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LANDCORP FARMING LIMITED | ANNUAL REPORT 2019

A NOTE ON THIS INTEGRATED REPORT

Welcome to Pāmu's second fully integrated annual report. Last year we embraced two key elements of integrated reporting – feedback from stakeholders on our performance and their perception of the issues that impact our business, and a full accounting for the resources and capitals which we steward. Our inaugural effort was recognised with a Bronze award at the 2019 Australasian Reporting Awards (ARA). The ARA criteria include the requirements of the Global Reporting Initiative (GRI), an international benchmark in reporting. To receive such an award integrated reports must provide a balanced and reasonable picture of the company's economic, environmental, and social performance and facilitate comparability, benchmarking and assessment of performance as well as addressing issues of concern to stakeholders.

We have again analysed our performance based on the six capitals that help create value for our business.

This year we are once more grateful to our stakeholders who generously shared their perspectives on the issues that our company and the agri-sector face. We invite all our stakeholders to continue to share their views on our performance and highlight how we can continue to improve our results.

<< **Karina McGhie** of Wairio Farm, Featherston.

STRATEGIES

PĀMU'S VISION IS TO BE A WORLD LEADER IN FARMING NATURAL RESOURCES SUSTAINABLY TO PRODUCE PREMIUM, HIGH MARGIN FOOD AND FIBRE PRODUCTS. WE PURSUE THIS VISION WITH

Pāmu nurtures the **environment** while making sustainable use of land and other natural resources...

through the determined efforts every day of talented **people** who are cared for and developed in their roles...

and through the smart investment of **financial capital** on farms, on knowledge and technology, and on products and supply chains.

ENVIRONMENT

PEOPLE

FINANCE

STRATEGIES BASED ON PĀMU'S SIX CAPITALS – STRATEGIES FOR EXCELLENCE IN FARMING AND FOR ADDING VALUE TO PRODUCTS, INVESTORS, PEOPLE AND THE ENVIRONMENT.

Pāmu develops and operates profitable, safe and sustainable **farms** with high levels of productivity and **animal** welfare...

through application of **expertise** for excellence in farming, environmental management, marketing...

and through diverse business **relationships** the creation and supply of valuable products to markets globally.

FARMS & ANIMALS

EXPERTISE

RELATIONSHIPS

VALUE CREATION

117 farms managed throughout New Zealand*
84 farms owned
636 employees
336,342 hectares total under management*
154,386 hectares farmed (effective).

Value chain partnerships for supply of red meat, dairy and wool to global markets.

8,861 hectares protected by covenants for regeneration and biodiversity* on properties throughout New Zealand.

Focus on supply to local and global markets.

Large scale farming, with over:
440,000 sheep
80,000 beef cattle
74,000 dairy cows
89,000 deer

New Zealand provenance. Products are grown naturally, so they are naturally nutritious and naturally delicious.

Supply to markets worldwide – Australia, China, Europe, North America and more.

* Totals at 30 June 2019

Expertise and relationships for innovation on-farm and in markets – investment in world-leading intellectual property.

Total assets of $1,782 million.*

Growing range of premium products under Pāmu and other brands.

Supply relationships with New Zealand primary produce processors.

9,458 hectares in plantation forestry.

PERFORMANCE SCORECARD

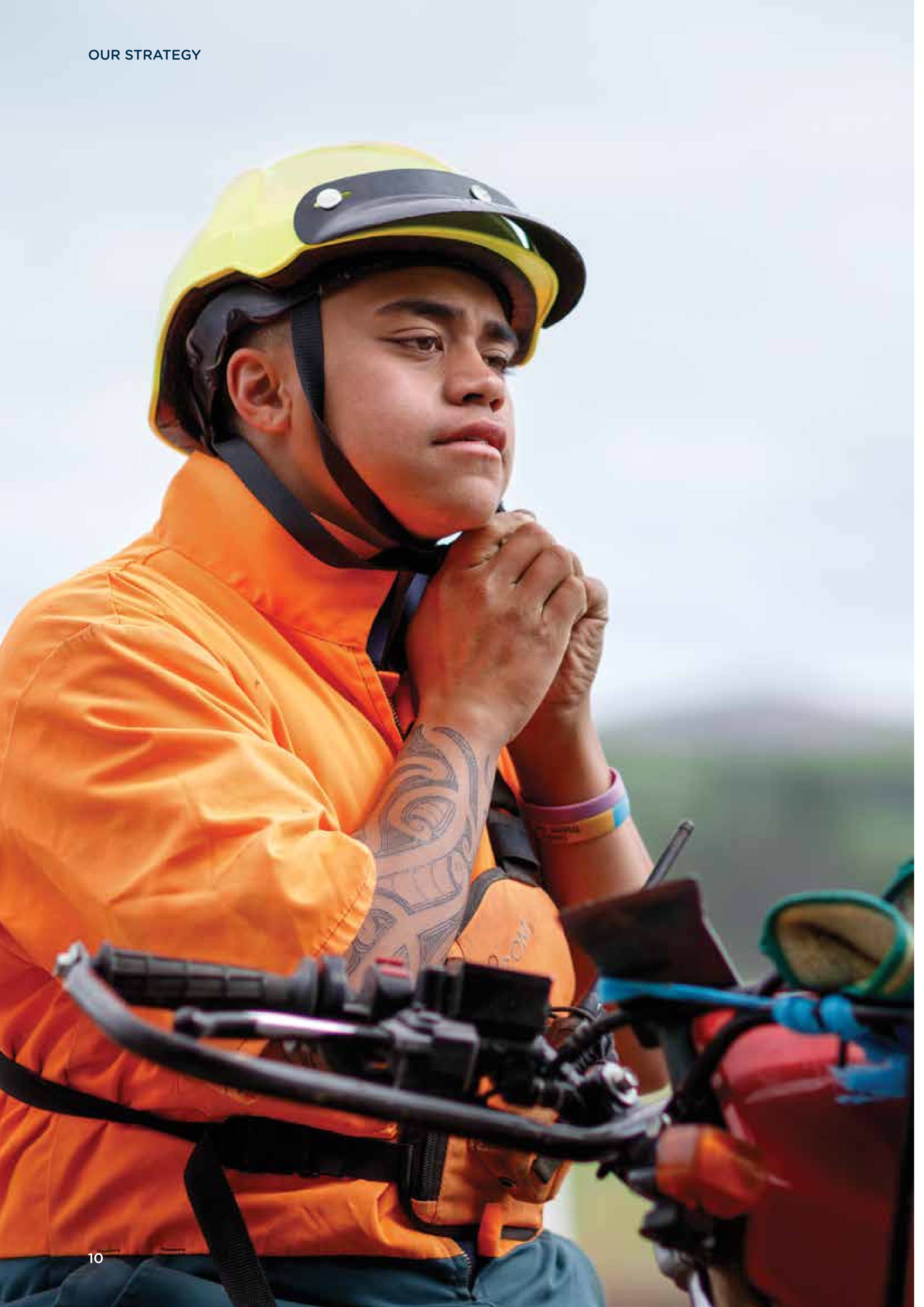
Note: Information is reported for the most recent available year (n/a = not available)

		Financial Year 2019	Financial Year 2018	Financial Year 2017
ENVIRONMENT				
Total area retired and protected in QEII covenants (hectares) [1]		8,861	7,461	6,409
GHG emissions on farms that we own (tonnes CO2e) [2]		n/a	gross 616,000 net 322,000	gross 686,000 net 423,000
GHG emissions on all farming operations (tonnes CO2e) [2]		n/a	875,000	919,000
ETS-eligible (post-1989) forestry planting (hectares) [3]		n/a	7,203	6,575
Total nitrogen loss below the root zone (tonnes) [4]		n/a	4,912	5,080
Farm waterways excluded from stock (kms) and percentage of total length [5]		n/a [6]	n/a [6]	789 / 50%
PEOPLE				
Lost time injury frequency rate [7]		9.44	10.71	10.98
On-farm safety observations (number) [8]		1,419	967	785
Employee turnover (%) [9]		22.2	31.3	33.8
Employee diversity – gender & ethnicity (% of total) [10]	Male	75.2	75.1	n/a
	Female	24.8	24.9	n/a
	New Zealand European	65.9	52.5	n/a
	Māori	17.2	14.3	n/a
	Not known	5.4	24.2	n/a
	European	5.1	3.9	n/a
	Asian	3.8	3.1	n/a
	Pacific peoples	1.2	0.7	n/a
	Middle Eastern/Latin American/African	0.9	0.3	n/a
	Other ethnicity	0.5	1.0	n/a
Employee diversity – gender pay gap [11]	New Zealand	9.3%	9.2%	n/a
	Pāmu	4.0%	4.0%	n/a
FINANCE				
Return on capital employed (%) [12]		2.2	3.4	2.1
Operating margin (%) [13]		14.4	20.8	15.7
Solvency ratio (times, 30 June) [14]		6.2	5.8	4.8
Balance sheet gearing (%, 30 June) [15]		13.4	12.2	12.4

1. Pāmu land protected by covenants with the QEII Trust Board as at June 2019, under biodiversity protection programmes initiated in 1991.
2. Greenhouse gas emissions from all farming operations on properties that are owned by Pāmu. Gross on-farm emissions are based on modelling of carbon dioxide, nitrous oxide and methane loss to the atmosphere using the best-available industry standard Overseer technology. Net emissions are gross on-farm emissions minus CO2e sequestered in all planted forestry and riparian areas and also native forest and scrub growing on these properties. Pāmu continues to refine its modelling. Data reported in prior years is not directly comparable. CO2e, or carbon dioxide equivalent, is the global standard for measuring greenhouse gas (GHG) emissions.
3. Cumulative area of forestry planting either registered in NZ's Emissions Trading Scheme or targeted for registration as at 31 December.
4. Data from all Pāmu farms' nutrient budgets as prepared using Overseer technology. 2018/19 data not yet available.
5. Fenced-off length of permanently flowing waterways within all Pāmu-owned farms, for exclusion of all cattle and deer, as at 30 June.
6. Due to resource constraints this measure will no longer be provided.
7. LTIFR is the number of employee working hours lost due to injury per 200,000 hours worked by all employees in the year.
8. Safety observations are specific issues raised with Farm Managers by employees as identified by them in their workplaces. Observations frequently avoid near-miss safety incidents and accidents on farms.
9. Number of employees who left during the year as a percentage of the average total of Pāmu employees.
10. Based on analysis of Pāmu's database of employees as at 30 June.
11. Pāmu compares pay levels between male and female employees who perform the same or equivalent roles as part of the company's annual salary review. The pay gap is the percentage difference between the average levels of remuneration of males and females, taking into account differences in hours worked and job experience.
12. Profitable use of financial capital: Earnings before interest, tax, depreciation, amortisation and revaluations (EBITDAR) less depreciation and impairment reversal / Average shareholders' equity, debt and redeemable preference shares less revaluation and fair value revenue reserves.

