Cash and cash equivalents at beginning of year		0.3	(0.7)	(2.0)	(1.3)
Cash and Cash Equivalents at End of Year		**0.2**	**0.3**	**(3.1)**	**(2.0)**
Cash and cash equivalents comprises cash balances held with registered New Zealand banks -					
Cash at bank/(bank overdraft)		0.2	0.3	(3.1)	(2.0)
Reconciliation of Profit and Operating Cash Flow					
Net profit (loss) after tax		(20.0)	54.7	(18.9)	56.1
Non cash items					
Depreciation and amortisation		15.4	14.4	14.6	14.1
Revaluation gains and losses		29.3	(41.0)	29.4	(40.9)
Change in deferred tax asset/liability		(4.1)	14.4	(4.1)	15.4
Deferred tax on revaluation of assets		0.3	2.5	0.3	2.5
Other non cash items		1.0	(10.8)	(2.4)	(12.6)
Movement in working capital items					
Inventories		2.9	1.0	2.8	1.0
Accounts receivable		6.2	5.6	6.6	6.5
Accounts payable and accruals		3.1	6.7	2.6	(10.4)
Employee entitlements		(2.7)	1.4	(2.8)	1.5
Items classified as investing or financing activities					
Net gain/(loss) on movement of assets		(0.3)	0.1	(0.1)	-
Change in accounts receivable due to capital items		0.4	(5.4)	0.3	0.7
Change in accounts payable due to capital items		(3.8)	1.2	(5.4)	(0.4)
Purchase of livestock		1.8	1.4	0.1	1.4
Net Cash Flows from Operating Activities		**29.5**	**46.2**	**23.0**	**34.9**

The accompanying notes form part of these financial statements.

STATEMENT OF FINANCIAL POSITION

as at 30 June 2015

	Note	Group 2015 $m	Group 2014 $m	Parent 2015 $m	Parent 2014 $m
Assets					
Cash and Cash Equivalents		0.2	0.3	-	-
Accounts Receivable	11	26.8	33.0	25.4	32.0
Inventories		8.0	10.9	7.6	10.4
Property Held for Sale		31.5	50.7	12.5	30.1
Biological Assets					
Livestock	6	270.9	294.4	270.9	294.4
Forests		25.4	21.3	24.1	20.2
Total Biological Assets		**296.3**	**315.7**	**295.0**	**314.6**
Equity Accounted Investments		5.8	2.5	0.7	0.4
Other Financial Assets	12	50.1	53.5	184.3	182.9
Intangible Assets	13	6.5	5.2	4.2	3.1
Property, Plant and Equipment					
Land and improvements	14	1,189.5	1,120.2	1,189.5	1,120.2
Protected land	14	110.2	109.3	-	-
Plant	14	24.3	22.8	24.3	22.8
Motor vehicles		23.0	21.9	22.9	21.8
Furniture and equipment		2.1	2.0	2.0	1.8
Computer equipment		0.4	0.5	0.4	0.5
Total Property, Plant and Equipment		**1,349.5**	**1,276.7**	**1,239.1**	**1,167.1**
Total Assets		**1,774.7**	**1,748.5**	**1,768.8**	**1,740.6**

	Note	Group 2015 $m	Group 2014 $m	Parent 2015 $m	Parent 2014 $m
Liabilities					
Bank Overdraft		-	-	3.1	2.0
Accounts Payable and Accruals		23.9	21.2	24.7	22.1
Employee Entitlements		7.7	9.6	7.5	9.5
Deferred Tax Liability	17	0.7	4.8	0.2	4.3
Other Financial Liabilities	12	221.8	176.9	221.7	176.7
Redeemable Preference Shares	15	107.7	107.7	107.7	107.7
Total Liabilities		**361.8**	**320.2**	**364.9**	**322.3**
Non-Controlling Interest		-	0.9	–	–
Shareholders' Funds					
Share capital		125.0	125.0	125.0	125.0
Retained earnings		130.9	129.5	251.0	248.5
Revenue reserves		82.7	111.1	81.9	110.3
Fair value reserve		9.1	12.9	11.4	15.2
Asset revaluation reserves		781.8	766.4	678.3	663.0
Other equity		283.4	282.5	256.3	256.3
Total Shareholders' Funds	15	**1,412.9**	**1,427.4**	**1,403.9**	**1,418.3**
Total Equity		**1,412.9**	**1,428.3**	**1,403.9**	**1,418.3**
Total Equity and Liabilities		**1,774.7**	**1,748.5**	**1,768.8**	**1,740.6**

The accompanying notes form part of these financial statements.

Landcorp's Board of Directors authorised the financial statements for issue on 25 August 2015.

Signed on behalf of the Board

Traci Houpapa
Chair

P Lockett

Pauline Lockett
Chair of Audit Committee

25 August 2015

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2015

NOTE 1 – REPORTING ENTITY

Landcorp Farming Ltd ("Landcorp") is a profit-oriented company, incorporated and domiciled in New Zealand. Landcorp is 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 Farming Ltd is primarily involved in pastoral farming and the provision of farm management services within New Zealand. Subsidiary companies are involved in land development, land management, farm technology and developing genetically superior sheep, cattle and deer breeds. All material subsidiaries, associates and jointly controlled entities are incorporated or formed and domiciled in New Zealand.

The address of Landcorp's registered office and principal place of business is shown in the directory of the Annual Report.

Consolidated financial statements are presented for the "Group", comprising Landcorp Farming Ltd, subsidiaries, associates and jointly-controlled entities. Financial statements are presented for the "Parent", Landcorp Farming Ltd.

The financial statements of Landcorp and the Group are for the year ended 30 June 2015. The financial statements were authorised for issue by the Board of Directors on 25 August 2015.

NOTE 2 - BASIS OF PREPARATION

Statement of compliance

These financial statements have been prepared in accordance with NZ Generally Accepted Accounting Practice (GAAP) under the Companies Act 1993 and the Financial Reporting Act 2013. These financial statements comply with New Zealand equivalents to International Financial Reporting Standards (IFRS), and other applicable Financial Reporting Standards, as appropriate for profit-oriented entities.

Measurement base

The financial statements have been prepared using a historic cost basis, modified by the revaluation to fair value of certain assets and liabilities as disclosed below.

Functional and presentation currency

The financial statements are presented in New Zealand dollars (NZ$) and all values are rounded to the nearest million dollars ($m). The functional currency of Landcorp is NZ$.

Changes in accounting policies

There have been no changes in accounting policies during the financial year.

Comparative information

When presentation or classification of items in the financial statements is amended or accounting policies are changed, comparative figures are restated to ensure consistency with the current period unless it is impracticable to do so.

NOTE 3 - SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation

Subsidiaries

Subsidiaries are companies controlled by Landcorp and are included in the consolidated financial statements using the purchase method of consolidation. In the Parent, subsidiaries are valued at cost.

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

Interests in joint ventures

Jointly controlled entities are companies that Landcorp shares joint control over and are included in the financial statements using the equity method. 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.

Transactions with non-controlling interests

Transactions with non-controlling interests are treated as transactions with equity owners. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of the net assets of the subsidiary is recorded in equity. Gains and losses on disposals to non-controlling interests are also recorded in equity.

Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in business combinations is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the net assets transferred by the Company in exchange for control of the acquiree. Acquisition-related costs are recognised in profit or loss as incurred.

Goodwill in the business combination is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed.

Should the acquisition-date amounts of the identifiable assets acquired and liabilities assumed differ from the sum of the consideration transferred, the excess between the amount of the previously held non-controlling interest in the acquiree and the fair value of the Company's previously held interest in the acquiree, is recognised in profit or loss as a gain on business combination.

Revenue

Revenue is measured at the fair value of consideration received or receivable.

Livestock sales

Livestock sales, and sales of other agricultural produce, are recognised upon receipt by the customer when the risks and rewards of ownership have been transferred.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

Agricultural produce

Agricultural produce, including milk and wool, is recognised at the point-of-harvest at its fair value less estimated point-of-sale costs.

Accounts receivable

Accounts receivable are initially measured at fair value and are subsequently measured at amortised cost using the effective interest method, less any provision for impairment. An allowance for irrecoverable amounts is recognised in the Statement of Comprehensive Income when there is objective evidence that a receivable is impaired.

Property held for sale

Property held for sale comprises property that has been identified for sale and development land. Properties that have been identified for sale are classified as property held for sale when a sales plan has been implemented and an unconditional sales contract is expected to be signed within a year. Development land is held for sale to development joint venture entities.

Property held for sale is measured at the lower of the carrying value of the property when it was classified as property held for sale and fair value less sales costs.

Livestock biological assets

Livestock are recorded at fair value less estimated point-of-sale costs.

Changes in the value of livestock are recognised in the Statement of Comprehensive Income. Value changes that form part of Landcorp's livestock management policies, including animal growth and changes in livestock numbers, are recognised in the Statement of Comprehensive Income within revenue. Changes in value due to general livestock price movements are beyond Landcorp's control and do not form part of Landcorp's livestock management policies. These value changes are recognised in the Statement of Comprehensive Income as gain/loss due to price changes on livestock.

Other financial assets

(a) Investments in subsidiaries, associates and joint ventures

- Investments in subsidiaries are recorded at cost
- Investments in associates and joint ventures are accounted for using the equity method. The investment is 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 entity reduce the carrying amount of the investment. If the share of losses exceeds the value of the investment a liability is recognised to the extent that the company has incurred a constructive or legal obligation

(b) Loans to subsidiaries and other loans and receivables

Loans to subsidiaries and other loans and receivables are recorded at amortised cost, using the effective interest method.

