

VALUE TO MARKET

Landcorp Farming Limited is a State-Owned Enterprise with a nationwide portfolio of 125 farms that produce milk, beef, sheepmeat, wool, venison, deer velvet, wood and more. The company manages the land with care and kaitiakitanga.

Pāmu Farms of New Zealand (Pāmu, as used throughout this report) is the brand name for Landcorp. Pāmu stands for best practice in sustainable and safe farming, and for the unique provenance of New Zealand foods, nutrition products and fibre on global markets.

Pāmu strives to be a leader in New Zealand agriculture, carefully creating natural products of high quality.



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Welcome to our annual report for 2017 – our annual opportunity to outline for all stakeholders the purpose, strategies and performance of Pāmu.

This year Pāmu moves towards Integrated Reporting. That requires greater explanation of how our business model is being transformed, of the material issues we face, and of the value we are adding to our six forms of capital. Integrated Reporting is the global framework for outlining performance and sustainability in any business. We begin adopting this framework as another critical step in Pāmu's transformation.

We look back at the past year with satisfaction at progress made – and we look ahead with greater confidence in Pāmu's value-adding capacity in future years. In 2016/17, we restored operating profitability, increased productivity, reduced environmental impacts, and strengthened health and safety across our farms.

Now in the fourth year of transformation, our investment in new information technologies, new ways of working, new product ideas and new value chain relationships is beginning to pay off. Pāmu will increasingly create and deliver value in global markets by producing the best of this country's foods, nutrition products and fibre.

Kia ora



Traci Houpapa
Chairman MNZM, JP, MInstD



OUR VALUE CHAIN

GROWING OUR VALUE TO MARKET

PĀMU – FARMING WITH BEST PRACTICE

We farm to our Pāmu Promise standards, and we produce milk, lambs, beef cattle and deer, wool, velvet, wood and more.

- 125 farms
- 158,652 ha owned, 214,858 ha managed
- 1,480,620 stock units (sheep, cows, cattle)
- 661 permanent employees

WORKING WITH PRIMARY PROCESSORS

We supply New Zealand’s world-class primary processors with milk, prime animals, shorn wool and more. Our farms produce to processor and customer specifications.

- 9,519 tonnes sheepmeat
- 7,665 tonnes of beef
- 1,995 tonnes of venison
- 20.3 m kg of milksolids

SUPPLYING FOOD AND FIBRE TO THE WORLD

We support processors and marketers in taking New Zealand’s high quality food and fibre onto markets in every part of the world.



Note: Numbers on the scale of Landcorp operations are as at 30 June 2017. Production totals are for the year ended 30 June 2017.

CONNECTING WITH CUSTOMERS AND VALUE CHAIN PARTNERS

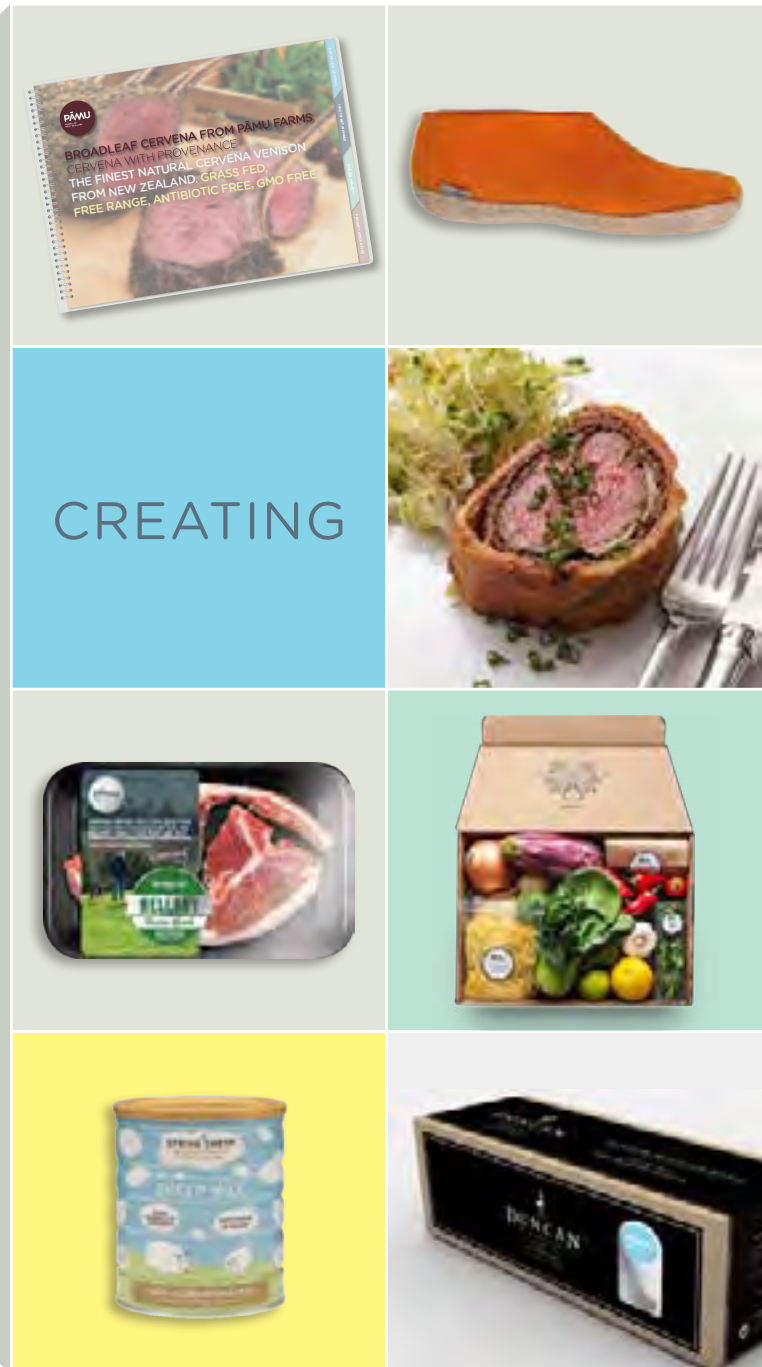
We work with value chain partners and market developers to connect more of our farm production with niche markets around the world. We strive for deeper understanding of consumer needs and preferences - and to produce more of what they value.

CREATING PRODUCTS OF PĀMU PROVENANCE

We create and market high-value food and nutrition products of Pāmu provenance - natural, healthy, distinctly New Zealand. We build the brands of Pāmu and our value chain partners for market success with products of the highest quality.



CONNECTING



CREATING

OUR BUSINESS

PĀMU CAPITALS

Pāmu's business draws on a unique set of financial, physical, human and environmental capitals. Integrated Reporting identifies six such capitals which are typically employed by an organisation seeking to create value for its stakeholders. Our performance can be assessed in terms of growth or transformation in these capitals, and our Pāmu strategy draws on a combination of capitals (pages 20-29).



PEOPLE

Pāmu employees on farms and in off-farm management and support roles – 661 permanent employees at 30 June 2017.



FINANCE

Pāmu's balance sheet, its capacity to fund the business and to generate financial value for shareholders – total assets of \$1,814.2 million at 30 June 2017 (86% funded by shareholders' investment).



FARMS

Farming entities including animals, plant and equipment at locations throughout New Zealand – 125 farms at 30 June 2017 (see map p37).



EXPERTISE

The knowledge and skills of Pāmu employees, and the company's capacity for adopting new technologies and innovation.



RELATIONSHIPS

Pāmu's unique set of connections with value chain customers and partners, suppliers, funders, end consumers and all other external parties who enable the business to continue and create value.



ENVIRONMENT

Land and natural resources owned and/or managed by Pāmu, and its impact on the broader environment through greenhouse gas emissions and farm run-off.

MATERIAL ISSUES

Pāmu operates in a complex environment where many external factors impact on our ability to create value. Integrated Reporting requires companies to identify their most material external issues and the impact on their business. Here we outline the six most material issues for Pāmu.

HEALTH AND SAFETY

The nature of farming exposes people who work in this industry to a wider range of risks than are associated with many other occupations. However, New Zealand's farm work-related death and injury rates are unacceptably high. WorkSafe NZ says more than 120 people have died in work-related accidents on New Zealand farms since 2008. The Health and Safety at Work Act 2015 provides that businesses have the primary responsibility for the health and



safety of their workers and any other workers they influence or direct, and are also responsible for the health and safety of people at risk from the work of their business. Businesses are required to eliminate risks where possible or take reasonably practicable steps to mitigate risks. Pāmu's Board, Management and staff are particularly active in responding to this issue.

COMMODITY PRICE VOLATILITY

Like all other New Zealand primary producers, Pāmu is exposed to commodity price volatility in global markets for dairy, meat and other products. Prices are subject to supply and demand factors beyond producers' influence, and volatility in the value of the New Zealand Dollar. The impact on producer incomes is tracked by the ANZ Global Price Index of 13 commodity prices (products exported by New Zealand). The index's 20% increase (in local

dollar terms) between June 2016 and June 2017 was accompanied by significant fluctuation between months. Over the preceding year, the index fell 6%.



GLOBAL COMPETITION

Pāmu faces strong competition wherever it supplies differentiated products of higher value in the global marketplace. Competition comes from other producers and distributors of milk, meat and fibre products. Competition is greatest in North America, Europe and parts of Asia, where the highest prices can be secured for high quality products. Pāmu, like food producers everywhere, also faces fundamental change in consumer attitudes on the environmental impacts of production and supply, and on the authenticity and safety of globally-traded products. This change brings new competitive pressures, including the advent of plant-based food proteins replacing traditional animal-derived products.

OUR BUSINESS MATERIAL ISSUES

CLIMATIC CONDITIONS

All agricultural production is dependent on temperature, sunshine, rainfall and wind, and their seasonal variations. It follows that climatic conditions pose constant risks to every farming operation and especially



so during the peak months of livestock reproduction. Furthermore, conditions are becoming more variable between and within annual seasons, and between the different regions of New Zealand. Official statistics show 2016 was overall the hottest year, while the first half of 2017 saw much cooler conditions with exceptional rainfall in some locations. The Ministry for Primary Industries says global climate change will, long term, affect what and how much this country can produce, and weather cycles will be increasingly unpredictable.

COMPETITION FOR CAPITAL

As a State-Owned Enterprise, Pāmu’s ability to access capital is different from other large enterprises. The company’s ownership and nature requires it to make the most efficient possible use of available capital over time, and also to maintain a balance sheet

structure consistent with the risk and return expectations of shareholders and debt funders. Pāmu has, accordingly, a long standing practice of recycling capital through the sale and purchase of selected rural properties. This process continues with the sale, or offer for sale, of properties where ownership is not in Pāmu’s strategic or commercial interests. An additional factor in the context of capital recycling is Pāmu’s role in the Crown’s settlement of historical Treaty of Waitangi claims. Pāmu holds a number of properties “land-banked” for future settlements. In addition, if Pāmu wishes to sell any North Island property it must first offer that property to the Office of Treaty Settlements to purchase for use in Treaty settlements, a process which can take time to work through.



ENVIRONMENTAL IMPACTS

New Zealand agriculture faces scrutiny for its impact on the natural environment, especially in regard to water quality in streams, rivers, lakes and wetlands, and its contribution to the country’s greenhouse gas (GHG) emissions profile. It is widely understood that productive rural land use has

contributed to unwanted build-up of phosphates and sediments in many waterways, and to the leaching of surplus nitrogen into ground waters. Primary producers share the concerns of other sectors in New Zealand society. They are taking many actions in response to central and regional government policy requirements, and to industry initiatives including the Sustainable Dairying Water Accord 2013.



New Zealand’s agricultural scientists are at the forefront of international research into possible methods of biologically-created GHG emissions reduction. In late 2016, the Parliamentary Commissioner for the Environment noted that, globally, a scientific solution was not yet in sight. She advocated an increased focus by New Zealand on GHG emissions capture through new plantation forestry and greater allowance for native species regeneration.

Pāmu asked Guy Salmon, Chairman of the company’s Environmental Reference Group, to outline his view of material environmental issues facing New Zealand farmers in 2017 and beyond.

ENVIRONMENTAL CHALLENGES FACING FARMERS

**Guy Salmon, Chairman
Environmental Reference Group***

The environmental challenges facing New Zealand farmers today are unprecedented. Their complexity makes it difficult to bring the implications clearly into focus.



From left, Guy Salmon, Dr Mike Joy and Dr Alison Dewes, members of the Environmental Reference Group.

The foremost issue is climate change. Almost half of New Zealand's emissions total comprises agricultural emissions, overwhelmingly from the farming of ruminant animals. Under the Paris Climate Agreement, these emissions must be reduced to net zero.

Since signing the first global climate change agreement 25 years ago, the New Zealand response has emphasised research into reducing emissions from pastoral agriculture, and the use of tree-planting to offset emissions in the meantime. The research is ongoing, but it is clear that there are no easy technological routes to net zero emissions for agriculture. Further, the land base for tree planting is finite. Suitable land for the purpose will increasingly be in high global demand.

Reliance on tree-planting to offset emissions is a strategy which will have significant costs to farmers, and a limited lifetime. Scenario modelling by Vivid Economics for the cross-parliamentary group GLOBE-NZ has highlighted that even under optimistic technology assumptions, and with accelerated tree-planting, livestock numbers would need to be reduced at least 30% by mid-century.

The time frame for New Zealand to make this transition is likely to be foreshortened by the advent of highly competitive, plant-based, meat and dairy equivalent products in the global marketplace.

For these reasons, New Zealand's agriculture sector is now approaching a fork in the road. One fork leads us to largely phasing out ruminant livestock production, in favour of forestry and other mainly plant-based food products.

The other fork requires us to rapidly develop ruminant livestock-based products that are of such high market value that farmers can afford the high costs initially of offsetting their emissions, and ultimately of burying their emissions underground.