		Financial Year 2019	Financial Year 2018	Financial Year 2017
FARMS & ANIMALS				
Animal health – dairy herd somatic cell count average (cell count per ml of milk) [16]		155,000	162,000	163,000
Milk solids per cow (kg)		327	336	349
Milk solids per hectare (kg) [17]		802	827	887
Milk solids as a percentage of cow's live weight (%)		71	73	76
Prime lamb carcass weight in season (kg)		17.9	17.6	17.8
Prime steer carcass weight (kg)		315.4	311.5	310.3
Lamb live weight per hectare (kg)		n/a [18]	274	272
Net production per effective hectare (kg) [19]		161	158	n/a
Lambing percentage (%) [20]		128	132	134
EXPERTISE				
Revenue generated per head of livestock ($) [21]	Sheep	133	122	95
	Beef	1,447	1,403	1,428
	Deer	590	536	440
Farms managed using FarmIQ (% of total) [22]		100	100	100
Total area in forestry plantation (hectares) [23]		n/a	9,458	8,529
Market recognition of new products [24]		Launch of Fertiliser Transformation functionality in FarmIQ Farm Management System.	Fieldays Grassroots Established Award: Pāmu Deer Milk Product – world first intellectual product development.	NZ Food Awards: Spring Sheep Dairy wins Massey University Supreme Award.
RELATIONSHIPS				
Cattle, sheep and deer under contract (% of total budgeted sales) [25]		67	48	48
Spring Sheep – milking flock size (sheep) [26]		4,000	3,600	2,050
FarmIQ – NZ farms using management tools [27]		3,990	2,078	1,116
Focus Genetics – livestock genetic advance over breeding 10 years (industry index, cents) [28]	Sheep – maternal		FY17 3,972	FY07 1,473
	Beef – maternal		FY17 152	FY07 94
	Sheep – maternal breeding	FY18 3,515	FY08 1,437	
	Beef – maternal breeding	FY18 155	FY08 100	

13. Profit per dollar of revenue: EBITDAR less profit on land sales and loss from equity accounted investments / Total revenue.
14. Financial flexibility: Current assets / Current liabilities (excluding current portion of long term debt on the basis that all debt will be refinanced as it matures).
15. Balance sheet leverage: Net debt / Net debt plus equity.
16. Average somatic cell count across all Pāmu-managed herds for the production season. Lower cell count indicates lower concentration of cells in milk, with a correspondingly lower level of pre-clinical mastitis in cows.
17. Prior year numbers restated as methodology has been refined (2017 was 883, 2018 was 855).
18. This measure has been discontinued due to the presence of multi-specie finishing units within Pāmu.
19. This is a measure of production per hectare including wool and velvet.
20. Based on ewes mated, hoggets mated and in-lamb ewes purchased (2018 restated from 137). FY2019 reduction attributable in part to spring storms in 2018.
21. Pāmu revenues for each livestock category divided by the numbers of production animals sold during the year.
22. Pāmu farms using FarmIQ digital applications and cloud services.
23. Total area of Pāmu-owned planation forestry as at 31 December. The area was 7,371 hectares at 31 December 2016.
24. National awards received through independent judging of products and business developments.
25. Pāmu has contracts with leading primary product processors for supply of finished livestock to market specifications. These underpin income levels across large volumes of production and also ensure supply to processors within time windows that meet their customers' requirements.
26. Spring Sheep Dairy produces sheep milk powders and calcium tablets for export to a growing number of Asian markets: Pāmu owns 50% of this joint venture business.
27. FarmIQ Systems' number of client farms using FarmIQ digital applications and cloud service as at 30 June. Pāmu is a 30% shareholder in FarmIQ.
28. Industry standard measures of genetic worth in ewes and cows, that worth expressed as the financial value of desired traits bred into their offspring. This index score is based on genetic analysis of Pāmu flocks and herds within the Focus Genetics breeding programme. The 2018 score for the desired maternal traits in sheep is 145% higher than the comparable figure for 2008 while the score for Focus Genetics' cows is 55% higher when measured on the same basis.



CHAIR AND CHIEF EXECUTIVE REVIEW

WARREN PARKER CHAIR

STEVEN CARDEN CHIEF EXECUTIVE

Pāmu's strategic approach – achieving excellence on farm and creating value beyond the farm gate – continued to be a focus for the company this year. Specifically, we focused on making the best use of the land under our care, innovation on and off farm, and looking after our people, our animals and the environment. This sometimes delicate balancing act is what our staff dedicate themselves to every day and we are proud of their efforts to get the best possible performance out of the six capitals which underpin Pāmu's success.

Agriculture saw a range of new realities crystallise in the year in review, with the Government's commitment to achieving net zero carbon by 2050, consultation on meaningful mitigations to clean up New Zealand waterways, and a new biodiversity national policy statement. We are working hard to ensure Pāmu plays its part in helping the country realise these ambitious goals. We are firmly focused on reducing emissions. Agriculture is responsible for almost half of New Zealand's emissions and we recognise our long-term export competitiveness is contingent in part on achieving emissions profiles better than the rapidly emerging and potentially disruptive alternatives to pastoral farmed meat and milk. We are cognisant too of the need for a well-managed transition in livestock and plant genetics, energy systems and farming practices to achieve the targets proposed in the Zero Carbon Bill. Respectful dialogue and understanding of different perspectives and collaboration in developing new farming practices, will be important as we work through the multi-faceted challenges that climate change and sustainable use of natural resources poses to the Pāmu business and agriculture in general.

FINANCIAL PERFORMANCE

Under our preferred measure of financial performance, Pāmu reported EBITDAR (earnings before interest, tax, depreciation and revaluations) of $34 million. This was down $14 million (29%) from the previous year. Although EBITDAR was positive, the company produced a net loss after tax of $11 million, due largely to a $22 million fair value loss on biological assets (mainly livestock). The comparable result for 2017/18 was a $34 million profit, which included a $25 million fair value gain on biological assets.

While external factors made it another challenging year for agriculture, we are disappointed by the result and see room to improve Pāmu's performance.

We will focus on continuing to deliver a positive overall performance irrespective of the usual vagaries of weather and commodity prices, while managing the direct costs under our control.

Pāmu declared a special dividend of $5 million on 27 August for payment on 14 October. The one off gain on the sale of our Westland Dairy Cooperative shares to Yili Group supports this dividend, with the remainder of the sale proceeds repaying debt.

<< **Jordan Latoa**, Beef Finishing Specialist at Rangitaiki Farm, near Taupō.

CHAIR AND CHIEF EXECUTIVE REVIEW

DIVERSIFIED AND BEST LAND USE

Our ongoing review of land use, to ensure we are using our soils, water and geographic location in a manner that enhances shareholder value, continued in the 2018/19 year with confirmation that we will trial avocado production on one of our Northland farms. This is a significant first step into horticulture for the company, and follows careful reviews of other crops, such as kiwifruit and hemp. Land use changes will continue to be made where these make financial, social and environmental sense, and particularly in light of the environmental and social limits we are confronting.

LIFTING FARM PERFORMANCE

During the year we undertook a comparative analysis and established benchmarks for productivity improvements for each of the Pāmu farms. Given Pāmu's unique size and composition, this was a significant task. It was pleasing to note that the modelling we undertook, verified by independent third party experts, showed Pāmu farms perform on par or above average on some key performance metrics when compared to comparable pastoral farm businesses in New Zealand. However, we are below average for other measures. The benchmarks we have established will enable management to focus on lifting productivity on each of our farms.

OUR FARMING YEAR

Our livestock operation (comprising 62 sheep, beef cattle, dairy beef and deer farms) took advantage of their geographic spread to balance out seasonal weather changes, with conditions being especially dry from mid-summer to late autumn in the central and northern districts of the country. Carcass weight yields were above budget across all red meat categories and we took full advantage of strong product prices.

Our dairy operations also worked hard to overcome often poor pasture growing weather conditions and a weakening of the milk pay out. Good progress was made with our strategy to transition some farms to certified organic production systems with two farms in year two of their conversion being in the top 25% of all Pāmu dairy farms in terms of profit. Conversion of a further farm to organics commenced this year and the final area to be converted from forestry into dairy farming on our Wairakei Pastoral Complex on the Central Plateau had its first year of production.

Contracts were signed with both Synlait and Fonterra to supply the growing and higher priced A2 milk market for the 2020 season. Further changes were made to our dairy farming systems and stock policies to future proof against changing weather patterns, reduce environmental externalities, protect valuable landscapes and enhance the welfare of the animals we farm.

We also continue to enjoy good success with our wool partnership with New Zealand Merino, and the excellent relationships they have secured for our wool across the globe.

FARMS HANDED BACK

On 1 June 2019, the Hauraki Collective became sole operators of the Pouarua Dairy complex of farms which we had previously share farmed for them for more than five years. A smooth transition was achieved, with all Pāmu staff offered work with the Hauraki Collective, and the condition of animals, pastures and stored feed were all at the levels required despite the dry summer and autumn weather conditions. In May we handed control of Taurewa farm (a Landcorp Holdings Limited farm "land-banked" for Treaty of Waitangi settlement purposes) to Ngāti Tūwharetoa as part of their Crown settlement. We wish our former staff and the owners of these properties continued success with these farming operations.

WESTLAND DAIRY COOPERATIVE SALE

Westland Dairy Cooperative, a company with a long and storied history on the West Coast, was sold to Yili Group just after balance date. As one of its largest shareholders, we undertook careful due diligence of their proposal on the future viability of this important West Coast asset and the farms that supply milk to it.

Our assessment was Yili's offer would be better for the future of dairy farming on the West Coast than prospects under the heavily indebted cooperative ownership. The status quo posed higher financial risk to our West Coast farms and therefore the Pāmu business overall. While our first duty was to make a decision that was in the best interests of Pāmu, the future viability of West Coast dairying also guided our decision.

We look forward to working with Yili and to a bright future for dairying on the West Coast. We made a gain on our sale of our Westland shares to Yili and are returning some of this profit back to our shareholder as a dividend, with the remainder to be used for debt repayment.

ENVIRONMENT, ANIMALS AND FORESTRY

Pāmu is committed to good environmental outcomes. Our Environment Reference Group (ERG) again helped to guide us in how we might best farm in a way that is both sustainable and socially acceptable for New Zealanders. The ERG's role is often mischaracterised as one that directs Pāmu's overall farming strategy – it does not. The ERG offers a diversity of insight and constructive advice on our approach to farming as it relates to environmental performance. We balance this advice with other factors, such as the need to achieve an acceptable return for the shareholder and the physical practicality of being able to implement the changes across the business.

Environmental performance (especially as it relates to freshwater and greenhouse gas emissions), the ethics underpinning our methods of production, animal welfare, the protection of biodiversity and the transparency of our operations are all connected to our social licence to operate.

As a steward of land, animals and people, it is essential we tackle these challenges proactively with a holistic approach, to ensure we design farming systems as much as possible with "win-win" outcomes.

Animal welfare is a critical issue for Pāmu with around 700,000 animals in our care through the year. We maintained a focus on ensuring that our farm teams are taking the proper precautions with stock movements as the sector continued to work to eradicate Mycoplasma Bovis (M. Bovis).

We progressed a range of environmental initiatives during the year in review, all aimed at reducing our environmental footprint. These included completion of stage one of a cow composting barn in Southland to keep stock under cover during winter, and thereby reduce the adverse impacts of winter grazing.

Our fertiliser efficiency project achieved a 9.5% reduction in phosphate use and a 19% reduction in nitrogen use compared to the previous year. The 'Fertigation' trial on our Waimakariri farm resulted in a 50% reduction in nitrogen application. These are all encouraging signs as we work to reduce our nitrogen footprint to operate within the limits prescribed by local government for freshwater management without detriment to farm profitability. Our lucerne planting programme, which requires no nitrogen inputs and has very low nitrogen leaching, is now 15% of the land we farm in Canterbury.

We committed to planting 1,500 additional hectares of trees as part of the Government's Billion-tree programme in 2019 and established over 1,600 hectares as part of that programme, with another 1,500 hectares planned for 2020. The carbon credits accrued from our expanding forestry programme are a valuable financial asset for the company. Pāmu is taking a conservative approach in holding these credits on our balance sheet until there is clarity on the treatment of agriculture in the Emissions Trading Scheme (ETS) and more accurate measures of our Greenhouse Gas (GHG) emissions are available.

The planting of natives, *Pinus Radiata* and other exotic species is carefully planned, based on the 'right tree, right location, right purpose' principle with a focus on increasing the overall profitability of each farm. We will be spatially configuring trees within existing productive farm units to enhance the farm system overall (such as through ETS qualifying 30 metre shelter belts and riparian plantings), and on marginal land that is not economic from an animal production perspective.

CHAIR AND CHIEF EXECUTIVE REVIEW

Pāmu is committed to environmental stewardship because protecting and restoring the natural capital upon which we depend is essential to the long-term success of the business and ensuring the land we farm remains in a good state for future generations.

PEOPLE

Our ongoing focus on health and safety has seen a reduction in major injuries, with the LTIFR[1] rate falling below 10. We are committed to further improvement in this measure and strengthening the controls around critical risks to reduce the likelihood of serious harm.

We regularly refresh and refine our approach to health and wellbeing and in the 2018/19 year we increased our focus on mental health. This is an area of ongoing concern in rural communities, especially but not exclusively among young farm workers. One quarter of Pāmu's staff went through either Mental Health First Aid or Awareness training in the year in review. This training has increased awareness of mental health issues on farm and the confidence of staff to help manage mental health related issues as they arise.

Employee turnover on our farms reduced significantly after being an area of focus during the 2018/19 year. Initiatives such as new roster systems and implementation of the national five days on two days off policy with guaranteed days off helped reduce turnover in our dairy operations by a third to 25.3%.

