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LANDCORP NEW ZEALAND

LANDCORP FARMING LIMITED
ANNUAL REPORT
2016

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 30 August 2016 and is signed on behalf of the Board by:

Traci Houpapa MNZM JP
Chairman

Pauline Lockett
Director

CONTENTS

Key Facts 2015/16	2
Transformation Highlights 2015/16	4
Key Financial Data	5
Chairman and Chief Executive's Review	6
Outlook 2017 and Beyond	10
Targets for 2016/17	11
Strategy - Farming with Care	12
Safety	13
Winners	14
Environmental Reference Group	15
Strategy - Farming Smart	16
FMS	17
Ruapehu	18
Lean	19
Strategy - Creating Value	20
Spring Sheep Milk Co.	21
Venison	22
Wool	23
Board of Directors	24
Leadership Team	26
Financial Review 2015/16	27
Financial Statements	29
Governance and Statutory Disclosures	67
Balanced Scorecard 2016	72

OUR PURPOSE

TO TRANSFORM NEW ZEALAND FARMING, BY CAREFULLY CREATING QUALITY NATURAL PRODUCTS

KEY FACTS 2015/16

Figures as at 30 June 2016.

NUMBER OF FARMS
144

PERMANENT EMPLOYEES
704

LIVESTOCK TOTAL
530,165
SHEEP

LIVESTOCK TOTAL
78,491
DAIRY CATTLE

LIVESTOCK TOTAL
78,797
BEEF CATTLE

LIVESTOCK TOTAL
95,160
DEER

*carcass weights

LAND AREAS FARMED

OWNED
158,561
hectares

MANAGED
(leased or sharemilked)
226,942
hectares

2015/16 ANNUAL PRODUCTION

11,733* tonnes
SHEEP MEAT

9,543* tonnes
BEEF

19,692 tonnes
MILKSOLIDS

2015/16 ANNUAL PRODUCTION

2,026* tonnes
VENISON

8.6 tonnes
VELVET

2,762 tonnes
SHORN WOOL

TRANSFORMATION HIGHLIGHTS 2015/16

VALUE CHAINS EXPANDED IN WOOL AND VENISON MARKETS UNDER PĀMU BRAND

MAJOR DECISIONS MADE AROUND LAND USE AND INVESTMENT – EXITING SHANGHAI PENGXIN SHAREMILKING; CHANGES TO PLANS FOR WAIRAKEI ESTATE; FARM SALES

FARM EXPENSES DOWN THROUGH COMPANY-WIDE FOCUS ON SYSTEMS, TECHNOLOGY AND COST MANAGEMENT

FARMS AND MANAGERS RECOGNISED IN INDUSTRY AWARDS FOR EXCELLENCE

SPRING SHEEP MILK PRODUCTS LAUNCHED ONTO CONSUMER MARKET IN ASIA

LAUNCH OF NEW QUALITY AND PERFORMANCE FRAMEWORK FOR ALL FARMS – PĀMU PROMISE

KEY FINANCIAL DATA

KEY FINANCIAL DATA

Dollars in millions unless otherwise stated	2015/16	2014/15	2013/14	2012/13	2011/12
Total revenue	209.0	224.3	247.0	203.1	215.7
Net operating profit	(9.4)	4.9	30.0	12.9	27.0
Total shareholder return	(96.0)	(8.4)	115.9	(1.5)	7.8
Net profit on equity investment (share capital and retained earnings)	(3.7%)	1.9%	11.8%	5.3%	10.8%
Total shareholder return / Average shareholders' funds[1]	(6.8%)	(0.5%)	7.5%	(0.1%)	0.5%
Dividend declared	-	-	7.0	5.0	20.0
Total assets	1,786.3	1,774.7	1,748.5	1,694.9	1,662.9
Shareholders' funds	1,411.2	1,412.9	1,427.4	1,316.0	1,332.0
Bank debt	219.6	210.7	172.4	228.4	171.3
Shareholders' funds[1] / Total assets	85.0%	85.7%	87.8%	84.6%	87.2%

[1] Includes redeemable preference shares

KEY OPERATING DATA

	2015/16	2014/15	2013/14	2012/13	2011/12
Total hectares farmed (owned and leased)	385,503	383,996	385,086	376,942	375,681
Total stock units	1,563,790	1,612,460	1,632,233	1,571,448	1,486,115
Permanent employees at 30 June	704	715	692	668	573

CHAIRMAN AND CHIEF EXECUTIVE'S REVIEW

Landcorp is now three years into its strategy of transformation and global market trends in the past year add urgency to this shift towards premium systems and products.

Like all New Zealand dairy producers, our dairy business was exposed to falling milk prices through 2015/16 as the level of milk-solids pay-out from processing companies slumped to a 10-year low. Landcorp actively managed the situation against a milk revenue for the year which fell 14.6% and contributed significantly to the company's reported net operating loss of $9.4 million.

Nonetheless, we made solid progress with our strategies for longer-term transformation, both on-farm and in the marketplace for Landcorp products.

Our farm managers and their teams demonstrated huge knowledge, skills and experience by controlling expenditure and maintaining or improving productivity while enhancing the care of our people, animals and the environment. As a result, Landcorp continued to manage farm working expenses through efficiency gains and thousands of smart farming decisions.

Landcorp dairy farmers are among New Zealand's best – awards and recognition over the past year certainly brought confirmation of that. Our people worked relentlessly through a second year of weak milk prices by sharpening their farming systems in every area.

Our sheep, beef and deer farmers also excelled at managing their costs of production and at live weight gain across flocks and herds. Many of Landcorp's livestock farms achieved a higher operating profit in 2015/16 despite hard summer conditions in some regions, and price volatility in markets for store and prime animals. We still await an upturn in global market pricing for sheep meat and there are positive trends in New Zealand's main export markets for beef, venison and wool.

Beyond the farm gate, Landcorp also made good strides through 2015/16. We developed existing and new value chain relationships for supply of red meat, wool and non-traditional dairy products into niche markets. Our Pāmu brand is now taking shape as the unique identity for high-quality food and fibre produced by Landcorp with the best of New Zealand's farming practices, and a deep commitment to sustainability.

Of course, we have a long way to go before the value chain model and Pāmu encompass most (or all) of our business and drives consistently higher financial performance. We're confident that our developments during 2015/16 demonstrate that we are on the way.

STRATEGIC DIRECTION

The imperatives to transform our business are clear. Weakness and volatility in product pricing as seen through 2015/16 are one. Other imperatives include: persistently low returns on farm investment; limits on availability of natural and human capital; increasing public concern at the environmental impact of farming practices; consumer demands for naturally-produced, ethical products; and huge potential to supply higher-value products to consumers in specific markets.

Landcorp, along with New Zealand farmers generally, face big challenges and also opportunities. Globally, people want high-quality, natural and healthy products from farmers who are efficient, ethical and environmentally sustainable. This has been the foundation of Landcorp's strategic direction since 2013 and will remain so.

In 2016/17 we are pushing ahead with key initiatives to support our established strategies. In broad terms, we will:

- **farm with care** to protect and develop people, to ensure the well-being of farmed animals, and to nurture the environment;
- **farm smartly** by using the best available science and technology, and by identifying and adopting the best systems and practices; and
- **create value** in existing and new products by integrating these into value chains that link our farms to niche markets globally.

As we deliver on these strategies, we will progressively transform Landcorp on-farm and in the marketplace and we will provide leadership to New Zealand farming.

PRIORITIES

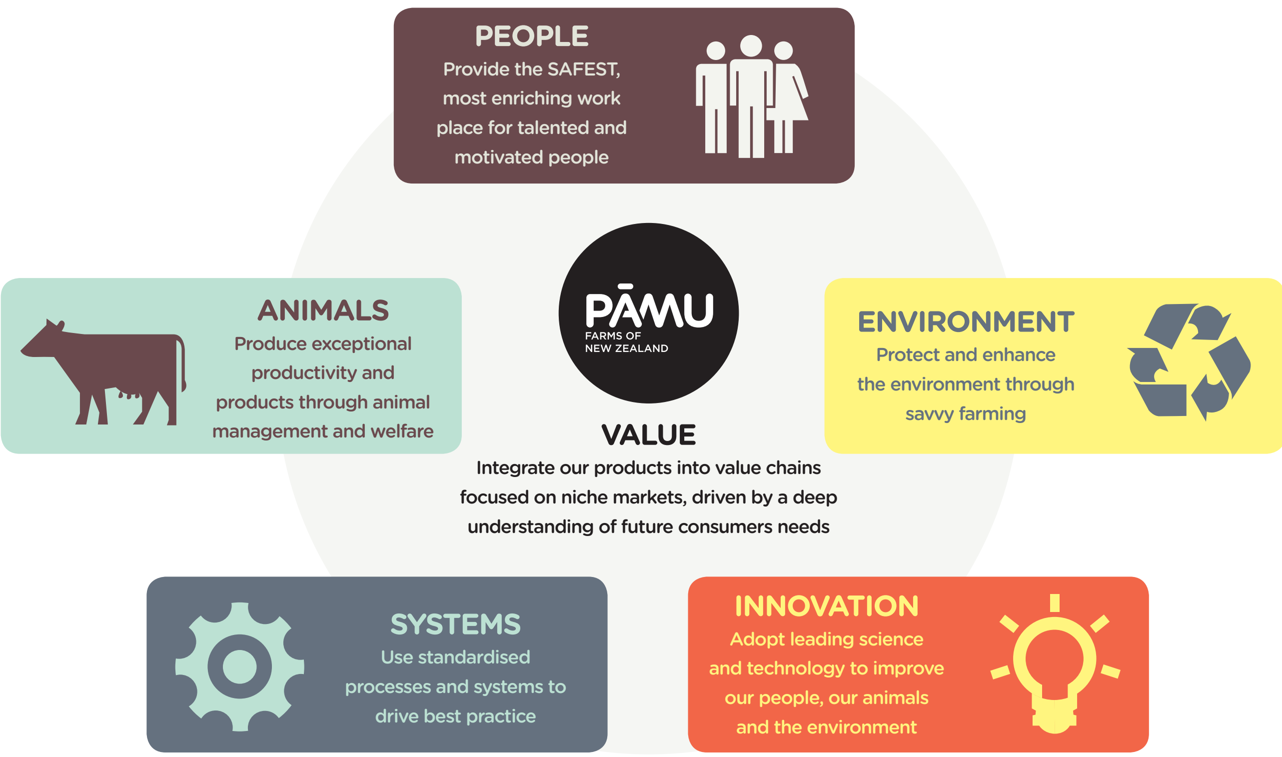
Based on our review of Landcorp's strategic direction, the Board and management have clear priorities for the immediate future and on the initiatives now underway.

First, we want 2016/17 to be a year of deep and sustained changes in the health and safety culture of this company. Generally, while Landcorp is a safer workplace than many New Zealand farms, the frequency and severity of accidents and incidents on our farms is still too high. We think there is more to be done to protect the health and safety of our employees.

We recall the tragic loss of Jamie van der Kuijl in a fatal accident on Omoeroa Station, near Gisborne in October 2015. Jamie was a valued member of the Omoeroa team and his death had a powerful impact on his colleagues and throughout Landcorp. Initiatives are underway to strengthen safety systems and practices across the company. We must succeed.

Second, we will roll-out Pāmu Promise – a new quality framework for farming within Landcorp. Pāmu Promise defines and guides how our people work on the land and produce food and fibre for consumers in New Zealand and around the world. There are four components – people, animals, the environment, and systems and innovation. It is a framework for connecting our farms to the Pāmu brand, and for giving our customers assurance on the quality, integrity and sustainability of what Landcorp produces. Pāmu Promise is about farming carefully and smart across all of our farms.

OUR STRATEGIES IN SUMMARY



In May and June 2016, around 70 people throughout Landcorp helped design the framework and how it will work in practice. Pāmu Promise was also developed further at our Leaders Conference in readiness for roll-out across the company this year and next. Initiatives to strengthen health and safety are a critical part of Pāmu Promise.

Our third priority is to maintain the momentum in current and planned initiatives for value creation in Landcorp's existing and new products. During 2015/16, we shifted more of our production onto supply contracts where prices are fixed in advance, with much less exposure to spot market volatility. The company must pursue more relationships like these and extend the value chain approach across more production. Pāmu brand developments with venison and wool are good examples of this approach.