(c) Held-for-trading instruments

Derivative financial instruments are used by Landcorp to hedge interest-rate, foreign currency and commodity risks. Landcorp's financial management policies explicitly prohibit trading in financial instruments. The Group has elected not to apply hedge accounting. This means that all derivative financial instruments must be classified as held-for-trading for the purpose of NZ IFRS.

Held-for-trading instruments are recognised in the Statement of Financial Position as either assets or liabilities at fair value on trade date, with changes in fair value reported as revaluation gains and losses in the Statement of Comprehensive Income. The cash flows arising from interest-rate derivatives are reported as a component of net finance costs in the Statement of Comprehensive Income.

(d) Available-for-sale investments

The Group is required to hold certain shares and investments in cooperative processing companies to facilitate farming operations. As such, the Group is normally unable to sell these investments without disrupting the Group's business operations. Under NZ IFRS, Landcorp's portfolio of shares and other investments in various cooperative and processing companies is classified as available-for-sale.

Available-for-sale investments are valued at fair value. Other changes in value are reported as other comprehensive income in the Statement of Comprehensive Income. On sale the revaluation component is recognised within operating profit in the Statement of Comprehensive Income.

(e) Impairment of financial assets

All financial assets are reviewed at balance date for indications of impairment. Where objective evidence of impairment exists, an investment is written down to the present value of expected cash flows, with the reduction in value being reported within operating profit in the Statement of Comprehensive Income. Subsequently, if the impairment diminishes for non-equity financial instruments, the appreciation in value is reported in the Statement of Comprehensive Income, to the extent that it reverses previous impairment losses.

Property, plant and equipment

Property, plant and equipment consists of land and improvements, protected land and improvements, plant, motor vehicles, furniture and equipment and computer equipment.

Land is measured at fair value and buildings are measured at fair value less accumulated depreciation and impairment losses. Protected land (including buildings on protected land) is valued at fair value at the time it is classified as protected land. 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.

(a) Revaluations

Freehold land and improvements (including buildings) are valued annually on 30 June at fair value by independent registered valuers. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount restated to the assets revalued amount. Changes in valuation are taken to the freehold land and improvements revaluation reserve using the net revaluation method. Where an assets downwards revaluation exceeds previous positive revaluations, the amount of the revaluation is reported within profit or loss in the Statement of Comprehensive Income.

(b) Additions

An item of property, plant and equipment is initially recognised at cost plus directly attributable costs of bringing the item to working condition for its intended use.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

(c) Disposal

Gains and losses on disposals are determined by comparing the disposal proceeds with the carrying amount of the asset. Gains or losses on disposal of land are recognised as profit or loss on sale of land and gains and losses on disposal of other items of property, plant and equipment are recognised as gain or loss on disposal of property, plant and equipment in the Statement of Comprehensive Income. When revalued areas are sold, the revaluation reserve attributable to that item is transferred from the asset revaluation reserve to other equity.

(d) Depreciation

Depreciation is provided on a straight-line basis on all property, plant and equipment other than land and land improvements. Depreciation rates are used to allocate the cost or revalued amount of the assets to their estimated residual values over their useful lives. The useful lives of buildings on freehold land, leased land and protected land have been estimated to be 30 - 60 years.

(e) Impairment

If the estimated recoverable amount of the asset is less than its carrying amount, the asset is written down to its estimated recoverable amount. For property, plant and equipment that are revalued annually, this difference is accounted for in the same manner as a downwards revaluation. For property, plant and equipment recorded at depreciated historical cost an impairment loss is recognised in the Statement of Comprehensive Income. Recoverable amount is the greater of fair value less costs to sell and value in use.

Other financial liabilities

(a) Bank loans

Bank loans are initially recognised at their fair value. After initial recognition, all bank loans are measured at amortised cost using the effective interest method.

(b) Financial guarantees

Financial guarantees are recognised at the higher of the initial fair value less, where appropriate, accumulated amortisation and the best estimate of expenditure required under the financial guarantee contract.

Income tax

Income tax reported comprises current and deferred tax. Income tax is recognised in the Statement of Comprehensive Income, except where it relates to an item recognised directly in equity, where the income tax is recognised directly in equity.

Current tax is the tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustments to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet method, providing for temporary differences between the carrying values of assets and liabilities for financial reporting purposes and the tax base of those assets and liabilities. The amount of deferred tax provided is based on the difference between the tax base and the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised to the extent it is probable that future taxable benefits will be available against which the asset can be utilised. Deferred tax assets and liabilities are offset when there is a legal right to offset tax liabilities with tax assets and when the Group intends to settle on a net basis.

Provision for dividends

Dividends are recognised in the period that they are authorised and declared.

NOTE 4 – CRITICAL ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

In preparing these financial statements Landcorp has made estimates and assumptions concerning the future. These estimates and assumptions may differ from the subsequent actual results. Estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Management has identified the following critical accounting policies for which significant accounting policy judgements, estimates and assumptions are made. Actual results may differ from these estimates under different assumptions and conditions and may materially affect financial results or the financial position reported in future periods.

(i) Critical accounting estimates and assumptions

Measurement of fair value

A number of Landcorp's accounting policies and disclosures require the measurement of fair values. Landcorp has an established control framework with respect to the measurement of fair values. This includes personnel that have overall responsibility for overseeing all significant fair value measurements, including Level 3 fair values that report directly to the Chief Financial Officer. Significant valuation issues are reported to the Audit Committee and Board of Directors.

When measuring the fair value of an asset or liability, Landcorp uses market observable data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows.

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included in Level 1 that are observable for the assets 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).

If the inputs used to measure the fair value of an asset or liability might be categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

Landcorp recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

Further information about the assumptions made in measuring fair values is included in the livestock, other financial assets and liabilities and property, plant and equipment notes.

Valuation of investments and derivatives

Landcorp's share portfolio comprises investments in cooperative companies. These companies often have restrictions on share ownership and limited transferability of shares. Some of these shares may only be sold back to the cooperative company at the cooperative's deemed share price. The fair value of shares in cooperative companies is based on the lower of the current cost to purchase additional shares or required sale values.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

The fair value of listed shares and other investments are based on reported market values at balance date.

Derivative financial instruments are valued based on an 'exit price' basis.

Valuation of freehold land and buildings

The valuation of freehold land and buildings is based on observed market prices for properties of similar location, land use and size. No discount or premium has been made for the scale of Landcorp's land holdings.

Valuation of freehold land and buildings (continued)

The valuation of land and buildings takes into account the observed price effects of various legal obligations placed on Landcorp's land ownership. In the North Island deductions of 0–6% have been made for obligations arising from section 27B of the State Owned Enterprises Act. The South Island properties include a deduction of up to 5% to reflect the effect of the Right of First Refusal granted to Ngai Tahu under the Ngai Tahu Claims Settlement Act.

Protected land (including buildings on protected land) is valued at fair value at the time it is classified as protected land. Under the Protected Land Agreement, this value is considered to be the ongoing fair value of the land to Landcorp.

Valuation of livestock

Landcorp values its livestock using market values provided by PGG Wrightson Ltd. These market values reflect livestock of similar age, breed and genetic merit throughout New Zealand.

Livestock revenue

Livestock income due to growth and change in numbers is calculated based on internally assessed values for each livestock type. These values are set and reviewed annually by the Board of Directors based on year end livestock values.

(ii) Critical judgements in applying accounting policies

Classification of revenue

Landcorp considers its revenue to comprise the regular income generated by the ordinary activities of the Group. Landcorp receives various incidental and irregular income due to items that are not related to Landcorp's ordinary activities, and classifies these as other gains and losses or revaluations. These include price revaluation gains and losses on livestock mainly held for breeding and production, and financial instruments held for hedging purposes. This is considered to better present the results of Landcorp's farming practices and core activities.

Revenue recognition

Livestock sales are recognised when the livestock is received in good order by customers. For the majority of Landcorp's livestock sales the risks and rewards of ownership are retained by Landcorp until the livestock are received by the customer.

Profit on land sales

Farm sales are recognised on settlement and possession as Landcorp remains exposed to climatic and operational risks associated with the farm until settlement date.

Classification as property held for sale

Landcorp classifies assets and liabilities as held for sale when its carrying amount will be recovered through sale, rather than use. The assets and liabilities must be available for sale in their current state, which means that property that requires subdivision or other consent processes in order to sell is not classified as property held for sale.

Classification of investments and derivatives

Landcorp is required to classify its shareholding portfolio as available-for-sale and value it at fair value. The share portfolio largely comprises shares and investments in agricultural cooperative and processing companies, which Landcorp will largely hold to facilitate farming operations.

As Landcorp does not apply hedge accounting all derivative financial instruments are classified as held-for-trading. Derivative financial instruments are used by Landcorp to hedge interest-rate, exchange-rate and commodity price risks. Landcorp's policies explicitly prohibit trading in financial instruments.

Taxation

Current taxation expense is based on the potential taxation expense that would be filed with the taxation authority given managements intent at balance date. Under taxation legislation, Landcorp has discretion in the valuation methodology used for assets and liabilities, and in the timing of claiming expenses. The actual taxation expense may differ from that shown in the financial statements if management subsequently changes any of these valuation methodologies.

Deferred tax balances result from taxable differences between balance sheet values and taxation values for assets and liabilities. Managements intention to use or sell, will determine whether a difference is taxable. Deferred tax balances relating to revalued land and livestock are required to be based on the tax effect if all land and livestock were to be sold at balance date. Management has no intention of selling either affected land or the entire livestock herd and any deferred tax liability is unlikely to be incurred in Landcorp's ordinary course of business.