Our gender pay equity rate is 4%, well below the national average and we continually look at ways to close the gap.

INNOVATION

Innovation is central to our strategy and we demonstrated this through a range of exciting trials in the 2018/19 year. For example, we partnered with AgResearch, Gallaghers and Agersens (an Australian company) to trial the potential use of virtual fencing technology on our Waipori Hill country station, Otago. Specifically we looked at how stock react to the training and boundary controls of virtual fences. Results at the end of the five week trial were encouraging and we are now moving to the next phase of testing the solar recharging capacity of the collars during the low sunshine hours of winter months.

This trial illustrates how Pāmu is assessing the latest technologies to improve both animal welfare and environmental footprints on our farms, and for the wider New Zealand agriculture sector.

Focus Genetics, our wholly owned livestock breeding subsidiary, continued its emphasis on lifting the rate of genetic gain, feed conversion efficiency to saleable products, eating quality and survival traits. Focus Genetics and Pāmu have partnered with AgResearch on several sheep reproduction projects by sharing data and on farm recording work. We continue to utilise the InnerVision CT scanner we jointly own with AgResearch for carcass yield work and are incorporating eating quality measurements and contemplating how this technology, and the findings of the Pastoral Greenhouse Gas Research Centre, can assist the breeding of low methane emissions sheep.

Focus Genetics and Pāmu are building on the work completed in partnership with BLG, Massey University, AgResearch, FarmIQ and others across the three industry progeny tests based on Pāmu farms; the beef progeny test at Rangitaiki Station, the dairy beef progeny test based at Reknown/Orakonui and the South Island Genomics Calibration Flock at Duncraigen Farm. These progeny tests result from collaboration with multiple partners and have significant benefit to industry and Pāmu.

PĀMU FOODS

Pāmu's focus on adding value to products beyond the farm gate saw our Foods business commence export of specialty milk products into China. China is a tough market to enter and the Board and management are keenly aware that the Foods business needs to be managed in a manner that is not detrimental to our core focus on farming.

It was a major achievement to see our Pāmu organic and One Farm branded products on shelves in China with good initial feedback from consumers. We will continue to carefully develop markets in the current year, and aim to formalise enduring partnerships in support of this. There is also scope to leverage the relationships that our 50/50 JV with Spring Sheep Dairy has already cemented through its successful growth strategy into Asia as we work to ensure value is created from our Foods business.

1 Lost Time Injury Frequency Rate

Our 35% investment in Melody Dairies, which is constructing a specialist spray drying facility near Hamilton, will substantially expand the ability of speciality milk producers to meet expected demand in Asia. Construction is on track for completion by July 2020.

Deer milk grew its food service footprint in New Zealand and Australia and established a foothold in the competitive Hong Kong restaurant scene. Its selection as part of the menu for the prestigious Asia Top 50 Restaurant awards event in Macau was a demonstration of the impact this unique ingredient is making globally.

The company also commenced a relationship with South Korea's top pharmaceutical company Yuhan Corporation to supply Pāmu deer milk for its range of cosmetic products. This is the first time New Zealand deer milk has been sold for use in the overseas beauty industry.

Over the past year we further grew our share of the high-value venison trade into the United States. Overall the red meat premiums we achieved held up well in the 2018/19 year and contributed to our bottom line result.

CONCLUSION

While the financial performance of the business in the 2018/19 year was not up to our expectations, the strategy we have in place is positioning this substantial state-owned business well for a future with much more stringent environmental and societal demands than we have encountered in the past. Increasing financial performance commensurate with the investment the Government has in Pāmu is a key focus for the Board and management.

We will also continue to balance all the responsibilities to our people, our animals and our environment and to strive for excellence in the integrated management of all three.

We thank David Nelson and John Brakenridge, who retired from the Board in April 2019, for the wisdom and industry experience they brought to the board table over the past six years. We welcomed Warren Parker as Chair in January 2019, and are delighted to have Doug Woolerton and Jo Davidson join the Board.

Finally, we thank our staff for their ongoing commitment to making Pāmu a successful company. It is their combined effort that will see us continue to innovate on-farm and along the supply chains we work with.

Whāia te iti kahurangi ki te tūohu koe me he maunga teitei. (*Seek the treasure that you value most dearly, if you bow your head, let it be to a lofty mountain.*)

Ngā mihi

DR WARREN PARKER
CHAIR

STEVEN CARDEN
CHIEF EXECUTIVE

WHAT OUR STAKEHOLDERS TOLD US

We are very aware of big issues which shape Pāmu's operating environment and expectations of how we plan and run our business. These issues are material because of the importance we and our stakeholders place on them – and because how well they are recognised and managed will heavily influence Pāmu's success over the long term.

In 2019, we have again reviewed our most material issues through a process of engagement with a core set of 20 Pāmu stakeholders. This has followed Integrated Reporting good practice and includes some assessment of issues relativity in the current operating environment. Material issues are all important by definition. They arise from the basic values of New Zealanders, from market trends, from risks and opportunities attaching to a large-scale farming and food company, and from the expectations of those holding financial interests.

Pāmu continues to have broad stakeholder support for its purpose and strategy with strong interest in seeing the company succeed. This year, there is heightened concern around the real or perceived environmental impacts of all New Zealand farming (including greenhouse gas emissions). In respect to Pāmu, however, stakeholders see progress in this area, and also on people issues, to be largely dependent on financial resilience.

LAND AND WATER MANAGEMENT

New Zealanders care deeply about freshwater quality and quantity in lakes, rivers and aquifers – and they recognise that protecting these is fundamentally connected to the use and management of land. They also recognise that contaminated water and eroded landscapes could destroy the "pure environment" image critical to New Zealand's reputation on global food and tourism markets. The *Environment Aotearoa 2019* report (Ministry for the Environment) drew a strong connection between farming and degradation of freshwater quality through nutrient leaching, pathogens and sediment run-off. In pastoral farming areas the median concentrations of these contaminants in rivers are reported to be two-to-15 times higher than natural conditions. Degradation is pronounced where light soils are irrigated with extracted water and where nitrogen fertiliser applications are high.

<< **Janice Roberts** of Wharekopae Farm near Gisborne.

WHAT OUR STAKEHOLDERS TOLD US

In 2019, Pāmu stakeholders consistently emphasise the importance of land and water issues, and a need for action to reduce farming's environmental impacts. They see Pāmu as moving to de-intensify dairying operations in Canterbury and the central North Island, and becoming a leader in systematic land use aligned with local environmental and climatic conditions. Some stakeholders emphasise a need for all farmers to strengthen their focus on soil management and to reverse this country's poor record of soil loss into waterways. Some say Pāmu's size, resources and state ownership obligate it to show more industry leadership in all such areas.

ECOSYSTEM HEALTH AND BIODIVERSITY

Many of this country's unique ecosystems and much of its native biodiversity are under pressure from multiple sources including traditional forms of farming, introduced pests and urban pollution. *Environment Aotearoa 2019* reports that almost 4,000 native species are threatened with or at risk of extinction. Furthermore, two thirds of New Zealand's rarest ecosystems are threatened with collapse (an ecosystem describes the interrelationships between living organisms and non-living elements of an environment, as might be found in a forest, riverbed or wetland). While scientists see multiple causes of these losses, farmers and landowners are seen as critical actors through their efforts on native revegetation, wetland restoration and pest control.

Stakeholders say, like it or not, New Zealand's global reputation for ecosystem health is in the hands of farmers and especially dairy producers because of this industry's size and established link with freshwater quality problems. They applaud Pāmu's long record of retiring and protecting native vegetation and wetlands. Some recognise this practice as the company's most prominent achievement over many years. Others query whether Pāmu's stated focus on protecting the environmental is given the weight it deserves in every instance of on-farm decision making. Stakeholders highlight the complexity of decision making for sound environmental stewardship and the challenges this presents for many farmers.

GREENHOUSE GAS EMISSIONS

New Zealand is adopting new institutions and regulatory requirements for economy-wide reduction in GHG emissions over the long term, with agriculture expected to play a major role. The sector accounts for almost half the national emissions total. So far in 2019, the Government has introduced to Parliament "net zero carbon" legislation, and proposed farm-level obligations for GHG reduction, inclusion of agriculture in the emissions trading scheme by 2025 and targets for cutting methane and other gas emissions. Policy debate and political processes have been dramatically stepped up over the past 12 months, heightening public awareness and sharpening divisions.

Pāmu stakeholders say New Zealand, given its reputation for excellence in pastoral farming, should be a world leader in development and application of methane reducing technologies and practices. There is wide recognition that individual farmers today have limited tools to reduce their emissions (without radical de-stocking of their land). Stakeholders expect Pāmu to be at the forefront of on-farm implementation of systems for measuring and mitigating GHG emissions. They recognise the carbon capture contribution made by the company's extensive tree planting programme, and question whether Pāmu could not advance the case for all-of-farm carbon accounting that includes riparian planting and wetland protection. Stakeholders also recognise that trials with fertiliser reduction also help cut emissions. One describes farmers' GHG footprint as "a game changer" on the global marketability of red meat in the years ahead.

HEALTH, SAFETY & WELLBEING

Too many people are injured or killed on New Zealand farms. Official figures show 14 fatalities in agriculture during the 2018/19 year (none on Pāmu farms). WorkSafe and other authorities continue education programmes on health and safety, while the Mental Health Foundation, Federated Farmers and others raise awareness on all aspects of farmer wellbeing while providing support services for individuals. There is nationwide acceptance that various traditional attitudes and practices in farming have been unsafe. Farms are also recognised as workplaces where isolation, heavy physical work, traditionally poor employment practices and financial insecurities can take a toll on wellbeing.

Pāmu has invested heavily over the past six years in programmes to improve health, safety and wellbeing among all people working or living on its farms. Efforts have been aimed at fundamental change in attitudes and behaviours, and at research and education on accident causes and other risk factors. In 2019, stakeholders say Pāmu has set an excellent example for all farmers. The company's changed culture on health and safety is widely applauded, including non-employees who visit Pāmu farms and invariably encounter meaningful policies and practices. Stakeholders from other sectors note favourable reports on the company's progress with health, safety and wellbeing.

PEOPLE CAPABILITY

The Ministry for Primary Industries (MPI) and industry bodies continue to highlight the need for more skilled people, especially younger people, to work in farming and other primary industries if New Zealand is to grow the value of its food and fibre exports. MPI analysis points to a need for more specialised skills to operate farms and horticultural units that are larger and more sophisticated than in the past. It says systems knowledge will be critical for implementing innovation and productivity improvements on farm, and also for meeting the requirements around environmental sustainability, animal welfare, managing risk and food safety. The total number of employees in New Zealand's primary industries will increase by 2025 but more slowly than in other economic sectors, and with a higher level of workforce diversity.

Pāmu stakeholders emphasise the connection between a skilled and well-managed workforce, and strong business performance on every dimension. They see farms requiring people with skills in leadership, people management and systems thinking that are well beyond the traditional capability of farmers. Personal qualities of courage and open-mindedness are also called for, given the scale of challenges facing the sector. Stakeholders say Pāmu, with its scale and corporate resources, is clearly among the leaders in attracting and developing human talent for the future of farming. They say that the sector generally must redesign on-farm jobs so they are more attractive to young people. Again, Pāmu is credited with taking a lead on new forms of employment arrangement, these supported by its health, safety and wellbeing programmes that also make a farm career more attractive.

FINANCIAL RESILIENCE

All farming businesses must be profitable in the medium and longer terms, and have the balance sheet strength to cope with year-to-year volatility in product prices and revenues. State ownership makes no difference to Pāmu in this respect. Its profitability and efficiency are expected to be comparable with those of other large-scale New Zealand farmers. Since its formation in 1987, the company has had no further capital investment from the state. The overall farming sector is closely monitored by the Reserve Bank of New Zealand (RBNZ) and commercial banks because of its importance to the national economy and to financial system stability. The RBNZ reported in May 2019 that slow recovery from two major dairy price downturns in the past decade has left some farms in this part of the sector financially vulnerable (2% of dairy loans are "non performing") but overall, there are no particular concerns with financial resilience in farming.