The second key issue facing agriculture is freshwater. A 25-year decline in freshwater quality can largely be attributed to land use intensification. This fact, and an associated over-allocation of aquifers and river flows to irrigation and stock watering, has led to a national consensus to set water quality and quantity limits for every catchment, and to take remedial action. Action has begun, but there are long lag times in achieving improvement.

There are also significant future costs to agriculture, not only in reducing the leakage of nutrients and faecal contamination, but also in curbing soil erosion and stream sedimentation. The latter is an issue for which national objectives and catchment limits have yet to be set, but these limits will have far-reaching implications for land use.

The third key issue is biodiversity protection. There has long been a societal consensus that further plant and animal species should not be lost, and there is an intense focus on protecting well-known species on the conservation estate.

Yet many of the species and critical habitats now at risk are located on private pastoral lands, especially in dry grassland habitats of the eastern South Island, along coastal margins, in species-rich Northland, and around the habitats of freshwater fish. Consequential impacts on agriculture are mainly localised, but they demand response.

On all these issues, foresighted action has long been lacking. Yet the growing environmental crisis embodies many elements of business opportunity. The need for innovative, solutions-focused leadership has become palpable. The Environmental Reference Group believes Pāmu is well-placed to rise to this challenge and we acknowledge the progress made over the past two years.

* The Environmental Reference Group of independent experts meets periodically to advise Pāmu on all issues related to farming practice and environmental impact. Other group members are: Dr Alison Dewes, Dr Mike Joy, Dr Tanira Kingi, Dave Maslen and Angus Robson.

OUR PERFORMANCE IN 2016/17



PEOPLE

Accident reduction:

Reduction in notifiable injuries and incidents to 11, from 14 the previous year.

Safety expectations:

Five safety practice expectations established by the Safety Forum and embraced by Pāmu people.

Safety leadership:

Majority of Pāmu employees completed our "Safety Leadership" training programme. Chief Executive Steven Carden named Business Leaders Health & Safety Forum Leader of the Year in the 2017 Safeguard Awards.



FINANCE

Profitability:

Net profit after tax of \$51.9 million, well ahead of the previous year's \$11.5 million.

Cash flow strength:

Net operating cash flow increased to \$32.3 million, up from \$7.5 million the previous year.

Bank debt:

Borrowings reduced to \$207 million at 30 June 2017 - their lowest level for four years.



FARMS

Production costs:

Further gains in farm productivity - dairy operations cut cost per kg of milksolids by 2% compared with the previous year.

Milk production record:

20.3 million kg of milksolids produced - up 2.5% from previous year.

Reproduction rates:

Lambing at 139% across Pāmu (with some farms near 150%) - above national average at 123%.



EXPERTISE

Workplace safety:

Pāmu innovation in health and safety training – expertise from across the company applied to create a programme now available industry-wide through the Pāmu Academy.

FarmIQ:

Ongoing technology partnership with information systems pioneer FarmIQ – Pāmu support has been fundamental to FarmIQ's success as a leading software provider for New Zealand farmers.

Beef and lamb quality programmes:

Continued advance in breeding with superior genetics, and programmes for livestock finishing to higher-value market specifications.

Differentiated milk:

Dairying capabilities applied in programmes for increased A2 and grass-fed milk production, organic certification on two dairy farms, and deer milk research & development.



RELATIONSHIPS

Venison value chain:

Pāmu farms-sourced venison supply to the US up 100% from the previous year.

Spring Sheep Milk Co:

Sheep milk nutrition joint venture business firmly established with new products under development and plans advanced for a second farm.

Sheep milk industry:

Co-leadership and funding support for \$31 million Primary Growth Partnership (PGP) to establish a New Zealand sheep milk industry by 2030.



ENVIRONMENT

Waterway fencing:

All permanent waterways on dairy farms now fenced – Pāmu fully in support of dairying Water Accord.

Protected areas:

A further 518 hectares of land retired and fenced for native regeneration – total protected area on Pāmu farms is now 6409 hectares.

Management award:

Managers on the Maronan and Valetta Dairy units (Canterbury), and on Te Wharua Station (King Country) recognised for their environmental stewardship in the 2017 Ballance farm Environment Awards.

FINANCIAL REVIEW

Pāmu achieved a net profit after tax of \$51.9 million for 2016/17, compared with the previous year's \$11.5 million profit. The substantial improvement reflected higher prices for milk and livestock, partly offset by lower wool prices, along with continued strong control of Pāmu's operating expenses.

Total revenue grew 11.2% to \$233.5 million in 2016/17 while operating expenses increased only 3.4% to \$197.3 million. On this basis, the company's earnings before interest, tax, depreciation and revaluations (EBITDAR) were \$35.6 million, up significantly from the previous year's \$25.5 million.

The net profit after tax of \$51.9 million for 2016/17 was after deduction of net finance expenses (\$11.6 million) and of depreciation and amortisation (\$17.1 million), fair value movements on financial instruments (\$2.5m) and biological assets (\$42.7m), and includes profit on property sales (\$1.2 million).

Pāmu's operating result benefited significantly from recovery in New Zealand's level of farmgate milk prices, higher market pricing of red meat and initiatives to maintain strong control of expenses. Farming conditions were poor across much of the country during the first half of 2016/17, reducing pasture quality and production.

Pāmu's total comprehensive income for 2016/17 was a \$56.8 million gain (compared with a loss of \$2.9 million in the previous year which included an unrealised revaluation loss on land and improvements of \$24.8m).

DAIRY

Milk revenue for 2016/17 recovered to \$101.5 million, based on record production of 20.3 million kg of milksolids (kgMS) across all Pāmu owned, sharemilked and managed farms, and also on the dairy industry-wide upturn in prices. Total production included Pāmu's final year of operating 12 North Island dairy farms owned by Shanghai Pengxin (SPG). The farms have now been developed and the joint venture arrangement with SPG ended on 30 May 2017, as planned.

Milk production would have been higher in most regions had conditions been more favourable. Even so, 2016/17 production was up an average 1.5% on Pāmu's 61 core dairy farms as managers maintained a strong focus on cow condition and health, and on feed allocation. The average stocking rate was reduced 3% compared with the previous year, to 2.52 cows per hectare. Further improvement in farm systems saw cost of production per kgMS reduce by 2% compared with the previous year, after adjustment to remove one-off factors. For 2016/17, we secured an average price on milk from Pāmu-owned farms of \$6.10 kgMS (including Fonterra dividends), up from \$4.99 in the previous year (although short of the 2013/14 peak, \$7.90). Milk revenue of \$101.5 million was up 35% from the previous year (\$75.2 million) but well off 2013/14's record \$129.0 million. Pāmu used milk price futures contracts (which settle in September 2017) purchased on NZX's Derivatives Market to help manage volatility in milk revenue.

LIVESTOCK

Livestock revenue was up 4% to \$108.7 million from the previous year (\$104.7 million) due to higher income in beef and deer farming operations. Market prices to New Zealand beef producers generally were up around 3% through the year on the basis of strong demand in the United States market. Total Pāmu prime beef supply declined 20% to 7,665 tonnes in 2016/17 but the company increased its focus on producing higher value animals for contracted supply to prices above the market average, and this pushed beef revenues up to \$51.1 million (from \$47.5 million the previous year).

Venison prices continued their rally into the latest year, with US demand also the key driver. Market-wide venison export prices firmed another 10% during 2016/17. Pāmu benefited from its long-term commitment to deer breeding and finishing, with revenue from these operations up to \$15.7 million (\$13.2 million the previous year). The number of yearling deer finished by the company was down slightly to 27,086 animals.

Sheep revenue slipped 4.8% to \$41.9 million (from \$44.0 million) on declining lamb numbers. Production was impacted by adverse spring weather including severe drought in Northland and the North Island East Coast. The Pāmu-wide lambing percentage was down slightly to 139%, though this was still above the national average. Lamb supply in the year, including new season animals, totalled 398,700 which was significantly lower than the

previous year. The bulk of sales in 2016/17 were finished lambs and the majority were sold to customers under forward price contracts. In the wider market for New Zealand lamb, prices drifted sideways before sharply rising in the final months of the year. They are still well short of their levels of five years ago.

OTHER REVENUES

Wool revenue fell 39% in 2016/17 to \$6.3 million, reflecting the year's general price decline as international buyers withdrew from the New Zealand market. Spot prices for most wool types fell to levels not seen since 2009. Pāmu was somewhat protected by the ongoing success of its supply chain partnership with the New Zealand Merino Company (NZM) which forward-sold a significant share of the company's clip to carpet, clothing and footwear manufacturers. NZM managed contracts with these brand partners covering a tonnage of Pāmu wool up 19% from the previous year and this reduced the revenue impact of the market-wide price decline. New Zealand log prices were also in retreat through 2016/17 and Pāmu's forestry revenue dropped back 43% to \$2.3 million, the company reducing its harvest rate in a market of subdued demand. The previous year's wood revenue was unusually high due to buoyant log prices and an increased supply.

PROPERTY SALES

Pāmu sold three properties, including two livestock farms, under its capital recycling strategy during 2016/17. These sales contributed \$1.2 million to the year's EBITDAR. The previous year's comparable result had benefited from a \$7.4 million gain on property sales. The two farms sold were the 1,508 hectare Copper Road property in Otago, and Burkes Creek (1,019 hectares) on the West Coast. Two other South Island properties are currently subject to conditional sale agreements.

EXPENSES

Pāmu held total expenses for 2016/17 to \$197.3 million, only 3.4% higher than the previous year. Personnel expenses increased 5.0%, largely because of an increased provision for payments owed to some current and former permanent employees after historical miscalculation of their holiday pay or wage entitlements – a problem that has affected many other New Zealand businesses. Payments owed have been made early in the 2017/18 financial year. The past year also saw some one-off payments to staff affected by structural changes in the business, including Pāmu's completion of the SPG joint venture, and staff were added on two new Wairakei Estate dairy units. Permanent employees totalled 661 at 30 June 2017, down from 704 in June 2016. Strong cost control was evident in the level of farm working and maintenance expenses in the latest year, which increased by only 1.6% to \$98.6 million.

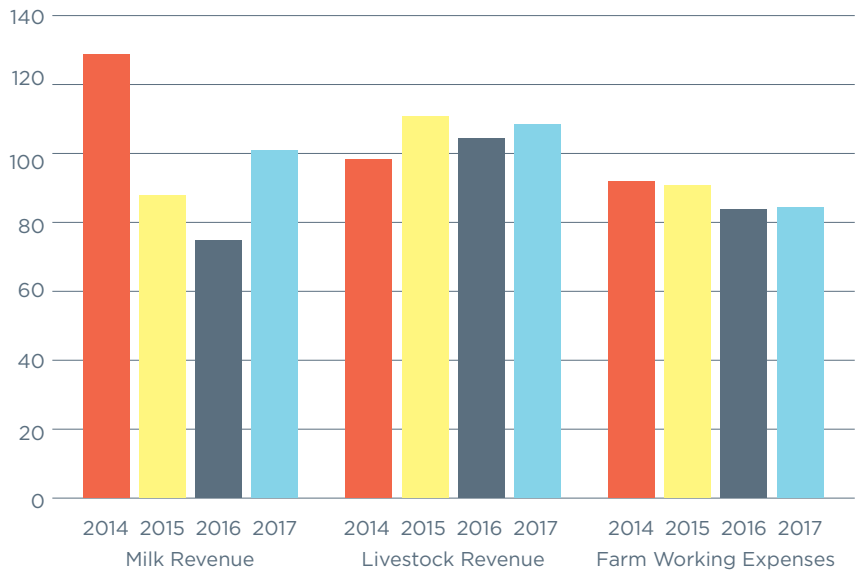
FINANCIAL REVIEW

Total assets increased to \$1,814.2 million at 30 June 2017 (\$1,786.3 million at 30 June 2016). This reflected annual revaluations of livestock and forests, and investment in the value of Pāmu’s land and improvements. The company reduced its level of bank borrowing in the latest year to \$206.9 million at balance date, as cash flows from farming operations increased and farm sale proceeds became available. Net cash flows from operating activities increased to \$32.3 million in 2016/17, a gain of \$24.8 million compared with the previous year. Pāmu closely manages its borrowing from a syndicate of banks which are experienced in the traditional cycles in New Zealand agriculture.

The company retains a conservative balance sheet with significant capacity to invest in initiatives for increasing future profitability and shareholder value. At 30 June 2017, the ratio of shareholders’ funds (including redeemable preference shares) to total assets was 86.3%.

REVENUES AND FARM WORKING EXPENSES

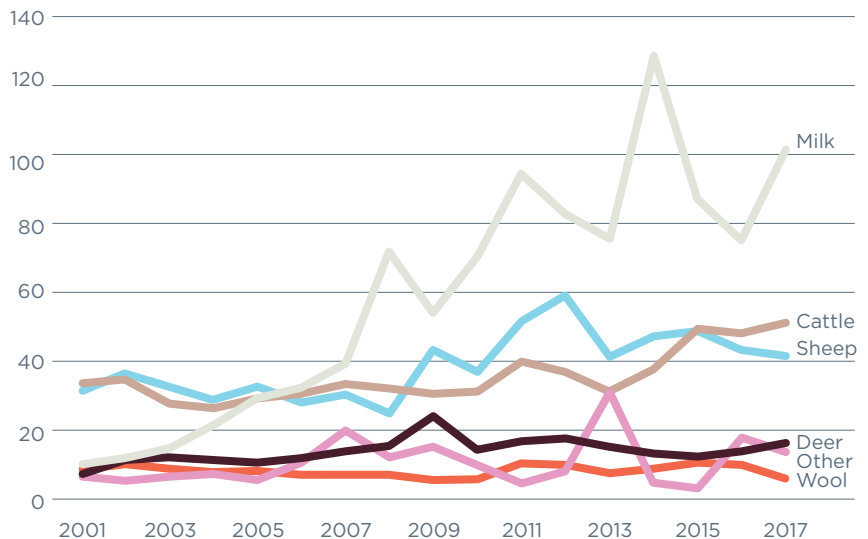
Dollars in millions, Financial years ended 30 June



Milk revenue recovered in 2016/17 after two years’ sharp decline, while livestock revenues also edged up. Farm working expenses remained under strong control as in previous years and they were up only 1.6% in 2016/17.