NOTE 5 - STANDARDS, AMENDMENTS AND INTERPRETATIONS ISSUED THAT ARE NOT YET EFFECTIVE AND HAVE NOT BEEN EARLY ADOPTED

Standards, amendments and interpretations issued by the External Reporting Board of New Zealand (XRB) but not yet effective and are relevant to Landcorp that have not been early adopted are:

Standard	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
NZ IFRS 15 Revenue from Contracts with Customers	31 December 2017	30 June 2017
NZ IFRS 9 Financial Instruments: Classification and Measurement	1 January 2018	30 June 2018

NZ IFRS 15 will supersede NZ IAS 18 – Revenue, and NZ IAS 11 – Construction Contracts. It is due to become effective from 1st January 2017.

On 30 July 2015 the International Accounting Standards Board (IASB) published some proposed clarifications to and transition reliefs for IFRS 15 for public consultation. The IASB intends to consider the comments it receives on these proposals and decide whether to proceed with amendments to IFRS 15 by the end of 2015. The full effect of NZ IFRS 15 on the financial statements will be determined once the standard has been finalised.

The adoption of NZ IFRS 9 will result in the reclassification of Landcorp's financial instruments. Landcorp's share portfolio will change from the current available-for-sale classification to either fair-value-through-profit-or-loss, or fair-value-through-other-comprehensive-income. Depending on the election made, revaluations of these shares and associated gains and losses on disposal will be classified as either part of net profit or other comprehensive income. The full effect of NZ IFRS 9 on the financial statements has yet to be determined.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

NOTE 6 – LIVESTOCK

A – Nature of Activities

Landcorp is primarily a pastoral farming company. Sheep, deer and beef cattle are primarily grown to produce meat. These may also provide ancillary income from various agricultural produce, such as wool and velvet. Dairy cattle are primarily held to produce milk (see Note 7).

B – Livestock Revenue

Landcorp's livestock revenue by species was:

	Group 2015 $m	Group 2014 $m	Parent 2015 $m	Parent 2014 $m
Sheep	49.0	47.6	49.0	47.6
Beef	49.6	37.7	49.6	37.7
Deer	12.7	13.4	12.7	13.4
Total Livestock Revenue	**111.3**	**98.7**	**111.3**	**98.7**

	Group 2015 $m	Group 2014 $m	Parent 2015 $m	Parent 2014 $m
Livestock sales	134.3	109.3	134.3	109.3
Birth of animals	33.5	32.5	33.5	32.5
Growth of animals	54.6	53.4	54.6	53.4
Livestock losses	(12.6)	(11.7)	(12.6)	(11.7)
Book value of livestock sold	(98.5)	(84.8)	(98.5)	(84.8)
Total Livestock Revenue	**111.3**	**98.7**	**111.3**	**98.7**

Livestock revenue includes the recognition of net profit or loss arising from changes in livestock numbers due to the birth, growth, death and sales of livestock. This value change arising from the change in livestock numbers and growth is calculated by assigning an internally assessed annual value for each livestock class.

C – Value of Livestock

The value of livestock at 30 June was:

	Group 2015 $m	Group 2014 $m	Parent 2015 $m	Parent 2014 $m
Sheep	66.2	72.9	66.2	72.9
Beef	78.4	70.2	78.4	70.2
Dairy	95.7	116.7	95.7	116.7
Deer	30.6	34.6	30.6	34.6
Total Value of Livestock	**270.9**	**294.4**	**270.9**	**294.4**

Livestock valuations at 30 June 2015 were provided by PGG Wrightson Ltd. These market values reflect livestock of similar age, breed and genetic merit throughout New Zealand.

At 30 June 2015, livestock comprised 568,400 sheep, 79,721 beef cattle, 79,314 dairy cattle and 100,111 deer (2014: 579,871 sheep, 82,078 beef cattle, 77,526 dairy cattle and 105,054 deer).

The change in the value of livestock owned by Landcorp during the year was due to:

	Group 2015 $m	Group 2014 $m	Parent 2015 $m	Parent 2014 $m
Livestock value at start of year	294.4	245.8	294.4	245.8
Value changes caused by:				
Birth and growth of animals	88.1	85.9	88.1	85.9
Purchases	21.1	22.5	21.1	22.5
Livestock losses	(12.6)	(11.7)	(12.6)	(11.7)
Livestock available for sale or production	**391.0**	**342.5**	**391.0**	**342.5**
Book value of stock sold	(98.5)	(84.8)	(98.5)	(84.8)
Effect of price changes	(21.6)	36.7	(21.6)	36.7
Livestock Value at End of Year	**270.9**	**294.4**	**270.9**	**294.4**

The table below estimates the livestock likely to be sold within one year. This includes a proportion of the breeding livestock that are likely to be sold as cull animals.

	Group 2015 $m	Group 2014 $m	Parent 2015 $m	Parent 2014 $m
Current	59.7	60.5	59.7	60.5
Non-current	211.2	233.9	211.2	233.9
Total Value of Livestock	**270.9**	**294.4**	**270.9**	**294.4**

NOTE 7 – MILK REVENUE

Milk revenue during the year was:

	Group 2015 $m	Group 2014 $m	Parent 2015 $m	Parent 2014 $m
Milk Revenue				
Total value of milk produced	88.1	131.1	88.1	131.1
Sharemilker share of milk production	-	(2.1)	-	(2.1)
Total Milk Revenue	**88.1**	**129.0**	**88.1**	**129.0**

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

NOTE 8 – FARM WORKING EXPENSES

	Group 2015 $m	Group 2014 $m	Parent 2015 $m	Parent 2014 $m
Pasture maintenance	22.1	25.0	22.1	25.0
Shearing	5.6	5.5	5.6	5.5
Cropping and feed costs	33.1	34.4	33.1	34.4
Animal health	8.4	7.2	8.4	7.2
Animal breeding	9.7	7.1	4.2	4.5
Grazing charges	3.8	4.4	3.8	4.4
Other farm working expenses	8.4	8.6	8.4	8.6
Total Farm Working Expenses	**91.1**	**92.2**	**85.6**	**89.6**

NOTE 9 – PERSONNEL

	Group 2015 $m	Group 2014 $m	Parent 2015 $m	Parent 2014 $m
Staff remuneration	53.2	52.0	53.2	52.0
Other personnel costs	4.4	4.7	4.4	4.7
Total Personnel Costs	**57.6**	**56.7**	**57.6**	**56.7**

NOTE 10 – OTHER OPERATING EXPENSES

	Group 2015 $m	Group 2014 $m	Parent 2015 $m	Parent 2014 $m
Fees to auditors – statutory audit	0.1	0.1	0.1	0.1
Directors' remuneration	0.3	0.3	0.3	0.3
Rent	8.7	6.8	10.3	7.8
Reimbursement of protected land losses – Landcorp Holdings	0.5	-	0.5	-
Other operating expenses	21.1	23.1	21.0	22.9
Total Other Operating Expenses	**30.7**	**30.3**	**32.2**	**31.1**

NOTE 11 – ACCOUNTS RECEIVABLE

	Group 2015 $m	Group 2014 $m	Parent 2015 $m	Parent 2014 $m
Trade debtors	13.1	7.6	12.8	6.7
Receivable from subsidiaries	-	-	0.2	0.2
Milk income receivable	10.2	21.4	10.2	21.4
Other receivables and prepayments	3.5	4.0	2.2	3.7
Gross Accounts Receivable	26.8	33.0	25.4	32.0
Individual impairment	-	-	-	-
Total Accounts Receivable	**26.8**	**33.0**	**25.4**	**32.0**

NOTE 12 – OTHER FINANCIAL ASSETS AND LIABILITIES

	Group 2015 $m	Group 2014 $m	Parent 2015 $m	Parent 2014 $m
Other Financial Assets				
External Financial Assets				
Available-for-sale financial assets				
Share investments	50.1	53.5	50.1	53.5
Internal Financial Assets				
Shares in subsidiaries	–	–	128.9	124.1
Loans to subsidiaries	–	–	5.3	5.3
Total Other Financial Assets (all classified as non–current)	**50.1**	**53.5**	**184.3**	**182.9**
Other Financial Liabilities				
Financial liabilities measured at amortised cost				
Bank loans	210.7	172.4	210.6	172.4
Loans of non-wholly owned subsidiaries	-	0.2	–	–
Held-for-trading financial liabilities				
Interest rate derivatives	11.1	4.3	11.1	4.3
Total Other Financial Liabilities	**221.8**	**176.9**	**221.7**	**176.7**
Other Financial Liabilities are classified as follows:				
Current	85.1	87.5	85.0	87.4
Non-current	136.7	89.4	136.7	89.3
Total Other Financial Liabilities	**221.8**	**176.9**	**221.7**	**176.7**

A – Current and Non-Current Financial Assets and Liabilities

Financial assets are current if they are expected to be realised within one year. Share investments include shares in dairy cooperatives, some of which require an annual adjustment in shares owned depending on production levels. This means that while the overall portfolio is not expected to be realised in the short-term, minor sales of shares may be required once final production levels for the year ahead are known. Share investments are therefore non-current, unless specific sales of shares have been identified in the Business Plan.

Interest rate derivatives are valued using a level 2 fair value measurement in accordance with the fair value hierarchy. There were no transfers between levels during the year. Interest rate derivatives are valued on an 'exit price' basis. Accrued interest is calculated based on the market 90 day rate (30 June 2015 3.64%) and is removed from the revaluation provided by each swap provider.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

NOTE 12 – OTHER FINANCIAL ASSETS AND LIABILITIES (continued)

B – 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 represents fair value.