Pāmu stakeholders continue to believe its size and relatively conservative balance sheet, along with diversity of operations, make the company more resilient than most other farming businesses. There is, nonetheless, a view that Pāmu's profitability and return to the shareholder could be higher than it has been over a period of years. All stakeholders see maintaining financial resilience, this being profitability and balance sheet strength, as


Livestock

WHAT OUR STAKEHOLDERS TOLD US

essential if Pāmu is to take new business initiatives, to transition into new farming systems and to reduce its environmental impacts. Economic imperatives are broadly understood by all who have particular environmental and social expectations of Pāmu.

NEW FARMING SYSTEMS

New Zealand has many initiatives underway for transformational change to new farming systems that have higher productivity and profitability with lower impact on the natural environment including GHG emissions reduction. MPI's Farm Systems Change Dairy initiative is one example, aimed at shifting more farmers to best practice across the dairy industry. The initiatives draw on New Zealand's long history of agricultural science, and on today's accelerated interest in diversified land use and new crops, revegetation of marginal and unstable land, organic and regenerative farming practices, and technologies for emissions reduction from ruminant animals.

Pāmu stakeholders commend the company for its commitment to farming systems change, notably systematic farm environment planning, a push into alternative dairying and programmes for health, safety and wellbeing and for enhanced people capability. Stakeholders do not see New Zealand at "peak environmental footprint" for farming although they also recognise that necessary system changes in dairying and livestock farming are not yet fully identified and available. Stakeholders want greater recognition that this country's current production has lower GHG emissions intensity in comparison with global competitors. Some stakeholders contend that Pāmu's scale, diversity and management capability make it an ideal farming enterprise to trial and refine system changes.

MARKET CONNECTION

New Zealand is strongly connected to global markets, with official data showing exports to over 170 countries at a total value of $58.5 billion during the 2018/19 year. Food and beverage exports, largely dairy and meat, are 60% of the total. Analysis and commentary have, over decades, emphasised the importance of adding value to those exports through closer alignment of production with global consumer preferences, greater efficiency in supply chains and stronger branding. Dairy and meat processors continue to invest in global market initiatives for securing higher recognition of the quality, safety and ethical provenance of New Zealand foods. Pāmu is among producers who are also seeking to add value through stronger connection between farms and consumers.

Stakeholders say farmers need to recognise, more than ever that they operate in a global market and that consumer preferences and perceptions are paramount, even those that seem ill-founded. Greater collaboration between farmers, processers and marketers is, they say, the only solution. Pāmu's Spring Sheep joint venture is singled out as an innovative example. Stakeholders say consumer demands for more visibility on food production are another driver for more supply chain collaboration: on-farm information must accompany products into the market as a basic requirement.

ANIMAL WELFARE

The welfare of farmed animals is an issue of growing interest, not least among urban-based New Zealanders who are influenced by social media images and/or broader environmental concerns. The Animal Welfare Act was updated in 2015 to provide for stronger animal welfare standards and add to the enforcement powers of government agencies and the Royal NZ Society for the Prevention of Cruelty to Animals. The ill-treatment or neglect of animals is a crime in this country, with detailed welfare requirements established through regulations and codes of conduct. There is also broad acceptance that most farmers are responsible and attentive to animal welfare.

Pāmu stakeholders warn that domestic and international consumer markets are increasingly sensitive to impressions that livestock farming practices are less humane than they might be.

<< **Blue Walker**, Stock Manager at Wharekopae Farm near Gisborne.


PĀMU
FARMS OF
NEW ZEALAND

WHAT OUR STAKEHOLDERS TOLD US

They say New Zealand is vulnerable to negative publicity on non-representative but high-profile cases of animal abuse. They say farmers generally might lack appreciation that traditional practices are no longer acceptable, with possible need for fundamental change to avoid misperceptions.

BIOSECURITY

New Zealand has stepped up its processes for identifying, preventing and containing biosecurity risks to primary industries, at the border and through the spread of pests or diseases within the country. This follows the 2017 outbreak of M.bovis bacterial infection in cattle herds and discoveries with machinery imports of insect infestations with potential to severely damage horticultural crops. By mid-August 2019, M.bovis had been confirmed on 182 farms throughout New Zealand (one Pāmu property) with more than 100,100 animals culled and $87 million paid in compensation to herd owners so far. MPI maintains a system intended to "prevent or manage risks from harmful organisms like pests or disease", through border inspections and through joint government-industry body actions wherever an incursion is confirmed.

In 2019, Pāmu continues to place high priority on its use of the National Animal Identification and Tracing (NAIT) system for recording cattle treatments and movements. Stakeholders see a serious disease outbreak as the biggest business risk facing Pāmu and any other farmer. They recognise Pāmu's efforts to achieve best practice with NAIT and to train staff in all aspects of animal health. Some stakeholders contend that importation of animal feed should be stopped sector-wide to negate biosecurity risks, and enhance New Zealand's reputation for stringent biosecurity.

CLIMATE CHANGE ADAPTATION

Research reports and attitude surveys indicate climate change impacts on agriculture are an increasing issue among farmers and policy makers. An April 2019 survey of farmers, commissioned by MPI, showed 59% expect a moderate or major impact on their business over the next 20 years (52% think they are already being impacted). Other research shows higher, and growing, concern about climate change among the general population. MPI is advising that it will affect what and how much New Zealand can grow or harvest, and increasingly unpredictable weather will make some years more or less productive. Increased erosion and soil loss due to higher rainfall are foreseen, and the variety of pests and diseases will grow. In 2019 the Government increased funding for research into new practices and technologies for mitigation and adaptation.

Pāmu stakeholders see the company moving to address the issues through its broad-based efforts to produce new products and crops, and to farm with greater protection of freshwater and other resources. They want to see more analysis of the risks, and research and development around technologies and crops which will offset the environmental and economic impacts of climate change on different regions of New Zealand.

GLOBAL DIETARY SHIFTS

New Zealand meat and milk producers supply a global market in which voices are increasingly raised against animal-based foods and related farming practices. Some research highlights human health benefits of a plant-based diet, and there are many claims that a mega shift to arable and horticultural production will reduce GHG emissions and protect ecosystems. Market testing of alternative proteins and synthetic meats reflect a potential trend against established patterns of global demand for meat and milk. The 2019 science-based report of the *EAT-Lancet Commission on Food, Planet, Health*, for example, argues for a global 50% reduction in red meat eating, and a doubling of vegetable, legume and nut consumption, in order to shift the world to a sustainable food production system for 10 billion people before the next century. Recent years have seen New Zealand commentators

<< **Bart Cheetham**, Farm Manager at Wharekopae Farm near Gisborne.

WHAT OUR STAKEHOLDERS TOLD US

warn of disruption to traditional protein markets in the next 20–30 years.

Pāmu stakeholders are well aware of the threats and also the opportunities implied by shifting dietary preferences and environmental concerns. They note New Zealand has a niche role in global meat supply (2% of the total) and an unchanged outlook for demand growth in under-developed markets, notably China. Stakeholders see the global shift more towards "natural foods", rather than meat or milk per se, with consumer concern focused mainly on ethical, sustainable production of all foods. New Zealand provenance will be enhanced, they say, through demonstrable progress on GHGs reduction, freshwater quality and ecosystem health as these relate to food production here. Dietary shift might even strengthen the value of this country's meat and milk. Stakeholders say Pāmu's alternative dairying, with sheep milk and organic bovine, and improved environmental practices are steps in the right direction.

BICULTURAL AOTEAROA NZ

As a large land-based business and a State-Owned Enterprise, Pāmu recognises opportunities and obligations to engage in the bicultural development of Aotearoa New Zealand. Pāmu stakeholders share that recognition, with expectations that the company will bring a Māori dimension into its strategy and operations where most appropriate. Pāmu has long been a cooperative party in Treaty of Waitangi settlements, participating in land sales or transfers to Iwi authorities to help fulfil settlements agreed between those authorities and the Crown. In two prominent cases, the company has continued to manage dairy farming operations under joint venture or sharemilking agreements with the new owners.

Pāmu continues to operate with a formal commitment to consult the Crown and with any local Māori interests when the company deems land surplus to its requirements and, therefore, available for sale. Furthermore, Pāmu is obliged to identify ways of supporting Government social, economic and environmental objectives, as well as operating at the forefront of farming best practice (Shareholders' Letter of Expectations, February 2019). Pāmu has committed itself to respect for biculturalism, and other forms of diversity management, throughout the business, and to apply Māori concepts of kaitiakitanga to management and stewardship of land and natural resources under its control.

Pāmu stakeholders applaud the company's respect for Māori concepts and customs, while also seeing scope for these to be further expressed in strategy and operation. They seek fuller meaning in the Pāmu brand name. The company's long practice of land retirement and native planting are especially appreciated. Stakeholders see Pāmu as critical in helping transform pastoral farming beyond its traditional association with New Zealand's colonisation. They also recognise the company's need for commercial success but also for compliance with the public policy directives from shareholding governments. Future treaty settlements will impact Pāmu's scale and capability.

RURAL COMMUNITIES

The health and resilience of rural communities attract increasing concern, as recognised by the Government's launch (2018) of a "rural proofing" policy intended to mitigate the impacts of depopulation, isolation and diminished infrastructure on the 14% of New Zealanders who live outside urban areas or beyond close access to urban services. The policy also highlighted issues for rural communities arising from increased urban expectations about the land and animal stewardship. Having resilient communities is, nonetheless, deemed critical to the success of land-based production.

Pāmu stakeholders are concerned at a widening urban-rural divide fuelled by the breakdown of traditional family-based ties to farming and the rise of social media attention on animal welfare and environmental issues. They say urban dwellers and infrastructure providers fail to grasp the difficulties of rural living, and the economic and environmental importance to New Zealand of having a well-resourced and motivated rural population. School closures are seen be a major catalyst for further decline with families forced to move and communities losing a natural hub.

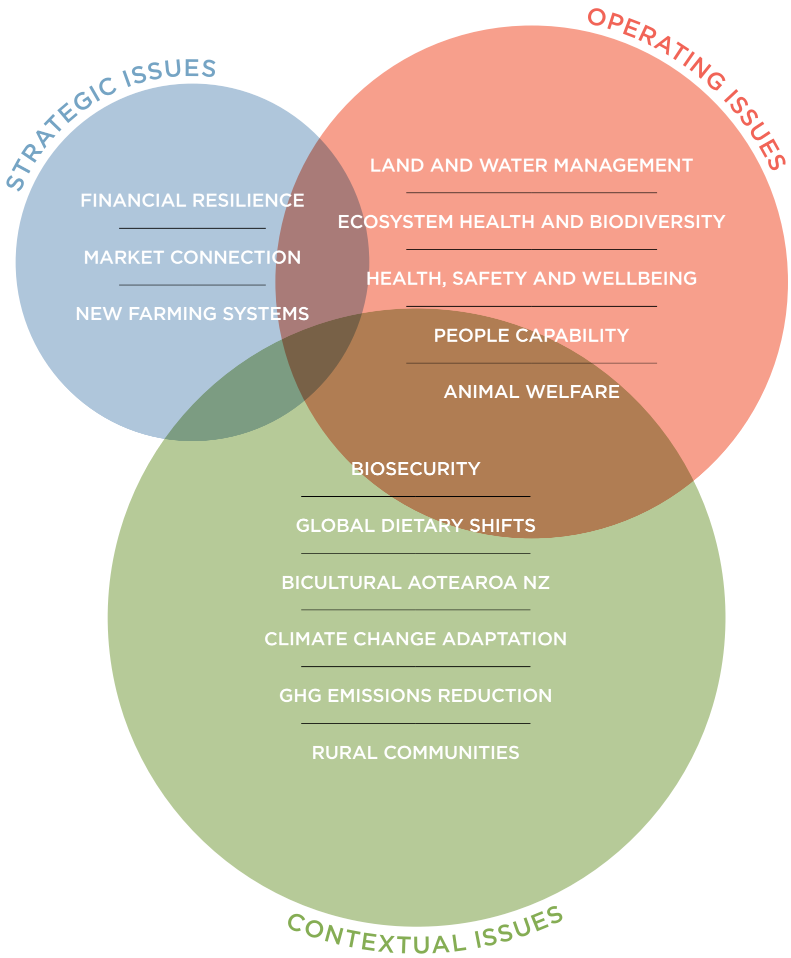
MATERIAL ISSUES MAP

These material issues can be grouped three ways.

Contextual issues existing in the New Zealand operating environment for Pāmu and all other large-scale farmers and land holding companies.