SOURCES OF INCOME

Dollars in millions



KEY FINANCIAL DATA OVER FIVE YEARS

DOLLARS IN MILLIONS UNLESS OTHERWISE STATED

	2016/17	2015/16	2014/15	2013/14	2012/13
Total revenue	233.5	210.0	224.3	247.0	203.1
EBITDAR ¹	35.6	25.5	30.9	54.5	37.5
Net profit after tax	51.9	11.5	(20.0)	54.7	(18.1)
Total shareholder return	56.8	(2.9)	(8.4)	115.9	(1.5)
Net profit / equity investment (share capital and retained earnings)	2.2%	(3.7%)	1.9%	11.8%	5.3%
Total shareholder return / Average shareholders' funds (incl redeemable preference shares)	3.8%	(6.8%)	(0.5%)	7.5%	(0.1%)
Dividend declared	-	-	-	7.0	5.0
Total assets	1,814.2	1,786.3	1,774.7	1,748.5	1,694.9
Shareholders' funds ²	1,465.6	1,411.2	1,412.9	1,427.4	1,316.0
Bank debt	206.9	219.6	210.7	172.4	228.4
Shareholders' funds ² / Total assets	86.3%	85.0%	85.7%	87.8%	84.6%

¹ EBITDAR is earnings before interest, tax, depreciation, amortisation and revaluations.

² Shareholders' funds includes redeemable preference shares.

LOOKING AHEAD CHAIRMAN AND CHIEF EXECUTIVE



TRACI HOUPAPA
CHAIRMAN



STEVEN CARDEN
CHIEF EXECUTIVE

The world is changing rapidly and so is our business. In 2017 we are more determined than ever to farm with best practice, and to create high-value food, nutrition products and fibre. This ambition and our strategic direction are captured in the Pāmu brand.

PĀMU VALUES

- We strive for deep insight. We know our customers, our people and our land.
- We operate with sheer determination. In all weather. All seasons.
- We conduct business with complete openness. Ask us anything. We'll give you a straight up answer
- kaitiakitanga. It means we look after what's precious.

We are now into the fourth year of transformation away from traditional commodity-producing agriculture and into a business focused on natural foods, nutrition products and fibre of the quality and provenance so valued by millions of consumers in other countries.

Our transformation requires Pāmu to create new products and new value chains that connect New Zealand farming more closely with high-value international markets. For this, we must gain much greater insight into customer desires and preferences in those markets, and become much better at identifying with precision the best opportunities for us to produce and supply.

Transformation requires also that Pāmu relentlessly pursues best practice in farming - best in terms of product quality, of productivity, of animal and environmental care, and of human safety and well-being. Everything we do will be based on excellence in farming and in our stewardship of natural resources, animals and people. Kaitiakitanga matters every day.

Our Pāmu brand brings all these elements together - our growing connection to what markets and customers want most from New Zealand producers of food, nutrition and fibre, and our commitment to best practice in how we farm and how we deliver on those customer demands.

In all areas of the transformation, the company is hard at work. We have a number of exciting value chain initiatives underway although not all are ready yet for public disclosure. Creating the new requires time, despite our sense of urgency and awareness of rapid change in the wider world. Pāmu can definitely report good progress in venison, sheep milk and wool value chains during 2016/17, and in other programmes this year and beyond (see pages 20-29).

Progress in the past year includes a much improved financial performance. In addition to our \$51.9 million headline result, we note our earnings before interest, tax, depreciation and revaluations (EBITDAR) of \$35.6 million – a pleasing improvement on the previous year’s \$25.5 million. The gain reflects the company’s operating strengths amid continued volatility of product pricing and climatic conditions. Looking back at 2016/17, we certainly acknowledge the upturn in farmgate milk prices to all New Zealand dairy producers, and some sustained buoyancy in demand for beef and venison. Our positive results are also due, in large part, to control of Pāmu’s operating expenses – something now well established across the company.

Moving to Integrated Reporting, with its focus on value creation around six capitals, is part of our transformation. The approach comes naturally to Pāmu where the use and development of human and natural capitals is now firmly embedded in our strategic thinking and internal reporting. We have no doubt that people are our most precious capital. Their safety, their expertise and their dedication to their jobs are fundamental to success in every area of our strategy and performance.

Results for the past year indicate real progress on making Pāmu a safer and more enriching place to work. We have continued to invest heavily in transforming systems, attitudes and behaviours to improve our health and safety practice and culture. The signs are encouraging but “safe home every day” will remain our top priority on every Pāmu farm. It is also an area where we are stepping up to industry leadership. We are proud to launch the Pāmu Academy and see its first delivery of training for external people during September.

We said the world is changing rapidly – and that spells huge challenge and opportunity for a large-scale farming and value chain business. Consider just three of the global changes of critical relevance to Pāmu: rising consumer demand for healthier and more sustainable foods; competitive advantages attached increasingly to information technology (IT); and rising volatility in commodity markets.

The first is, of course, a huge opportunity for Pāmu. We have the capitals and the New Zealand provenance to create and supply products of high value to consumers in selected markets across the world. Our value chain partnership with Duncan NZ Venison and Broadleaf, a Los Angeles based speciality meats business, points the way – Pāmu venison expertly grown for supply to the American food trade where natural, grass-fed product from New Zealand earns a premium. We doubled our supply to this market in 2016/17.

IT developments bring both opportunity and challenge. They yield exactly the market insights and connections we need. They enable us to authenticate our products and their qualities, and tell our provenance story to customers in the US, Europe and Asia. But they also empower competitors, and fuel even more customer demand for information and producer commitment. Pāmu is investing heavily in on-farm IT and faster broadband connectivity: Our changing world demands transparency at every point in production and supply (while on-farm data collection and analysis also drive productivity gain).

LOOKING AHEAD CONTINUED

Volatility is an ever-present challenge for commodity producers, none less so than New Zealand farmers. We certainly see the impact in Pāmu revenues and earnings from year-to-year – and more generally, we see volatility growing as the drivers of demand and supply become even more uncertain in globalised markets. The value chain approach must be part of the solution for Pāmu and for all New Zealand farming. Across our business, we are looking at how to better differentiate what we produce and to move beyond commodity market pricing, as our products are presented to appreciative consumers worldwide.

Pāmu initiatives with A2 milk, grass-fed milk and conversion to organic milk supply on some dairy farms are part of the strategy. So are our fixed price supply contracts for lamb, beef, venison and wool. Our established wool supply partnership with the New Zealand Merino Company (NZM) was especially beneficial as spot market prices for wool tumbled during 2016/17: NZM had fixed price contracts in place with seven brand partners who took an increased volume of Pāmu wool into their specialist manufacturing activities. This is definitely the way of the future, with more brand partners set to join the NZM-Pāmu wool connection over the year ahead.

We have never said that transformation would be easy and linear. However, our strategic direction is further confirmed with each passing year, and our next steps are firmly in place for 2017/18 and beyond. They draw on each of our capitals and enable us to manage all the material issues facing Pāmu, including the critical issues outlined in this report.

This year we will move to strengthen our financial capital by continuing our programme of recycling capital that is currently invested in farms with lower strategic significance in future years. During 2016/17, we placed 10 properties on the market and completed the sale of three of these. We have conditional sale agreements on two other properties and Crown interest, through the Office of Treaty Settlements, in the purchase of three more. Pāmu's long practice of capital recycling in this way will continue in 2017/18. Our intention is to strengthen the company's balance sheet, and to support ongoing investment in farming and value chain initiatives at satisfactory rates of return over time.

Change and volatility in our operating environment add challenge to our financial forecasting. This year we expect EBITDAR of \$38 million. Our targets and other budgeting include pricing assumptions on key products through 2017/18 including further recovery in New Zealand farmgate milk prices. We note Fonterra's July 2017 forecast payout for the year of \$6.75 per kg of milksolids, which would be the highest level for four years.

Pāmu is in excellent shape as we go into the fourth year of transformation and we extend our sincere thanks to all Pāmu people for their commitment and effort over the past year. Their contributions are fundamental to our progress - in best-practice farming and in new products and value chains. The Board and management have full confidence that the future for Pāmu will be prosperous, safe and sustainable.



TRACI HOUPAPA
CHAIRMAN MNZM, JP, MInstD



STEVEN CARDEN
CHIEF EXECUTIVE

TARGETS FOR 2017/18

As a State-Owned Enterprise, Pāmu prepares an annual Statement of Corporate Intent (SCI) including targets and budget forecasts for financial performance during the year ahead. The 2016/17 SCI targets and forecasts for 2017/18 are shown below.

	SCI Target 2017/18	Actual 2016/17	SCI Target 2016/17
Shareholder Returns			
EBITDAR ¹ \$million	38.0	35.6	n/a
Net profit after tax \$million	13.3	51.9	n/a
Return on equity, adjusted for IFRS fair value ² %	0.7	0.4	(0.9)
Profitability & Efficiency			
Return on capital employed ³ %	1.4	1.2	(0.1)
Operating margin ⁴ %	16.0	14.7	7.2
Dividends - Group (ordinary and special) \$million	0.0	0.0	0.0
Leverage & Solvency			
Gearing ⁵ %	11.5	14.1	12.6
Interest Cover ⁶ times	3.47	2.95	1.24
Solvency ⁷ times	4.33	4.45	3.54
Capital Expenditure			
Net capital expenditure (excl. property sales) \$million	48.8	32.4	29.2

These targets are based on commodity price assumptions including Fonterra's forecast farmgate price for the year of \$6.75 per kg of milksolids.

- 1 Earnings Before Interest, Tax, Depreciation, Amortisation and Revaluations.
- 2 Net profit after tax / Average shareholders' equity less revaluation reserves.
- 3 Earnings before interest and tax / Average shareholders' equity.
- 4 EBITDAR less profit on property sales / Total revenue.
- 5 Debt / Net assets.
- 6 EBITDAR / Net interest.
- 7 Current assets / Current liabilities.

STRATEGY

BEST PRACTICE FARMING FOR PRODUCTIVITY, PROFITABILITY AND SUSTAINABILITY

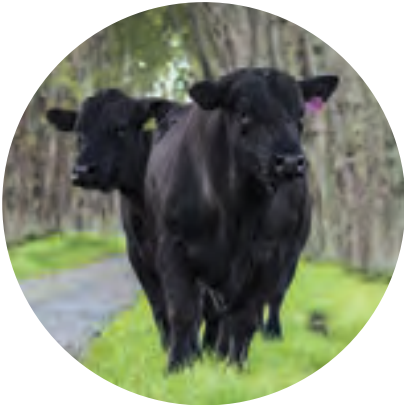


Pāmu strives to farm with best practice in the production of high-quality animals, food and fibre for customers and consumers. Our strategy is to pursue higher productivity, profitably and sustainability in dairying and in livestock farming across our portfolio.

FocusPrime rams in the Focus Genetics terminal sire breeding programme on Pāmu's Waikite Farm, near Rotorua.



Pāmu continues to improve the genetics of its livestock by drawing on the programmes of subsidiary Focus Genetics (Focus). Focus is advancing sheep, cattle and deer genetics for both animal productivity and meat quality. The business has confirmed its leadership in terminal sire genetics with FocusPrime winning the major awards in this category at the 2017 Sheep Industry Awards. Its programme, based on four long-established Pāmu breeding flocks, uses genome-reading technology for increased accuracy in selecting animals with desired traits.



Focus is New Zealand's biggest supplier of terminal and maternal sheep genetics, with these available commercially to any farmer. The business also advances and supplies beef and deer genetics based on Pāmu Angus and Simental cattle herds in the North and South Islands, and on both wapiti and red deer operations in Southland. We increasingly supply beef and venison under contracts recognising the superior genetics used in Pāmu production.

Pāmu seeks productivity gain also through better utilisation of pasture and other feed crops, optimised stocking, and strong emphasis on animal health and welfare. Farm managers are applying more data analysis in their decisions everyday using the Farm Management System (FMS). Veterinary inspections will become more regular in our drive for further gains in animal health and reduction of wastage. As part of this, Pāmu dairying practices are being enhanced to further reduce cows' somatic cell counts and to secure new efficiencies in calving. In livestock operations, we intend all prime beef cattle to have antibiotic free status.

We are implementing LEAN work methods on more farms to help teams identify and adopt smarter processes and make better use of new information tools. Pāmu is going through a major update of these tools, including new computer hardware and smartphones, and on-farm connectivity. Our Rural Connect project sees Vodafone New Zealand build a dedicated network linking farms and our head office with high-speed connectivity. The new standard will include a download speed of 10 megabytes per second.

Our FarmStore system for more centralised procurement and financial management is expected to deliver significant gains from 2017/18 onward. FarmStore has been adapted to better suit the dispersed nature of Pāmu operations and particular on-farm needs. We will continue to develop the Pāmu Promise framework as a comprehensive set of standards for all of our farming. Pāmu Promise has four elements – People, Animals, Systems and Environment – each supported by explicit guidelines for best practice on our farms and, in future, for adoption by other farmers.

NEXT STEPS

- Continued advance in sheep, beef and deer genetics, leading to further gains in productivity and product quality across Pāmu flocks and herds.



- Further strengthening of focus in dairying and livestock farming on maintaining and enhancing animal health, and reducing wastage in flocks and herds.
- Broader and more efficient use of Farm Management System tools to improve decision making and to monitor all aspects of farm operation.
- Optimised use of Pāmu's Rural Connect fast broadband network combined with upgraded farm-office hardware and new smartphone capability for mobile data entry and access.
- Ongoing application of LEAN work methods for more efficient use of tools and other resources, greater safety and satisfaction among Pāmu people, and further productivity gains.
- Improved use of FarmStore for centralised procurement and financial management to the advantage of local teams and the company overall.
- Continued development of the Pāmu Promise framework for farming best practice within the company and beyond.