Cash advance facilities have been drawn as follows:

	Group 2015 $m	Group 2014 $m	Parent 2015 $m	Parent 2014 $m
Drawn	210.7	172.4	210.6	172.4
Undrawn	84.3	122.6	84.4	122.6
Total	**295.0**	**295.0**	**295.0**	**295.0**

Cash advance facilities are committed to:

	Group 2015 $m	Group 2014 $m	Parent 2015 $m	Parent 2014 $m
0 – 6 months	85.0	160.0	85.0	160.0
One to two years	70.0	135.0	70.0	135.0
Two to five years	140.0	-	140.0	-
Total	**295.0**	**295.0**	**295.0**	**295.0**

C – Financial Guarantees

The Parent is party to a bank account offset facility with other Group companies. This facility allows more efficient management of Group cash balances and funding facilities. Under the facility individual company bank accounts are combined for interest payment calculations, and the bank has the right to offset accounts in the event of default by any Group company. At a Group level the maximum combined total of all 'overdraft' accounts is $2.0 million (2014 $2.0 million).

The fair value of this financial guarantee is considered to be immaterial, as all Group companies are considered solvent and no payments are expected to be made under the guarantee.

NOTE 13 – INTANGIBLE ASSETS

	Group 2015 $m	Group 2014 $m	Parent 2015 $m	Parent 2014 $m
Genetics Royalties				
Fair Value				
Opening balance	2.0	3.4	-	-
Impairment of Genetic Royalties	-	(1.4)	-	-
Closing balance	2.0	2.0	-	-
Net Carrying Amount	**2.0**	**2.0**	**-**	**-**
Other Intangible Assets				
Net Carrying Amount	**4.5**	**3.2**	**4.2**	**3.1**
Total Intangible Assets	**6.5**	**5.2**	**4.2**	**3.1**

Landcorp holds 1,501,132 Fonterra vouchers which have a notional value of $nil. These vouchers are used in meeting the Fonterra share ownership requirements to be able to supply milk to Fonterra.

NOTE 14 – PROPERTY, PLANT & EQUIPMENT

	Group 2015 $m	Group 2014 $m	Parent 2015 $m	Parent 2014 $m
Land and Improvements				
Freehold land and buildings				
Fair Value				
Opening balance	1,093.0	1,034.5	1,093.0	1,034.5
Additions	27.0	18.3	27.0	18.3
Disposals	(0.4)	(0.5)	(0.4)	(0.5)
Reversal of depreciation on revaluation	(2.3)	(0.3)	(2.3)	(0.3)
Unrealised revaluation gain/(loss) recognised in Other Comprehensive Income	11.6	69.6	11.6	69.6
Reclassified as property held for sale	17.5	(28.6)	17.5	(28.6)
Closing balance	**1,146.4**	**1,093.0**	**1,146.4**	**1,093.0**
Accumulated Depreciation				
Opening balance	-	-	-	-
Depreciation	(2.4)	(2.5)	(2.4)	(2.5)
Disposals	0.1	2.1	0.1	2.1
Reversal on revaluation	2.3	0.4	2.3	0.4
Closing balance	-	-	-	-
Net carrying amount	**1,146.4**	**1,093.0**	**1,146.4**	**1,093.0**
Buildings on leased land				
Cost				
Opening balance	33.8	23.8	33.8	23.8
Additions	17.7	10.0	17.7	10.0
Disposals	(4.4)	-	(4.4)	-
Closing balance	**47.1**	**33.8**	**47.1**	**33.8**
Accumulated Depreciation and Impairment				
Opening balance	(6.6)	(5.8)	(6.6)	(5.8)
Depreciation	(0.7)	(0.4)	(0.7)	(0.4)
Disposals	3.6	-	3.6	-
Impairment	(0.3)	(0.4)	(0.3)	(0.4)
Closing balance	**(4.0)**	**(6.6)**	**(4.0)**	**(6.6)**
Net carrying amount	43.1	27.2	43.1	27.2
Total Land and Improvements	**1,189.5**	**1,120.2**	**1,189.5**	**1,120.2**
Protected Land and Improvements				
Cost				
Opening balance	110.2	120.2	-	-
Additions	1.0	1.6	-	-
Disposals	(0.1)	(11.6)	-	-
Closing balance	**111.1**	**110.2**	**-**	**-**

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

NOTE 14 – PROPERTY, PLANT & EQUIPMENT (continued)

	Group 2015 $m	Group 2014 $m	Parent 2015 $m	Parent 2014 $m
Accumulated Depreciation				
Opening balance	(0.9)	(0.8)	–	–
Depreciation	(0.1)	(0.2)	–	–
Disposals	0.1	0.1	–	–
Closing balance	**(0.9)**	**(0.9)**	**–**	**–**
Net carrying amount	**110.2**	**109.3**	**–**	**–**
Plant				
Cost				
Opening balance	60.0	57.8	60.0	57.8
Additions	6.6	5.4	6.6	5.4
Disposals	(1.0)	(3.2)	(1.0)	(3.2)
Closing balance	**65.6**	**60.0**	**65.6**	**60.0**
Accumulated Depreciation				
Opening balance	(37.2)	(34.7)	(37.2)	(34.7)
Depreciation	(4.7)	(4.8)	(4.7)	(4.8)
Disposals	0.6	2.3	0.6	2.3
Closing balance	**(41.3)**	**(37.2)**	**(41.3)**	**(37.2)**
Net carrying amount	**24.3**	**22.8**	**24.3**	**22.8**

Valuation techniques

Valuations of freehold land and buildings at 30 June 2015 were provided by Ian Bunt (FPINZ, FNZIV, MNZIPIM), Registered Valuer, Rural Value Limited. The valuations use a market approach and take into account general factors that influence farm land prices and recent farm sales in the relevant regions.

Significant unobservable inputs

- The effects of the Conservation Act 1987 relating to the establishment of marginal strips and conservation management plans where applicable.
- 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. In the North Island many section 27B memorials are in place and their effect has been considered resulting in deductions from unencumbered current market value of 0-6%.
- South Island properties include a deduction of up to 5%, reflecting the effect of the Right of First Refusal memorial to Ngai Tahu registered on the title of those properties.

Inter-relationship between key unobservable inputs and fair value measurement

The estimated fair value would increase (decrease) if:

- The effects of the Conservation Act 1987 relating to the establishment of marginal strips and conservation management plans were lower (higher).
- 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 were lower (higher).

- The effects of the Right of First Refusal memorial to Ngai Tahu on the South Island properties were lower (higher).

Subsequent to year end, the reduced farm gate milk price could lead to a reduction in land values in the dairy sector. The Landcorp dairy land valuations are undertaken based on a longer term horizon and no subsequent adjustment has been made to the recorded land values as at 30 June 2015. Landcorp will continue to closely monitor land values to identify if any substantial change is required to either the valuation methodology or the underlying land values.

All freehold land purchased from the Crown on commencement (1 April 1987) had a memorial placed on the title through the Treaty of Waitangi (State Enterprises) Act 1988. That Act provides for full compensation to the owner of any such land that is the subject of a successful land claim. Certain land not required for Treaty settlement has since had that memorial replaced with a statutory right of first refusal (in favour of Maori) on future sale by Landcorp or another Crown body.

Had the Group's freehold land and buildings (other than land and buildings classified as held for sale or included in a disposal group) and protected land been measured on a historical cost basis, their carrying amount would have been as follows:

	Group 2015 $m	Group 2014 $m	Parent 2015 $m	Parent 2014 $m
Freehold land	432.9	406.9	432.9	406.9
Buildings on freehold land	62.3	54.3	62.3	54.3
Total land and buildings at historical cost	**495.2**	**461.2**	**495.2**	**461.2**

NOTE 15 – CAPITAL MANAGEMENT

The Group considers its capital as comprising all the components of Shareholders' Equity which excludes the Non-Controlling Interest and Redeemable Preference Shares (classified under NZ IFRS as a liability), as follows:

	Comment	Group 2015 $m	Group 2014 $m	Parent 2015 $m	Parent 2014 $m
Share capital	A	125.0	125.0	125.0	125.0
Retained earnings	B	130.9	129.5	251.0	248.5
Revenue reserves	C	82.7	111.1	81.9	110.3
Fair value reserve	D	9.1	12.9	11.4	15.2
Asset revaluation reserves	E	781.8	766.4	678.3	663.0
Other equity	F	283.4	282.5	256.3	256.3
Total Shareholders' Funds		**1,412.9**	**1,427.4**	**1,403.9**	**1,418.3**
Redeemable preference shares	G	107.7	107.7	107.7	107.7
Total Managed Capital		**1,520.6**	**1,535.1**	**1,511.6**	**1,526.0**

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

Landcorp manages its capital such that a debt to equity level is maintained so that banking covenants and fiduciary responsibility are met. Landcorp's target for dividend payments is to pay up to 75% of net operating profit (after tax) subject to ensuring that debt levels will be maintained at a level that ensures Landcorp meets all fiduciary and legal requirements including banking covenants.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

NOTE 15 – CAPITAL MANAGEMENT (continued)

Components of Capital

A - Share Capital

The Parent's shareholding is held equally by the Minister of Finance and the Minister for State-Owned Enterprises in terms of the State-Owned Enterprises Act 1986. Ordinary shares carry one vote per share and carry the right to participate in dividends.