Strategic issues arising from Pāmu's commitment to being excellent in food and fibre production, to matching our products with value to customers, and to driving innovation in sustainable land use and farming systems.

Operating issues relating to Pāmu's implementation of strategies and reflecting the company's approach to farming.



All issues are interrelated, which makes rank ordering of their importance of less relevance. Pāmu's recognition and management of each contextual, strategic and operational issue has significant influence on our addition of value to one or more of the six capitals (see pages 4 and 5).

As noted above, stakeholder engagement in 2019 showed broad support for Pāmu's purpose and strategies. There is alignment between the company and stakeholders on the importance attached to our material issues and their interconnection.

ENGAGEMENT PROCESS

Pāmu commissioned Wellington-based consultant Martin Freeth to engage with a cross section of the company's stakeholders in July–August 2019. The purpose was to explore issues of importance for those stakeholders in the context of New Zealand agriculture and of their relationship with Pāmu. Representatives of the 20 organisations listed below participated in this process. Pāmu thanks them for contributing substantially to this report and to our planning.

Agricultural Leaders Group
Ballance Agri-Nutrients
Choose Clean Water
Duncan Venison
Environment Canterbury
Environment Waikato
Federated Farmers NZ
Fonterra
Forest and Bird Society
Melody Dairies
Ministry for Primary Industries
NZ Treasury
Ngāi Tahu – Molesworth Steering Committee
Office of Māori-Crown Relations
Primary ITO
Rural Women
Silver Fern Farms
Synlait
Westpac Bank NZ
WorkSafe NZ

ORGANIC DAIRY TRANSITION IS ENHANCING THE ENVIRONMENT

ENVIRONMENT

Organic dairying can be much better for the environment and for profitability. Pāmu's Earnslaw farm, in the central North Island, is proving the point.

Earnslaw, with 860 cows milked at last season's peak, is one of two Pāmu units gaining full organic certification in October 2019, having successfully completed a three-year transition from conventional dairy operation. The farm is on 675 hectares of rolling country within the Wairakei Estate. Its irrigated ryegrass, clover and mixed pastures have steadily improved since conversion from dry-land farming in 2015. The land was previously in pine plantation.

Pāmu started the transition to organic by reducing cow numbers, ending supplementary feed imports, and adopting a fundamentally different approach to pasture nutrition and grazing. Earnslaw became a closed unit which grows all its own feed and retains nearly all calves for rearing as herd replacements, for dairy beef production or for on-sale to a bull beef finisher. Youngstock from Pāmu's other in-transition organic units, Tasman and Tutoko at Moutoa Dairies in Manawatu, graze on Earnslaw's runoff areas to help achieve optimum herd sizes on both properties.

Animal health management is, of course, critical in any organic farming operation. On Earnslaw and Tasman, cows and calves are treated only with homeopathic remedies for mastitis and other infections. The end of antibiotic use on these farms has been accompanied by stronger vigilance on individual animal health and the rapid withdrawal of any with signs of illness.

"Our organic animal health regime was a struggle to master at the beginning. Now, somatic cell counts on Earnslaw are lower than they were at the beginning of conversion and our cow death rate is the third lowest across all Pāmu dairy units on the Pastoral complex," says Cleo Te Kiri, Business Farm Manager on Wairakei Estate.

Pasture and soil management are critical also, and the transition on both Earnslaw and Tasman began with detailed soil mapping and analysis in every paddock. There can be no use of synthetic fertiliser, and the Pāmu team applies alternative nutrients like chicken manure while using legume crops as a natural source of nitrogen for the building of soil fertility.

"We have to keep the pastures and soils right so we can feed our animals and not mine soil fertility. We have a focus on avoiding overgrazing to maximise feed harvests," says Cleo.

So what have been the environmental benefits after three years?

Reduced stocking and nitrogen inputs have significantly reduced N leaching, and so raised the overall sustainability of Earnslaw's operation compared with any conventional dairy unit of equivalent size. The organic regime has also seen steady improvement in soil structure and biomass, and in the resilience of pasture.

Of significance for profitably, New Zealand's major dairy companies are now paying a solid premium to organic milk producers. For 2019/20, Fonterra has announced a margin of $2 per kg of milksolids over and above its standard farmgate payout. Already Earnslaw and Tasman have benefited from smaller-but-still-significant organic milk premiums in years one and two of their transition to full certification.

This season, three more Pāmu dairy units will begin the transition. The expected returns will be measured in both reduced environmental impact and increased farm profitability.

Material issues: Land and water management / ecosystem health and biodiversity / greenhouse gas emissions / new farming systems / global dietary shifts.

<< **Cleo Te Kiri**, Business Manager at Pastoral Complex, near Taupō.


PĀMU

OUR CULTURE IS CHANGING ON HEALTH AND SAFETY

PEOPLE

Pāmu people are striving to make their workplace one of the safest in New Zealand farming. Injury rates are down, and there is plainly more awareness around on-the-job risks and how to manage them. Pāmu health and safety indicators are headed in the right direction after five years' concerted effort to change attitudes and practices on every farm.

The company-wide lost time injury frequency rate (LTIFR) fell to 9.44 for the year ended 30 June – down 11% from 2017/18 and 14% from two years ago. There's an improving trend in the severity of injuries too, with 42% of those in the latest year requiring the person to take more than seven days off work.

The indicators suggest increasing capability and willingness among Pāmu people when it comes to risk identification and to learning from near-miss incidents where someone narrowly avoided injury.

In the 2018/19 year the number of "safety observation and near-miss" reports rose 17%. Staff were also more willing to report minor injuries that required some first aid but no time off work: the number of these jumped to 257 in the latest year.

"Increased reporting provides everyone with much greater understanding of real risks in the farm workplace including, for example, the risks that exist whenever people are manually handling animals," says Mark Ogilvie, Head of Health, Wellbeing and Safety. "Better information from reporting enables us to identify risks more precisely and set out guidelines for managing them."

Mark says the indicators also show Pāmu people are far less inclined to "tough out knocks and scrapes" as used to be the case. "That's another positive sign of change to a culture where people are constantly thinking about risk management and looking after themselves, and each other, on the job."

That culture is also evident in the growth of regular "tool-box" meetings where on-farm teams share recent work experiences and ideas on how to stay safe. In the 2018/19 year, the number of tool-box meetings across Pāmu jumped 37%, some farms holding one almost every week. Training under the Pāmu Academy programme continues with the emphasis on promoting health and safety as a conversation topic every day, on risk management, and on everyone meeting a core set of behavioural expectations.

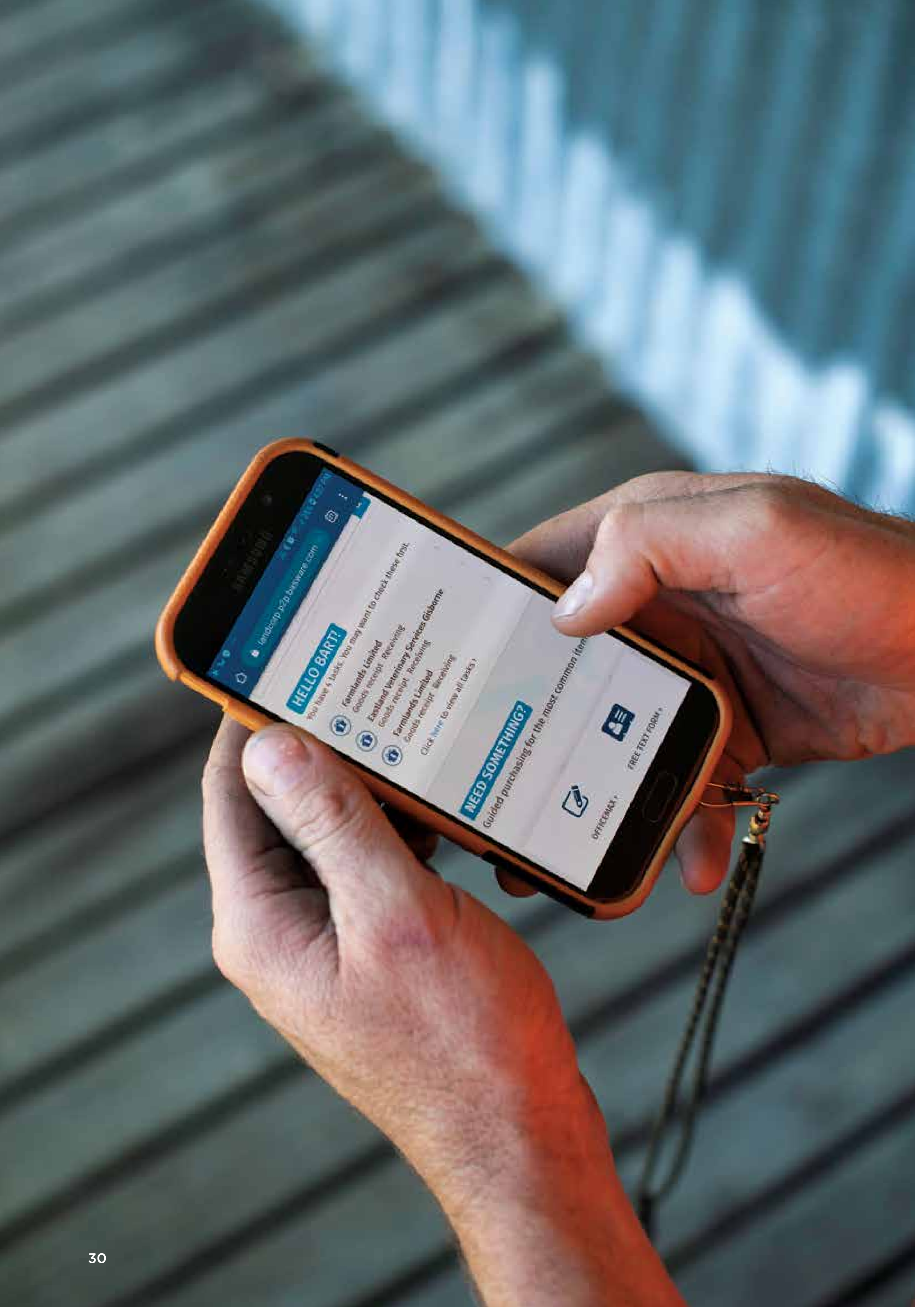
Material issues: Health, safety and wellbeing / people capability / new farming systems / animal welfare / rural communities.

Shepherd Lulu Prins knows exactly how easily a moment's inattention could have dreadful consequences. Her "near-miss" quad bike rollover has turned Lulu into a staunch advocate of safety roll-bars and of keeping your mind firmly on the job when using any vehicle.

The incident happened on Whakekopae Farm, on the North Island's East Coast, during autumn 2018 when Lulu was mustering in an unfamiliar paddock. "I was yelling at my heading dog and just not paying enough attention to the track … before I knew it the bike was on top of me and my leg was stuck," she recalls. "It would have been really bad without the roll-bar to protect my head and body."

Lulu walked away with just a sore foot – and a big lesson to share with her Pāmu workmates. "I used to think roll-bars were a bit silly but now I'm very grateful for them, and I constantly think of how and where I'm driving when using a quad or side-by-side even on relatively flat ground."

<< **Lulu Prins**, Shepherd General at Wharekopae Farm, Gisborne.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PĀMU'S FARM STORE SYSTEM DRIVES EFFICIENCY

FINANCE

Pāmu is saving time and money – it's own and that of suppliers – through use of a modern procure-to-pay system to manage interactions with suppliers. Farm Store, rolled out across Pāmu over the past three years, enables electronic online processing of every transaction between the company and around 4,500 suppliers.

Farm Store is the "in-house" name for software developed by Basware – a listed company based in Finland. Basware provide cloud-based purchase-to-pay ("P2P") and e-Invoicing solutions to businesses across the globe. Farm Store was first introduced in 2016 and since then Pāmu has been working hard to fine-tune the business processes that it manages. Fast forward to today where Pāmu is now within the top 10% of Basware sites worldwide when it comes to metrics such as paying suppliers on time.

"Farm Store has transformed our P2P operations giving us much greater visibility of purchasing and invoicing processes." says Pāmu Financial Controller Peter Franklin. "The benefits include improved control and reporting of the company's spending, the saving of clerical effort checking invoices and resolving issues, and the confidence of knowing that Farm Store can pay our suppliers on time when processes are followed. That all translates into more efficient use of our time and peace of mind for the many rural suppliers who rely us for their cash flow."