Spring Sheep Milk is another example. Its consumer market presence with whole milk powder and gelato products will be expanded during 2016/17 and we are exploring opportunities to scale up sheep milk production. We are also looking hard at other land uses as alternatives to traditional pastoral farming with potential to create higher value to Landcorp.

This focus extends to a fourth priority – ensuring the best use of the company's large asset base and its capital resources. Throughout Landcorp's history we have bought or sold around 140 farms to support strategic goals and to re-deploy capital. We have identified nine farms where Landcorp ownership is inconsistent with company-wide strategies and initiatives. We expect to sell these individual properties in the months ahead.

This will be a continuation of similar steps during 2015/16 including our planned withdrawal from the dairy farming joint venture with Shanghai Pengxin Group (SPG) in the central North Island. Landcorp managed a major farm upgrade across the SPG farms over the last three years, resulting in improved economic and environmental performance. These farms are now well placed to make further progress without our ongoing support. Moving out of this farming venture means we can focus these financial resources and management on other initiatives.

Staying in the central North Island, Landcorp expects to scale back investment in large-scale dairy conversion on Wairakei Estate. We foresee other uses for that capital that are more value-adding over the long term to both the company, and to New Zealand. The Wairakei Estate programme will continue with Landcorp establishing fewer dairy units than was previously planned. We announced this decision in March 2016 and work is ongoing to review other productive uses for land as it converts to pasture. Dairy support grazing and sheep milk production are options.

Our fifth priority is to support continuous improvement in Landcorp farming, both dairy and livestock, for efficiency and productivity gain. As noted, we made excellent progress in this regard during the past year and that can be attributed in large part to strategy implementation since 2013. The Farm Management System (FMS) is now in use across Landcorp to support on-farm decision making and we have invested in farm manager training and development and in expert advice where needed. This year we have placed high priority on initiatives to roll-out LEAN management methodologies for company-wide adoption of farming best practices. The adoption of new systems like Farm Store which aims for greater efficiency in procurement is another example of our commitment to smart farming.

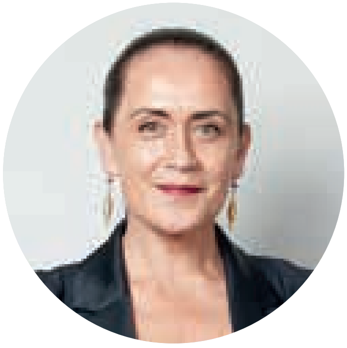
OUTLOOK

Landcorp's financial results for 2015/16 reflect the industry-wide fall in milk prices. This aside, the company had a year of strong operational performance and of solid progress in the transformation we commenced in 2013. We knew there would be tough years and this is one of them. We also know the results would be lower without the progress already made to strengthen our farming systems and our position in the marketplace for Landcorp products.

We go into 2016/17 with our strategic direction confirmed, with initiatives in place to support this, and clear on our immediate priorities. This is expected to be another year of weakness in global milk prices with Fonterra forecasting modest recovery only in its payout.

On this basis, Landcorp is budgeting for a net operating loss. It is important to note that the company retains a strong balance sheet along with capacity to invest in initiatives for transformation and future profitability.

The Board and Executive thanks all Landcorp people for their commitment and hard work throughout 2015/16. We face the future full of confidence in our people and in our strategic direction despite current challenges arising from global market trends. Landcorp's transformation is on track and the long term outlook is very positive.



Traci Houpapa MNZM JP
Chairman

Steven Carden
Chief Executive

OUTLOOK 2017 AND BEYOND

Landcorp is in transformation to becoming a premium supplier of quality natural products. The company has comprehensive strategies and initiatives in place to achieve this vision and to help transform New Zealand farming. In broad terms, we will farm with care and with smart systems and technology to develop new products and markets and create more value from our production. In 2016/17, Landcorp has a particular focus on these priorities.

Deep and sustained improvement in Landcorp's health and safety culture.

Pāmu Promise rollout for quality in Landcorp's farming with care for people, animals, the environment and smart systems and processes.

Leadership in farming that nurtures the environment, based on independent expert advice and farm-by-farm planning for care of land and other natural resources.

Value chain expansion in Landcorp's supply of milk, meat and fibre, including consumer-branded Spring Sheep Milk products, and wool and venison sourced from Pāmu Farms.

Capital review and re-deployment, including the proposed sale of nine farms that are not part of Landcorp's strategic direction.

Sustained improvements in productivity and efficiency using science and technology, and LEAN methods to enhance farming practices.

TARGETS FOR 2016/17

As a State-Owned Enterprise, Landcorp prepares an annual Statement of Corporate Intent (SCI) including targets and budget forecasts for financial performance during the year ahead. The 2016 SCI financial targets and forecasts for 2016/17 are shown in the table below.

These numbers reflect New Zealand dairy company indications that payouts to producers may increase modestly in the year. Fonterra has forecast $4.25 per kg of milksolids (compared with $3.90 in 2015/16), with other companies forecasting between $4.35-4.55[1]. Landcorp forecasts low growth in its milk and livestock revenues during 2016/17, along with increased expenditure to support on-farm productivity gains and other initiatives for creating value with the company products over the longer term. The year's net operating result is forecast to be a loss of approximately $13.0 million.

Shareholder returns	SCI target 2016/17	Actual 2015/16	SCI target 2015/16
Net operating profit/loss	($13.1 million)	($9.4 million)	($9.6 million)
Total shareholder return	0.0%	(6.8%)	1.9%
Return on equity adjusted for IFRS fair value movements and asset revaluations[2]	(0.9%)	0.1%	(0.7%)
Dividend Yield	-	-	-
Dividend Payout	-	-	-
Profitability & Efficiency			
Return on capital employed[3]	(0.1%)	0.7%	0.1%
Operating margin	7.2%	8.7%	7.8%
Dividends - Group (ordinary and special)	-	-	-
Leverage & Solvency			
Gearing	12.6%	13.6%	14.5%
Interest cover	1.24 times	2.22 times	1.61 times
Solvency	3.55 times	4.23 times	1.97 times
Capital			
Net capital expenditure	$29.2 million	$17.3 million	$36.4 million

[1] These targets and forecasts are based on Fonterra's forecast farmgate milk price of $4.25 and do not reflect the increased forceast of $4.75 made on 25 August 2016.

[2] Net operating profit / Average shareholders equity less revaluation reserves.

[3] Earnings before interest and tax / Average shareholders equity less revaluation reserves.

STRATEGY

FARMING WITH CARE

Landcorp farms with care for its people and its animals, and for the natural environment. This means applying knowledge, technology and experience to the management of these precious resources daily. We have a particular focus on the health and safety of our people. We also continue to train and develop them so that Landcorp becomes New Zealand agriculture's safest and most enriching workplace for people of talent and motivation.

Landcorp is committed to meeting and exceeding public expectations in regard to both animal well-being and environmental management. We seek continuous improvement in how we protect and enhance land, water and other natural resources on and around our farms. We are committed to sustainability alongside productivity and profitability. Landcorp is rolling out the Pāmu Promise quality framework in substantiation of its commitment to farm carefully.

INITIATIVES

Progress the "Play it Safe" programme on every Landcorp farm with practical input by the employees' Safety Forum, and intensive training for farm managers and staff.

Deploy new, fit-for-purpose vehicles with enhanced safety mechanisms on all farms.

Continue leadership development programmes for managers on all farms.

Establish a reference group of independent experts to advise Landcorp on all aspects of farm animal welfare.

Scale back plans for Wairakei Estate land conversion to bovine dairy farming in order to significantly reduce environmental impact over time. Other land uses will be explored on the estate including increased dairy support grazing and sheep milk production.

Operate all farms in line with their Land and Environment Plans which guide decisions on land use, stocking rates, nutrient application and response to measured environmental impacts.

Phase out palm kernel expeller (PKE) as a feed supplement on all Landcorp dairy farms by 30 June 2017. Use of this feed was down to less than 4% of average total cow diet during 2015/16.

Continue to take advice from the Environmental Reference Group (ERG) on issues critical to farming and the environment.

Retire from farming and protect more land of particular sensitivity and/or natural and biodiversity value. During 2015/16, a further 250 hectares were retired under covenant (Landcorp now has 6,141 hectares protected by covenants).

Continue tree planting and improving the efficiency of livestock production towards Landcorp's goal of carbon neutrality by 2025 (on farms we own). During 2014/15, a further 314 hectares was planted in pinus radiata.

Develop a sustainability reporting framework for future use in communicating with stakeholders on Landcorp's environmental and social goals, strategies and outcomes.

CASE STUDY

IT JUST ISN'T GOOD ENOUGH...

Landcorp people are being encouraged to "Play it Safe" on the job even more in 2016/17. Our "Play it Safe" programme is moving to the next stage with leadership from a Safety Forum of 25 employees, each contributing their deep practical knowledge of on-farm risks, of work practices and of attitudes to safety.

"Play it Safe" is aimed at making safety an integral part of how Landcorp people work, and look out for each other, every day. The forum will advise on practical tools for helping to identify on-farm hazards and risks, and for avoiding or managing them safely without detriment to productivity or environmental care.

This year, all farm managers and their teams will attend training workshops focused largely on hazard and risk identification and on ways of responding to these. The training will augment Landcorp's shift to using side-by-side vehicles for most on-farm jobs that were previously done with quad bikes.

"It comes down to everyone getting on the same page about safety," says Chelsea George, Head Shepherd on Mararoa Station in Te Anau and Safety Forum member. "We still need to change attitudes that safety is just about following 'the rules'. What people really need is a fuller understanding of risks and then education on how to deal with them. That includes little things like, for example, knowing which vehicle to use for a particular job and how to use it properly."

Chelsea, who joined Landcorp in 2013, says her own attitudes to safety have changed profoundly. "Basically I used to be very ignorant on the safety aspect of many things. I knew what I was doing, I wasn't one of those who was going to get hurt."

"In the forum we've talked about how none of us like following rules ... but actually, safety can be a matter of self-pride, of making positive choices and meeting your own and others' expectations. That's a much better culture to be part of."

At the other end of New Zealand, Luke Bridge on Northland's Sweetwater dairy complex sees positive changes occurring. "Landcorp is much further along the track than any other farm I have worked on," says Luke, a Drystock Manager with 15 years' farming experience.

"We are definitely developing a culture where people look out for each other and make sure they tick the safety boxes ... but there are still times when people don't want to confront others on safety issues or be seen as 'telling' on others.

"It just isn't good enough anymore for any of us to think farming is dangerous because you're working with animals and machines, and therefore farmers are going to get hurt," says Luke.

He also likes to see Landcorp people consider the physical and mental health of colleagues because this, too, reduces the risk of accidents and injuries. "People are less likely to do something stupid if they're not tired, anxious or grumpy when they're on the job."

Jack Raharuhi and Rebecca Keoghan

CASE STUDY

LANDCORP'S WINNING FARMERS

Landcorp farmers are among New Zealand's best. Three in particular have won national recognition in recent months.

Rebecca Keoghan
– Dairy Woman of the Year for 2016

Rebecca has been Farm Business Manager on Cape Foulwind, a five-unit dairy complex near Westport, since joining Landcorp in July 2015. She and husband Nathan also run an advanced genetics jersey herd on their own, Keoghan Farm nearby. The couple have two children and returned to the West Coast 10 years ago after Rebecca completed a medical science degree. Her other commitments today include being a director of both Westland Milk Products Ltd and of Buller Holdings Ltd, Team Leader for the Dairy Industry Awards and a member of Ospri's TB Free Committee for the West Coast.

The Dairy Woman of the Year award recognises an outstanding woman who has significantly contributed to the dairy industry with passion, drive, innovation and leadership. "I am passionate about the growth and development of young farmers on the West Coast," says Rebecca. "If this award can inspire other women to step outside their comfort zone and do things in dairy industry leadership that would be fantastic."

Jack Raharuhi
– Ahuwhenua Young Māori Dairy Farmer for 2016

Jack is Farm Manager on Bassets, one of five dairy units in the Cape Foulwind complex. He went into dairy farming after leaving Buller High School at age 15, and has steadily grown his knowledge and experience through study with Primary ITO and was named Primary ITO's West Coast overall trainee of the year in 2015.