All shares are fully paid up. Share capital comprises:

	Parent 2015 $m	Parent 2014 $m
Ordinary shares	125.0	125.0

B - Retained Earnings

Retained earnings comprises Landcorp's accumulated net profits (excluding profits from the revaluations of livestock and financial assets) less dividends paid. By excluding these price revaluations, and the components of other equity (refer comment F), retained earnings is an approximate measure of the accumulated cash profits retained by Landcorp.

C - Revenue Reserves

Landcorp has chosen to classify the net revaluations of livestock (biological assets revaluation reserve) and derivatives (financial assets revaluation reserve) separately from retained earnings. Under NZ IFRS the revaluations on these assets are required to be reported in the Statement of Comprehensive Income and, as a component of net profit after tax, initially form part of retained earnings. However, these revaluations do not represent cash flows and, especially in the case of livestock, cannot be realised in the ordinary course of livestock farming.

D - Fair Value Reserve

The fair value reserve comprises the cumulative net change in the fair value of available-for-sale financial assets, until the investment is derecognised.

E - Asset Revaluation Reserves

The asset revaluation reserves are used to record changes in the fair value of individual land and buildings and intangible assets

F - Other Equity

Other equity represents transfers from assets revaluation reserves of asset revaluations when the associated asset is sold. Other equity also represents the payment from the Crown for additional capital expenditure incurred on the Landcorp Holdings' properties less assets transferred to the Crown.

G - Redeemable Preference Shares

Redeemable preference shares are issued as a capital injection under the terms of the Agreement Concerning Landcorp Land Protected from Sale (the Agreement), signed with the Crown in 2007 and amended in June 2013. 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 the properties to the shareholder with an agreed value of redeemable preference shares being redeemed. As the redeemable preference shares are redeemable on demand by the share owner, under NZ IFRS, they are required to be reported as a liability. Landcorp considers these as part of its equity.

NOTE 16 – DIVIDENDS PAID

	Parent 2015 Cents per share	Parent 2014 Cents per share	Parent 2015 $m	Parent 2014 $m
Ordinary shares				
Final dividend	5.6	4.0	7.0	5.0
Total Dividends Paid for Year	**5.6**	**4.0**	**7.0**	**5.0**

No dividend was declared for the 2015 year (2014 $7.0 million).

NOTE 17 – INCOME TAX

A – Income Tax Expense

Tax income recognised for the year was:

	Group 2015 $m	Group 2014 $m	Parent 2015 $m	Parent 2014 $m
Current tax expense (credit)				
Current tax expense/(credit) for year	(1.8)	5.4	(1.8)	5.4
Adjustments to prior year	4.4	1.4	3.9	1.4
Adjustments in income tax expense/(credit) due to:				
Subvention payment in respect of prior period	-	-	0.2	0.3
Loss offset in respect of prior period	-	-	0.4	0.7
Tax expense recognised in equity	(0.5)	-	(0.2)	-
Reimbursement for tax expense receivable from the Crown	(0.3)	(0.5)	-	-
	1.8	**6.3**	**2.5**	**7.8**
Deferred tax expense/(credit)				
Temporary differences	(6.2)	10.1	(6.2)	10.1
	(6.2)	**10.1**	**(6.2)**	**10.1**
Total Income Tax Expense (Credit)	**(4.4)**	**16.4**	**(3.7)**	**17.9**

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

NOTE 17 – INCOME TAX (continued)

The prima facie income tax expense (credit) on accounting profit reconciles to the recognised tax credit as follows:

	Group 2015 $m	Group 2014 $m	Parent 2015 $m	Parent 2014 $m
Net profit/(loss) before tax	(24.4)	71.1	(22.6)	74.0
Income tax expense (credit)	(6.8)	19.9	(6.3)	20.7
Prior year current tax adjustments	4.4	1.4	3.9	1.4
Adjustments in income tax expense/(credit) due to:				
Subvention payment made in respect of prior period	-	-	0.2	0.3
Loss offset made in respect of prior period	-	-	0.4	0.7
Reimbursement for tax expense receivable from the Crown	(0.3)	(0.5)	-	-
Increase in income tax expense due to:				
Reimbursement due from the Crown under Protected Land Agreement	0.1	0.6	-	-
Non-deductible expenses	0.4	0.6	0.4	0.6
Livestock	-	-	-	-
Other	1.4	3.3	1.2	2.5
Decrease in income tax expense due to:				
Land development expenditure	(3.6)	(4.9)	(3.6)	(4.6)
Livestock	(0.5)	(1.3)	(0.5)	(1.3)
Non assessable income	(0.2)	(2.2)	(0.2)	(2.2)
Other	0.7	(0.6)	0.8	(0.4)
Total Income Tax Expense (Credit)	**(4.4)**	**16.3**	**(3.7)**	**17.7**

B – Deferred Tax Balances

Deferred tax balances at balance date were:

	Group 2015 $m	Group 2014 $m	Parent 2015 $m	Parent 2014 $m
Deferred tax asset				
Temporary differences	5.4	3.7	5.4	3.7
Tax losses recognised	44.6	46.6	44.6	46.6
	50.0	**50.3**	**50.0**	**50.3**
Deferred tax liability				
Temporary differences	50.5	54.8	50.2	54.6
	50.5	**54.8**	**50.2**	**54.6**
Net deferred tax (liability) asset	(0.5)	(4.5)	(0.2)	(4.3)
Current tax liability	(0.2)	(0.3)	-	-
Net Tax (Liability) Asset	**(0.7)**	**(4.8)**	**(0.2)**	**(4.3)**

The availability of the tax losses recognised is subject to the requirements of the income tax legislation being met.

Taxable and deductible temporary differences arise from the following:

	Balance Sheet		Tax Expense/(Credit)		Balance Sheet		Tax Expense/(Credit)	
	Group 2015 $m	Group 2014 $m	Group 2015 $m	Group 2014 $m	Parent 2015 $m	Parent 2014 $m	Parent 2015 $m	Parent 2014 $m
Group								
Deferred tax assets								
Property, plant and equipment	0.6	0.5	(0.1)	(0.2)	0.6	0.5	(0.1)	(0.2)
Fair-value-through-profit-and-loss financial assets	3.1	1.2	(1.9)	1.0	3.1	1.2	(1.9)	1.0
Provisions	1.5	2.0	0.4	(0.2)	1.5	2.0	0.4	(0.2)
Trade and other payables	0.2	-	(0.2)	-	0.2	-	(0.2)	-
	5.4	**3.7**	**(1.8)**	**0.6**	**5.4**	**3.7**	**(1.8)**	**0.6**
Deferred tax liabilities								
Trade and other receivables	-	-	-	-	-	-	-	-
Biological assets	33.1	36.3	(3.4)	9.1	32.8	36.1	(3.4)	9.1
Available-for-sale financial assets	-	0.2	(0.2)	-	-	0.2	(0.2)	-
Property, plant and equipment	16.8	18.3	(1.4)	0.4	16.8	18.3	(1.4)	0.4
Intangibles	0.6	-	0.6	-	0.6	-	0.6	-
	50.5	**54.8**	**(4.4)**	**9.5**	**50.2**	**54.6**	**(4.4)**	**9.5**
Deferred Tax Expense (Credit)			**(6.2)**	**10.1**			**(6.2)**	**10.1**

C - Imputation Credit Account Balances

	Parent 2015 $m	Parent 2014 $m
Balance at beginning of the period	1.4	1.4
Imputation credits attached to dividends received	0.1	0.2
Imputation credits attached to tax paid	-	(0.2)
Balance at end of the period	**1.5**	**1.4**
The imputation credits are available to shareholders of the Company:		
Parent company	1.5	1.4
Available through indirect interests in subsidiaries	-	-
Imputation Credits Available Directly and Indirectly to Shareholders of the Parent Company	**1.5**	**1.4**

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

NOTE 18 – RISK MANAGEMENT

Landcorp maintains a Risk Register detailing a variety of financial and non financial risks that are faced by the Group. The register identifies key risks and categorises them within a matrix setting out the likelihood of occurrence, and the perceived consequences of each risk. A monthly Risk Report is prepared for the Board of Directors containing the matrix, a full list of the key risks and a commentary detailing any activity that has occurred during the month. This keeps Directors abreast of any significant risk events that have occurred together with the actions undertaken by Management in response to these events. With respect to financial risks a Treasury Management Committee comprising the executive leadership team and an independent treasury advisor meet on a monthly basis to co-ordinate and oversee the operation of the treasury function and monitor financial risks. Details of financial risks and risk management policies are explained below:

A - Risks due to Agricultural Activities

The Group is exposed to many risks relating to agricultural activities:

Environmental and climatic risks

Landcorp is exposed to climatic and other environmental 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.

Commodity price risk

Landcorp is exposed to risks arising from fluctuations in the price and sales volume of milk, livestock and forestry. Certain milk processors offer fixed price contracts for the purchase of a portion of a supplier's output under schemes that offer a guaranteed minimum price for milk solids (e.g. the Fonterra Guaranteed Minimum Price ("GMP") scheme). Landcorp evaluates these purchase contracts and uses them to manage commodity risk by securing a minimum price for the milk solids produced under the contract. Commodity risk in respect of livestock is mitigated to some extent by entering into supply contracts to ensure sales volumes can be met by processing companies. Landcorp is unable to use financial instruments to hedge commodity price risk due to a lack of effective hedging markets.

Landcorp 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.

Financing risk

The nature of livestock 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 working capital requirements, as described in Note 12 (b).