Farm Store also puts Pāmu at the forefront of this country's move to global standards for e-invoicing. The Governments of New Zealand and Australia have jointly agreed to facilitate economy-wide take up of the PEPPOL (European-originated) framework for invoicing between all businesses, and between businesses and public agencies. Transition to mass use of one technology standard for exchanging invoices and all relevant information is expected to create huge efficiencies. The Ministry of Business, Innovation and Employment ("MBIE") will be ready to support the transition in coming months.

MBIE's Business Readiness Manager for e-Invoicing, Tiri Connell, says Basware is PEPPOL-certified and with Farm Store now in place, Pāmu has positioned itself very well for the new era of electronic invoicing. "Pāmu is definitely one of the leading organisations in helping move us, as a country, onto the best available form of e-Invoicing from now."

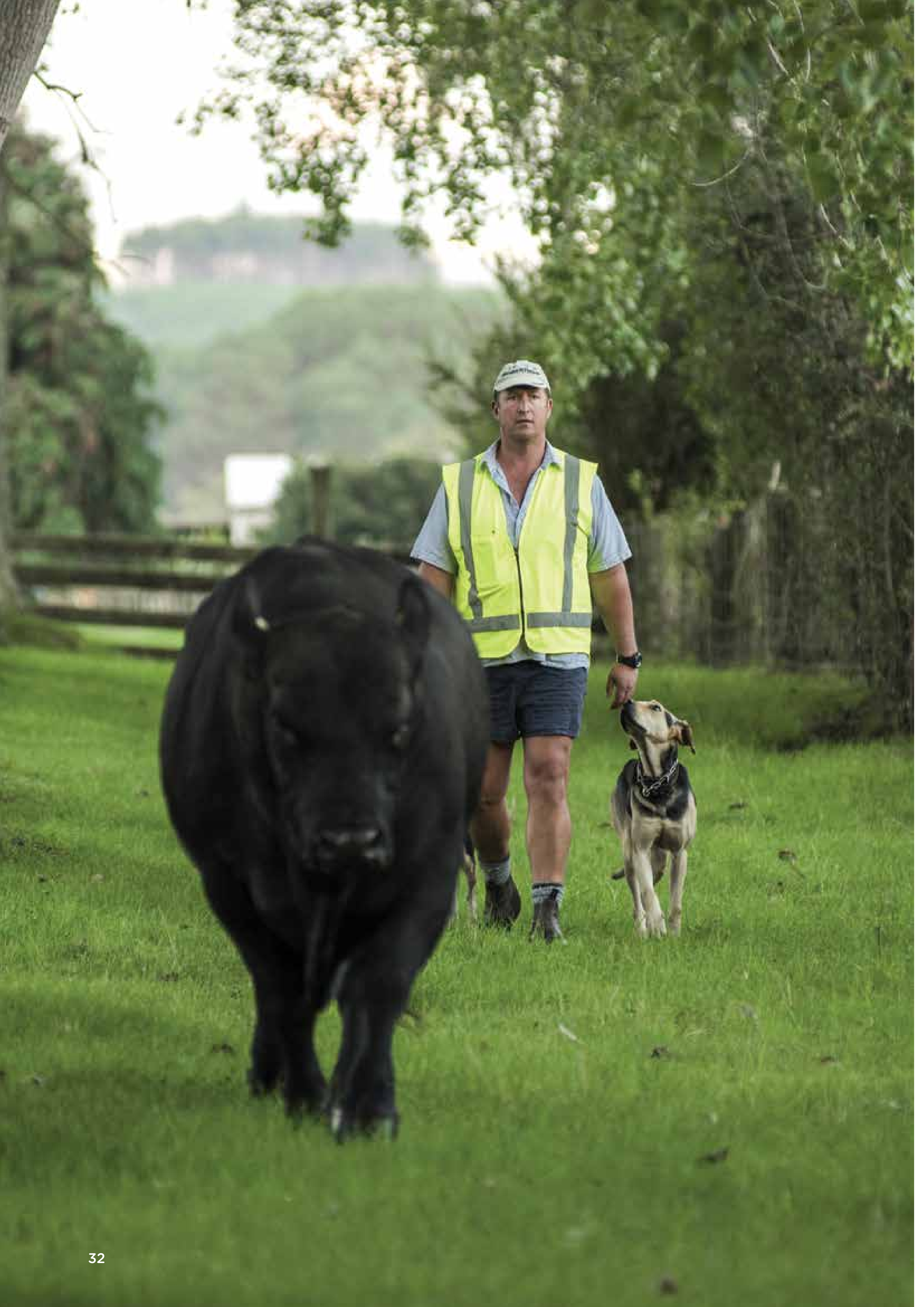
Material issues: Financial resilience / people capability / market connection / rural communities.

"Utterly amazing" is how one agribusiness supplier to Pāmu describes its experience of Farm Store.

Steve James Contracting of Southland provides cultivation, fencing, baleage and earthworks services to the company's Te Anau Basin properties, sending in eight or so monthly invoices at the height of the season. Proprietor Kerri James says the Farm Store has made doing business with Pāmu really easy for both parties. "As long as our invoices are sent in the first days of each month, payment comes through on the 20th every time, and there's no question of having to follow up with the client or go through piles of paperwork".

The flow-on benefits to the contracting business are substantial, Kerri says. "Being assured of payment at the same time every month means we don't have to worry about meeting our obligations to employees and our own suppliers of fuel etc on time as well."

<< Our staff use Farm Store to purchase all their business needs – the mobile version makes it easily accessible for our farm teams.



BREEDING SUPERIOR ANIMALS FOR IMPROVED PRODUCTIVITY AND RESILIENCE

FARMS AND ANIMALS

Pāmu continues to produce animals of higher productivity and resilience through breeding programmes at the forefront of New Zealand livestock farming. Our genetic advances in sheep, cattle and deer continuously add value to the farms of Pāmu and others, nationwide.

Advances come through the cross-breeding of animals carefully selected for traits which, over time, elevate feed conversion efficiency, reproductive rates, health and longevity. These genetic gains lead to production animals requiring fewer interventions and inputs, and this in turn results in improved on-farm performance and other benefits which extend along the supply chain to market.

Pāmu maintains breeding flocks and herds on seven of its properties nationwide where best practice livestock farming is combined with the industry-leading genetic science of subsidiary company Focus Genetics. The latter is New Zealand's largest supplier of maternal and terminal sheep, beef cattle and deer genetics. Its programmes today draw on more than 50 years' of genetic advances by breeding within Pāmu that was led by the late Geoff Nicoll, its predecessor organisations and their partners.

Focus Genetics works closely with Crown research institutes, universities, industry organisations and technology providers. Pamu's and Focus Genetics expertise and resources are complementary and the analysis of genetic data across animal species in areas such as disease resistance, nutrition, breeding and animal husbandry to boost productivity and profitability benefits all New Zealand livestock farmers.

Recent research includes studies on livestock methane emissions, animal skin thickness, factors in lamb survival, causes of facial eczema, meat-eating quality, objective foot score protocols, and genetics for sheep and deer dairying. Pāmu is supporting the emergence and growth of the latter industry through systematic genetic evaluation of sheep and deer to identify superior animals for increased productivity and profitability in milk production. In the sheep and beef industry, Focus Genetics has a key role in running progeny test trials for performance assessment of cattle and sheep sires under the same environmental conditions.

During the 2018/19 year, the company supplied more than 2,000 rams, 500 bulls and 300 stags with 60% of those sold to privately owned farms throughout New Zealand. In many cases, the commercial arrangements with Focus Genetics included designing tailored genetic plans and providing advice to support the individual farmers breeding objectives, land type and environment.

Farmers are investing in a "genetic worth" set of traits. For maternal genetic worth, the traits include reproduction records, body condition scores, lamb growth and adult size measurements, wool, lamb survival and disease tolerance: for terminal genetic worth, traits related to lamb survival, growth rates of progeny and their meat yield are what matter most. Focus Genetics is constantly updating a substantial database on the performance of individual animals on these variables.

Genetic advance is measured in economic terms by reference to "breeding indices", with one index for each species of animal, and for the maternal and terminal categories of that species. The index combines the relevant traits for that species and category with the dollar value of costs involved in production of those traits.

Material issues: New farming systems / market connection / animal welfare / biosecurity / global dietary shifts.

<< **Matt Lane**, Farm Manager at Rotomahana Farm in Reporoa. Rotomahana is the home of Focus Genetics North Island Angus herd.

FARMING EXPERTISE TO PROMOTE ECOSYSTEM AND HUMAN HEALTH

EXPERTISE

How to drastically reduce nitrogen leaching from today's standard dairy farm sees Pāmu pursuing answers through the combination of farming expertise and environmental science.

Our dairy units in North Canterbury are being used to model the effects of different farming practices and technologies on nitrate levels in groundwater. Our aim is to create new knowledge of benefit to New Zealand dairying and to the ecosystems on which farms – and actually, all else in human society – ultimately depend.

The modelling and ecosystem research are centred on Pāmu's Eyrewell unit, located in one of the Canterbury catchments where elevated groundwater nitrate levels have big implications for aquatic and human health. There are widely held concerns about the need to protect aquifers from which Christchurch sources drinking water.

"What farm system with what water requirements and what runoff could actually meet ecosystem health limits on the light soils of this land?" asks Alison Dewes, Pāmu's Head of Environment. "If we have to drop more than 50% in nitrogen (N) leaching, how will we do that while maintaining farm profitability at or near current levels? Our goal in the next few years is to find answers while also exploring options for land uses other than dairying."

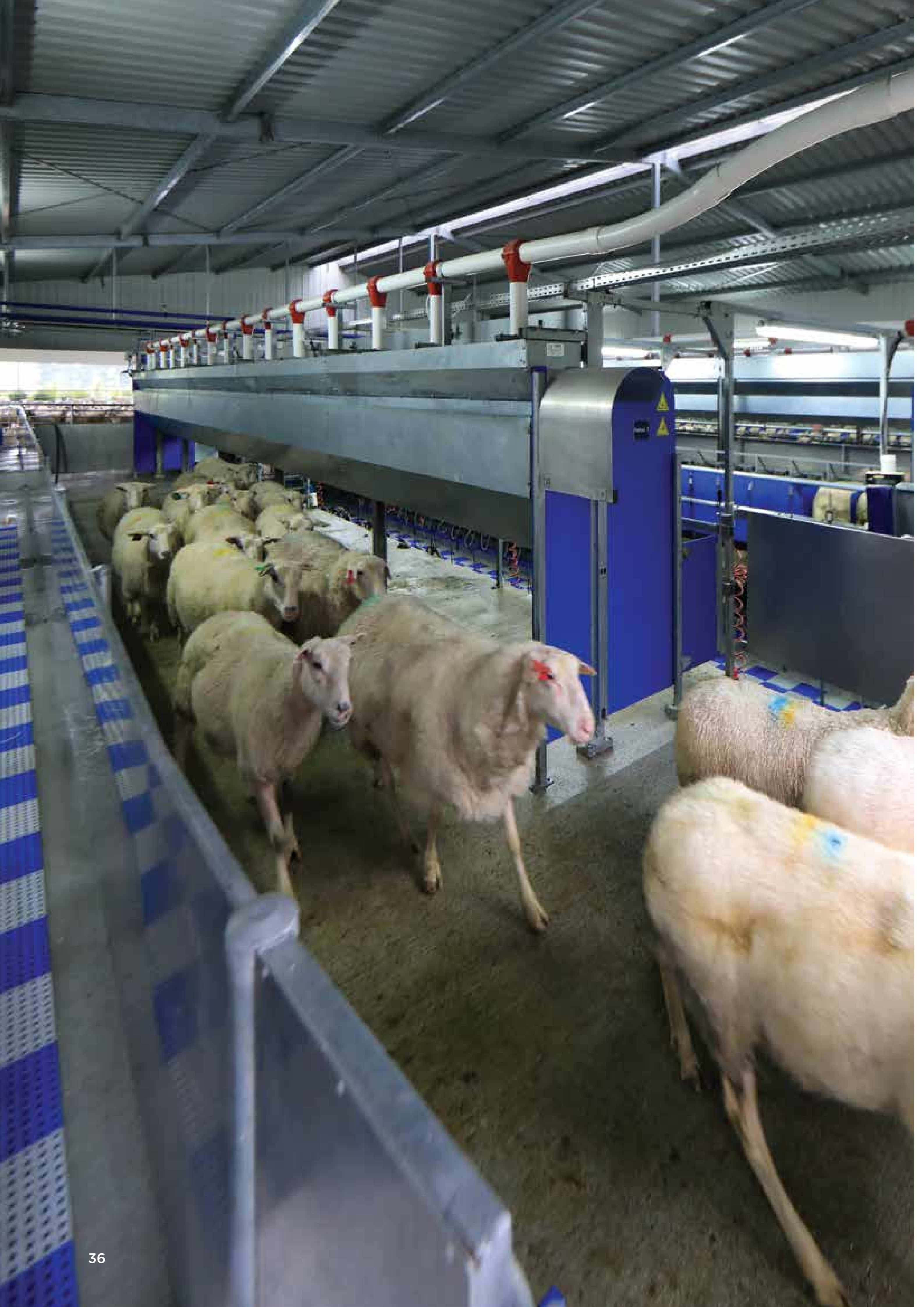
Dr Dewes says the company and its research partners will look at many possible N leaching mitigations that include: having fewer, more productive cows on the land; applying less nitrogen fertilizer to pastures; and growing a wider range of forages with a particular focus on legume crops. "We are studying a wide range of options for transition from today's conventional milk production system to new farming systems that involve less intensive dairying, or a complete move away to other livestock species or new plant crops for human food. On the most erodible land, forestry must clearly be an option."