STRATEGY

NATURAL FOOD, NUTRITION AND FIBRE FOR HIGH-VALUE GLOBAL MARKETS



Pāmu will increasingly create natural foods, nutrition products and fibre of New Zealand provenance for high-value global markets. Our strategy is to differentiate more of our traditional products, and to apply our systems and innovation to new products and new value chains. Pāmu will increasingly be associated with valuable products that are healthy, tasty and sustainable.

Pāmu is exploring the market potential for new, branded dairy products that are valued for their contribution to good health and best farming practice.



Pāmu is developing new areas of business that connect our brand directly with consumers across a range of products and markets. We begin this by responding to current market signals for greater differentiation in milk and red meat supply.

In dairying, we will progress plans for organic milk supply to companies paying premiums above the standard farmgate price. Two Pāmu farms (on Moutua Dairies and Wairakei Estate) now enter the second of their three years' preparation for organic certification. Pāmu will continue exploring opportunities to maximise the value in our milk. In Canterbury we plan for increased production of A2 classified milk for supply to Synlait Milk, with two of our herds so far meeting the A2 standard.



Other initiatives include exploring Asian market opportunities for Pāmu-branded dairy products that originate on our farms and are developed to meet specific customer demands. Longer term we are looking at the potential for this country's deer milk products in Asia as well. Pāmu has a dairy research and development programme based in today's substantial deer farming business.

We see growing interest globally in New Zealand's grass-fed production of healthy beef, sheep and deer – and Pāmu is taking initiatives to develop

and satisfy these demands. We are expanding programmes for contracted supply of prime cattle and sheep to our customers. During 2016/17, new systems for growing and finishing Angus cattle to rigorous market-driven specifications were a particular focus. The US market is demanding more New Zealand grass-fed, and hormone and antibiotic-free beef, and we are working with various parties on opportunities for paddock-to-plate supply into that market. The superior taste of our beef is gaining recognition alongside health attributes associated with our farming and our animals.

New Zealand provenance and eating quality are also of high importance in our lamb supply, most of this under fixed-price contracts with connection to well-established export markets. We will continue to explore emerging opportunities for Pāmu-branded lamb supply to consumers in New Zealand and internationally. The past year saw the first presentation of Pāmu lamb to consumers in the local market: Our product was trialled in an Auckland supermarket over 12 months. The company created a value chain from one farm to the retailer, and Pāmu lamb sold well through a year-long supply period.

Pāmu venison also continues to meet strong demand in America. We plan increased supply under partnerships with US-based premium meat distributor Broadleaf and with New Zealand exporter Duncan NZ Venison this year and beyond.

A similar approach is also driving our wool marketing and supply partnership with the New Zealand Merino Company (NZM). During 2016/17 NZM marketed and sold a significant share of our total clip to seven international brand partners, each a specialist in

high-value carpet or garment manufacturing. Fix-price contracts gave Pāmu some protection as the wool market generally fell through the year. We plan for sustained growth in the range of brand partners and in supply volume through NZM this year and beyond.

Our strategy also encompasses Spring Sheep Milk Co, Pāmu's sheep milk nutrition joint venture with global markets specialist firm SLC Ventures. The initial milking unit on Wairakei Estate is now successfully into its third year of supply. The business is now also launching a range of pre- and pro-biotic supplements for human stomach health, for target markets in Asia and the Middle East.



Spring Sheep is being developed as a boutique sheep milk nutrition business that combines New Zealand's reputation for world-best dairying with growing consumer demand for the health-enhancing qualities of ovine milk. The joint venture will establish a second milking flock in the Waikato during 2017/18. This farm is also intended as the model operation for a milk industry that produces much more than cheese. Spring Sheep, with Pāmu and SLC Ventures as its investors, are partners and co-funders with the government in a Primary Growth Partnership aimed at establishing such an industry New Zealand-wide.

There will be future Pāmu products and value chains based on ideas and on land uses beyond today's business. We will increasingly investigate non-traditional uses for our farms, expertise and relationships: what other crops and products can we create through research and development on-farm and in the marketplace? Honey is an obvious possibility, given our extensive areas of manuka and other native vegetation. Our current investigations include new uses for sheep milk as more discoveries arise around its special qualities.

Overall, we expect Pāmu to be farming fewer animals in future, and to have a stronger focus on plant-based products for food and nutrition.

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NEXT STEPS

- Further differentiation in milk production, including the current push into organic milk and the potential for partnering with other like-minded producers.
- Development of new, branded cow and sheep milk nutrition products that more fully recognise the quality in Pāmu farming systems.
- Growth in beef breeding and finishing programmes for paddock-to-plate supply arrangements into the US market.
- Pāmu lamb market and supply chain development projects.
- Expansion in Pāmu venison supply to meet growing US demand for grass-fed game meat through established in-market partners.
- Ongoing investigation of potential supply chain partnerships and of new crops for possible production on Pāmu farms.

STRATEGY

INDUSTRY INNOVATION AND LEADERSHIP



Pāmu is building towards a more prosperous, sustainable and safer future. Our strategy is to demonstrate innovation on-farm and in the marketplace, and to partner and share our knowledge across New Zealand farming.

Pāmu's Farm Management System (FMS) applies FARMIQ software developed with our close support over the past six years. With mobile devices, data can be immediately recorded in FMS out on the farm.



Pāmu is a partner in the Sheep-Horizon Three Primary Growth Partners (PGP) established in 2016/17 to help create a national sheep milk industry. The PGP's target is an industry with annual revenues above \$200 million by 2030. We see growing international demand for sheep milk because of its nutritional value, flavour and digestibility. Pāmu will contribute funding and operational expertise to the PGP over its six-year life, principally through our Spring Sheep Milk joint venture company. Next steps include establishing a large-scale pilot sheep-milking unit in the Waikato.

Our Pāmu Academy is now operating to help address risk and safety challenges everywhere in New Zealand agriculture. The Academy is open to any business seeking the skills and safety leadership competencies needed to reduce risk and harm. The highly practical training can be delivered at any location. It is experiential, and based on the world's best adult learning practice and "safety by design" principles. In addition to five core areas, the Academy will tailor specific programmes to the needs of particular organisations. The first training, delivered to our people, was completed in August 2017 with external courses to commence in September.

Pāmu will continue its technology partnership with FarmIQ Systems Ltd as the information systems provider sees rapid take-up of its software by farmers across New Zealand. FarmIQ now has more than 1440 farms using its farm management software for data recording, analysis and reporting, with potentially big gains in productivity, animal traceability, asset management and other areas. Pāmu support has been fundamental to the software development and

commercial success of FarmIQ, initially established in 2010 with Primary Growth Partnership co-funding. The FarmIQ software is widely acknowledged as leading technology in agriculture and FarmIQ will continue its development for broader use, including in the dairy sector. Pāmu remains a partner in this process and a FarmIQ shareholder.



NEXT STEPS

- Operational and funding support for the Sheep-Horizon Three PGP including the conversion of a Waikato property to sheep milk production - Pāmu commitment to partnering with government and others for establishment of a new national industry.
- Growth and development of the Pāmu Academy for the much-needed step change in health and safety policy and practice across New Zealand farming.
- Ongoing technology partnership with FarmIQ and support for broader industry use of FarmIQ software.
- Accelerated development of the Pāmu Promise framework - best practice standards for management of farms, animals and people throughout New Zealand, and potentially global, pastoral agriculture.

STRATEGY

ENVIRONMENTAL CARE ON FARMS AND IN VALUE CHAINS



Pāmu integrates environmental care into best-practice farming and into our value chain approach to consumer markets. Our strategy is to protect waterways and areas of native vegetation, and to plant new forests to capture greenhouse gas emissions. In doing these things and more, we will succeed both as farmers and as suppliers of food, nutrition products and fibre to environmentally-conscious consumers. We will also show our commitment to kaitiakitanga for land and resources we manage.

Pamu has planted native species in wide riparian strips where the Wairakei Estate dairy development fringes the Waikato River, with this photograph taken on the Estate's Renown Farm.



Pāmu has Land and Environment Plans (LEPs) for all its livestock properties with the aim of optimising land and natural resource use farm-by-farm. Optimisation means using each area of the farm for the purpose it is best suited. Clearly, these include pasture and feed crops for particular types and classes of animal, new forestry plantation, and land retirement from farming activity for the regeneration of native vegetation. The fencing and planting of riparian strips for protection of permanent waterways is another use. Our plans take account of land contour, soil type, drainage, local climate, proximity to infrastructure and other variables.



On each farm, we are seeking the best mix of productive and profitable farming, and of actions that enable environmental rejuvenation. The latter involves particular care with the livestock carrying capacity of land and with the likely effects of run-off, as well as riparian planting and native regeneration. On hill country properties, we have designated many more gullies for reversion to manuka and scrub to prevent erosion, protect water catchments and support bee populations.

Forestry is increasingly important. In 2017 we are planting 852 hectares of new forestry, expanding Pāmu's inventory of carbon-credit eligible forests. The LEPs have identified further areas for forestry

and as many as 1000 hectares may be planted in each of the next three years. Today, we own 5875 hectares of post-1989 forests.

The fencing of waterways continues. This year, we began a programme on intensively farmed flat and rolling land in use for dairy support, and cattle and deer grazing. We are systematically fencing off permanently-flowing waterways on livestock farms, building on our record of protecting the same in dairying areas. Over the past year, Pāmu completed permanent waterways fencing on all company-owned dairy units – clear demonstration of our support for the industry-wide Sustainable Dairying Water Accord (2014).

Pāmu continues to scale down development of new dairy production units on the Wairakei Estate, Central North Island, as announced in March 2016. This dairy complex will be much smaller in scale than previously planned as we give recognition to concerns about dairying growth in the Upper Waikato River catchment. Across all dairying operations, Pāmu is stepping up effluent management and efforts to limit, or stop, nitrogen loss into the environment.

The past year saw recognition of environmental progress on Pāmu dairy farms in mid-Canterbury as part of the Ballance Farm Environment Awards: The CB Norwood Distributors Ltd Agri-Business Award for this region was shared by Business Manager Brendon Stent and Farm Manager Tomas Muller on Maronan Dairies, and Farm Manager Matthew Hoets on our Valetta Dairy Unit. In the North Island, Te Wharua Station Manager Micky MacDonald won three regional Ballance awards in the Horizons region.

We are continuing to work with the Environmental Reference

Group (ERG) of independent experts, established in 2015 to advise on all issues of environmental impact by pastoral farming. The company welcomes the views and guidance offered by ERG members: Guy Salmon, Dr Alison Dewes, Dr Mike Joy, Dr Tanira Kingi, Dave Maslen and Angus Robson.

NEXT STEPS

- Increased fencing of permanent waterways to exclude livestock – during 2016/17, Pāmu completed the fencing of all waterways on its dairy farms.



- Expanded programme of new forestry - Pāmu now has an inventory of post-1989 forest area of 5875 hectares after a further 163 hectares were planted in the winter of 2016.
- Further retirement from farming of areas that have special environmental value – Pāmu has 6409 hectares now retired and protected by covenant, with 518 hectares of this added during 2016/17.
- Increased focus on long-term reduction in net greenhouse gas emissions from Pāmu-owned farms – our carbon footprint has been measured as a net 1.09 million tonnes of CO₂ in 2015/16.
- Exploration of the potential for expanding organic and biological farm systems in New Zealand.

STRATEGY

HEALTH AND SAFETY – OUR FIRST PRIORITY EVERY DAY



Pāmu has made health and safety the first every-day priority for people working in the business. Our strategy is to embed attitudes, behaviours and management practices that make our workplaces the safest and most enriching in New Zealand farming. We will also invest in programmes for developing the knowledge, skills and motivation of Pāmu people.

Farm Manager David Woolston at work on Omamari Farm, a sheep and beef operation in Northland.



Pāmu will continue to engage employees, contractors and visitors on the critical importance of staying healthy and safe on-farm every day. Our Safety Forum of 25 safety-passionate employees will continue to meet periodically, and to share information and practical ideas for making “safe home every day” a reality across the company. In 2016/17, the forum established five clear and simple “safety expectations” (see below) for everyone to apply individually and in their teams. The education and information sharing will continue this year through Pāmu’s intranet, team meetings and other regular communication.

The cultural shift towards creating the safest workplace began in 2014 under the “Play it Safe” banner. Since then, managers and staff have continued to learn and make real changes in attitude and behaviour and the programme was refreshed this year. Our approach is fully aligned with the emphasis in New Zealand’s new health and safety legislation on proactive identification of risks, and on an employer’s duty to engage staff directly in responding with realistic policies and practices.

Pāmu managers will be making fuller use this year of new online injury and incident reporting tools. We have developed a health and safety component for

the Farm Management System (FMS), which will also be shared across the industry. The trial of the system has confirmed that standardised, online reporting sharply reduces data errors and enables quicker, more helpful analysis of workplace risks. Company-instigated analysis of past data has revealed that most incidents have tended to arise from eight specific risk events. We will continue such analysis to identify and respond to emerging health and safety threats.

In 2017/18, we are launching the Pāmu Academy with Wilson Consulting of Australia as training provider for the industry overall. The Academy will share Pāmu’s learnings and the tools developed by the Safety Forum and subject experts consulted by the company. It is another indicator of just how seriously this organisation takes the issue.