B - 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 receivables and transactions with financial institutions. 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. Limits on exposures are set and monitored on a regular basis. As at 30 June 2015 Landcorp did not have any significant concentrations of credit risk except for milk customers. Landcorp's maximum credit exposure is shown below. Landcorp does not expect the non-performance of any obligations at balance date.

	Note	Group 2015 $m	Group 2014 $m	Parent 2015 $m	Parent 2014 $m
Accounts receivable	11	26.8	33.0	25.4	32.0
Other financial assets	12	50.1	53.5	50.1	53.5
Maximum Credit Exposure		**76.9**	**86.5**	**75.5**	**85.5**

The status of accounts receivable at balance date was:

	Group 2015 $m	Group 2014 $m	Parent 2015 $m	Parent 2014 $m
Not yet due	26.6	33.0	25.2	32.0
Past due - up to 30 days	0.2	-	0.2	-
Past due - 31 to 60 days	-	-	-	-
Past due - 61 to 90 days	-	-	-	-
Past due - more than 90 days	-	-	-	-
Total Accounts Receivable	**26.8**	**33.0**	**25.4**	**32.0**

C – Liquidity Risk

Liquidity risk is the risk that an entity will encounter difficulty in raising funds at short notice to meet financial commitments. The Group has liquidity headroom available through term borrowing arrangements and specific funding for seasonal fluctuations (see Note 12 (b)).

Every year the Group prepares a three-year Business Plan, which includes a forecast of funding requirements. The Treasury Management Committee reviews the required funding and assesses the appropriate level and term structure of funding facilities. Intra-year, Landcorp's policies require that committed funding facilities are greater than current quarter peak-funding requirements.

The following table analyses the Group's financial liabilities by period of contractual maturity. Parent numbers are not presented as they are not materially different from Group. Total amounts do not match to the Statement of Financial Position as contractual flows are the absolute undiscounted amount of future cashflows, including forecast interest expense on interest-bearing liabilities.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

NOTE 18 – RISK MANAGEMENT (continued)

	Note	2015 Total $m	Within one year $m	One to two years $m	Two to five years $m	Greater than five years $m	No fixed maturity $m
Group 2015							
Liabilities							
Land sales deposits		1.8	-	-	-	-	1.8
Other accounts payable and accruals		22.1	22.1	-	-	-	-
Other financial liabilities							
Bank loans		222.7	91.6	40.0	91.1	-	-
Interest rate derivatives		13.5	2.2	5.2	5.0	1.1	-
Redeemable preference shares	14	107.7	-	-	-	-	107.7
Total Contractual Maturity		**367.8**	**115.9**	**45.3**	**96.1**	**1.1**	**109.5**

	Note	2014 Total $m	Within one year $m	One to two years $m	Two to five years $m	Greater than five years $m	No fixed maturity $m
Group 2014							
Liabilities							
Land sales deposits		1.7	-	-	-	-	1.7
Other accounts payable and accruals		19.5	19.5	-	-	-	-
Other financial liabilities							
Bank loans		179.1	93.0	86.1	-	-	-
Interest rate derivatives		7.9	2.7	3.2	1.8	0.2	-
Redeemable preference shares	14	107.7	-	-	-	-	107.7
Total Contractual Maturity		**315.9**	**115.2**	**89.3**	**1.8**	**0.2**	**109.4**

D – 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 New Zealand dollar denominated amounts fluctuate due to currency movements, for example when livestock processors sell meat into overseas markets. Direct risk arises where Landcorp has receipts or payments denominated in foreign currency. Landcorp's policy is to fix, either directly or indirectly, a minimum of 20 percent of sales revenue to mitigate the level of foreign currency risk. Sales revenue is fixed indirectly through the hedging activities of processing companies (such as meat and milk processors) and sales contracts fixed in New Zealand dollars. Sales revenue is fixed directly with foreign currency derivatives, such as forward foreign exchange contracts and foreign currency options. At 30 June 2015, approximately 47% of projected 2015/16 revenue (2014/15 46%) was estimated to be fixed indirectly through the hedging activities of processing companies. No direct foreign currency hedging was in place at 30 June 2015 (30 June 2014 none).

E – 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 to ensure funding is obtained in a cost effective manner, to minimise the cost of borrowing and to provide greater certainty of funding costs. Management monitors the level of interest rates on an ongoing basis, and from time-to-time, 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. Assets and liabilities which are interest rate sensitive will mature or re-price within the periods shown in the table below. Parent numbers are not presented as they are not materially different from Group, except for shares in subsidiaries, which are not interest rate sensitive, and loans to subsidiaries, which are at daily floating interest rates (refer Note 12 (b)).

Re-pricing Analysis	Effective interest rate	2015 Total $m	Within one year $m	One to two years $m	Two to five years $m	Greater than five years $m
Group 2015						
Liabilities						
Other Financial Liabilities						
Bank loans	4.16%	210.7	210.7	-	-	-
Interest rate derivatives		-	(100.0)	(30.0)	50.0	80.0
Re-pricing Profile		**210.7**	**110.7**	**(30.0)**	**50.0**	**80.0**

Based on term debt at 30 June 15 the interest rate on term borrowing inclusive of interest costs on derivatives was 4.43% (30 Jun 14 4.67%).

Re-pricing Analysis	Effective interest rate	2014 Total $m	Within one year $m	One to two years $m	Two to five years $m	Greater than five years $m
Group 2014						
Liabilities						
Other Financial Liabilities						
Bank loans	3.98%	172.4	172.4	-	-	-
Interest rate derivatives		-	(80.0)	10.0	20.0	50.0
Re-pricing Profile		**172.4**	**92.4**	**10.0**	**20.0**	**50.0**

F – Sensitivity Analysis

Interest rate risk

For the 2014/15 year, the effect on net profit before tax of a higher or lower OCR is shown below. The effect has been estimated after the effect of any hedging instruments used in the year. The impact on the Parent is the same as that for the Group.

	Group 2015 $m	Group 2014 $m
Net finance costs would have changed by:		
OCR higher/lower by 1%	(1.1) / +1.1	(1.1) / +1.1

Foreign currency risk

During 2014/15 Landcorp did not undertake any direct hedging of foreign currency transactions. Indirect hedging occurred through Landcorp's suppliers and it is not possible to accurately determine any effect that this indirect hedging may have had on Landcorp's revenue generated from commodities.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

NOTE 19 – CONTINGENT ASSETS AND LIABILITIES

At 30 June 2015 Landcorp had no contingent assets and the following contingent liabilities:

As a forester, Landcorp has gained emission credits ("New Zealand Units" or "NZU") and will incur liabilities through the Emissions Trading Scheme (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. Should these plantations be harvested and/or deforested, a liability would be incurred up to a maximum of the credits received. At 30 June 2015 Landcorp held 270,032 post-1989 NZUs (2014 183,754 units) and 147,447 pre-1990 NZUs (2014 178,227 units).

NOTE 20 - RELATED PARTIES

Ultimate Controlling Party

The ultimate controlling party of Landcorp is the New Zealand Government.

Key Management Personnel Compensation

Key management personnel comprise directors and executive management personnel who have responsibility for planning, directing and controlling the activities of Landcorp.

Key management personnel compensation comprised:

	Group 2015 $m	Group 2014 $m
Short-term employee benefits	2.9	2.8
Post-employment benefits	0.1	0.1
	3.0	**2.9**

Short term employee benefits include salary, directors remuneration, medical and life insurance and the cost of any other fringe benefits incurred during the year as well as any accrued performance payments due within one year.

Post-employment benefits are contributions to defined contribution superannuation schemes, including employer KiwiSaver contributions.

Other Related Party Transactions

The Group undertakes many transactions with other Crown owned entities which are carried out in the normal course of business, as are all transactions within the Group.

At 30 June 2015 $0.9 million was included in accounts receivable as owing from the Crown in accordance with the variation to the Protected Land Agreement signed in June 2013 (2014 $2.2 million).

No related party debts were written off during the year.

NOTE 21 – COMMITMENTS

	Group 2015 $m	Group 2014 $m	Parent 2015 $m	Parent 2014 $m
Contracted capital commitments	2.0	4.4	2.0	4.4
Operating lease commitments:				
Within one year	7.6	7.7	7.6	7.7
One to two years	8.0	7.6	8.0	7.6
Two to five years	25.0	19.4	25.0	19.4
Later than five years	233.1	229.8	233.1	229.8

Operating lease commitments relate to the lease of farmland.

NOTE 22 – SUBSIDIARY COMPANIES AND JOINTLY CONTROLLED ENTITIES

			Percentage held	
Subsidiaries	Principal activity	Balance date	2015	2014
Landcorp Estates Ltd	Property development	30 June	100%	100%
Landcorp Pastoral Ltd	Limited Partner in genetics joint ventures	30 June	100%	100%
Landcorp Holdings Ltd	Holding protected land	30 June	100%	100%
Landcorp Pastoral Ltd has the following subsidiaries				
Focus Genetics Ltd Partnership	Development and sale of genetically superior sires	30 June	100%	66.67%
Focus Genetics Ltd Partnership has the following subsidiaries				
Focus Genetics UK Limited	Livestock genetics	30 June	100%	100%
Focus Genetics Scotland Limited	Livestock genetics	30 June	100%	100%
Focus Genetics S.A. Limited	Livestock genetics	30 June	100%	100%
Focus Genetics Australia Pty Ltd	Livestock genetics	30 June	100%	0%
Rissington Uruguay SA	Livestock genetics	30 June	100%	25%

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

NOTE 22 – SUBSIDIARY COMPANIES AND JOINTLY CONTROLLED ENTITIES (continued)

Transactions with subsidiary companies

During the year Landcorp Farming Ltd provided management and support services to its subsidiaries at a cost of $1.2 million (2014 $1.1 million).