Jack, who lives with his fiancée and their two young children, is Ngati Kahu. He says the Ahuwhenua Award is a huge honour. "This win is definitely going to help me get to where I want to go. I want to be a supervisor and oversee 5000 cows or move into an advisory role down the track. I have a goal to do the best I can to ensure my whanau and I have a great quality of life."

Tony Dowman
– Second place getter in the 2016 FMG Young Farmer of the Year

Tony has been Farm Business Manager at Moutoa Dairies, in Manawatu, since late 2015. He is a graduate of Taratahi Agricultural Training Centre (Wairarapa) and Massey University (Diploma of Agriculture), and he spent time farm working and share milking before a serious lower back injury in 2007. This saw Tony step back from heavy on-farm work. He returned to Taratahi as the centre's farm business manager for eight years before joining Landcorp.

Tony is passionate about the Young Farmer of the Year, reaching the 2016 Grand Final as the competition's East Coast Regional Winner. "It's been a fantastic opportunity to test my knowledge and skills as well as meet other farmers and see what they're doing in their careers," he says. Tony sees his future firmly based in agriculture, eventually in senior management and perhaps at chief executive level.

CASE STUDY

ENVIRONMENTAL LEADERSHIP IN PRACTICE

Emma Bennett and Holly Milne planting on Waitepeka farm.

Landcorp has put environmentalists and farmers in the same room – and the outcome could be far-reaching for the company and for New Zealand farming overall.

Landcorp formed the Environmental Reference Group (ERG) during 2015/16 to give independent, expert advice on practical steps by the company to protect and enhance the environment. The ERG includes six specialists in complementary fields: environmentalist Guy Salmon as chair; sustainable farming adviser and veterinarian Dr Alison Dewes; water quality scientist Dr Mike Joy; agricultural economist and Maori agribusiness consultant Dr Tanira Kingi; primary sector marketing expert Dave Maslen; and inventor and entrepreneur Angus Robson.

"Our role is to develop and promote green ideas, and look at how these can work in the practical world of farm management," says Guy, who is Executive Director of The Ecologic Foundation. "We've all been very impressed with Landcorp's commitment and with what we've seen so far."

Landcorp decisions to scale down the conversion to traditional dairying on Wairakei Estate and to cease using palm kernel extract (PKE) for supplementary feed from next 30 June are early reflections of the ERG's influence. Guy says these moves are Landcorp showing industry leadership on environmental initiatives that also make commercial sense. "Landcorp can have a big role showing other farmers what is possible."

He predicts this will increasingly be the case as New Zealand addresses more fully the need for greenhouse gas emission reductions in farming through changes in land use, and the adoption of new technologies and practices. "When agriculture eventually comes into the Emissions Trading Scheme, there'll be pressure to transition away from traditional farming systems with as little value destruction as possible. To make that transition we're going to have to learn some new tricks."

Landcorp's withdrawal from PKE is an acknowledgement of climate change issues associated with deforestation in Southeast Asia. Guy says it is also an example of a zero net cost change with Landcorp farm managers ready and able to substitute other forms of feed for the relatively low volumes of PKE they are still using. "There's also growing awareness that people out there in markets for what you produce want to see farmers doing better by the environment."

Some tension is inevitable between environmentalist and farmer perspectives, but Guy says it is a creative tension from which both can learn. Some ERG meetings are held on Landcorp farms where the six experts can talk with people working on the land every day.

"In the long term, there'll be real crunch decisions about how farming can be made a lot more environmentally sustainable but we do acknowledge that people must also make a living," says Guy. "Along the way, there are many sustainability initiatives that can be taken and Landcorp has a big leadership role to play in this regard."

STRATEGY

FARMING SMART

Landcorp is adopting the best available science and technology to strengthen its farming systems and develop high quality products. We strive to adopt the smartest ideas for increased productivity, profitability and sustainability in all aspects of farming. We make innovative use of information technology to strengthen decision making, and we apply the knowledge and experience of Landcorp people and others to identify and extend farming best practice across the company.

INITIATIVES

Further develop and apply the Farm Management System (FMS) to guide all decision making on dairy and livestock farms, and thereby increase their productivity and sustainability.

Enhance Landcorp's multi-farm production system in sheep, beef and deer farming to support growth in our fixed-price contracting of supply to processors and end-market customers.

Continue strengthening dairy farm operations with new efficiencies in the calving programme, genetic advance in cows and refinements in feeding and herd management.

Continue rolling out short interval management tools and LEAN methods for greater on-farm efficiency and adoption of farming best practices across Landcorp.

Pursue genetic advances in sheep, cattle and deer through the work of Focus Genetics (subsidiary company) and its breeding partners. During 2014/15 Landcorp's Texel breeding programme won a Beef + Lamb Genetics Award for lamb survival traits.

Roll-out Farm Store, a procurement and accounts payment system for greater efficiency and cost management across the company.

CASE STUDY

INFORMED DECISIONS FOR BETTER PERFORMANCE

The better informed the farmer, the better the farm decision making and the better the farm performance. On this, Stuart Farm is an excellent example among many within Landcorp.

Stuart – a 3,077 hectare Te Anau Basin property focused mainly on deer breeding and finishing – lifted productivity 18% during 2015/16 and reduced its cost of production 21%.

Farm manager Mark Bolger and his team put the Farm Management System (FMS) and FARMAX forecasting software to work for them through a year of very mixed conditions. The winter of 2015 was long, cold and wet although this was followed by a late summer of favourable growth. Stuart finished 2,411 yearling trade deer over the year, with 63% of these fitting into the premium chilled market (an increase 20% from 2014/15).

Mark says decision making on every aspect of production has been strengthened by having detailed information on animals, feed supply and farm operations whenever needed. "It's having the ability to look back on past events and outcomes, and to look forward by linking data from FMS into FARMAX forecasting tools … and to then marry all that with your own farming experience and business sense," says Mark. "Having hard information to answer questions builds your confidence and means you're far more likely to make the right decisions at the right times."

Mark and his six staff have integrated data capture and uploading into their farming activities every day. During 2015/16, a smartphone app was introduced for putting data into the FMS cloud from its point of collection anywhere on the property (cellular connection permitting).

Grass covers, for example, are uploaded from each block by a staff member, with the particular location automatically recorded using GPS technology. "I encourage the guys to peer review their recorded measurements in FMS so that we can have complete confidence on pasture covers," Mark says.

Like other Landcorp farms, Stuart is building a huge database on all the variables that influence on-farm decision making. The farm also includes extensive sheep and beef operations. Electronic identification from ear-tagged deer, cattle and sheep provides a record on the origins, feeding, health treatments and liveweight of each individual animal. "We now have the detail on individual animals down to a level that only stud farms kept 10 years ago," says Mark.

That obviously adds efficiency to decisions on mating, feed allocation, health treatments and more. The data can be combined with current and expected future pasture availability to plan the finishing of each animal in commercial herds and flocks. "There are no more off-the-cuff decisions on the simple things we do on-farm all the time," says Mark. He has extended the use of FMS to include all aspects of staff management including health and safety.

In addition, he continues to learn use of the system's analytical capabilities and this includes identification of new relationships between farming variables. "It's extremely useful to create your own dashboard of indicators that enable you to track the key performance indicators in your particular operation."

CASE STUDY

DAIRYING AT ITS BEST ON RUAPEHU FARM

Tony Dowman and Glenn Weitenberg

Ruapehu is a dairy farm of outstanding financial performance, low environmental impact and good people management. That expert assessment has made Ruapehu – one of the eight units in Landcorp's Moutoa Dairies complex – New Zealand's Dairy Business of the Year in 2016.

The independently-judged award is based on benchmarking of dairy farm profitability, business risk and resilience, and environmental and human resource management. Ruapehu's recognition as Dairy Business of the Year reflects very smart farm management over several years by Landcorp people on Moutoa, especially farm manager Glenn Weitenberg and his five team members.

Ruapehu is 253 effective hectares of flat land with silty peat soils beside the lower Manawatu River. Glenn and the team milked 871 cows at the season's peak and produced 476 kg of milksolids per cow. All farms entered in the award this year were benchmarked on their 2014/15 operating and financial numbers.

The assessors praised Ruapehu's productivity, cost of production and "outstanding" 7.1% rate of return on capital (value of all assets in the business). The return compares with a 1.3% average for the year on benchmark farms in the Waikato district. Ruapehu's out-performance reflects superiority on measures of production efficiency and cost.

The farm produced 1,638 kg of milksolids per hectare, 28% above the Waikato average. Production per kg cost was much lower than average, despite a relatively high level of bought-in feed.

Ruapehu is rated well also for low levels of nitrogen leaching – a low 19 kg per hectare – and capacity for further reducing N losses during wet periods through use of hard-standing areas for the cows. Environmental impacts are reduced also by the farm having a lined effluent pond and effluent irrigation to 38% of its land area.

The farm's good human resource assessment reflects a training expenditure level well above average and low employee turnover at manager level. People productivity is also relatively high, including a ratio of 150 cows per full-time staff member.

Glenn says Ruapehu's success reflects the team's constant attention to the details of farming to optimise feed production and keep cows in excellent condition. The farm today reflects careful analysis of past year-round production patterns, and systematic steps to improve pasture growth while also putting feed crops on the most suitable areas.

"My goal is just to continue fine-tuning the system," says Glenn. "We are looking good for the season ahead. The cows and cover are in good condition, the heifers are fat and the staff are keen."

Moutoa Farm Business Manager Tony Dowman says Ruapehu is an excellent example of how units within each of Landcorp's dairy clusters can benefit from use of company-wide analytical and decision making tools, and from the continuous sharing of knowledge among farm managers.

CASE STUDY

LEAN FOR BEST PRACTICE FARMING

Shane Cooper using LEAN

How do Landcorp farms become best practice in daily operation? Our answer is to ask the farmers themselves, give them the right tools and keep a sharp eye on the indicators that matter most.

Best practice is "usually sitting in someone's head and often it's not the manager's", says Shane Cooper, a leader in Landcorp's adoption of LEAN methods for operational efficiency improvement. "It's a matter of the whole farm team talking through the best, more efficient ways to do each routine task … extracting the answer from someone and getting it down on card so that everyone can see the same thing and adopt it as standard practice. Those cards then become training material for use on the farm and perhaps across the company."

Shane, one of the Farm Managers on Northland's Sweetwater dairy complex, has been co-leading the rollout of LEAN on dairy units nationwide after it was trialled in 2015. (LEAN was developed internationally for large-scale manufacturing. Its application to farming is a Landcorp innovation.) Drawing on the experience and ideas of the whole farm team – and capturing best practice in simple terms – can mean small changes in routine work bring big benefits. On Sweetwater, for example, an improved and standardised shed wash procedure led to a higher Fonterra health grading on the milk.

The focus is often on how to reduce waste, including time and energy as staff do their multitude of tasks every day. "I've seen this in action all over the place … in the best example, guys on one unit started finishing work three hours earlier than before because of the efficiencies they achieved. They're getting home to their families that much earlier with no detriment to production or the state of the farm," says Shane. "LEAN is all about efficiency, not cutting costs or anything else."

Landcorp has put the method to use together with "short interval management" and its own, innovative information tools. Farm teams sit down weekly – daily in some cases – to review their farm's key performance indicators and apply LEAN when an issue appears.

Key data on health and safety incidents, milk quality, animal health and more is displayed in a standard format for everyone to see. The information is entered daily into the Farm Management System (FMS) anyway. Shane – who had solid experience as a trainer in other industries before joining Landcorp seven years ago – has also helped to develop a touch-screen version for easier access by every team member to the most relevant data in FMS.

"The daily reporting on key indicators in this standardised form allows you to see what's happening in the farm business all the time," he says. "Patterns quickly become clear and you can act before any issue becomes a major problem." Generally farm teams spend time discussing only indicators where new data is outside expected parameters. "Teams have the tools for them to use in improving efficiency but that still leaves them making all the decisions on what needs doing each day to run a good farm."

Short interval management is more easily applied in dairying where production volume and quality is measured daily but Landcorp is adapting the concept, and LEAN methods, for use on livestock farms.