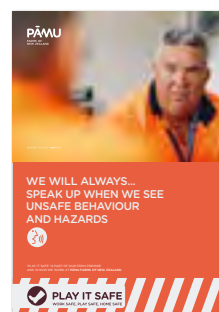
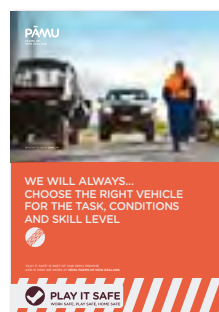
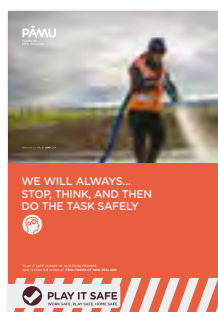
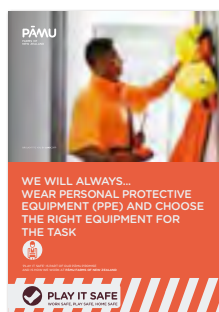
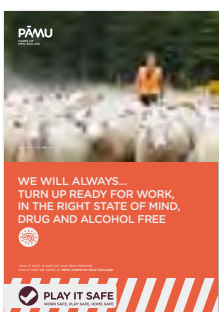
In 2017/18 we plan further workshops and training activities for Pāmu’s local leaders in recognition of their contribution to motivating and supporting people on the job every day. We need strong capability among farm managers to drive the safety expectations and to encourage talented people in their work. Local leadership is also key to attracting and retaining the people Pāmu will need into the future. Staff turnover is particularly high in our dairying operations. It is an industry-wide

problem and we are committing to leadership to turn around the current unsatisfactory situation.

Among indications of progress are the 2017 Dairy Industry Awards (DIA) where Pāmu Dairy Managers Jack Raharuhi (West Coast/Top of the South) and Anthony Kiff (Central Plateau) won regional recognition. Dairy Trainees Alex Voysey (Hauraki/Auckland) and Stephanie Walker (Manawatu) have also been category award winners in the DIA.

NEXT STEPS

- Sustained reduction in injuries on Pāmu farms – the notifiable injury and incident rate down to 11 in 2016/17 (14 the previous year and 18 in 2014/15).
- Growth of a safety culture based on the five clear expectations of behaviour originated by Pāmu people during 2016/17 – embedded commitment by all to a “safe home every day” ethos.
- Expanded use of new incident and accident reporting functions in the FMS – further and more standardised reporting and resolution of issues when they arise across Pāmu,
- Development of a distinct Pāmu culture that enriches working lives and supports further transformation in this business.



BOARD OF DIRECTORS



TRACI HOUPAPA
MNZM, JP, MInstD, MBA

Member of the Audit Committee and Performance & Safety Committee

Traci joined the Landcorp Board in May 2010 and was appointed Chairman in May 2015 following nearly a year as acting Chairman. She specialises in strategic and economic development, advising public and private sector clients throughout New Zealand. Traci is an experienced company director, and holds a number of directorships and Ministerial appointments. She chairs FOMA the Federation of Maori Authorities, the W3 Wool Unleashed PGP, Hineuru Holdings Limited (and associated entities) and the National Advisory Council for the Employment of Women and is the Waikato River Authority's Crown Deputy Co-Chair. Traci also holds governance roles on the Ontario Teachers' Pension Plan NZ Forestry Investments Limited, Tuhono Whenua Horticulture Limited, Predator Free New Zealand 2050 Limited, Our Land and Water and Ageing Well National Science Challenges, the Asia NZ Foundation, Victoria University of Wellington's Council and the Primary Industry Training Organisation.



JOHN BRAKENRIDGE
MBA

Member of the Performance & Safety Committee

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 not only the wool industry but also 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 is the founder of Te Hono.



NIKKI DAVIES-COLLEY
BBS, MBA (Dist), ANZIM, AFlnstD, MAICD

Chair of the Performance & Safety Committee

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



PAULINE LOCKETT
B.Com, ACA, CMIInstD, FCA

Chair of the Audit Committee

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



CHRIS DAY
BBS, CA, CTP, CMInstD

**Member of the
Audit Committee**

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.



DAVID NELSON
Dip. Ag (Massey), MInstD

**Member of the
Audit Committee**

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

**Member of the
Audit Committee**

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

**Member of the
Audit Committee**

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. Eric is a director of Functional Foods Limited and an Environment Southland councilor. Eric currently farms three properties in Southland involved with deer, beef, sheep, and dairy support.

CORPORATE GOVERNANCE

The Directors and Management of Pāmu are committed to effective and robust corporate governance. They recognise the critical importance of such governance to the company's creation of value. Our key governance structures and practices are outlined below.

OWNERSHIP AND ACCOUNTABILITY

Pāmu is a State-Owned Enterprise (SOE) legally identified as Landcorp Farming Limited. Like all SOEs, the company's principal objective is to operate as a successful business that is:

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

Pāmu is ultimately accountable to its two Shareholding Ministers who are the Minister of Finance and the Minister for State-Owned Enterprises. The Shareholding Ministers are supported by the Commercial Operations team of the New Zealand Treasury.

Accountability involves the company establishing, and then reporting against, an annual Statement of Corporate Intent (SCI). The publicly-available SCI sets out Pāmu's objectives, the nature and scope of its activities, and material financial and non-financial performance measures. In addition, the Ministers present the company with an annual Letter of Expectations. Pāmu Directors and Management regularly engage with the Treasury on matters of company strategy and performance.

THE BOARD

The Pāmu Board is appointed by the Shareholding Ministers and is currently comprised of eight non-executive independent Directors, including the Chairman. There were no changes in the composition of the Board during 2016/17.

The Board is responsible to the Ministers for guiding and overseeing Pāmu's operations. Pāmu has a Board Charter setting out how the Board discharges its responsibilities and powers, and requires Directors to:

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

Under the Charter, the Board may establish Board Committees from time-to-time to assist governance by focusing on specific areas of responsibility in more detail, by making recommendations to the Board as a whole when appropriate. The Board currently 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.

MEETINGS OF THE BOARD AND BOARD COMMITTEES

The Board and Board Committees met regularly throughout the year and conducted some business through the circulation of resolutions in lieu of Directors attending physical meetings.

During the year ended 30 June 2017, the Board held six meetings with attendance by Directors at these meetings, and at Board Committee meetings, as shown.

Director	Board meetings (six)	Audit Committee (five)	Performance and Safety Committee (five)
T Houpapa ¹	6	5	4
JD Brakenridge	6		4
NP Davies-Colley	6		5
CW Day	6	4	
DR Nelson ²	6	5	2
PN Lockett	5	4	
AP Reilly	5	4	
EW Roy ³	6		

1 Traci Houpapa attended Audit and Performance and Safety Committee meetings ex officio.

2 David Nelson attended two Performance and Safety Committee meetings at the invitation of the Chairman to ensure a quorum was present.

3 Eric Roy was appointed to the Audit Committee with effect from 1 September 2017.

RISK MANAGEMENT

Risk management is a key area of focus for the Board. It has overall responsibility for the company's risk management framework, and for ensuring that Management's risk management policies and procedures are appropriate and effective given the nature and scope of Pāmu activities and the operating environment.

The Chief Executive is charged with the day-to-day management of Pāmu. The company operates under a detailed structure of delegated authorities, and the Board approves operational and financial policies. In addition, Pāmu has a Treasury Management Committee comprised of executive staff and an external advisor. This

committee meets regularly to oversee the company's treasury management functions, which are also reported on to the Board.

KPMG is Pāmu's external auditor appointed by the Office of Auditor-General for the current financial year, 2017/18. Internal audit services are provided by PricewaterhouseCoopers.

DIRECTORS' REMUNERATION AND OTHER BENEFITS

Directors' fees, including fees for the chairpersons of Board Committees, are established through the benchmarking of Pāmu against other SOES and other New Zealand businesses of similar scale and complexity. For the year to 30 June 2017, the fees paid to each Director are set out below.

The fees paid to T Houpapa include fees as Director of joint venture company Pengxin New Zealand Farm Management Limited, and the fees paid to AP Reilly include fees for representation on an advisory board. No remuneration or other benefits were paid to the Directors of Landcorp Estates Limited, Landcorp Pastoral Limited or Landcorp Holdings Limited.

In addition to fees, the company provided a budget of \$10,000 towards the ongoing professional development of Directors.

INTERESTS REGISTER

Pāmu maintains an Interests Register of Directors' interests, Directors' remuneration, and Directors' and Officers' liability insurance. Shown here are particulars of general notices of disclosure held in the register. Directors' interests during 2016/17 were as shown at left.

During 2016/17, no requests were received from Directors for the use of company information that was obtained by them in their capacity as Directors and that would not otherwise have been available to them.

T Houpapa (Board Chairman)	\$97,732
JD Brakenridge	\$37,063
NP Davies-Colley (Chair of Performance & Safety Committee)	\$41,463
CW Day	\$37,063
PN Lockett (Chair of Audit Committee)	\$41,463
DR Nelson	\$37,063
AP Reilly	\$53,563
EW Roy	\$37,063
Total fees:	\$382,473

CORPORATE GOVERNANCE

CONTINUED

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 (ceased June 2017)	
	OTPP New Zealand Forest Investments Ltd	Director	
	Asia New Zealand Foundation	Trustee	
	Tuhono Whenua Horticulture Ltd	Director	
	Victoria University of Wellington	Council Member	
	Mystery Creek Fieldays	Honourary Vice President	
	Primary Industry Training Organisation Inc.	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	
	Predator Free New Zealand 2050 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	
	Worksafe New Zealand Limited	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	
	Taranaki Health Foundation	Trustee	
	Taranaki Work Trust	Trustee	
	PN Lockett Family Trust	Trustee	
	Burgundy Trust	Trustee	
	Bordeaux 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	New Zealand Functional Foods	Director	
	Environment Southland	Councillor	
	Glynmore Farms Ltd	Director	
	Glynmore Trust	Trustee	

INDEMNITY AND INSURANCE

Pāmu has arranged Directors' and Officers' insurance which covers risks normally covered by such policies in the governance of sizeable New Zealand companies. The insurance includes separate cover to meet defence costs. In addition, as permitted by Pāmu's Constitution, Directors and Officers are indemnified by the

company to the extent permitted by law for potential liabilities that they might incur for actions or omissions in their capacity as Directors or Officers.

COMPANY DONATIONS

During 2016/17, Pāmu made donations of \$14,424, and undertook community and event sponsorship of \$54,324.

EMPLOYEES' REMUNERATION

Set out in the table below are the numbers of employees and former employees whose total remuneration for 2016/17 was within the stated financial bands. Remuneration includes all applicable benefits including performance incentives, employer superannuation contributions and accommodation benefits.

Remuneration paid to employees earning \$100,000 or more during 2016/17

Dollars in thousands	Number of employees	Dollars in thousands	Number of employees
100-109	28	190-199	2
110-119	17	200-209	1
120-129	15	210-219	1
130-139	14	260-269	1
140-149	7	290-299	3
150-159	14	300-309	2
160-169	2	340-349	2
170-179	3	350-359	1
180-189	1	630-639	1

SUBSIDIARIES

Landcorp Farming Limited has the following subsidiary companies with these purposes:

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

LEADERSHIP TEAM



STEVEN CARDEN
CHIEF EXECUTIVE OFFICER



ROB FORD
GENERAL MANAGER
INNOVATION AND TECHNOLOGY



MARK JULIAN
GENERAL MANAGER
DAIRY OPERATIONS



STEVEN McJORROW
CHIEF FINANCIAL OFFICER



GRAEME MULLIGAN
GENERAL MANAGER
LIVESTOCK OPERATIONS



SARAH RISELL
GENERAL MANAGER
SALES AND MARKETING



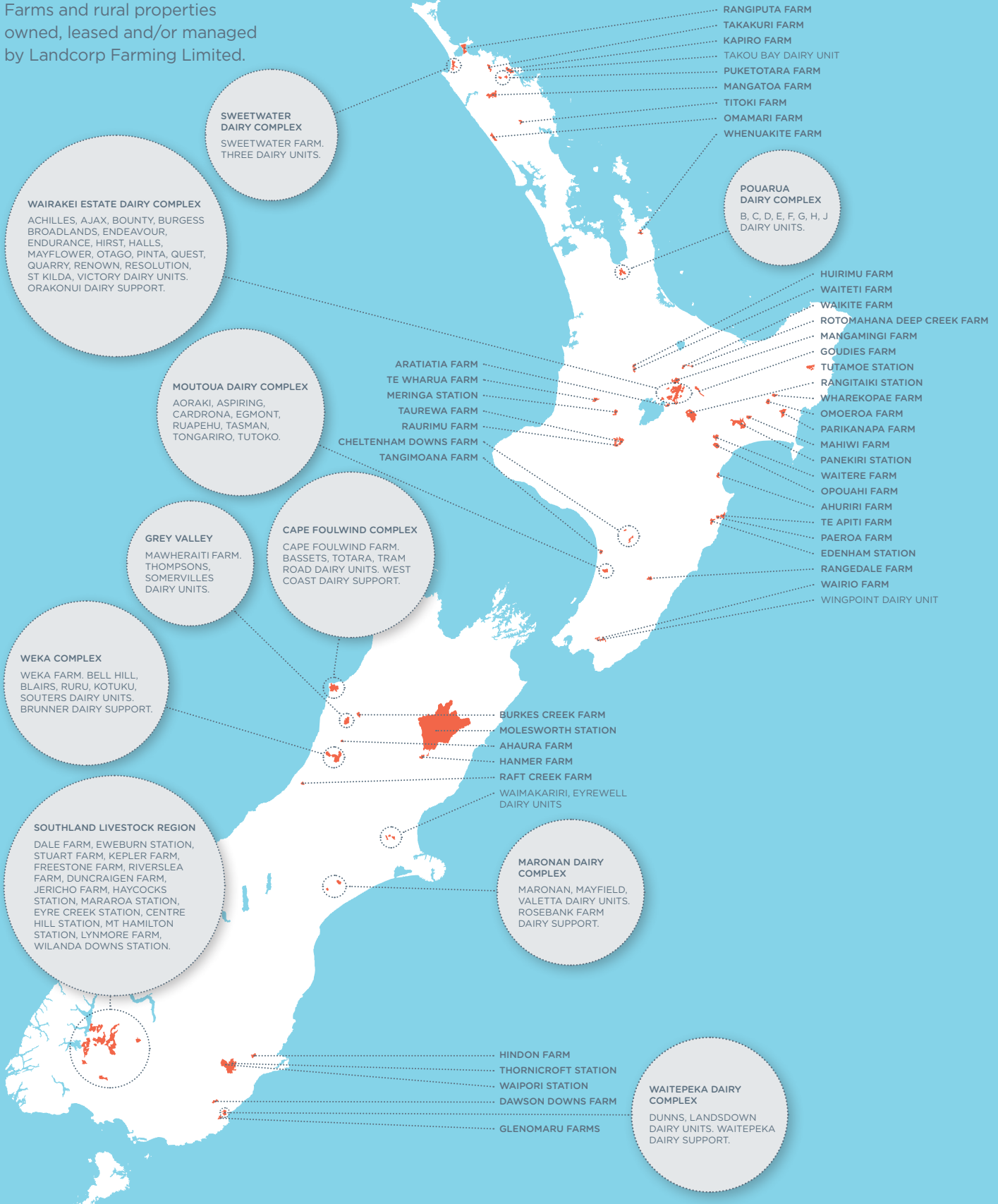
PETER SIMONE
GENERAL MANAGER
PEOPLE AND SAFETY



ANDREW SLIPER
GENERAL MANAGER
COMMERCIAL DEVELOPMENT

PĀMU FARMS OF NEW ZEALAND

Farms and rural properties owned, leased and/or managed by Landcorp Farming Limited.