All inter-group transactions are undertaken upon an arms length commercial basis. At 30 June 2015, Landcorp Farming Ltd's accounts receivable balance included $0.2 million (2014 $0.2 million) owing from subsidiary companies and accounts payable had $1.1 million (2014 $2.3 million) owing to subsidiary companies. The accounts payable balance includes the pass-through of the Crown's reimbursement of protected land losses through Landcorp Farming Ltd to Landcorp Holdings Ltd.

Jointly controlled entities

The Group has the following interests in jointly controlled entities:

			Percentage held	
Joint Ventures	Principal activity	Balance date	2015	2014
Wharewaka (2003) Ltd	Property development	31 March	50%	50%
Wharewaka East Ltd	Property development	31 March	50%	50%
Pengxin New Zealand Farm Management Ltd	Management company for farm properties	31 December	50%	50%
Spring Sheep Dairy Limited Partnership	Production and marketing of sheep milk products	30 June	50%	0%
Associates				
Farm IQ Systems Ltd	Research and development of an integrated red meat value chain	30 June	18%	18%
Focus Genetics has the following associates:				
Practical Systems Ltd	Computer software	30 June	6%	8%
Paradigm Agriculture Ltd	Consultancy	30 June	-	50%

Rissington Uruguay SA, a company owned 100% by Focus Genetics S.A. Limited is incorporated in South America, and owns 50% of Frileck Limited, a South American sheep breeding company.

INDEPENDENT AUDITOR'S REPORT

KPMG

TO THE READERS OF LANDCORP FARMING LIMITED AND GROUP FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

The Auditor-General is the auditor of Landcorp Farming Limited (the "company") and group. The Auditor-General has appointed me, Graeme Edwards, using the staff and resources of KPMG Wellington, to carry out the audit of the financial statements of the company on her behalf.

Opinion

We have audited the financial statements of the company, that comprise the statement of financial position as at 30 June 2015, the statement of comprehensive income, statement of changes 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 company:

- Present fairly, in all material respects:
- Its financial position as at 30 June 2015; and
- Its financial performance and cash flows for the year ended; and
- Comply with generally accepted accounting practice in New Zealand and have been prepared in accordance with New Zealand equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

Our audit completed on 25 August 2015. This is the date at which our opinion is expressed.

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

Basis of opinion

We carried out our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and carry out our audit to obtain reasonable assurance about whether financial statements are free from material misstatement.

Material misstatements are differences or omissions of amounts and disclosures that, in our judgement, are likely to influence readers overall understanding of the financial statements. If we had found material misstatements that were not corrected, we would have referred to them in our opinion.

An audit involves carrying out procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including our assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the preparation of the company's financial statements 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 company's internal control.

INDEPENDENT AUDITOR'S REPORT CONTINUED

An audit also involves evaluating:

- the appropriateness of accounting policies used and whether they have been consistently applied;
- the reasonableness of the significant accounting estimates ad judgements made by the Board of Directors;
- the adequacy of the disclosures in the financial statements; and
- the overall presentation of the financial statements.

We did not examine every transaction, nor do we guarantee complete accuracy of the financial statements. Also we did not evaluate the security and controls over the electronic publication of the financial statements.

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

Responsibilities of the Board of Directors

The Board of Directors is responsible for the preparation and fair presentation of financial statements for the company that comply with generally accepted accounting practice in New Zealand and New Zealand equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

The Board of Directors responsibilities arise from the State-Owned Enterprises Act 1986.

The Board of Directors is also responsible for such internal control as it determines is necessary to enable the preparation of financial statements that are from material misstatement, whether due to fraud or error. The Board of Directors is also responsible for the publication of the financial statements, whether in printed or electronic form.

Responsibilities of the Auditor

We are responsible for expressing an independent opinion on the financial statements and reporting that opinion to you based on our audit. Our responsibility arises from section 15 of the Public Audit Act 2001.

Independence

When carrying out the audit, we followed the independence requirements of the Auditor-General, which incorporate the independence requirements of the External Reporting Board.

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

G Edwards

Graeme Edwards
KPMG Wellington
On behalf of the Auditor-General
Wellington, New Zealand

GOVERNANCE

OBJECTIVES

As a State-Owned Enterprise, Landcorp'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;
- 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.

SHAREHOLDERS

Landcorp has two shareholding Ministers acting on behalf of the Crown: the Minister of Finance and the Minister for State-Owned Enterprises. To enable the shareholding Ministers to make informed assessments of the governance and performance of Landcorp, shareholding Ministers are provided with the Company's annual business plan and quarterly reports.

The Statement of Corporate Intent, unaudited half-yearly accounts and the Annual Report, with audited financial statements, are tabled in Parliament each year and may be viewed on the Company's website. In addition, shareholding Ministers are regularly kept informed of significant developments.

THE BOARD AND BOARD COMMITTEES

The Board is responsible to the shareholding Ministers for guiding and overseeing Landcorp's operations. The Board is appointed by the shareholding Ministers and is currently comprised of eight non-executive independent directors (including the Chair). Board induction, continuing education and annual visits to various Landcorp farms all help ensure that Directors keep abreast of Landcorp's business.

In accordance with best practice, the Board has adopted a Charter that sets out the authority, responsibilities and operation of the Board. Specifically it requires the Directors to: observe high standards of ethical and moral behaviour; act in the best interests of the Shareholders; ensure that Landcorp acts as a good corporate citizen taking into account environmental, social and economic issues; and recognise the legitimate interests of all stakeholders including staff.

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

The Board has two committees:

- The Audit Committee deals with financial accounting and reporting issues, and internal controls, auditing and assurance.
- The Employment Committee deals with remuneration, health and safety, and staff training and development.

GOVERNANCE CONTINUED

BOARD AND COMMITTEE MEETINGS

The Board and Board Committees meet regularly throughout the year. Meetings for the year ending 30 June 2015 were as follows:

Director	Board meetings (15 meetings*)	Audit Committee (4 meetings)	Employment Committee (3 meetings)
T Houpapa**	15	3	2
JD Brakenridge	12		2
NP Davies-Colley	14		3
CW Day	12	3	
DR Nelson	14	3	
PN Lockett	14	4	1
AP Reilly	13	2	
EW Roy***	2		

* Board meetings included five teleconferences.

** T Houpapa attended Audit and Employment Committee meetings ex officio.

*** EW Roy was appointed to the Board with effect from 1 May 2015.

RISK MANAGEMENT

Risk management is a key focus for the Board. The Board has overall responsibility for ensuring that Management's risk management policies and procedures are appropriate and that Management appropriately identifies and manages risks affecting Landcorp's business.

The Chief Executive is charged with the day-to-day management of Landcorp. The Company operates under a detailed delegated authority structure, and the Board approves the operational and financial policies. In addition, a Treasury Management Committee comprising executive staff and an external advisor meets regularly to oversee the Company's treasury management functions, which are then reported to the Board.

AUDIT

KPMG is Landcorp's external auditor appointed by the Office of the Controller and Auditor-General for the current financial year. Internal audit services are provided by PricewaterhouseCoopers.

SUBSIDIARIES

Landcorp's subsidiaries and their respective purposes are:

Subsidiary	Purpose
Landcorp Holdings Ltd	Ownership vehicle for properties that are subject to a 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 Landcorp's interests in Focus Genetics Limited Partnership (100% since September 2014), a limited partnership to enhance genetics in sheep, cattle and deer, and to market these genetics to farmers throughout New Zealand, and Spring Sheep Dairy NZ Limited Partnership (50% interest, established June 2015), a sheep milking joint venture.

STATUTORY DISCLOSURES

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 given by Landcorp Directors during the year:

Director	Organisation	Position
T Houpapa	Federation of Māori Authorities Inc.	Chairman, Tainui Delegate
	Te Uranga B2 Incorporation	Chairman
	National Advisory Council on Employment of Women	Ministerial Appointment, Chairman
	Pengxin New Zealand Farm Management Ltd	Director
	Ontrario Teachers' Pension Plan New Zealand Forest Investments Ltd	Director
	Strada Corporation Ltd	Director
	Ngā Pae o te Māramamatanga Centre of Research Excellence	Director
	Auckland University	Director
	Waikato River Authority	Ministerial Appointment
	Ururangi Trust	Trustee
	Asia New Zealand Foundation	Trustee
	Rural Broadband Initiative (RBI) National Advisory Committee	Ministerial Appointment
	Diverse NZ (Inc)	Director
J D Brakenridge	The New Zealand Merino Company Ltd	CEO
	Medbury School Trust Board	Member
	Alpine Origin Merino Limited	Director
N P Davies-Colley	Northpower Ltd	Chairman
	Farmlands Cooperative Society Ltd	Director
	Ngarakau Family Trust	Trustee
C W Day	Z Energy Ltd	CFO
	Hill End Investments Ltd	Director and Shareholder
	CW & CR Day Trust	Trustee
	Fairholm Farming Ltd	Director and Shareholder
P N Lockett	Taranaki District Health Board	Ministerial Appointment
	PN Lockett Family Trust	Trustee
	Burgundy Trust	Trustee
	Bordeaux Trust	Trustee
	Taranaki Health Foundation	Trustee
	Taranaki Work Trust	Trustee
D R Nelson	DR & LP Nelson Farming	Partner
	Ratahiwi Trust Investments	Trustee
A P Reilly	AP & KM Reilly Ltd	Director
	Ravensdown Fertiliser Coop Ltd	Director
	Network Tasman Ltd	Director
	Dos Rios Dairy Ltd	Director
E W Roy	Glynmore Farms Ltd	Director
	Glynmore Trust	Trustee

STATUTORY DISCLOSURES CONTINUED

CHANGES IN DIRECTORS

Eric Roy was appointed to the Board with effect from 1 May 2015. Traci Houpapa (Acting Chairman since May 2014) was confirmed as Board Chairman with effect from 1 May 2015.