STRATEGY

CREATING VALUE

Landcorp produces and supplies high quality products that increasingly define the Pāmu Farms brand in New Zealand and global markets. Value is created from the quality, uniqueness and naturalness of those products, and from the way they are produced within the Pāmu Promise framework. The products are being integrated into value chains linking New Zealand's natural resources and Landcorp's farming systems with niche consumer markets, global and local. Production and supply is increasingly based on deep understanding of consumer needs and preferences, and on value chain partnerships formed by Landcorp.

INITIATIVES

Expand sheep milk production and supply of Spring Sheep-branded products based at the St Kilda ovine dairy farm established during 2015/16. The milking flock is being increased and more such farms are planned.

Grow venison production and support Duncan NZ in its supply of distinctive New Zealand grass-fed venison into the US market, an increasing share of this with Pāmu Farms as the source identity.

Extend the use of fixed-price contracts in Landcorp's sheepmeat and beef operations. During 2015/16 more than half our beef was sold under such contracts and further opportunities in the US market are being explored.

Shift more of Landcorp's wool production into value chains in partnership with The New Zealand Merino Company. New supply contracts with Prestige Carpets of Australia are based on this model. We will build on the value chain supply of lambs wool to Glerups of Denmark initiated in 2015/16.

Research the potential for new products from Landcorp farms including deer milk and mānuka honey. We are an active investor in Mānuka Research Partnership (NZ) Ltd which seeks to develop a science-based industry producing high-value honey for global markets. Mānuka cultivars are being trialled in diverse eco systems on Landcorp farms.

Sheep whole milk powder

CASE STUDY

SHEEP MILK PRODUCED FOR ASIAN CONSUMERS

Spring Sheep Milk has been launched into an Asian market hungry for the nutritional qualities of sheep milk, especially when it's produced by world-leading New Zealand pastoral farmers.

Branded Spring Sheep Milk Company whole milk powder is now being sold in Taiwan through a pharmaceutical and health products company – the first step in building niche market presence for a product created by Landcorp and an expert partner with the Asian consumer firmly in mind.

Spring Sheep Milk is a joint venture between Landcorp and New Zealand-based marketing company SLC. The milk is produced at Landcorp's first sheep dairy farm, the 342-hectare St Kilda unit on Wairakei Estate, Central North Island.

"Demand for alternative dairy products is rising globally and we've chosen a market with good understanding of quality and of New Zealand," says Scottie Chapman, Chief Executive of Spring Sheep Milk Company. An experienced global marketer, Scottie says as Spring Sheep Milk becomes more established in Taiwan, its products will be taken into other Asian markets as well.

The first product into Taiwan is whole milk powder for adults, sold in 700 gram cans bearing the Spring Sheep Milk brand. The second will be a "gold" whole milk with pre- and pro-biotic supplements for gut health. Generally, sheep milk is prized for vitamin and mineral levels much higher than bovine milk, and for its ease of digestibility, especially by people who are lactose intolerant.

Landcorp established a milking flock of 3,000 East Friesian ewes on St Kilda during 2015/16. The farm has a 120-bale, low-line parlour designed for the process of gently milking sheep twice a day, through a season that usually runs from July to March.

Landcorp has combined its expertise in both dairy and sheep farming in the Spring Sheep Milk operation, and the first season was very successful. In the current year, the milking flock has been expanded to 4,000 ewes to support volume growth in the consumer products. The milk goes through a dairy processing facility in the Waikato Innovation Park, Hamilton.

Spring Sheep Milk will also soon launch two gelato varieties into the New Zealand market: dark chocolate and vanilla bean. Already Spring Sheep Milk gelato has won international recognition with prototypes of the soon-to-be-launched product named as finalists in the World Dairy Innovation Awards, held in London during June. The Spring Sheep Milk product was a runner up in the Best Ice Cream or Frozen Yoghurt category and also in the Best Dairy Packaging Design category.

Spring Sheep Milk powders and gelato demonstrate Landcorp's capacity to develop new products and to work with partners on more direct connection to consumer markets. "We're showing how New Zealand farming can be strengthened by providing consumers more of what they really want in specific markets, as well as working harder on farm to improve the production," says Scottie.

With Spring Sheep Milk, there is also potentially a big environmental benefit as well. Research indicates that leaching of nitrates into the ground can be 33% lower in sheep farming relative to bovine dairy.

CASE STUDY

PĀMU VENISON EATEN IN AMERICA

Venison sourced from Pāmu Farms is increasingly on the menu for American restaurant diners who appreciate the quality of New Zealand grass-fed game meat.

Duncan NZ – a specialist processor and global marketer of venison – is expanding its export of Landcorp-sourced product into the United States this year.

Since the early 1980s, Andy Duncan, Chief Exectuive of Duncan NZ, has helped lead US and European market development for New Zealand venison. This year Duncan NZ is co-branding much of its product supplied to Broadleaf Game, the largest US distributor of New Zealand venison, with “Pāmu Farms-exclusive selection” and providing information on this. “We are strengthening our messages on the natural, hormone-free farming practices of New Zealand producers and ultimately that supports our high-end positioning with consumers,” says Andy.

Los Angeles-based importer and distributor Broadleaf Game is part of a developing value chain that connects New Zealand deer farmers with American restaurant diners. These consumers want the world’s finest game meats and, importantly, also want to know the story behind where their food comes from. “New Zealand’s red meat producers and processors are among the most efficient in the world, so the Pāmu programme fits well with who we are,” Andy says. “In the future, as continuity of supply builds, our hope is that Pāmu-sourced venison will strengthen the premium positioning of New Zealand venison in world markets.”

Duncan NZ has substantial exports to France as well. Andy foresees increasing demand for venison in the affluent consumer markets of Europe and North America. “Health conscious and sophisticated diners are interested in meat that is ethically and sustainably produced from animals in grass-fed and free-range farming systems. They’re also increasingly aware of New Zealand venison as a healthy option for meat eating … and one with great taste as well.” The partnership between Duncan NZ and Landcorp supports continuity in the operation of each. The former values the certainty of throughput at its Mosgiel and Rotorua plants with deer from Landcorp’s main finishing farms. “We need certainty of supply to be able to secure and hold the best customers in our world markets,” says Andy.

For Landcorp, there are big advantages in partnering with a specialist venison processor and marketer which has strong links into global markets where the Pāmu story will be valued. The partnership has another, more local dimension as well. From 1 July 2016, Duncan NZ has an online offering of its new “Bistro Fillet,” sourced from Pāmu Farms, to New Zealand consumers, for home cooking. Another value chain between some of New Zealand’s best deer farmers and discerning diners.

CASE STUDY

FIBRE INTEGRITY FOR HIGH-VALUE CARPET

Sheep on Wairio farm

Pāmu wool produced to the highest standard is going into high-value carpet for Australians who love the quality and also the integrity of Landcorp's sheep farming.

Prestige Carpets – Melbourne-based manufacturer of some of the world's highest quality, innovative and chic carpet products – is now sourcing much of the strong wool it needs directly from Landcorp through a value chain created by The New Zealand Merino Company (NZM).

Prestige Carpets supplies to architects, interior designers and retailers in Australia and New Zealand, for high-end floor covering in commercial premises and homes.

"Our customers and their clients want a deeper connection with our products and with the provenance of the wools from which they are made," says Simon Longton, Prestige Carpets General Manager. "We've seen the care and passion that go into Landcorp's farming, and this fits perfectly with the fibre integrity we want for our customers."

At this stage, the Pāmu wool for Prestige Carpets is coming from 15 Landcorp farms that meet the standards of the customer and NZM. An initial 120 tonnes was supplied in autumn 2016.

NZM market Development Manager Hadleigh Smith says volumes contracted for supply at premium prices are expected to grow as more Landcorp farms met required specifications and join the value chain.

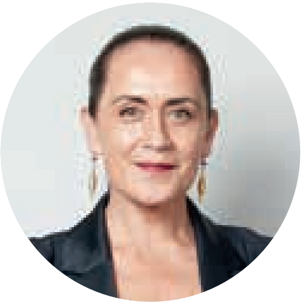
"We are looking for the best of the best carpet wools … the cleanest, whitest and longest," says Hadleigh. "Landcorp can certainly deliver on quality and integrity right through to how the clip is presented as it is leaving the farm. We provide guidance to farm managers and staff on the detail of what's required."

NZM introduced Prestige Carpets to Landcorp in 2015. The Australian company had long sourced wool from New Zealand growers but was looking for the provenance story sought by its discerning customers. "NZM is a real supporter of the Pāmu approach and we see strong synergy between this and Prestige Carpet's innovation in tufted carpet manufacture and supply at the top of its markets," says Hadleigh.

NZM is also applying its value chain expertise to Landcorp and Dixie Home, a large carpet maker in the United States where consumers increasingly seek natural and healthy attributes in their choice floor coverings. NZM researched the US market and tested prototype products made with Pāmu wool. The success of this process has led to a substantial contract for Landcorp supply to Dixie in 2016.

BOARD OF DIRECTORS

2016



Traci Houpapa

MNZM, JP, MBA

Traci joined the Landcorp Board in May 2010 and was appointed Chairman in May 2015 following nearly a year as acting Charman. 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, the W3 Wool Unleashed PGP and the National Advisory Council for the Employment of Women. Traci also holds governance roles on the Waikato River Authority, Strada Corporation, the Ontario Teachers' Pension Plan NZ Forestry Investments Limited, Pengxin NZ Farm Management Limited, Tuhono Whenua Horticulture Limited, Our Land and Water and Ageing Well National Science Challenges, the Asia NZ Foundation, Victoria University of Wellington's Council, the Primary Industry Training Organisation and Hineuru Holdings Limited (and associated entities).

John Brakenridge

MBA

John joined 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 joined the Landcorp Board in May 2012 and is the Chair of the Board's Performance & Safety Committee. 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 a director of Farmlands Cooperative Society Limited.

Chris Day

BBS, CA, CTP, CMInstD

Chris joined the Landcorp Board in May 2012. In addition to his Director responsibilities, he is Chief Financial Officer for 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 near Pahiatua in North Wairarapa, where he has an interest in his family farming enterprise, with his family having farmed in Wairarapa since the 1850s.

Pauline Lockett

B.Com, ACA

Pauline joined the Landcorp Board in May 2012 and is the Chair of the Board's Audit Committee. 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 joined 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 and training and development of young people. His governance career includes being the past chairman of Taratahi Agricultural Training Organisation, as well as various local and regional organisations. David is currently the chair of the Independent Beef and Lamb Directors' Remuneration Committee.

Tony Reilly

B.Agr.Com. N Sch. FInstD

Tony joined 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 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 joined 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

2016

Steven Carden
Chief Executive Officer

Steve McJorrow
Chief Financial Officer

Lucy Wills
General Manager
People and Safety

Sarah Risell
General Manager
Sales & Marketing

Graeme Mulligan
General Manager
Livestock Operations

Phil McKenzie
General Manager
Property and Environment

Mark Julian
General Manager
Dairy Operations

Andrew Sliper
General Manager
Commercial Development

Rob Ford
General Manager
Innovation & Technology

FINANCIAL REVIEW 2015/16

Landcorp recorded a $9.4 million net operating loss for 2015/16, due largely to lower milk revenue in a second year of falling returns to New Zealand dairy producers. However after revaluation gains and land sales this translated in to a net profit after tax of $11.5 million.

Total revenue was down 6.8% from the previous year, but Landcorp met the challenge of reduced prices in its largest product markets by bringing down its operating expenses. The company's 2015/16 net operating loss compared with a $4.9 million net operating profit and a $20.0 million net loss after tax for the previous year. Farming conditions were difficult in parts of New Zealand through much of 2015/16, with an unusually dry summer period in the lower North Island and upper South Island. However an El Nino climate pattern did not lead to an extended drought as feared under one scenario. Landcorp took action early in the production season to manage that risk.

TOTAL SHAREHOLDER RETURN

Landcorp recorded a negative total shareholder return for 2015/16 (also referred to as Total Comprehensive Income) of $2.9 million, including the net operating loss ($9.4 million). The total return was an improvement from the previous year's negative return of $8.4 million.

The 2015/16 return included a $7.4 million profit on land sales due to the sale of farm properties. The latest year also included a $23.4 million gain on revaluation of livestock, along with other unrealised gains on revaluation of intangible assets ($5.3 million) and of available-for-sale financial assets ($3.7 million). These were more than offset by other (unrealised) revaluation losses including a $24.8 million write-down in the value of land and improvements at 30 June 2016.