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STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2017

	Note	Group 2017 \$m	Group 2016 \$m
Revenue			
Farm operating	6	218.8	194.3
Other business activities		14.7	15.7
		233.5	210.0
Operating expenses			
Farm working and maintenance	7	98.6	97.0
Personnel	8	64.8	61.7
Other	9	33.9	32.2
		197.3	190.9
Income from equity accounted investments		(1.8)	(1.0)
Profit on sale of farm and forestry land		1.2	7.4
Earnings before interest, tax, depreciation, amortisation and revaluations		35.6	25.5
Depreciation and amortisation		(17.1)	(16.0)
Net finance expenses		(11.6)	(11.5)
Fair value movements on financial instruments		2.5	(5.3)
Fair value movements on biological assets	6	42.7	22.7
Loss on revaluation of property, plant and equipment		-	(3.9)
Net Profit before Tax		52.1	11.5
Tax (expense)/income	16	(0.2)	-
Net Profit after Tax		51.9	11.5
Other Comprehensive Income			
Gain on revaluation of land and improvements		0.2	(24.8)
Revaluation losses transferred to and recognised in profit and loss		-	1.1
Gain on revaluation of available-for-sale financial assets		3.3	3.7
(Loss)/gain due to price changes on intangible assets		(0.4)	5.3
Income tax on income and expense recognised in equity		1.8	0.3
Total Comprehensive Income		56.8	(2.9)

The accompanying notes form part of these financial statements

STATEMENT OF MOVEMENTS IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2017

	Note	Group 2017 \$m	Group 2016 \$m
Ordinary Shares			
Balance beginning of year		125.0	125.0
Balance end of year	15	125.0	125.0
Retained Earnings			
Balance beginning of year		126.8	130.9
Net profit after tax		51.9	11.5
Transfer to revenue reserves		(45.7)	(18.1)
Other Movements		1.8	2.5
Balance end of year	15	134.8	126.8
Revenue Reserves			
Balance beginning of year		100.8	82.7
Transfer from retained earnings		45.7	18.1
Balance end of year	15	146.5	100.8
Fair Value Reserve			
Balance beginning of year		12.8	9.1
Revaluation of available-for-sale financial assets		3.3	3.7
Other movements		0.1	-
Balance end of year	15	16.2	12.8
Asset Revaluation Reserves			
Balance beginning of year		750.2	781.8
Net value change during year		(0.2)	(19.5)
Revaluation losses recognised in profit and loss		-	1.1
Tax effect of reserve movements		1.8	0.3
Transfers to other equity on sale		(4.3)	(10.7)
Other movements		(2.2)	(2.8)
Balance end of year	15	745.3	750.2

The accompanying notes form part of these financial statements

	Note	Group 2017 \$m	Group 2016 \$m
Other Equity			
Balance beginning of year		295.6	283.4
Transfers from asset revaluation reserves		4.3	10.7
Capital expenditure reimbursed by the Crown		0.8	1.5
Assets transferred to the Crown		(2.9)	-
Balance end of year	15	297.8	295.6
Total Equity			
Balance beginning of year		1,411.2	1,412.9
Net profit after tax		51.9	11.5
Other comprehensive income:			
Gain on revaluation of land and improvements		0.2	(24.8)
Revaluation losses transferred to and recognised in profit and loss		-	1.1
Gain on revaluation of available-for-sale financial assets		3.3	3.7
(Loss)/gain on revaluation of intangible assets		(0.4)	5.3
Income tax on income and expense recognised in equity		1.8	0.3
Capital expenditure reimbursed by the Crown		0.8	1.5
Assets transferred to the Crown		(2.9)	-
Other movements		(0.3)	(0.3)
Balance end of year		1,465.6	1,411.2

The accompanying notes form part of these financial statements

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2017

	Note	Group 2017 \$m	Group 2016 \$m
Operating Activities			
Cash was received from:			
Receipts from customers			
Livestock		138.9	126.6
Milk		94.3	74.3
Other receipts from customers		17.1	24.6
Interest received		-	0.1
Dividends received		1.4	0.5
Income tax received		0.4	0.3
		252.1	226.4
Cash was applied to:			
Payments to suppliers		148.3	150.0
Payments to employees		61.5	57.2
Interest paid		11.4	11.1
Net GST (received)/paid		(1.4)	0.6
		219.8	218.9
Net Cash Flows from Operating Activities		32.3	7.5
Investing Activities			
Cash was received from:			
Sale of land and improvements		15.0	27.9
Sale of other property, plant and equipment		4.3	1.4
		19.3	29.3
Cash was applied to:			
Purchase and development of land		19.1	32.0
Purchase of other property, plant and equipment		11.4	14.3
Purchase of intangible assets		-	0.2
Purchase of shares and advances		3.8	1.7
Purchase of livestock		-	1.0
Net joint venture investment		2.0	-
		36.3	49.2
Net Cash Flows from Investing Activities		(17.0)	(19.9)

The accompanying notes form part of these financial statements

	Note	Group 2017 \$m	Group 2016 \$m
Financing Activities			
Cash was received from:			
Net borrowing (payments)/receipts		(15.1)	11.2
		(15.1)	11.2
Cash was applied to:			
Dividends paid		-	-
		-	-
Net Cash Flows from Financing Activities		(15.1)	11.2
Net Change in Cash and Cash Equivalents			
		0.2	(1.2)
Cash and cash equivalents at beginning of year		(1.0)	0.2
Cash and Cash Equivalents at End of Year		(0.8)	(1.0)
Cash and cash equivalents comprises cash balances held with registered New Zealand banks -			
Cash at bank/(bank overdraft)		(0.8)	(1.0)
Reconciliation of Profit and Operating Cash Flow			
Net profit after tax		51.9	11.5
Non cash items			
Depreciation and amortisation		17.1	16.0
Revaluation gains and losses		(45.2)	(13.5)
Change in deferred tax asset/(liability)		0.5	(0.1)
Deferred tax on revaluation of assets		1.8	0.3
Other non cash items		13.5	4.5
Movement in working capital items			
Inventories		(5.4)	(2.2)
Accounts receivable		(8.2)	0.6
Accounts payable and accruals		(0.6)	(5.9)
Employee entitlements		2.8	2.5
Items classified as investing or financing activities			
Net (loss) on movement of assets		(1.5)	(8.0)
Change in accounts receivable due to capital items		2.9	0.9
Change in accounts payable due to capital items		2.7	(0.1)
Purchase of livestock		-	1.0
Net Cash Flows from Operating Activities		32.3	7.5

The accompanying notes form part of these financial statements

STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2017

	Note	Group 2017 \$m	Group 2016 \$m
Assets			
Cash and Cash Equivalents		(0.8)	(1.0)
Accounts Receivable	10	34.4	26.2
Inventories		15.6	10.2
Property Held for Sale	14	59.1	88.5
Biological Assets			
Livestock	6	318.9	288.5
Forests		26.8	27.5
Total Biological Assets		345.7	316.0
Equity Accounted Investments		4.7	5.9
Other Financial Assets	11	58.1	54.1
Intangible Assets	12	10.6	11.8
Property, Plant and Equipment			
Land and improvements	13	1,135.1	1,110.4
Protected land	13	104.6	111.4
Plant	13	21.3	24.1
Motor vehicles		22.3	25.5
Furniture and equipment		1.9	2.1
Computer equipment		1.6	1.1
Total Property, Plant and Equipment		1,286.8	1,274.6
Total Assets		1,814.2	1,786.3

The accompanying notes form part of these financial statements

	Note	Group 2017 \$m	Group 2016 \$m
Liabilities			
Accounts Payable and Accruals		17.5	18.0
Employee Entitlements		13.0	10.2
Deferred Tax Liability	16	0.3	0.8
Other Financial Liabilities	11	218.1	238.4
Redeemable Preference Shares	15	99.7	107.7
Total Liabilities		348.6	375.1
Shareholders' Funds			
Share capital		125.0	125.0
Retained earnings		134.8	126.8
Revenue reserves		146.5	100.8
Fair value reserve		16.2	12.8
Asset revaluation reserves		745.3	750.2
Other equity		297.8	295.6
Total Shareholders' Funds	15	1,465.6	1,411.2
Total Equity		1,465.6	1,411.2
Total Equity and Liabilities		1,814.2	1,786.3

The accompanying notes form part of these financial statements.

Landcorp's Board of Directors authorised the financial statements for issue on 29 August 2017.

Signed on behalf of the Board



Traci Houpapa
Chairman

29 August 2017



Pauline Lockett
Chair of Audit Committee

29 August 2017

The accompanying notes form part of these financial statements

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

STATEMENT OF ACCOUNTING POLICIES

NOTE 1: REPORTING ENTITY

Landcorp Farming Ltd (“Landcorp”) is a profit-oriented company, incorporated and domiciled in New Zealand. Landcorp was established under the State-Owned Enterprises Act 1986 and registered under the Companies Act 1993. Landcorp’s ultimate parent is the Crown, which owns 100% of Landcorp’s shares, held beneficially by the Minister of Finance (50%) and the Minister for State-Owned Enterprises (50%).

Landcorp is primarily 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 2017. The financial statements were authorised for issue by the Board of Directors on 29 August 2017.

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.

The presentation of the Statement of Comprehensive Income has been amended to better reflect the operations of the Group.

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.

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.

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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

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 within fair value movements on biological assets.

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. 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 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

An assessment of the fair value of freehold land and improvements (including buildings) is performed annually by management. If there is any material change in fair value a full revaluation is required. At a minimum, a revaluation of the portfolio by independent registered valuers will be performed on a recurring basis every three years. The last revaluation was performed on 30 June 2016. 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 asset's 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.

(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 assets 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, 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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

Other financial liabilities

(a) Bank loans

Bank loans are recognised at their fair value.

(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.

Dividends

Dividends are recognised in the period that they are authorised and declared. Landcorp's target for dividend payments is to pay a dividend subject to ensuring that debt levels will be maintained at a level that enables Landcorp to meet all fiduciary and legal requirements including banking covenants.

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 farm operating revenue, 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.

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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

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 their 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 Management's 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. Management's 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
Disclosure Initiative (Amendments to NZ IAS 7)	1 January 2017	30 June 2018
Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to NZ IAS 12)	1 January 2017	30 June 2018
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

Amendments to NZ IAS 7 were issued in May 2016. The amendments require disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes. Additional disclosures to satisfy these requirements will be made in the financial statements from the year ending 30 June 2018.

Amendments to NZ IAS 12 were issued in March 2016. The amendments clarify the accounting for deferred tax assets for unrealised losses on debt instruments measured at fair value and further guidance on recognition for deferred tax assets. In the absence of significant changes to operating conditions the amendments to NZ IAS 12 are not expected to have any material impact on the financial statements.

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. A review of contracts shows they are consistent with the requirements of NZ IFRS 15 and adoption is not expected to have any material effect on the financial statements.

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 actual impact of adopting NZ IFRS 9 is not known and cannot be reliably estimated because it will be dependent on the financial instruments that the Group holds and economic conditions at that time as well as accounting elections and judgements made in the future. However it is expected that the adoption of NZ IFRS 9 will not result in any material change to the accounting for Landcorp's financial instruments, rather the categorisation and disclosure will change.

The adoption of NZ IFRS 16 will require Landcorp to capitalise leases by recognising the present value of future lease payments. The standard also requires changes to be made to the way in which expenditure is recorded in relation to those leases. In summary, operating lease expense will be replaced with an amortisation charge on leased assets and an interest expense in respect of lease liabilities. Landcorp is in the process of assessing the full impact of this standard. As part of this assessment Landcorp has established that recognition of lease obligations in respect of land development activity in the central North Island on the Wairakei Estate will create material corresponding assets and liabilities on the Group balance sheet. Accounting for the depreciation and amortisation in respect of these amounts will consequently generate a revised presentation of related expenses in the Group's Statement of Comprehensive Income. Due to the provisions within the standard, it will be necessary to remeasure these amounts annually. It should be noted that the underlying commercial arrangements and cashflows relating to the lease are not affected by the adoption of NZ IFRS 16.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

NOTE 6: FARM OPERATING REVENUE

A Nature of Activities

Landcorp is primarily a pastoral farming company. Sheep, deer and beef cattle are mainly grown to produce meat. These animals may also provide ancillary income from various agricultural produce such as wool and velvet. Dairy cattle are predominantly held to produce milk. Landcorp also derives income from forestry on land unsuitable for farming.