Pāmu is doing this work in context of mounting public anxiety over the likely impact on groundwater, rivers and lakes of intensive farming under current systems, and of the Government's recently released National Policy Statements on Freshwater and on Biodiversity. "We recognise the 'OneHealth' concept where interaction between humans, animals and the environment is fundamental to determining the health and sustainability of all," says Dr Dewes. "At Pāmu, we're taking a more multidisciplinary and ecosystem-wide approach to managing farms and the impact they have on groundwater and human drinking water. The same approach applies, of course, to their impact on biodiversity and Greenhouse gas emissions."

The first modelling and ecosystem research project at Eyrewell is due for completion during 2019/20.

Material issues: Land and water management / ecosystem health and biodiversity / greenhouse gas emissions / people capability / financial resilience / new farming systems / animal welfare.

<< Students from Swannanoa and Oxford Area primary schools in Canterbury help to plant native trees on Eyrewell Dairy Unit.



PĀMU AND PARTNERS GROW THE SHEEP MILK INDUSTRY

RELATIONSHIPS

Pāmu is working on a big future for the New Zealand sheep milk industry and on business relationships which will make that future happen.

This year our joint venture sheep dairy business, Spring Sheep Dairy, will grow supply from farmers who are using improved sheep dairy genetics and systems, and we will expand New Zealand's speciality milk drying capacity in concert with other investors at the Waikato Innovation Park. Pāmu will also continue to play a key supporting role as Spring Sheep Dairy expands the international market presence of its distinctively branded sheep milk products.

Business relationships at each stage of production and supply have been fundamental to Pāmu's sheep dairy strategy since 2015/16. That year we launched Spring Sheep Dairy in partnership with specialist international marketing company SLC – and we began milking sheep on St Kilda dairy farm at Reporoa, central North Island.

Over the four years since, new dairy genetics have been introduced to the original East Friesian milking flock and the operation has been expanded to include two additional farms in the central Waikato. Genetic improvement has seen productivity increase rapidly, including an increase of over 25% in milk flow per Spring Sheep Dairy ewe during the 2018/19 year compared with the previous year.

In the same period, the Pāmu-SLC partnership has taken high value Spring Sheep Dairy branded nutritional products into Malaysia, Taiwan and Vietnam. The range today includes a family nutrition range of powders, an early life nutrition range, and chewable calcium tablets.

Growth in these and other products will be supported by the new processing capacity at Waikato Innovation Park where Pāmu and three partners are investing approximately $50 million in a state-of-the-art dryer designed for small scale, flexible processing. Their joint venture company, Melody Dairies, is due to start production in March 2020 and will increase the industry's manufacturing capacity with the new 1.2 tonnes per hour plant.

"Our investment is grounded in Pāmu's strategy to create its own speciality milk products for high-value niche markets while, at the same time, facilitating growth in land-based industries of value to all New Zealand," says Andrew Sliper, General Manager, Commercial Development and Strategy. "Pāmu will use its 35% share of the dryer to support the rapid growth of Spring Sheep Dairy and create a pathway for more farmers to enter the industry."

Spring Sheep Dairy is a commercial partner with MPI's Primary Growth Partnership programme called 'Sheep–Horizon Three' which aims to establish a sustainable sheep milk industry worth $200-$700 million in gross annual revenues by 2030. Pāmu farms are key sites in this program for other farmers to learn about sheep dairying and for the development of a New Zealand dairy sheep breed.

Today, Spring Sheep Dairy is positioned for strong growth in production and sales under the Spring Sheep Dairy NZ brand. "There's huge interest among Waikato dairy farmers looking to convert to sheep milking, including some who will come on board in 2019/20," says Scottie Chapman, Chief Executive of Spring Sheep Dairy.

Material issues: Market connection / new farming systems / global dietary shifts / land and water management / greenhouse gas emissions / climate change adaptation.

<< Sheep exiting the milking shed at Spring Sheep Milk Co, on the Wairakei Estate.

BOARD OF DIRECTORS

NIGEL ATHERFOLD DOUG WOOLERTON CHRIS DAY JO DAVIDSON WARREN PARKER

TONY REILLY HAYLEY GOURLEY BELINDA STOREY

WARREN PARKER

Chair

Warren Parker was appointed as Chair of the Board on 1 January 2019. Warren is a former chief executive of Scion (the NZ Forest Research Institute) and Landcare Research and was previously chief operating officer of AgResearch. He currently holds a number of board roles including Predator Free 2050 Ltd, Farmlands Co-operative Society, Quayside Holdings Limited, Genomics Aotearoa and is the chair of the Forestry Ministerial Advisory Group. Until recently, he was chair of the New Zealand Conservation Authority. Warren has a PhD in animal science and was previously a Professor of Agribusiness and Resource Management at Massey University, where he spent 18 years in various roles, including supervising the 9,000 stock unit Roversdale Farm in the Wairarapa.

TONY REILLY

Chair, Performance & Safety Committee

Tony was appointed to the Pāmu 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 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.

CHRIS DAY

Chair, Audit & Risk Committee

Chris acted as Chair of the Pāmu Board from May – December 2018. He joined the Pāmu Board in May 2012. Chris was formerly the Chief Financial Officer of Z Energy Limited and now works in corporate advisory. Chris is also a director of Datacom Group Limited. A Chartered Accountant, he has a range of international and New Zealand business experience in executive and governance roles. Chris grew up on a sheep and beef farm at Pahiatua in North Wairarapa. His family has farmed in Wairarapa since the 1850s.

HAYLEY GOURLEY

Member of Audit & Risk Committee

Hayley was appointed to the Pāmu Board in May 2018. She is the Agri Divisional Manager of Skellerup Industries Limited. An agricultural economist, she has more than 20 years' experience, in New Zealand and globally in financing, advising and working with agribusinesses throughout the value chain. Hayley grew up on a dairy farm in Karamea on the West Coast of New Zealand.

BELINDA STOREY

Member of Performance & Safety Committee

Belinda was appointed to the Pāmu Board in May 2018. A climate economist, she is a principal investigator with the Deep South National Science Challenge and is a professional member of the Royal Society of New Zealand. Belinda has a MBA in Finance from Columbia University of New York and a Masters in Disaster Risk from the University of Canterbury. As Managing Director of Climate Sigma she provides scenario analysis and asset valuation on the physical and transition risk from climate change. Previously, Belinda advised executive teams in the US, UK, Australia, and New Zealand on organisational performance. Belinda was raised on a dairy farm in the North Waikato where her Irish family settled in the 1870s with the support of Ngāti Mahuta at Taniwha.

NIGEL ATHERFOLD

Deputy Chair
Member of Audit & Risk Committee

Nigel was appointed to the Pāmu Board in May 2018. He has over 25 years' experience in finance covering corporate finance, treasury risk management, and banking. He is currently a director and shareholder of TDB Advisory Limited – a corporate finance and economics advisory company. Prior to this, he was ANZ corporate banking's regional executive in the southern region for four years and prior to that spent five years in the New Zealand Dairy Board's treasury. Nigel is currently a director of several farming companies that have dairy, arable, and sheep and beef assets and is on a number of dairy advisory boards. He has previously been a director of Open Country Dairy Limited and a number of dairy product manufacturing businesses.

DOUG WOOLERTON

Member of Performance & Safety Committee

Doug was appointed to the Pāmu Board on 1 May 2019. At a reasonably young age he was elected to the board of a cooperative dairy company and served for ten years, the last two as Deputy Chair. His interest in politics eventually saw him move away from farming to pursue a political career serving twelve years as a Member of Parliament. Agriculture has remained a lifelong passion but from a political viewpoint rather than direct involvement. Since 2008, Doug has worked as an independent political consultant advocating for various businesses and assisting them to have their concerns heard by the government of the day. Doug grew up on the family farm in the Waikato a few kilometres south of Hamilton along with three brothers all of whom became dairy farmers.

JO DAVIDSON

Jo Davidson joined the board on 1 September 2019. Jo has had a successful senior executive career delivering profitable growth across a range of competitive industry sectors. She has been a business consultant since 2011, specialising in marketing led transformational change projects for companies such as Tegel, DB, HJ Heinz SA, and GreenMount Foods where she was CEO. Jo's executive career has seen her work extensively in Europe, Australia, South Africa and she has undertaken project work in Asia and the United States, as well as in New Zealand. She has a Bachelor of Horticultural Science, majoring in Marketing & Economics from Massey University and is a member of Global Women, and an independent director of AUT Ventures.