DAIRY

Milk revenue was down 14.6% to $75.2 million (2014/15: $88.1 million) due to a reduction in payout levels from the dairy processing companies. The Fonterra cash payout for 2015/16 is $3.90 per kg of milksolids (kgMS), down from $4.40 kgMS the previous year and from $8.40 kgMS for 2013/14. The latest year saw Landcorp secure part of its supply to Fonterra under the latter's Guaranteed Milk Price (GMP) scheme at forward prices that were above the eventual level of cash payout. The GMP Scheme was discontinued from 1 July 2016 with Landcorp and other producers looking to milk price futures contracts on the NZX Derivatives Market to manage price uncertainty from now on.

Landcorp milk production increased to 19.7 million kgMS in 2015/16, up from 19.4 million kgMS, reflecting the completion of expansion projects on some of the company's dairy complexes. Landcorp managed costs carefully in response to the reduction in payouts. As an intended consequence, milksolid production per hectare was reduced and the average figure across all dairy farms was a creditable 829 kgMS for the year (2014/15: 886 kgMS). Farm managers reduced input spending while maintaining cow condition. On many farms, once daily milking was used effectively to manage feed demand and supply through the second half of the season.

LIVESTOCK

Livestock revenue was down 5.9% to $104.7 million (2014/15: $111.3 million) due to weaker lamb prices and a reduction in beef production volume. Landcorp responded effectively in its sheep and beef operations to the prospect of an El Nino drought through the summer, and to volatility in prices for store and finished animals.

The company supplied approximately 440,000 prime lambs during 2015/16, marginally up on the previous year and at a heavier average weight. More than one third of these new season lambs were supplied on fixed price contract. Landcorp's breeding and finishing farms again operated an effective production-line system to meet contract commitments. The company's national lambing average for 2015/16 was 141%, consistent with the previous year. New Zealand farm-gate lamb prices were down slightly in the latest year and around 20% down from their high level of 2010/11.

Landcorp supplied approximately 16,400 prime steers and heifers during 2015/16, down from the previous year as farm managers focused on producing heavier weights and on controlling costs. New Zealand farm-gate prices for prime cattle were up slightly in the latest year, reflecting demand for this country's product in the United States. Landcorp continued to build its supply to customers on fixed price contracts, these accounting for more than 50% of prime cattle sold in the year.

Livestock farms generally held down costs of production while achieving, in many cases, significant average liveweight gains in their flocks and herds. In beef operations, this lead to a lower production volume and a 2.8% contraction in revenue to $48.1 million. Sheep meat production was up, although weaker prices saw total sheep revenue decline 10.7% to $43.7 million. Overall, some Landcorp livestock farms delivered a significantly improved level of operating earnings for 2015/16.

New Zealand wool prices remained relatively buoyant through 2015/16 and Landcorp generally secured premiums above the spot market for its supply on fixed price contracts. These accounted for virtually all wool sold by the company, including lamb's wool supplied to clothing manufacturers and medium strong wools supplied for carpet making. Landcorp continued to build its supply arrangements with The New Zealand Merino Company. The volumes sold during 2015/16 were down on the previous year but wool revenue was little changed at $10.4 million.Venison prices were up 10% on average in the latest year, and Landcorp was focused on both supplying the market and building its production herd sizes. The company finished approximately 29,000 yearling deer in 2015/16, steady with the previous year, and lifted revenue from deer operations by 1.4% to $12.9 million.

CHART: REVENUE AND FARM WORKING EXPENSES

Landcorp has experienced substantial decline in milk revenues over the past three years. Livestock revenue (from sheep, beef and deer farming) has been relatively unchanged as the company goes through a transformation including a shift to value chain production and supply of milk, meat and fibre. Expenses have come under firm management control over the three years.

EXPENSES

Landcorp reduced total headline expenses by 1% to $206.9 million (2014/15: $208.8 million) through a combination of close attention to cost management across the business, the exit from or restructuring of some farm management arrangements, offset by the commencement of operations on new farms. After normalising for the above factors, underlying expenses were virtually flat year on year.

In particular, headline farm working expenses came down 7.8% to $84.0 million and the underlying decrease was still a healthy 6.1% as farm managers pulled back on input purchasing in measured response to the reduced milk revenue, to weaker prime lamb prices and to rising store cattle prices. Pasture maintenance expenditure was increased during the year while feed supplement purchases were brought down. Animal health and nutrition remained paramount. Landcorp had 704 full-time permanent employees as at 30 June 2016 (2015: 715). Personnel expenses increased to $61.7 million, but payments managers and staff did not receive incentive payments related to company-wide performance for 2015/16.

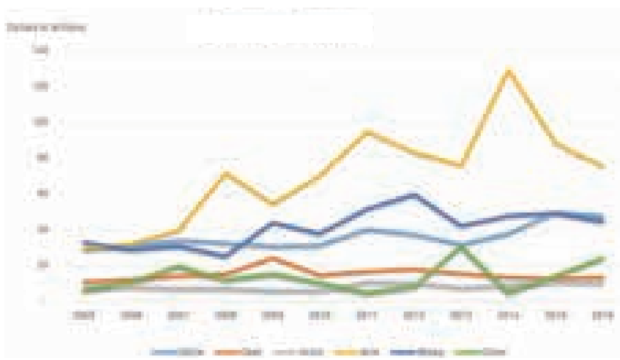
BALANCE SHEET

Total assets increased to $1,786.3 million at 30 June 2016 (2015: $1,774.7 million). This reflected valuation changes in Landcorp's livestock and forests (valued up) and in land and improvements (valued down) at balance date.

The company had a small increase in its level of bank borrowing at 30 June 2016 to $219.6 million (2015: $210.7 million). The increase was limited as proceeds from the sale of land were used to manage debt levels. Landcorp closely manages its borrowing using a syndicate of banks with experience of traditional cycles in New Zealand agriculture.

The company retains a conservative balance sheet with capacity to invest in initiatives that will increase future profitability and shareholder value. At 30 June 2016, the ratio of shareholders' funds (including redeemable preference shares) to total assets was 85.0% (2015: 85.0%).

CHART: SOURCES OF INCOME



FINANCIAL STATEMENTS

AND DISCLOSURE INFORMATION

Statement of Comprehensive Income **30**

Statement of Movements in Equity **32**

Statement of Cash Flows **34**

Statement of Financial Position **36**

Notes to the Financial Statements **38**

1 Reporting Entity 38

2 Basis of Preparation 38

3 Significant Accounting Policies 39

4 Critical Accounting Judgements, Estimates and Assumptions 43

5 Standards, Amendments and Interpretations issued that are not yet effective and have not been early adopted 45

6 Livestock 46

7 Milk Revenue 47

8 Farm Working Expenses 48

9 Personnel 48

10 Other Operating Expenses 48

11 Accounts Receivable 48

12 Other Financial Assets and Liabilities 49

13 Intangible Assets 50

14 Property, Plant & Equipment 51

15 Property Held for Sale 53

16 Capital Management 54

17 Dividends Paid 55

18 Income Tax 56

19 Risk Management 58

20 Contingent Assets and Liabilities 62

21 Related Parties 62

22 Commitments 63

23 Subsidiary Companies and Jointly Controlled Entities 63

Independent Auditor's Report **65**

Governance and Statutory Disclosures **67**

Balanced Scorecard 2015 **72**

STATEMENT OF COMPREHENSIVE INCOME

for the year ended 30 June 2016

	Note	Group 2016 $m	Group 2015 $m
Revenue			
Livestock	6	104.7	111.3
Milk	7	75.2	88.1
Wool		10.4	10.7
Forestry		4.0	2.4
Other produce		1.0	1.0
		195.3	**213.5**
Income from equity accounted investments		(1.0)	-
Genetic income		6.2	6.3
Other income		8.5	4.5
		209.0	**224.3**
Expenses			
Farm working expenses	8	84.0	91.1
Personnel	9	61.7	57.6
Depreciation and amortisation		16.0	15.4
Maintenance		13.0	14.0
Other operating expenses	10	32.2	30.7
		206.9	**208.8**
Net Profit before Interest, Property Sales and Revaluations		**2.1**	**15.5**
Interest expense		(11.5)	(10.6)
Net Finance Costs		**(11.5)**	**(10.6)**
Net Operating (Loss)/Profit		**(9.4)**	**4.9**
Profit on sale of land		7.4	-
Revaluation Gains and Losses			
(Loss)/Gain due to price changes on forests		(0.7)	1.9
Gain/(Loss) due to price changes on livestock	6	23.4	(21.6)
Loss due to price changes on financial instruments		(5.3)	(6.8)
Loss on revaluation of property, plant and equipment		(3.9)	(2.8)
Net Profit/(Loss) before Tax		**11.5**	**(24.4)**
Tax (expense)/income	18	-	4.4
Net Profit/(Loss) after Tax		**11.5**	**(20.0)**

	Note	Group 2016 $m	Group 2015 $m
Other Comprehensive Income			
(Loss)/Gain on revaluation of land and improvements		(24.8)	11.7
Revaluation losses transferred to and recognised in profit and loss		1.1	2.8
Gain/(Loss) on revaluation of available-for-sale financial assets		3.7	(4.0)
Gain due to price changes on intangible assets		5.3	0.6
Income tax on income and expense recognised in equity		0.3	0.5
Total Comprehensive Income		**(2.9)**	**(8.4)**

The accompanying notes form part of these financial statements.

Non-GAAP terminology

The Directors note that the Net Profit/(Loss) 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. Landcorp's Net Operating Profit/(Loss) is a non-GAAP measure.

STATEMENT OF MOVEMENTS IN EQUITY

for the year ended 30 June 2016

	Note	Group 2016 $m	Group 2015 $m
Ordinary Shares			
Balance beginning of year		125.0	125.0
Balance end of year	16	**125.0**	**125.0**
Retained Earnings			
Balance beginning of year		130.9	129.5
Net profit/(loss) after tax		11.5	(20.0)
Transfer (to)/from revenue reserves		(18.1)	28.4
Dividends paid	17	-	(7.0)
Other movements		2.5	-
Balance end of year	16	**126.8**	**130.9**
Revenue Reserves			
Biological assets revaluation reserve			
Balance beginning of year		105.6	127.2
Transfer from/(to) retained earnings		23.4	(21.6)
Balance end of year	16	**129.0**	**105.6**
Financial assets revaluation reserve			
Balance beginning of year		(22.9)	(16.1)
Transfer from/(to) retained earnings		(5.3)	(6.8)
Balance end of year	16	**(28.2)**	**(22.9)**
Fair Value Reserve			
Balance beginning of year		9.1	12.9
Revaluation of available-for-sale financial assets		3.7	(4.0)
Net tax effect on revaluation		-	0.2
Balance end of year	16	**12.8**	**9.1**
Asset Revaluation Reserves			
Intangible assets			
Balance beginning of year		(0.5)	(1.1)
Net value change during year		5.3	0.6
Balance end of year	16	**4.8**	**(0.5)**

	Note	Group 2016 $m	Group 2015 $m
Freehold land and improvements			
Balance at the begining of the year		769.7	747.0
Transfers to property held for sale		(42.2)	-
Transfers to other equity on sale		0.2	-
Transfers from property held for sale		-	8.0
Net value change during year	14	(24.7)	11.6
Revaluation (gains)/losses recognised in profit and loss		1.1	2.8
Tax effect of reserve movements		0.3	0.3
Other movements		(2.8)	-
Balance end of year	16	**701.6**	**769.7**
Property held for sale			
Balance beginning of year		12.6	20.5
Transfers from freehold land and buildings		42.2	-
Transfers to freehold land and buildings		-	(8.0)
Transfers to other equity on sale		(10.9)	-
Value change during year		(0.1)	0.1
Balance end of year	16	**43.8**	**12.6**
Other Equity			
Balance beginning of year		283.4	282.5
Transfers from asset revaluation reserves		10.7	-
Capital expenditure reimbursed by the Crown		1.5	0.9
Balance end of year	16	**295.6**	**283.4**
Non-Controlling Interest			
Balance beginning of year		-	0.9
Acquisition of subsidiary with non-controlling interests		-	(0.9)
Balance end of year		**-**	**-**
Total Equity			
Balance beginning of year		1,412.9	1,428.3
Net profit/(loss) after tax		11.5	(20.0)
Other comprehensive income:			
(Loss)/Gain on revaluation of land and improvements		(24.8)	11.7
Revaluation (gains)/losses transferred to and recognised in profit and loss		1.1	2.8
Gain/(Loss) on revaluation of available-for-sale financial assets		3.7	(4.0)
Gain/(Loss) on revaluation of intangible assets		5.3	0.6
Income tax on income and expense recognised in equity		0.3	0.5
Dividends paid		-	(7.0)
Capital expenditure reimbursed by the Crown		1.5	0.9
Acquisition of subsidiary with non-controlling interests		-	(0.9)
Other movements		(0.3)	-
Balance end of year		**1,411.2**	**1,412.9**

The accompanying notes form part of these financial statements.