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.

DIRECTORS' REMUNERATION AND OTHER BENEFITS

Directors' fees (including fees for chairs of Board Committees) for the year to 30 June 2015 are set below. Total fees were within the amount authorised by shareholding Ministers.

The fees for T Houpapa include fees as director of Pengxin New Zealand Farm Management Limited.

T Houpapa (Board Chairman)	95,400
JD Brakenridge	35,200
NP Davies-Colley (Chair of Employment Committee)	39,600
CW Day	35,200
PN Lockett (Chair of Audit Committee)	39,600
DR Nelson	35,200
AP Reilly	35,200
EW Roy (appointed May 2015)	$5,900
Total fees:	**$321,300**

The only other benefit received by directors during the year was the provision of insurance cover for directors' and officers' liability. No remuneration or other benefits were paid to the directors of Landcorp Estates Limited, Landcorp Pastoral Limited or Landcorp Holdings Limited.

EMPLOYEES' REMUNERATION AND OTHER BENEFITS

Set out below are the numbers of employees and former employees whose total remuneration (including non-cash benefits and fringe benefit tax) was within the specified bands.

Dollars in Thousands	
100-109	22
110-119	26
120-129	15
130-139	12
140-149	5
150-159	3
160-169	2
170-179	1
180-189	3
190-199	2
200-210	2
220-229	1
230-239	4
260-269	1
280-289	2
290-299	1
480-489	1
530-539	1

Redundancy and leave payments are excluded from these figures.

INDEMNITY AND INSURANCE

During the year the Company's Directors' and Officers' insurance was renewed. The policy covers risks normally covered by such policies and includes separate cover to meet defence costs. In addition, as permitted by Landcorp's constitution, Directors and Officers are indemnified by the Company for potential liabilities that they might incur for actions or omissions in their capacity as Directors or Officers.

COMPANY DONATIONS

During the year Landcorp made donations of $65,321, and community and event sponsorship of $26,650.

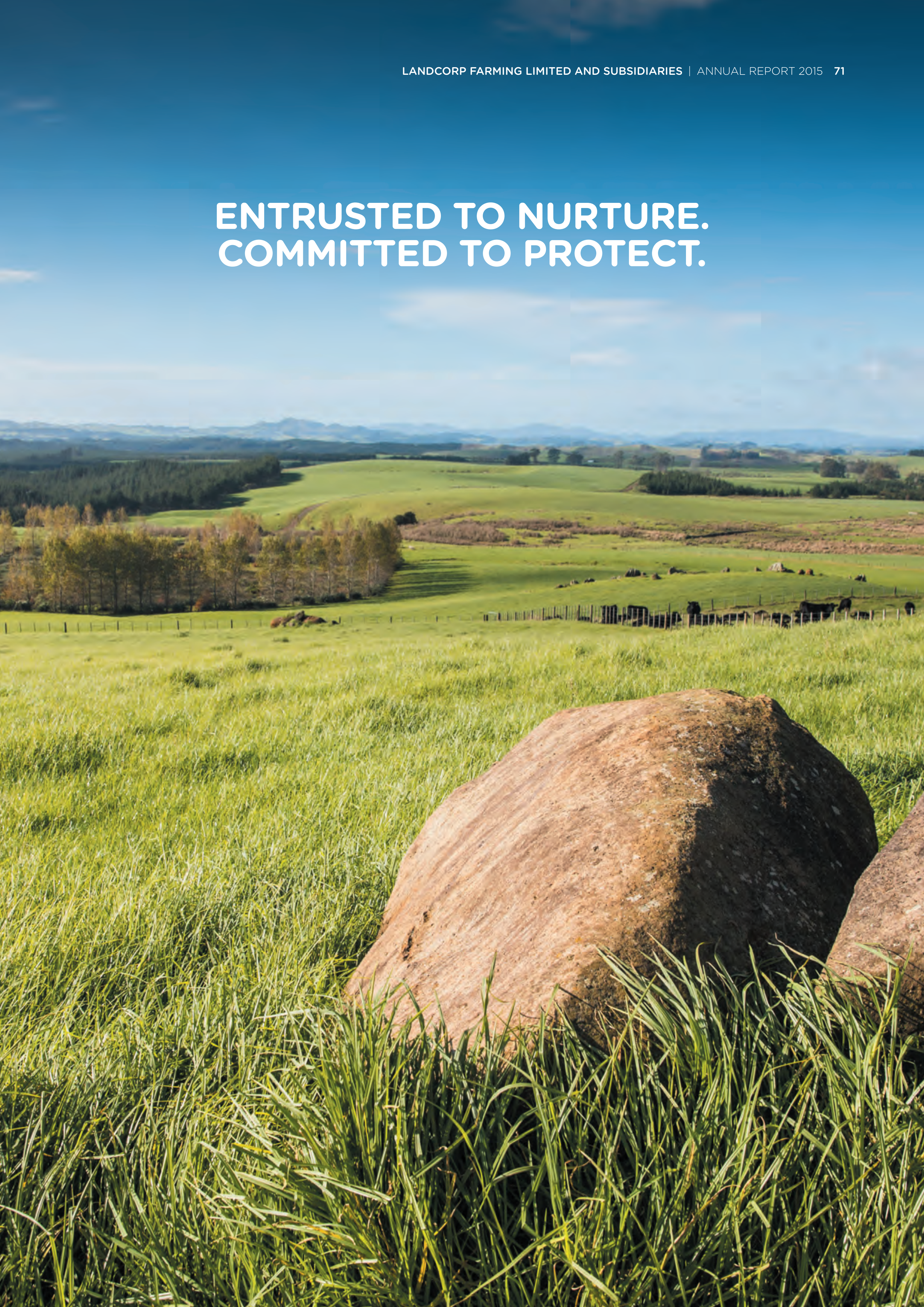
BALANCED SCORECARD 2015

The balanced scorecard sets out the actual performance against targets set out in the Company's Statement of Corporate Intent 2014-2015.

Strategic goal	Key Performance Indicator	Target for 2014-15	Actual for 2014-2015
Financial Performance	EBIT	$31.7m	$15.5m
Banking covenants	Interest cover ratio	> 3 : 1	2.92 : 1
Operating costs	Cost of Production - Livestock Cost of Production - Dairy	≥ 2% improvement on FY14 p.a.	4% improvement
Capital costs	Robustness of capital management processes	Improve structure for assessment, approval, and benefit realisation review	Enhanced investment analysis, approval review process implemented
Grow volume	Production of meat, milk and fibre	Average 5% increase	4% Milk, 6% Livestock
Supply 5% of NZ pastoral livestock	Lamb supply volume step change	30,000 through new partnerships	New Wairarapa partnership on track to supply 27,500 lambs
Partner of choice	Number of new livestock farming partnerships	1 (preferably with Maori land owners)	New Sweetwater partnership, refer to page 13
Grow value Supply niche markets	Additional niche market supply partnerships	1	Achieved, refer to pages 14 – 15
Achieve premium prices	Premium achieved over spot market	Average 5% for meat and fibre	15% achieved
Potential new products	Business cases completed for new revenue streams	2	Multiple business cases for new projects
Efficiency	Deployment of FMS	100% farms reporting 2 monthly performance	100% on all Livestock farms
Project Simple	Process improvement and waste elimination	> 3 pilot initiatives	Refer to pages 16 - 17
Environmental performance	Goals and metrics fully developed for key strategies	100%	Refer to page 18
Farm environmental	Agreed and costed farm environmental strategies	100% Landcorp-owned farms	Refer to page 18
People and Capability	Voluntary turnover %	< 20%	Not met
Safer workplace	Near Miss/ Hazard and First Aid Injury reporting	NM/H+FAI reporting > ACC injury claims	NM/H+FAI reporting of 147% vs ACC injury claims of 60%
Injury rates	ACC Injury claims*	15% improvement on FY14	7% adverse movement.

*Total recordable injuries: sum of fatalities, serious harm, lost time, restricted work and medical treatment injuries.

ENTRUSTED TO NURTURE. COMMITTED TO PROTECT.



DIRECTORY

CORPORATE/REGISTERED OFFICE

15 Allen Street
PO Box 5349
Wellington 6145
Tel: (04) 381 4050

WEBSITE

www.landcorp.co.nz

DIRECTORS

Traci Houpapa MNZM, Chairman
John Brakenridge
Nikki Davies-Colley
Chris Day
Pauline Lockett
David Nelson
Tony Reilly
Eric Roy

EXECUTIVE TEAM

Steven Carden, Chief Executive Officer
Steven McJorrow, Chief Financial Officer
Andrew MacPherson, GM Commercial Development
Phil McKenzie, GM Property and Environment
Graeme Mulligan, GM Livestock
Mark Julian, GM Dairy
Sarah Risell, GM Marketing
Lucy Wills, GM People and Safety

AUDITOR

KPMG (under appointment by
the Controller and Auditor-General)

BANKERS

Westpac New Zealand Limited
ANZ Bank New Zealand Limited
ASB Bank Limited


LANDCORP FARMING LIMITED