	Group 2017 \$m	Group 2016 \$m
Revenue		
Livestock	108.7	104.7
Milk	101.5	75.2
Wool	6.3	10.4
Forestry	2.3	4.0
	218.8	194.3

B Livestock Revenue

Landcorp's livestock revenue by species was:

	Group 2017 \$m	Group 2016 \$m
Sheep	41.9	44.0
Beef	51.1	47.5
Deer	15.7	13.2
Total Livestock Revenue	108.7	104.7
Livestock sales	138.2	126.4
Birth of animals	43.4	40.1
Growth of animals	66.4	65.1
Livestock losses	(13.4)	(14.1)
Book value of livestock sold	(125.9)	(112.8)
Total Livestock Revenue	108.7	104.7

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

C Value of Livestock

The value of livestock at 30 June was:

	Group 2017 \$m	Group 2016 \$m
Sheep	69.7	67.7
Beef	109.3	88.0
Dairy	94.6	92.2
Deer	45.3	40.6
Total Value of Livestock	318.9	288.5

Livestock valuations at 30 June 2017 were provided by PGG Wrightson Ltd. These market values reflect livestock of similar age, breed and genetic merit throughout New Zealand.

At 30 June 2017, livestock comprised 490,028 sheep, 83,423 beef cattle, 70,521 dairy cattle and 93,726 deer (2016: 530,165 sheep, 78,797 beef cattle, 78,491 dairy cattle and 95,160 deer).

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

Livestock Value at Start of Year	288.5	270.9
Value changes caused by:		
Birth and growth of animals	109.8	105.2
Purchases	16.8	15.9
Livestock losses	(13.4)	(14.1)
Livestock available for sale or production	401.7	377.9
Book value of stock sold	(125.9)	(112.8)
Effect of price changes	43.1	23.4
Livestock Value at End of Year	318.9	288.5

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.

Current	95.7	87.2
Non-current	223.2	201.3
Total Value of Livestock	318.9	288.5

D Fair Value Movements on Biological Assets

	Group 2017 \$m	Group 2016 \$m
Effect of price changes on livestock	43.1	23.4
Effect of price changes on forestry	(0.4)	(0.7)
Total Fair Value Movements on Biological Assets	42.7	22.7

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

NOTE 7: FARM WORKING AND MAINTENANCE EXPENSES

	Group 2017 \$m	Group 2016 \$m
Cropping and feed	31.2	28.1
Pasture maintenance	23.4	22.5
Maintenance	14.1	13.0
Animal breeding	7.4	9.4
Animal health	7.7	7.3
Shearing	5.2	5.3
Grazing charges	3.3	3.7
Other farm working expenses	6.3	7.7
Total Farm Working and Maintenance	98.6	97.0

NOTE 8: PERSONNEL

	Group 2017 \$m	Group 2016 \$m
Staff remuneration	60.4	57.1
Other personnel costs	4.4	4.6
Total Personnel Costs	64.8	61.7

NOTE 9: OTHER OPERATING EXPENSES

	Group 2017 \$m	Group 2016 \$m
Fees to auditors - statutory audit	0.2	0.2
Directors' remuneration - Group	0.4	0.3
Directors' remuneration - Subsidiaries	0.1	0.1
Rent	10.9	9.3
Reimbursement of protected land gains - Landcorp Holdings	-	0.4
Other operating expenses	22.3	21.9
Total Other Operating Expenses	33.9	32.2

NOTE 10: ACCOUNTS RECEIVABLE

	Group 2017 \$m	Group 2016 \$m
Trade debtors	12.4	10.9
Milk income receivable	18.1	10.6
Other receivables and prepayments	3.9	4.7
Gross Accounts Receivable	34.4	26.2
Individual impairment	-	-
Total Accounts Receivable	34.4	26.2

NOTE 11: OTHER FINANCIAL ASSETS AND LIABILITIES

	Group 2017 \$m	Group 2016 \$m
Other Financial Assets		
External Financial Assets		
Available-for-sale financial assets		
Share investments	58.1	54.0
Held-for-trading financial assets		
Milk future derivatives	-	0.1
Total Other Financial Assets	58.1	54.1
Other Financial Liabilities		
Financial liabilities measured at amortised cost		
Bank loans	206.9	219.6
Other loans	-	2.4
Held-for-trading financial liabilities		
Interest rate derivatives	11.2	16.4
Total Other Financial Liabilities	218.1	238.4
Other Financial Liabilities are classified as follows:		
Current	135.0	70.1
Non-current	83.1	168.3
Total Other Financial Liabilities	218.1	238.4

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

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 2017 1.96%) 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.

Cash advance facilities have been drawn as follows:

	Group 2017 \$m	Group 2016 \$m
Drawn	206.9	219.6
Undrawn	108.1	75.4
Total	315.0	295.0

Cash advance facilities are committed to:

	Group 2017 \$m	Group 2016 \$m
0 - 6 months	90.0	70.0
One to two years	135.0	140.0
Two to five years	90.0	85.0
Total	315.0	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 (2016 \$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 12: INTANGIBLE ASSETS

	Group 2017 \$m	Group 2016 \$m
Genetic 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	8.3	2.9
Additions	-	0.1
Revaluation	(0.4)	5.3
Closing balance	7.9	8.3
Net Carrying Amount	7.9	8.3
Other Intangible Assets		
Net Carrying Amount	0.7	1.5
Total Intangible Assets	10.6	11.8

Landcorp holds 1,542,364 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 \$2.5m (30 June 2016 \$2.6m).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

NOTE 13: PROPERTY, PLANT AND EQUIPMENT

	Group 2017 \$m	North Island Dairy \$m	South Island Dairy \$m	North Island Livestock \$m	South Island Livestock \$m
Land and Improvements					
Freehold land and buildings					
Fair Value					
Opening balance	1,058.5	70.6	195.0	428.0	364.9
Additions	11.7	2.1	1.1	5.3	3.2
Disposals	(0.5)	-	-	(0.3)	(0.2)
Unrealised revaluation gain recognised in Other Comprehensive Income	0.2	-	-	-	0.2
Reclassified from property held for sale	9.3	-	-	-	9.3
Closing balance	1,079.2	72.7	196.1	433.0	377.4
Accumulated Depreciation					
Opening balance	-	-	-	-	-
Depreciation	(2.4)	(0.1)	(0.7)	(0.8)	(0.8)
Disposals	0.1	-	-	0.1	-
Closing balance	(2.3)	(0.1)	(0.7)	(0.7)	(0.8)
Net carrying amount	1,076.9	72.6	195.4	432.3	376.6
Buildings and improvements leased land					
Cost					
Opening balance	57.2	57.2	-	-	-
Additions	7.8	7.8	-	-	-
Closing balance	65.0	65.0	-	-	-
Accumulated Depreciation and Impairment					
Opening balance	(5.3)	(5.3)	-	-	-
Depreciation	(1.0)	(1.0)	-	-	-
Impairment	(0.5)	(0.5)	-	-	-
Closing balance	(6.8)	(6.8)	-	-	-
Net carrying amount	58.2	58.2			
Total Land and Improvements	1,135.1	130.8	195.4	432.3	376.6
Protected Land and Improvements					
Cost					
Opening balance	111.4	-	-	111.4	-
Additions	1.6	-	-	1.6	-
Disposals	(7.5)	-	-	(7.5)	-
Closing balance	105.5	-	-	105.5	-
Accumulated Depreciation					
Opening balance	(0.9)	-	-	(0.9)	-
Depreciation	(0.1)	-	-	(0.1)	-
Disposals	0.1	-	-	0.1	-
Closing balance	(0.9)	-	-	(0.9)	-
Net carrying amount	104.6	-	-	104.6	-

Total Land and Improvements above includes work in progress of \$0.5m at 30 June 2017 (30 June 2016 nil).

	Group 2017 \$m
Plant	
Cost	
Opening balance	69.7
Additions	2.7
Disposals	(1.8)
Closing balance	70.6
Accumulated Depreciation	
Opening balance	(45.6)
Depreciation	(4.9)
Disposals	1.2
Closing balance	(49.3)
Net carrying amount	21.3

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

NOTE 13: PROPERTY, PLANT AND EQUIPMENT cont'd

	Group 2016 \$m	North Island Dairy \$m	South Island Dairy \$m	North Island Livestock \$m	South Island Livestock \$m
Land and Improvements					
Freehold land and buildings					
Fair Value					
Opening balance	1,146.4	79.2	212.1	432.1	423.0
Additions	17.8	1.8	6.4	7.3	2.3
Disposals	(0.5)	-	(0.2)	(0.3)	-
Reversal of depreciation on revaluation	(2.5)	(0.2)	(0.7)	(0.7)	(0.9)
Unrealised revaluation loss recognised in Other Comprehensive Income	(24.7)	(7.6)	(22.6)	12.6	(7.1)
Reclassified to property held for sale	(78.0)	(2.6)	-	(23.0)	(52.4)
Closing balance	1,058.5	70.6	195.0	428.0	364.9
Accumulated Depreciation					
Opening balance					
Depreciation	(2.6)	(0.2)	(0.7)	(0.8)	(0.9)
Disposals	0.1	-	-	0.1	-
Reversal on revaluation	2.5	0.2	0.7	0.7	0.9
Closing balance	-	-	-	-	-
Net carrying amount	1,058.5	70.6	195.0	428.0	364.9
Buildings and improvements leased land					
Cost					
Opening balance	47.1	47.1	-	-	-
Additions	10.1	10.1	-	-	-
Closing balance	57.2	57.2	-	-	-
Accumulated Depreciation and Impairment					
Opening balance	(4.0)	(4.0)	-	-	-
Depreciation	(0.9)	(0.9)	-	-	-
Impairment	(0.4)	(0.4)	-	-	-
Closing balance	(5.3)	(5.3)	-	-	-
Net carrying amount	51.9	51.9	-	-	-
Total Land and Improvements	1,110.4	122.5	195.0	428.0	364.9
Protected Land and Improvements					
Cost					
Opening balance	111.1	-	-	111.1	-
Additions	1.3	-	-	1.3	-
Closing balance	112.4	-	-	112.4	-
Accumulated Depreciation					
Opening balance	(0.9)	-	-	(0.9)	-
Depreciation	(0.1)	-	-	(0.1)	-
Closing balance	(1.0)	-	-	(1.0)	-
Net carrying amount	111.4	-	-	111.4	-

	Group 2016 \$m
Plant	
Cost	
Opening balance	65.6
Additions	5.0
Disposals	(0.9)
Closing balance	69.7
Accumulated Depreciation	
Opening balance	(41.3)
Depreciation	(4.9)
Disposals	0.6
Closing balance	(45.6)
Net carrying amount	24.1

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

Valuation techniques

Freehold land and improvements (including buildings) are fair valued on a periodic basis by independent registered valuers. A revaluation of the portfolio will be performed on a recurring basis at a minimum of every three years with the last revaluation being performed on 30 June 2016. 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 2017 \$m	Group 2016 \$m
Freehold land	526.5	418.6
Buildings on freehold land	64.9	60.5
Total land and buildings at historical cost	591.4	479.1

NOTE 14: PROPERTY HELD FOR SALE

Property held for sale comprises:

	Group 2017 \$m	Group 2016 \$m
Opening balance	88.5	31.5
Property reclassified (declassified) as held for sale	(9.3)	78.0
Disposals	(20.1)	(21.0)
Net carrying amount	59.1	88.5
Development land	9.8	13.0
Farm land	45.3	69.5
Buildings	4.0	6.0
Total Property Held for Sale	59.1	88.5

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.

NOTE 15: CAPITAL MANAGEMENT

The Group considers its capital as comprising all the components of Shareholders' Equity except the Redeemable Preference Shares (classified under NZ IFRS as a liability), as follows:

	Components	Group 2017 \$m	Group 2016 \$m
Share capital	A	125.0	125.0
Retained earnings	B	134.8	126.8
Revenue reserves	C	146.5	100.8
Fair value reserve	D	16.2	12.8
Asset revaluation reserves	E	745.3	750.2
Other equity	F	297.8	295.6
Total Shareholders' Funds		1,465.6	1,411.2
Redeemable preference shares	G	99.7	107.7
Total Managed Capital		1,565.3	1,518.9

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 to maintain a satisfactory debt to equity ratio as well as to ensure that banking covenants and fiduciary responsibilities are met.

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 accordance with the State-Owned Enterprises Act 1986. Ordinary shares carry one vote per share and carry the right to participate in dividends.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

All shares are fully paid up. Share capital comprises:

	2017 \$m	2016 \$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 asset revaluation reserves of asset revaluations when the associated asset is sold. Other equity also represents the payment from the Crown for additional capital expenditure incurred on the Landcorp Holdings' properties less assets transferred to the Crown.

G Redeemable Preference Shares

Redeemable preference shares are issued as a capital injection under the terms of the Agreement Concerning Landcorp Land Protected from Sale (the Agreement), signed with the Crown in 2007 and amended in June 2013. They carry no voting rights and are not eligible for dividends or any share of net assets on wind-up.

When requested, Landcorp will transfer the properties to the shareholder with an agreed value of redeemable preference shares being redeemed. As the redeemable preference shares are redeemable on demand by the share owner, under NZ IFRS, they are required to be reported as a liability. Landcorp considers these as part of its equity.