STATEMENT OF CASH FLOWS

for the year ended 30 June 2016

	Note	Group 2016 $m	Group 2015 $m
Operating Activities			
Cash was received from:			
Receipts from customers			
Livestock		126.6	134.6
Milk		74.3	99.2
Other receipts from customers		24.6	24.0
Interest received		0.1	-
Dividends received		0.5	-
Income tax received		0.3	0.3
		226.4	**258.1**
Cash was applied to:			
Payments to suppliers		150.0	161.1
Payments to employees		57.2	57.0
Interest paid		11.1	11.3
Net GST paid/(received)		0.6	(0.8)
		218.9	**228.6**
Net Cash Flows from Operating Activities		**7.5**	**29.5**
Investing Activities			
Cash was received from:			
Sale of land and improvements		27.9	4.9
Sale of other property, plant and equipment		1.4	(0.4)
		29.3	**4.5**
Cash was applied to:			
Purchase and development of land		32.0	42.5
Purchase of other property, plant and equipment		14.3	15.5
Purchase of intangible assets		0.2	0.1
Purchase of shares and advances		1.7	5.3
Purchase of livestock		1.0	1.8
		49.2	**65.2**
Net Cash Flows from Investing Activities		**(19.9)**	**(60.7)**
Financing Activities			
Cash was received from:			
Net borrowing receipts		11.2	38.1
		11.2	**38.1**

	Note	Group 2016 $m	Group 2015 $m
Cash was applied to:			
Dividends paid	17	-	7.0
		-	**7.0**
Net Cash Flows from Financing Activities		11.2	31.1
Net Change in Cash and Cash Equivalents		**(1.2)**	**(0.1)**
Cash and cash equivalents at beginning of year		0.2	0.3
Cash and Cash Equivalents at End of Year		**(1.0)**	**0.2**
Cash and cash equivalents comprises cash balances held with registered New Zealand banks -			
Cash at (bank overdraft)/bank		(1.0)	0.2
Reconciliation of Profit and Operating Cash Flow			
Net profit/(loss) after tax		**11.5**	**(20.0)**
Non cash items			
Depreciation and amortisation		16.0	15.4
Revaluation gains and losses		(13.5)	29.3
Change in deferred tax (liability)/asset		(0.1)	(4.1)
Deferred tax on revaluation of assets		0.3	0.3
Other non cash items		4.5	1.0
Movement in working capital items			
Inventories		(2.2)	2.9
Accounts receivable		0.6	6.2
Accounts payable and accruals		(5.9)	3.1
Employee entitlements		2.5	(2.7)
Items classified as investing or financing activities			
Net gain/(loss) on movement of assets		(8.0)	(0.3)
Change in accounts receivable due to capital items		0.9	0.4
Change in accounts payable due to capital items		(0.1)	(3.8)
Purchase of livestock		1.0	1.8
Net Cash Flows from Operating Activities		**7.5**	**29.5**

The accompanying notes form part of these financial statements.

STATEMENT OF FINANCIAL POSITION

as at 30 June 2016

	Note	Group 2016 $m	Group 2015 $m
Assets			
Cash and Cash Equivalents		(1.0)	0.2
Accounts Receivable	11	26.2	26.8
Inventories		10.2	8.0
Property Held for Sale	15	88.5	31.5
Biological Assets			
Livestock	6	288.5	270.9
Forests		27.5	25.4
Total Biological Assets		**316.0**	**296.3**
Equity Accounted Investments		5.9	5.8
Other Financial Assets	12	54.1	50.1
Intangible Assets	13	11.8	6.5
Property, Plant and Equipment			
Land and improvements	14	1,110.4	1,189.5
Protected land	14	111.4	110.2
Plant	14	24.1	24.3
Motor vehicles		25.5	23.0
Furniture and equipment		2.1	2.1
Computer equipment		1.1	0.4
Total Property, Plant and Equipment		**1,274.6**	**1,349.5**
Total Assets		**1,786.3**	**1,774.7**

	Note	Group 2016 $m	Group 2015 $m
Liabilities			
Accounts Payable and Accruals		18.0	23.9
Employee Entitlements		10.2	7.7
Deferred Tax Liability	18	0.8	0.7
Other Financial Liabilities	12	238.4	221.8
Redeemable Preference Shares	16	107.7	107.7
Total Liabilities		**375.1**	**361.8**
Shareholders' Funds			
Share capital		125.0	125.0
Retained earnings		126.8	130.9
Revenue reserves		100.8	82.7
Fair value reserve		12.8	9.1
Asset revaluation reserves		750.2	781.8
Other equity		295.6	283.4
Total Shareholders' Funds	16	**1,411.2**	**1,412.9**
Total Equity		**1,411.2**	**1,412.9**
Total Equity and Liabilities		**1,786.3**	**1,774.7**

The accompanying notes form part of these financial statements.

Landcorp's Board of Directors authorised the financial statements for issue on 30 August 2016.

Signed on behalf of the Board

Traci Houpapa
Chair

Pauline Lockett
Chair of Audit Committee

30 August 2016

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2016

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.

The financial statements of the Group are for the year ended 30 June 2016. The financial statements were authorised for issue by the Board of Directors on 30 August 2016.

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.

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 asset's 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.

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	1 January 2018	30 June 2019
NZ IFRS 9 Financial Instruments: Classification and Measurement	1 January 2018	30 June 2019
NZ IFRS 16 Leases	1 January 2019	30 June 2020

NZ IFRS 15 will supersede NZ IAS 18 – Revenue, and NZ IAS 11 – Construction Contracts. In April 2016 the International Accounting Standards Board (IASB) issued amendments to IFRS 15. The full effect of NZ IFRS 15 on the financial statements has yet to be determined.

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.

In January 2016 the IASB issued IFRS 16. NZ IFRS 16 will require Landcorp to capitalise leases by recognising the present value of the lease payments. There will also be a change in the nature of expenditure related to leases where operating lease expense is replaced with a depreciation charge for lease assets and an interest expense on lease liabilities. The full effect of NZ IFRS 16 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 2016 $m	Group 2015 $m
Sheep	44.0	49.0
Beef	47.5	49.6
Deer	13.2	12.7
Total Livestock Revenue	**104.7**	**111.3**

	Group 2016 $m	Group 2015 $m
Livestock sales	126.4	134.3
Birth of animals	40.1	33.5
Growth of animals	65.1	54.6
Livestock losses	(14.1)	(12.6)
Book value of livestock sold	(112.8)	(98.5)
Total Livestock Revenue	**104.7**	**111.3**

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 2016 $m	Group 2015 $m
Sheep	67.7	66.2
Beef	88.0	78.4
Dairy	92.2	95.7
Deer	40.6	30.6
Total Value of Livestock	**288.5**	**270.9**

Livestock valuations at 30 June 2016 were provided by PGG Wrightson Ltd. These market values reflect livestock of similar age, breed and genetic merit throughout New Zealand.

At 30 June 2016, livestock comprised 530,165 sheep, 78,797 beef cattle, 78,491 dairy cattle and 95,160 deer (2015: 568,400 sheep, 79,721 beef cattle, 79,314 dairy cattle and 100,111 deer).

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

	Group 2016 $m	Group 2015 $m
Livestock value at start of year	270.9	294.4
Value changes caused by:		
Birth and growth of animals	105.2	88.1
Purchases	15.9	21.1
Livestock losses	(14.1)	(12.6)
Livestock available for sale or production	**377.9**	**391.0**
Book value of stock sold	(112.8)	(98.5)
Effect of price changes	23.4	(21.6)
Livestock Value at End of Year	**288.5**	**270.9**

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 2016 $m	Group 2015 $m
Current	87.2	59.7
Non-current	201.3	211.2
Total Value of Livestock	**288.5**	**270.9**

NOTE 7 – MILK REVENUE

Milk revenue during the year was:

	Group 2016 $m	Group 2015 $m
Milk Revenue		
Total value of milk produced	75.2	88.1
Total Milk Revenue	**75.2**	**88.1**

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

NOTE 8 – FARM WORKING EXPENSES

	Group 2016 $m	Group 2015 $m
Pasture maintenance	22.5	22.1
Shearing	5.3	5.6
Cropping and feed costs	28.1	33.1
Animal health	7.3	8.4
Animal breeding	9.4	9.7
Grazing charges	3.7	3.8
Other farm working expenses	7.7	8.4
Total Farm Working Expenses	**84.0**	**91.1**

NOTE 9 – PERSONNEL

	Group 2016 $m	Group 2015 $m
Staff remuneration	57.1	53.2
Other personnel costs	4.6	4.4
Total Personnel Costs	**61.7**	**57.6**

NOTE 10 – OTHER OPERATING EXPENSES

	Group 2016 $m	Group 2015 $m
Fees to auditors - statutory audit	0.2	0.1
Directors' remuneration - Group	0.3	0.3
Directors' remuneration - Subsidiaries	0.1	0.1
Rent	9.3	8.7
Reimbursement of protected land losses - Landcorp Holdings	0.4	0.5
Other operating expenses	21.9	21.0
Total Other Operating Expenses	**32.2**	**30.7**

NOTE 11 – ACCOUNTS RECEIVABLE

	Group 2016 $m	Group 2015 $m
Trade debtors	10.9	13.1
Milk income receivable	10.6	10.2
Other receivables and prepayments	4.7	3.5
Gross Accounts Receivable	26.2	26.8
Individual impairment	-	-
Total Accounts Receivable	**26.2**	**26.8**

NOTE 12 – OTHER FINANCIAL ASSETS AND LIABILITIES

	Group 2016 $m	Group 2015 $m
Other Financial Assets		
External Financial Assets		
Available-for-sale financial assets		
Share investments	54.0	50.1
Held-for-trading financial assets		
Milk future derivatives	0.1	-
Total Other Financial Assets	**54.1**	**50.1**
Other Financial Liabilities		
Financial liabilities measured at amortised cost		
Bank loans	219.6	210.7
Loans of non-wholly owned subsidiaries	2.4	-
Held-for-trading financial liabilities		
Interest rate derivatives	16.4	11.1
Total Other Financial Liabilities	**238.4**	**221.8**
Other Financial Liabilities are classified as follows:		
Current	70.1	85.1
Non-current	168.3	136.7
Total Other Financial Liabilities	**238.4**	**221.8**

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 a six monthly 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 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 two 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 2016 2.41%) and is removed from the revaluation provided by each swap provider.

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.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

Note 12 – Other Financial Assets and Liabilities (continued)

Cash advance facilities have been drawn as follows:

	Group 2016 $m	Group 2015 $m
Drawn	219.6	210.7
Undrawn	75.4	84.3
Total	**295.0**	**295.0**

Cash advance facilities are committed to:

	Group 2016 $m	Group 2015 $m
0 – 6 months	70.0	85.0
One to two years	140.0	70.0
Two to five years	85.0	140.0
Total	**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 allowable combined total of all 'overdraft' accounts is $2.0 million (2015 $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 2016 $m	Group 2015 $m
Genetics Royalties		
Fair Value		
Opening balance	2.0	2.0
Impairment of Genetic Royalties	-	-
Closing balance	2.0	2.0
Net Carrying Amount	**2.0**	**2.0**
Carbon Credits		
Fair Value		
Opening balance	2.9	3.2
Additions	0.1	-
Revaluation	5.3	(0.3)
Closing Balance	8.3	2.9
Net Carrying Amount	**8.3**	**2.9**
Other Intangible Assets		
Net Carrying Amount	**1.5**	**1.6**
Total Intangible Assets	**11.8**	**6.5**

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. 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 forestry plantations which are revalued as at 30 June each year. Had the Group's carbon credits been measured on a historical cost basis, their carrying amount would have been $2.6m (30 June 2015 $2.5m)

NOTE 14 – PROPERTY, PLANT & EQUIPMENT

	Group 2016 $m	Group 2015 $m
Land and Improvements		
Freehold land and buildings		
Fair Value		
Opening balance	1,146.4	1,093.0
Additions	17.8	27.0
Disposals	(0.5)	(0.4)
Reversal of depreciation on revaluation	(2.5)	(2.3)
Unrealised revaluation (loss)/gain recognised in Other Comprehensive Income	(24.7)	11.6
Reclassified as property held for sale	(78.0)	17.5
Closing balance	**1,058.5**	**1,146.4**
Accumulated Depreciation		
Opening balance	-	-
Depreciation	(2.6)	(2.4)
Disposals	0.1	0.1
Reversal on revaluation	2.5	2.3
Closing balance	-	-
Net carrying amount	**1,058.5**	**1,146.4**
Buildings and improvements on leased land		
Cost		
Opening balance	47.1	33.8
Additions	10.1	17.7
Disposals	-	(4.4)
Closing balance	**57.2**	**47.1**
Accumulated Depreciation and Impairment		
Opening balance	(4.0)	(6.6)
Depreciation	(0.9)	(0.7)
Disposals	-	3.6
Impairment	(0.4)	(0.3)
Closing balance	**(5.3)**	**(4.0)**
Net carrying amount	51.9	43.1
Total Land and Improvements	**1,110.4**	**1,189.5**
Protected Land and Improvements		
Cost		
Opening balance	111.1	110.2
Additions	1.3	1.0
Disposals	-	(0.1)
Closing balance	**112.4**	**111.1**

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

NOTE 14 – PROPERTY, PLANT & EQUIPMENT (continued)

	Group 2016 $m	Group 2015 $m
Accumulated Depreciation		
Opening balance	(0.9)	(0.9)
Depreciation	(0.1)	(0.1)
Disposals	-	0.1
Closing balance	**(1.0)**	**(0.9)**
Net carrying amount	**111.4**	**110.2**
Plant		
Cost		
Opening balance	65.6	60.0
Additions	5.0	6.6
Disposals	(0.9)	(1.0)
Closing balance	**69.7**	**65.6**
Accumulated Depreciation		
Opening balance	(41.3)	(37.2)
Depreciation	(4.9)	(4.7)
Disposals	0.6	0.6
Closing balance	**(45.6)**	**(41.3)**
Net carrying amount	**24.1**	**24.3**

Valuation techniques

Valuations of freehold land and buildings at 30 June 2016 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).

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 for 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 2016 $m	Group 2015 $m
Freehold land	418.6	432.9
Buildings on freehold land	60.5	62.3
Total land and buildings at historical cost	**479.1**	**495.2**

NOTE 15 – PROPERTY HELD FOR SALE

Property held for sale comprises:

	Group 2016 $m	Group 2015 $m
Opening balance	31.5	50.7
Property reclassified (declassified) as held for sale	78.0	(17.5)
Disposals	(21.0)	(1.7)
Net carrying amount	**88.5**	**31.5**
Development land	13.0	18.9
Farm land	69.5	11.4
Buildings	6.0	1.1
Total Property Held for Sale	**88.5**	**31.5**

A strategic review of Landcorp's farm portfolio has resulted in nine farms being earmarked for sale during the coming year. These properties have been reclassified from Property, Plant & Equipment and preparations for marketing the farms to potential buyers are well advanced. Landcorp considers that the sale of farms such as these represents an important part of it's ordinary business.

Development land held for sale is land that is being developed by Landcorp Estates Ltd and comprises developed residential sections that are currently being marketed.

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.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

NOTE 16 – 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:

All shares are fully paid up. Share capital comprises:

	Components	Group 2016 $m	Group 2015 $m
Share capital	A	125.0	125.0
Retained earnings	B	126.8	130.9
Revenue reserves	C	100.8	82.7
Fair value reserve	D	12.8	9.1
Asset revaluation reserves	E	750.2	781.8
Other equity	F	295.6	283.4
Total Shareholders' Funds		**1,411.2**	**1,412.9**
Redeemable preference shares	G	107.7	107.7
Total Managed Capital		**1,518.9**	**1,520.6**

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 responsibilities 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 responsibilities and legal requirements including banking covenants.

COMPONENTS OF CAPITAL

A - Share Capital

Landcorp Farming Limited'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:

	Group 2016 $m	Group 2015 $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 17 – DIVIDENDS PAID

	2016 Cents per share	2015 Cents per share	2016 $m	2015 $m
Ordinary shares				
Final dividend	-	5.6	-	7.0
Total Dividends Paid for Year	**-**	**5.6**	**-**	**7.0**

No Landcorp Farming Limited dividend was declared for the 2016 year (2015: Nil).

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

NOTE 18 – INCOME TAX

A – Income Tax Expense

Tax income recognised for the year was:

	Group 2016 $m	Group 2015 $m
Current tax (credit)/expense		
Current tax expense/(credit) for year	0.4	(1.8)
Adjustments to prior year	0.3	4.4
Adjustments in income tax expense/(credit) due to:		
Tax expense recognised in equity	(0.3)	(0.5)
Reimbursement for tax expense receivable from the Crown	(0.4)	(0.3)
	-	**1.8**
Deferred tax expense/(credit)		
Current year tax loss not recognised	7.1	-
Temporary differences	(7.1)	(6.2)
	-	**(6.2)**
Total Income Tax Expense/(Credit)	**-**	**(4.4)**

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

	Group 2016 $m	Group 2015 $m
Net profit/(loss) before tax	11.5	(24.4)
Income tax expense/(credit)	3.2	(6.8)
Prior year current tax adjustments	0.3	4.4
Reimbursement for tax expense receivable from the Crown	(0.4)	(0.3)
Increase in income tax expense due to:		
Reimbursement due from the Crown under Protected Land Agreement	0.1	0.1
Non-deductible expenses	0.4	0.4
Current year tax loss not recognised	7.1	-
Other	1.0	1.4
Decrease in income tax expense due to:		
Land development expenditure	(5.0)	(3.6)
Livestock	(6.3)	(0.5)
Non assessable income	(0.3)	(0.2)
Other	(0.1)	0.7
Total Income Tax Expense/(Credit)	**-**	**(4.4)**

B – Deferred Tax Balances

Deferred tax balances at balance date were:

	Group 2016 $m	Group 2015 $m
Deferred tax asset		
Temporary differences	9.1	5.4
Tax losses recognised	37.2	44.6
	46.3	**50.0**
Deferred tax liability		
Temporary differences	47.1	50.5
	47.1	**50.5**
Net deferred tax (liability)/asset	(0.8)	(0.5)
Current tax liability	-	(0.2)
Net Tax (Liability)/Asset	**(0.8)**	**(0.7)**

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)	
	Group 2016 $m	Group 2015 $m	Group 2016 $m	Group 2015 $m
Group				
Deferred tax assets				
Property, plant and equipment	0.6	0.6	-	(0.1)
Fair-value-through-profit-and-loss financial assets	5.3	3.1	(2.2)	(1.9)
Provisions	2.1	1.5	(0.6)	0.4
Trade and other payables	1.1	0.2	(0.9)	(0.2)
	9.1	**5.4**	**(3.7)**	**(1.8)**
Deferred tax liabilities				
Biological assets	31.6	33.1	(1.5)	(3.4)
Available-for-sale financial assets	-	-	-	(0.2)
Property, plant and equipment	14.8	16.8	(2.0)	(1.4)
Intangibles	0.7	0.6	0.1	0.6
	47.1	**50.5**	**(3.4)**	**(4.4)**
Deferred Tax Expense (Credit)			**(7.1)**	**(6.2)**

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

C - Imputation Credit Account Balances

	Parent 2016 $m	Parent 2015 $m
Balance at beginning of the period	1.5	1.4
Imputation credits attached to dividends received	0.1	0.1
Imputation credits available directly and indirectly to shareholders of Landcorp Farming Limited	**1.6**	**1.5**

NOTE 19 – RISK MANAGEMENT

Landcorp maintains a risk register, identifying strategic and operational risks faced by the Group. The Board of Directors receives regular updates on strategic and significant operational risks. The Board's Audit Committee monitors the company's corporate assurance activities and internal audit programme (undertaken by a third party). In addition, the company has a Treasury Management Committee ("TMC") comprising the executive leadership team and an independent treasury advisor. The TMC meets on a bi-monthly basis to co-ordinate and oversee the operation of the company's treasury function and to monitor financial risks. Details of financial risks and risk management policies are explained below.

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). New Zealand Stock Exchange ("NZX") also offer fixed price contracts in the form of milk futures. Landcorp evaluates both types of 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 has multiple revenue streams from livestock (sheep meat, beef and venison), as well as generating milk revenue and this diversification also assists in lowering the commodity risk related to the price of any single commodity.

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 2016 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 2016 $m	Group 2015 $m
Accounts receivable	11	26.2	26.8
Share investments and futures	12	54.1	50.1
Maximum Credit Exposure		**80.3**	**76.9**

The status of accounts receivable at balance date was:

	Group 2016 $m	Group 2015 $m
Not yet due	26.0	26.6
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	**26.2**	**26.8**

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 TMC 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.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

C - Liquidity Risk (continued)

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

	Note	2016 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 2016							
Liabilities							
Land sales deposits		-	-	-	-	-	-
Other accounts payable and accruals		18.0	18.0	-	-	-	-
Other financial liabilities							
Bank loans		231.2	31.3	114.5	85.5	-	-
Interest rate derivatives		16.8	4.0	6.7	5.3	0.7	-
Redeemable preference shares	15	107.7	-	-	-	-	107.7
Total Contractual Maturity		**373.7**	**53.3**	**121.2**	**90.7**	**0.7**	**107.7**

	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	15	107.7	-	-	-	-	107.7
Total Contractual Maturity		**367.8**	**115.9**	**45.3**	**96.1**	**1.1**	**109.5**

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 the New Zealand Dollar ("NZD") 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 NZD. Sales revenue is fixed directly with foreign currency derivatives, such as forward foreign exchange contracts and foreign currency options. At 30 June 2016, approximately 51% of projected 2016/17 revenue (2015/16 47%) was estimated to be fixed indirectly through the hedging activities of processing companies.
No direct foreign currency hedging was in place at 30 June 2016 (30 June 2015 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.

Re-pricing Analysis	Effective interest rate	2016 Total $m	Within one year $m	One to two years $m	Two to five years $m	Greater than five years $m
Group 2016						
Liabilities						
Other Financial Liabilities						
Bank loans	2.97%	219.6	219.6	-	-	-
Interest rate derivatives		-	130.0	-	(50.0)	(80.0)
Re-pricing Profile		**219.6**	**349.6**	**-**	**(50.0)**	**(80.0)**

Based on term debt at 30 June 16 the interest rate on term borrowing inclusive of interest costs on derivatives was 4.29% (30 June 15 4.43%).

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**

F – Sensitivity Analysis

Interest rate risk

For the 2015/16 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.

	Group 2016 $m	Group 2015 $m
Net finance costs would have changed by:		
OCR higher/lower by 1%	(1.1) / +1.1	(1.1) / +1.1

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

Foreign currency risk

During 2015/16 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.

NOTE 20 – CONTINGENT ASSETS AND LIABILITIES

At 30 June 2016 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 2016 Landcorp held 285,381 post-1989 NZUs (2015 270,032 units) and 147,447 pre-1990 NZUs (2015 147,447 units).

NOTE 21 - 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 2016 $m	Group 2015 $m
Short-term management benefits	3.2	2.9
Post-employment benefits	0.1	0.1
	3.3	**3.0**

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 2016 $1.8 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 (2015 $0.9 million).

No related party debts were written off during the year.

NOTE 22 – COMMITMENTS

	Group 2016 $m	Group 2015 $m
Contracted capital commitments	1.0	2.0
Operating lease commitments:		
Within one year	10.0	7.6
One to two years	11.1	8.0
Two to five years	33.8	25.0
Later than five years	285.9	233.1

Operating lease commitments relate to the lease of farmland.