NOTE 16: INCOME TAX

A Income Tax Expense

Tax income recognised for the year was:

	Group 2017 \$m	Group 2016 \$m
Current tax (credit)/expense		
Current tax(credit)/expense for year	0.6	0.4
Adjustments to prior year	-	0.3
Adjustments in income tax expense/(credit) due to:		
Tax expense recognised in equity	-	(0.3)
Reimbursement for tax expense receivable from the Crown	(0.5)	(0.4)
	0.1	-
Deferred tax expense/(credit)		
Tax loss (recognised)/not recognised	(10.5)	7.1
Temporary differences	10.6	(7.1)
	0.1	-
Total Income Tax Expense (Credit)	0.2	-

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

	Group 2017 \$m	Group 2016 \$m
Net profit/(loss) before tax	52.1	11.5
Income tax expense (credit)	14.6	3.2
Prior year current tax adjustments	0.1	0.3
Reimbursement for tax expense receivable from the Crown	(0.5)	(0.4)
Increase in income tax expense due to:		
Reimbursement due from the Crown under Protected Land Agreement	0.1	0.1
Non-deductible expenses	2.2	0.4
Current year tax loss not recognised	-	7.1
Other	0.9	1.0
Decrease in income tax expense due to:		
Land development expenditure	(3.6)	(5.0)
Livestock	(9.1)	(6.3)
Non assessable income	(1.0)	(0.3)
Current year tax loss recognised	(10.5)	-
Other	7.0	(0.1)
Total Income Tax Expense (Credit)	0.2	-

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

B Deferred Tax Balances

Deferred tax balances at balance date were:

	Group 2017 \$m	Group 2016 \$m
Deferred tax asset		
Temporary differences	3.2	9.1
Tax losses recognised	48.3	37.2
	51.5	46.3
Deferred tax liability		
Temporary differences	51.8	47.1
	51.8	47.1
Net deferred tax (liability) asset	(0.3)	(0.8)
Current tax liability	-	-
Net Tax (Liability) Asset	(0.3)	(0.8)

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 2017 \$m	Group 2016 \$m	Group 2017 \$m	Group 2016 \$m
Group				
Deferred tax assets				
Property, plant and equipment	0.8	0.6	(0.2)	-
Fair-value-through-profit-and-loss financial assets	(0.2)	5.3	5.5	(2.2)
Provisions	1.8	2.1	0.3	(0.6)
Trade and other payables	0.8	1.1	0.3	(0.9)
	3.2	9.1	5.9	(3.7)
Deferred tax liabilities				
Biological assets	36.9	31.6	5.3	(1.5)
Property, plant and equipment	14.3	14.8	(0.5)	(2.0)
Intangibles	0.6	0.7	(0.1)	0.1
	51.8	47.1	4.7	(3.4)
Deferred Tax Expense (Credit)			10.6	(7.1)

C Imputation Credit Account Balances

	Parent 2017 \$m	Parent 2016 \$m
Balance at beginning of the period	1.6	1.5
Imputation credits attached to dividends received	0.1	0.1
Imputation Credits Available Directly and Indirectly to Shareholders of Landcorp Farming Limited	1.7	1.6

NOTE 17: 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. 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 fixed 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 livestock 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 11 (B).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

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 2017 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 2017 \$m	Group 2016 \$m
Accounts receivable	10	34.4	26.2
Share investments and futures	11	58.1	54.1
Maximum Credit Exposure		92.5	80.3

The status of accounts receivable at balance date was:

	Group 2017 \$m	Group 2016 \$m
Not yet due	33.4	26.0
Past due - up to 30 days	0.8	0.2
Past due - 31 to 60 days	0.2	-
Past due - 61 to 90 days	-	-
Past due - more than 90 days	-	-
Total Accounts Receivable	34.4	26.2

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 11 (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.

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.

Group 2017	Note	2017 Total \$m	Within one yr \$m	One to two yrs \$m	Two to five yrs \$m	Greater than 5 yrs \$m	No fixed maturity \$m
Liabilities							
Other accounts payable and accruals		17.5	17.5	-	-	-	-
Other financial liabilities							
Bank loans		211.9	124.3	85.7	1.9	-	-
Interest rate derivatives		14.8	4.3	5.7	4.1	0.7	-
Redeemable preference shares	15	99.7	-	-	-	-	99.7
Total Contractual Maturity		343.9	146.1	91.4	6.0	0.7	99.7
Group 2016							
Group 2016	Note	2016 Total \$m	Within one yr \$m	One to two yrs \$m	Two to five yrs \$m	Greater than 5 yrs \$m	No fixed maturity \$m
Liabilities							
Other accounts payable and accruals		18.0	18.0	-	-	-	-
Other financial liabilities							
Bank loans		231.2	31.3	114.4	85.5	-	-
Interest rate derivatives		16.8	4.0	6.8	5.3	0.7	-
Redeemable preference shares	15	107.7	-	-	-	-	107.7
Total Contractual Maturity		373.7	53.3	121.2	90.8	0.7	107.7

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. It is not possible to accurately determine the level of indirect hedging from contracts. Sales revenue can be fixed directly with foreign currency derivatives, such as forward foreign exchange contracts and foreign currency options however no direct foreign currency hedging was in place at 30 June 2017 (30 June 2016 none).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

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.

<i>Re-pricing Analysis</i>	Effective interest rate	2017 Total \$m	Within one yr \$m	One to two yrs \$m	Two to five yrs \$m	Greater than 5 yrs \$m
Group 2017						
Liabilities						
Other Financial Liabilities						
Bank loans	2.57%	206.9	206.9	-	-	-
Interest rate derivatives		-	130.0	(50.0)	(50.0)	(30.0)
Re-pricing Profile		206.9	336.9	(50.0)	(50.0)	(30.0)

Based on term debt at 30 June 17 the interest rate on term borrowing inclusive of interest costs on derivatives was 4.56% (30 June 16 4.29%).

<i>Re-pricing Analysis</i>	Effective interest rate	2016 Total \$m	Within one yr \$m	One to two yrs \$m	Two to five yrs \$m	Greater than 5 yrs \$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)

F Sensitivity Analysis

Interest rate risk

For the 2016/17 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 2017 \$m	Group 2016 \$m
Net finance costs would have changed by:		
OCR higher/lower by 1%	(0.9) / +0.9	(1.1) / +1.1

Foreign currency risk

During 2016/17 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 18: CONTINGENT ASSETS AND LIABILITIES

At 30 June 2017 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 2017 Landcorp held 264,257 post-1989 NZUs (2016 285,381 units) and 147,447 pre-1990 NZUs (2016 147,447 units).

NOTE 19: 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 2017 \$m	Group 2016 \$m
Short-term management benefits	3.1	3.2
Post-employment benefits	0.1	0.1
	3.2	3.3

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 2017 \$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 (2016 \$1.8 million).

No related party debts were written off during the year.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

NOTE 20: COMMITMENTS

	Group 2017 \$m	Group 2016 \$m
Contracted capital commitments	1.8	1.0
Operating lease commitments:		
Within one year	12.2	10.0
One to two years	12.7	11.1
Two to five years	37.6	33.8
Later than five years	304.9	285.9

Operating lease commitments relate to the lease of farmland.

NOTE 21: SUBSIDIARY COMPANIES AND JOINTLY CONTROLLED ENTITIES

Subsidiaries	Principal activity	Balance date	Percentage held	
			2017	2016
Landcorp Estates Ltd	Property development	30 June	100%	100%
Landcorp Pastoral Ltd	Invests in Focus Genetics and Spring Sheep	30 June	100%	100%
Landcorp Holdings Ltd	Holding protected land	30 June	100%	100%
Landcorp Pastoral Ltd has the following subsidiaries:				
Focus Genetics Ltd Partnership	Development and sale of genetically superior sires	30 June	100%	100%
Focus Genetics Ltd Partnership has the following subsidiaries:				
Focus Genetics UK Limited	Livestock genetics	30 June	100%	100%
Focus Genetics Scotland Limited	Livestock genetics	30 June	100%	100%
Focus Genetics S.A. Limited	Livestock genetics	30 June	100%	100%
Focus Genetics Australia Pty Ltd	Livestock genetics	30 June	100%	100%
Rissington Uruguay SA	Livestock genetics	30 June	100%	100%

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 (2016 \$1.3 million).

All inter-group transactions are undertaken upon an arms length commercial basis. At 30 June 2017, Landcorp Farming Ltd's accounts receivable balance included \$0.6 million (2016 \$0.4 million) owing from subsidiary companies and accounts payable had \$0.1 million (2016 \$1.6 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:

Joint ventures	Principal activity	Balance date	Percentage held	
			2017	2016
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	15.7%	18%
Farm IQ PGP	Research and development of an integrated red meat value chain	30 June	15.7%	18%

Focus Genetics has the following associates:

Practical Systems Ltd	Computer software	30 June	5%	6%
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Rissington Uruguay SA, a company owned 100% by Focus Genetics S.A. Limited is incorporated in South America, and owns 50% of Frileck Limited, a South American sheep breeding company.

INDEPENDENT AUDITOR'S REPORT



TO THE READERS OF LANDCORP FARMING LIMITED GROUP'S FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

The Auditor-General is the auditor of Landcorp Farming Limited Group ("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 his behalf.

Opinion

We have audited the financial statements of the Group that comprise the statement of financial position as at 30 June 2017, 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 Group:

- present fairly, in all material respects;
- its financial position as at 30 June 2017; and
- its financial performance and cash flows for the year then ended; and
- comply with generally accepted accounting practice in New Zealand in accordance with New Zealand equivalents to International Financial Reporting Standards and International Financial Reporting Standards

Our audit was completed on 29 August 2017. This is the date at which our opinion is expressed.

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

Basis for opinion

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

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

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

Responsibilities of the Board of Directors for the financial statements

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

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

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

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

Responsibilities of the auditor for the audit of the financial statements

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

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit carried out in accordance with the Auditor-General's Auditing Standards will always detect a material misstatement when it exists. Misstatements are differences or omissions of amounts or disclosures, and can arise from fraud or error.

Misstatements are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decisions of readers taken on the basis of these financial statements.

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

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

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

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

Our responsibilities arise from the Public Audit Act 2001.

Independence

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

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



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

DIRECTORY

CORPORATE AND REGISTERED OFFICE

Level 2
15 Allen Street
PO Box 5349
Wellington 6140
Tel: (04) 381 4050

WEBSITES

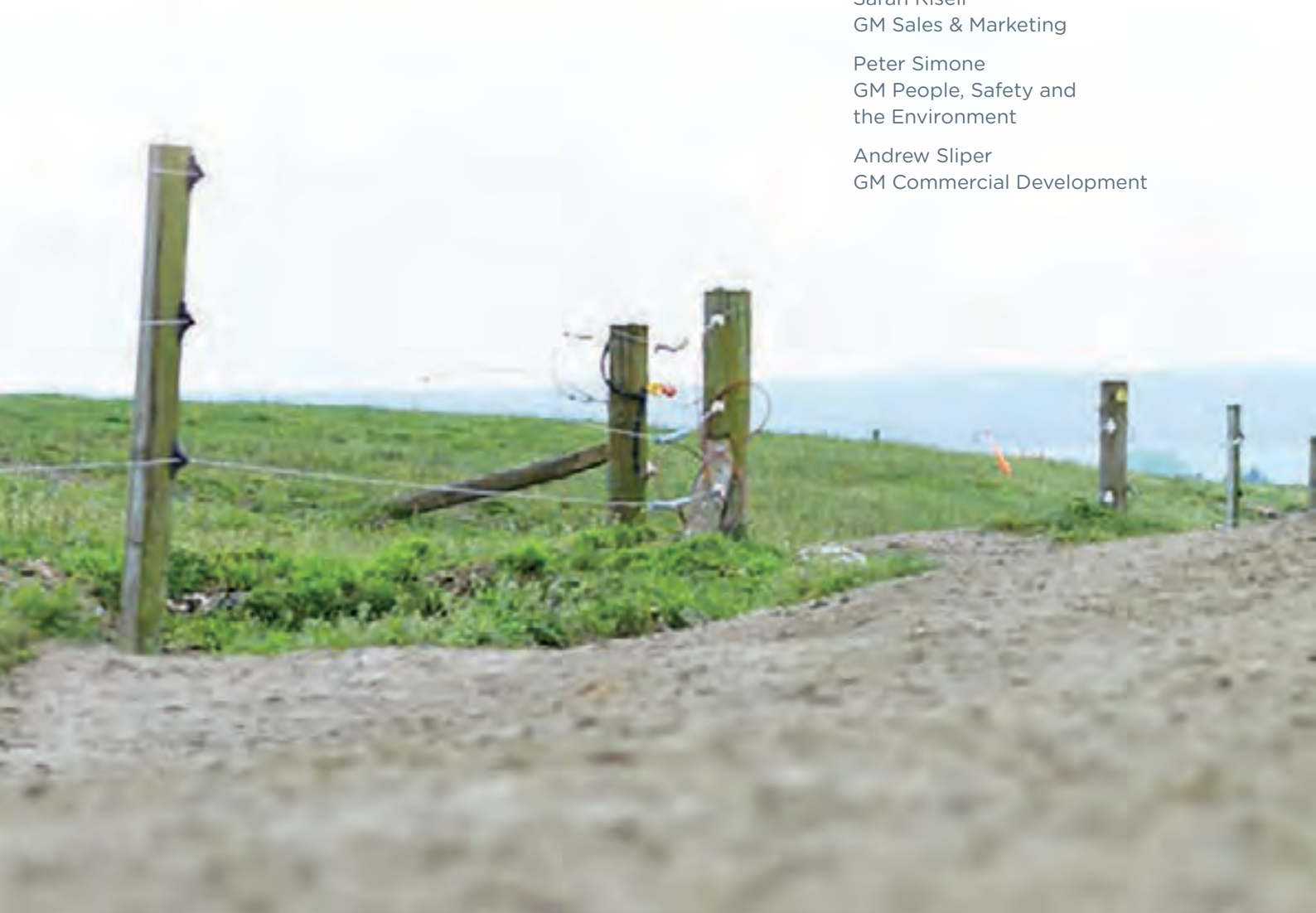
www.landcorp.co.nz
www.pamu.co.nz

DIRECTORS

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

LEADERSHIP TEAM

Steven Carden
Chief Executive Officer
Rob Ford
GM Innovation and Technology
Mark Julian
GM Dairy Operations
Steven McJorrow
Chief Financial Officer
Graeme Mulligan,
GM Livestock Operations
Sarah Risell
GM Sales & Marketing
Peter Simone
GM People, Safety and
the Environment
Andrew Sliper
GM Commercial Development



AUDITOR

Graeme Edwards, KPMG

Under appointment by the
Auditor-General

BANKERS

Westpac New Zealand Limited

ANZ Bank New Zealand Limited

ASB Bank Limited