NOTE 23 – SUBSIDIARY COMPANIES AND JOINTLY CONTROLLED ENTITIES

			Percentage held	
Subsidiaries	Principal activity	Balance date	2016	2015
Landcorp Estates Ltd	Property development	30 June	100%	100%
Landcorp Pastoral Ltd	Invests in Focus Genetics and Spring Sheep Dairy Limited Partnership	30 June	100%	100%
Landcorp Holdings Ltd	Holding protected land	30 June	100%	100%
Landcorp Pastoral Ltd has the following subsidiaries				
Focus Genetics Limited Partnership	Development and sale of genetically superior sires	30 June	100%	100%
Focus Genetics Limited Partnership has the following subsidiaries				
Focus Genetics UK 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%	100%
Rissington Uruguay SA	Livestock genetics	30 June	100%	100%

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

NOTE 23 – 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 $1.3 million (2015 $1.2 million).

All inter-group transactions are undertaken upon an arms length commercial basis. At 30 June 2016, Landcorp Farming Ltd's accounts receivable balance included $0.4 million (2015 $0.2 million) owing from subsidiary companies and accounts payable had $1.6 million (2015 $1.1 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	2016	2015
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%	50%

Associates				
Farm IQ Systems Ltd	Research and development of an integrated red meat value chain	30 June	18%	18%
Farm IQ PGP		30 June	18%	-
Focus Genetics has the following associates:				
Practical Systems Ltd	Computer software	30 June	6%	6%

INDEPENDENT AUDITOR'S REPORT

KPMG

TO THE READERS OF LANDCORP FARMING LIMITED GROUP'S FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

The Auditor-General is the auditor of Landcorp Farming Limited and its subsidiaries and other controlled entities (collectively referred to as 'the 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 Group on her behalf.

Opinion

We have audited the financial statements of the Group, that comprise the statement of financial position as at 30 June 2016, the statement of comprehensive income, statement of movements in equity and statement of cash flows for the year ended on that date and the notes to the financial statements that include accounting policies and other explanatory information.

In our opinion the financial statements of the company:

- Present fairly, in all material respects:
- Its financial position as at 30 June 2016; 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 was completed on 30 August 2016. 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 the 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 Group'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

INDEPENDENT AUDITOR'S REPORT CONTINUED

effectiveness of the Group's internal control.

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 Group 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 free 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 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 Group.

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 Chairman). Board induction, continuing education and annual visits to various Landcorp farms all help ensure that Directors remain in touch with Landcorp's business.

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 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 Performance & Safety Committee deals with remuneration, health and safety, and staff training and development.

GOVERNANCE CONTINUED

BOARD AND COMMITTEE MEETINGS

The Board and Board Committees met regularly throughout the year. Meetings for the year ending 30 June 2016 were as follows:

Director	Board meetings (8 meetings)	Audit Committee (4 meetings)	Performance and Safety Committee (3 meetings)
T Houpapa*	8	4	3
JD Brakenridge	7		3
NP Davies-Colley	8		3
CW Day	7	4	
DR Nelson	8	4	
PN Lockett	7	3	
AP Reilly	8	4	
EW Roy	8		

* T Houpapa attended Audit and Performance & Safety Committee meetings ex officio.

RISK MANAGEMENT

Risk management is a key focus for the Board. The Board has overall responsibility for the company's risk management framework and 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 the Protected Land Agreement between the Crown and Landcorp Farming (land to be used in Treaty of Waitangi settlements).
Landcorp Estates Ltd	Develops and sells land of higher value for uses other than farming.
Landcorp Pastoral Ltd	Holding company for 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 MNZM, JP, Chairman	National Advisory Council on Employment of Women	Ministerial Appointment, Chairman
	Federation of Māori Authorities Inc.	Chairman, Tainui Delegate
	W3 Wool Unleashed PGP	Chairman
	Strada Corporation Ltd	Director
	Waikato River Authority	Ministerial Appointment
	Pengxin New Zealand Farm Management Ltd	Director
	OTPP New Zealand Forest Investments Ltd	Director
	Asia New Zealand Foundation	Trustee
	Tuhono Whenua Horticulture Ltd	Director
	Victoria University of Welllington	Council Member
	Mystery Creek Fieldays	Honourary Vice President
	Primary Industry Training Organisation Incorporated	Director
	Our Land and Water, and Ageing Well, National Science Challenges	Member
	Hineuru Corporate Trustee Ltd	Director
	Hineuru Holdings Ltd	Director
	Hineuru Properties Ltd	Director
J D Brakenridge	The New Zealand Merino Company Ltd	CEO
	Alpine Origin Merino Ltd	Director
	Medbury School Trust Board	Member
N P Davies-Colley	Northpower Ltd	Chairman
	Farmlands Cooperative Society Ltd	Director
	Ngarakau Family Trust	Trustee
C W Day	Z Energy Ltd	CFO
	C W & CR Day Trust	Trustee
	Fairholm Farming Ltd	Director and Shareholder
P N Lockett	Taranaki District Health Board	Chairman
	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
	Independent Beef & Lamb Directors Remuneration Committee	Chairman
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

There were no changes in Directors during the year.

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 2016 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 Performance & Safety 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	$35,200
Total fees:	**$350,600**

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 was within the specified bands. Remuneration is inclusive of applicable benefits including performance incentives, employer superannuation contributions and accomodation benefits.

Dollars in Thousands	
100-109	24
110-119	9
120-129	19
130-139	10
140-149	7
150-159	3
160-169	1
170-179	3
180-189	1
190-199	2
240-249	2
260-269	1
280-289	1
290-299	1
330-339	2
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 to the extent permitted by law for potential liabilities that they might incur for actions or omissions in their capacity as Directors or Officers.

COMPANY DONATIONS

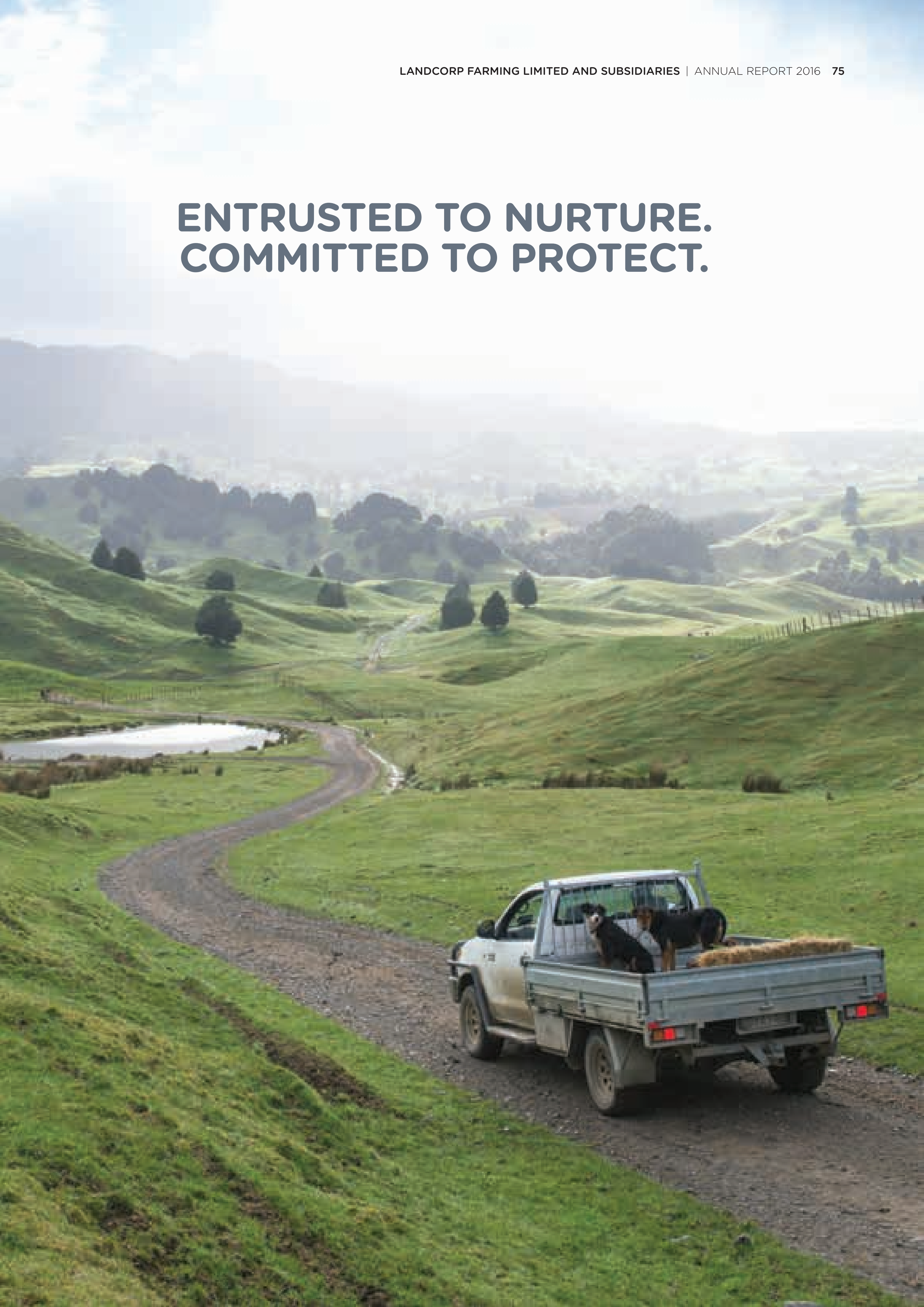
During the year Landcorp made donations of $27,406, and undertook community and event sponsorship of $41,199.

BALANCED SCORECARD 2016

The balanced scorecard sets out the actual performance against targets set out in the company's Statement of Corporate Intent 2015-2016.

Strategic goal	Key Performance Indicator	Target for 2015-16	Actual for 2015-2016
Financial Performance	EBIT	$0.9m	$2.1m
Operating costs	Cost of Production - Livestock Cost of Production - Dairy	≥ 1.5 % improvement on FY15 p.a.	Livestock – 1.5% improvement on FY15 Dairy – 4.5% improvement on FY15
Capital costs	Robustness of capital management processes	Improve structure for assessment, approval, and benefit realisation review	Framework established for statement of investment opportunities, and business case and benefits realisation templates
Partner of choice	Number of new livestock farming partnerships	2	Reviewing various models that are more appropriate for investors' expectations in a lower dairy payout environment
Supply niche markets	Additional niche market supply partnerships	3	Target met (wool, sheep milk and venison supply arrangements) and other opportunities progressed
Extract premium prices	Premium achieved over spot market	Average 5% for meat and fibre	8.6% average premium
Potential new products	Business cases completed for new revenue streams	2	Target met (organic and deer milking projects)
Efficiency	Deployment of FMS	100% farms reporting 2 monthly performance	100% on all Livestock farms
Project Simple	Process improvement and waste elimination	> 3 initiatives	Implementation of LEAN methodologies; Farm Store procure to pay system; Time & Attendance process; improved travel booking system
Environmental performance	New evironment metrics are incorporated into financial and on farm forecasting and reporting	100%	New environmental impact assessment tool developed for all farms
Farm environmental	New prototype innovation dairy farms established	Four farms	One established; others being reviewed and scoped
Safer workplace	Near Miss/ Hazard and First Aid Injury reporting	NM/H+FAI reporting > 1.5 x ACC injury claims	NM/H+FAI reporting was 11+ times greater than ACC claims
Occupational health	Farm employee health checks	70% of farms with health checks	Not met. Revising wellness initiatives as part of wider health and safety strategy
Talent retention	Voluntary turnover %	25% improvement on FY15	18.9% improvement on FY15

ENTRUSTED TO NURTURE.
COMMITTED TO PROTECT.



DIRECTORY

CORPORATE/REGISTERED OFFICE

15 Allen Street
PO Box 5349
Wellington 6140
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
Graeme Mulligan, GM Livestock Operations
Mark Julian, GM Dairy Operations
Phil McKenzie, GM Environment
Sarah Risell, GM Sales & Marketing
Andrew Sliper, GM Commercial Development
Lucy Wills, GM People & Safety
Rob Ford, GM Innovation & Technology

AUDITOR

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

BANKERS

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


LANDCORP FARMING LIMITED