LEADERSHIP TEAM

MARK JULIAN
GENERAL MANAGER
DAIRY OPERATIONS

ALISTAIR McMECHAN
GENERAL COUNSEL

STEVEN McJORROW
CHIEF FINANCIAL
OFFICER

PETER SIMONE
GENERAL MANAGER
PEOPLE, SAFETY & QUALITY

ANDREW SLIPER
GENERAL MANAGER
COMMERCIAL &
STRATEGY

SARAH RISELL
GENERAL MANAGER
PĀMU FOODS

ROB FORD
GENERAL MANAGER
INNOVATION
TECHNOLOGY
& ENVIRONMENT

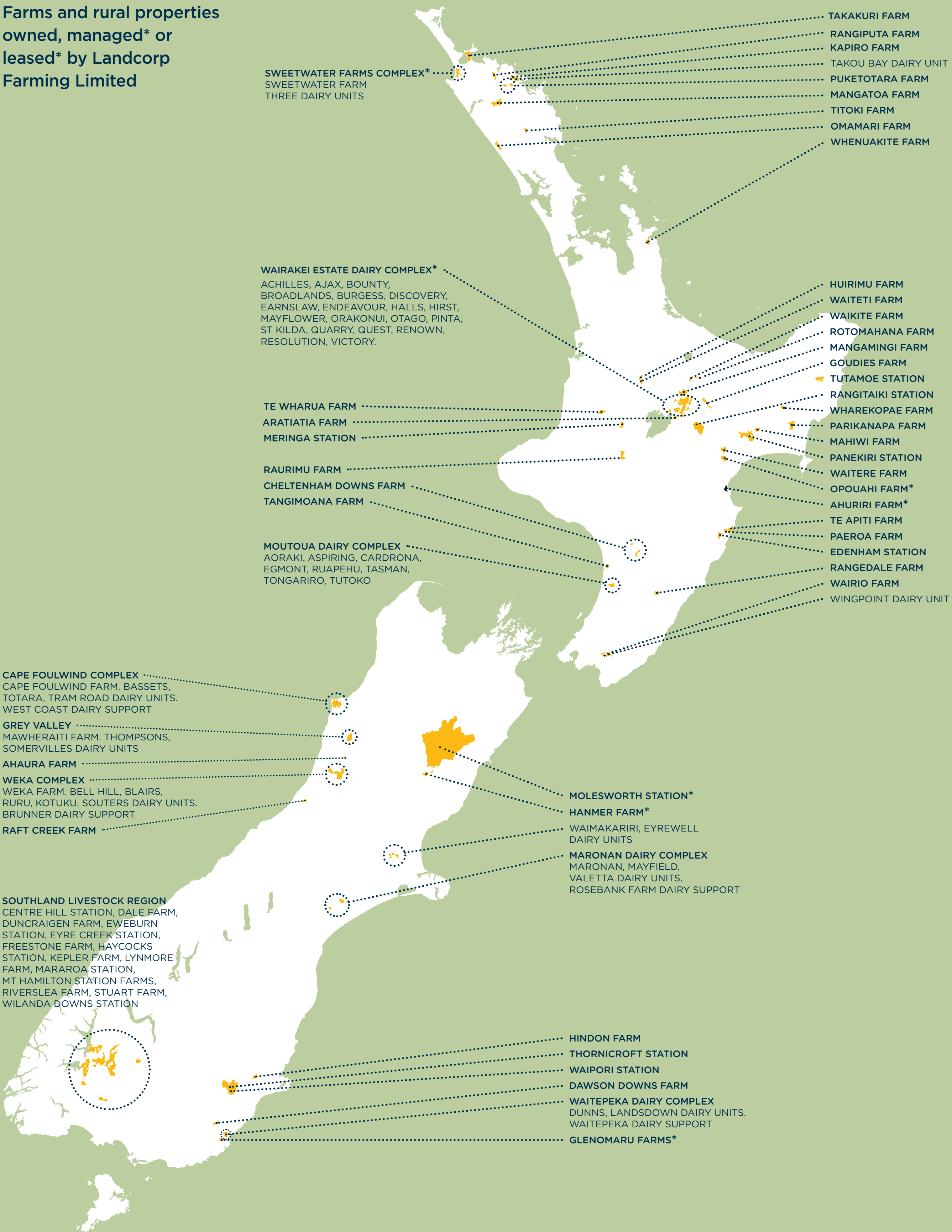
STEVEN CARDEN
CHIEF EXECUTIVE
OFFICER

GRAEME MULLIGAN
GENERAL MANAGER
LIVESTOCK OPERATIONS

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

PĀMU FARMS OF NEW ZEALAND

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



GOVERNANCE AND STATUTORY DISCLOSURES

INTRODUCTION TO OUR GOVERNANCE FRAMEWORK

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

<< HRH Prince Harry, with Gina Solomon of Ngāi Tahu and QEII Foundation Chair James Guild at a covenant event organised by the QEII Foundation in 2019. Pāmu is the largest covenanter of environmentally sensitive land through the QEII Foundation (photo supplied by QEII Foundation).

GOVERNANCE AND STATUTORY DISCLOSURES

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

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

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

THE BOARD

The Board is appointed by the shareholding Ministers and is currently comprised of eight non-executive independent Directors (including the Chair). Shareholding Ministers appointed Warren Parker to the Board as Chair with effect from 1 January 2019. The terms of two directors (John Brakenridge and David Nelson) expired on 30 April 2019. Shareholding Ministers appointed Doug Woolerton to the Board with effect from 1 May 2019 and Jo Davidson from 1 September 2019. Nigel Atherfold was also confirmed as Deputy Chair from 1 September 2019.

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

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

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

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

BOARD AND COMMITTEE MEETINGS

The Board and Board Committees met regularly throughout the year and conducted some business by circular resolution in lieu of meeting. Meetings for the year ending 30 June 2019 are set out in the following table (variations in attendance reflect the changes to Board composition over the year).

Director	Board meetings (9 meetings)	Audit & Risk Committee (4 meetings)	Performance & Safety Committee (5 meetings)
Warren Parker*	5	2	3
Chris Day**	9	4	2
David Nelson***	6		3
John Brakenridge***	6		3
Tony Reilly	8	2	3
Nigel Atherfold	9	4	
Hayley Gourley	9	4	
Belinda Storey	9		5
Doug Woolerton****	2		1

* Warren Parker was appointed 1 January 2019 and attended Audit & Risk and Performance & Safety Committee meetings ex officio

** Chris Day was acting Chair to 31 December 2018 and in that role, attended Audit & Risk and Performance & Safety Committee meetings ex officio

*** David Nelson and John Brakenridge ceased to be Directors from 30 April 2019

**** Doug Woolerton was appointed 1 May 2019

RISK MANAGEMENT

The Board has adopted a risk appetite statement which acts as a link between the strategic objectives of a company and its risk management framework. The Board is ultimately accountable for risk and has delegated the oversight of the risk framework (including the risk register and monitoring the internal audit programme) to the Audit & Risk Committee. In addition, Pāmu has a Treasury Management Committee ("TMC") comprising the executive leadership team and an independent 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.

The Chief Executive is charged with the day-to-day management of Pāmu.

The company operates under a detailed delegated authority structure, and the Board approves operational and financial policies.

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

SUBSIDIARIES

Pāmu's subsidiaries and their respective purposes are:

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

GOVERNANCE AND STATUTORY DISCLOSURES

INTERESTS REGISTER

Entries made in the interests register during the year covered particulars of Directors' interests, Directors' remuneration and Directors' and Officers' liability insurance. The following are particulars of general notices of disclosure of interest given by the current Pāmu Directors during the year:

Director	Organisation	Position
Warren Parker	Quayside Holdings Ltd	Director, Chair Remuneration Committee
	Quayside Properties Ltd	Director
	Quayside Securities Ltd	Director
	Predator Free 2050 Ltd	Director
	Farmlands Cooperative Society Ltd	Director
	Griffith Enterprise Advisory Board	Chair
	Forestry Ministerial Advisory Group	Chair
	Genomics Aotearoa Advisory Board	Director
	Warren's Insights Ltd	Director and Shareholder
	Landcorp Holdings Ltd	Director
	Landcorp Estates Ltd	Director
	Landcorp Pastoral Ltd	Director
Nigel Atherfold	TDB Advisory Ltd	Director and Shareholder
	Ngāi Tahu Farming Ltd	Director
	Rural Equities Ltd (and subsidiaries)	Director
	Terracostosa Ltd (and subsidiaries)	Director
	GT & Company Ltd	Director and Shareholder
	Dairy Investment Fund Ltd	Shareholder
	Open Country Dairy Ltd	Shareholder
	Melody Dairies GP Ltd	Director
Chris Day	Datacom Group Ltd	Director and Chair of Audit Committee
	Silver Fern Farms Ltd	Advisor to Executive Committee
	CW & CR Day Trust	Trustee
	Fairholm Farming Ltd	Director and Shareholder
	Landcorp Holdings Ltd	Director
	Landcorp Estates Ltd	Director
	Landcorp Pastoral Ltd	Director
Hayley Gourley	The Lake Road Partnership	Partner
	Focus Genetics Management Limited	Director
	Skellerup Industries Ltd	Agri Divisional Manager
Tony Reilly	AP & KM Reilly Ltd	Director
	Ravensdown Fertiliser Coop Ltd	Director
	Network Tasman Ltd	Director
	Dos Rios Dairy Ltd	Director
Belinda Storey	Climate Sigma Ltd	Director
	Wellington Insurance Taskforce	Member
Doug Woolerton	The Lobbyist Ltd	Director and Shareholder
Jo Davidson	AUT Ventures Ltd	Director
	LiquidStrip Ltd	Advisory Board member

USE OF COMPANY INFORMATION

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

DIRECTORS' REMUNERATION AND OTHER BENEFITS

Directors' fees (including fees for chairs of Board Committees) for the year to 30 June 2019 were as follows:

Warren Parker*	$36,600
Chris Day**	$56,434
David Nelson***	$33,889
John Brakenridge***	$30,369
Tony Reilly	$41,108
Nigel Atherfold	$36,439
Hayley Gourley	$36,439
Belinda Storey	$36,439
Doug Woolerton****	$6,069

* Appointed 1 January 2019

** Acting Chair to 31 December 2018

*** Ceased as directors 30 April 2019. D Nelson was acting Performance & Safety Committee Chair until 1 April 2019

**** Appointed to Board on 1 May 2019

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 $21,000 (total) towards Director continuing professional development.

INDEMNITY AND INSURANCE

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

COMPANY DONATIONS

During the year Pāmu made donations of $45,732, and undertook community and event sponsorship of $2,139.

EMPLOYEES' REMUNERATION AND OTHER BENEFITS

Set out below are the numbers of employees and former employees whose total remuneration was within the specified bands. Remuneration is inclusive of benefits including performance incentives, employer superannuation contributions, health and life insurance and accommodation benefits (where applicable). Performance incentives paid in 2018/19 relate to performance in the prior year.

Dollars in thousands	Number of employees
100–109	17
110–119	23
120–129	20
130–139	9
140–149	12
150–159	6
160–169	2
170–179	8
180–189	5
190–199	3
200–209	2
210–219	2
220–229	1
240–249	1
320–329	1
340–349	3
350–359	1
360–369	1
370–379	1
790–799	1

FINANCIAL YEAR IN REVIEW

Pāmu achieved EBITDAR (earnings before interest, tax, depreciation, amortisation and revaluations) of $34 million for the year ended 30 June 2019, after a marked slowdown in milk production due to dry weather during late summer and autumn. The result compared with EBITDAR of $48 million in 2017/18 and $36 million in 2016/17.

NET LOSS AFTER TAX

Although EBITDAR was positive, the company produced a net loss after tax of $11 million, due largely to a $22 million fair value loss on biological assets at 30 June 2019. The comparable result for 2017/18 was a $34 million profit, which included a $25 million fair value gain on biological assets.

The fair value loss on biological assets is largely due to lower market prices across deer, beef and dairy animals, partly offset by an increase in the market value of sheep compared to 12 months ago.

The loss after tax also includes depreciation and amortisation expenses ($17 million) and net finance expenses ($11 million) which were comparable to the prior year, a tax benefit of $3 million and $2 million of other items.

Pāmu's total revenue was down 2.4% to $241 million (2017/18: $247 million) because of lower milk, livestock and carbon credit revenues. Farm operating expenses were only 2% ahead of the previous year while personnel costs remained flat. Total expenses were up 5.1% to $206 million (2017/18: $196 million) due largely to a write-down in inventories as part of non-farm operating expenses.

Like other New Zealand farmers, Pāmu saw relatively high dairy and red meat prices through the 2018/19 year offset by weather extremes lowering production volumes. Most notably, summer and autumn rainfall was significantly below average across the North Island and parts of the South Island.

REVENUES

Milk revenue was down 3.2% to $92 million (2017/18: $95 million) on production of 16.4 million kg of milksolids (kgMS) across all Pāmu's owned, sharemilked and managed farms. Production was down 1% from 16.5 million kgMS the previous year due to the impact of dry weather on pasture growth in key regions through summer and autumn.

Pāmu continued to focus on A2 milk production receiving premiums from Canterbury farms and consolidating A2 animals at Wairakei Pastoral. Two North Island farms neared completion of their transition to organic certification (from October 2019 onward) with one further farm converting during the 2018/19 year. Stocking rates reduced slightly and the company shifted further into retention of calves for dairy beef production or for supply to the bull market. Trials on reduced application of nitrogen and phosphate to pastures at no, or minimal, loss of fertility showed positive results in the 2018/19 year, including a 50% nitrogen reduction achieved on one Canterbury farm. There was reduced staff turnover across the dairying business in response to management initiatives and new rostering.

New Zealand-wide farmgate milk prices dipped in the 2018/19 year but are still well above the low prices of 2015 and 2016. Pāmu's average price including dividends and premiums was $6.36 per kgMS in the latest year, which was down from $6.62 in 2017/18. The company continued to use milk price futures contracts (which settle in September), to help manage volatility in milk price revenue.

Beef and dairy animal sales increased 7.5% to $72 million (2017/18: $67 million). The company continued to substitute beef cattle for sheep on several North Island farms, in recognition of climatic changes and pasture conditions. Based on continued strong demand from both the US and China, returns to New Zealand beef producers remain well above their pre-2016 level. Total beef production was 11,562 tonnes, 4.2% ahead of the previous year.

Pāmu modified its beef farming operations to avoid any spread of Mycoplasma bovis (M.bovis). Properties were classified as closed, open or partially open to livestock trading and each transfer subjected to careful scrutiny and recording. Pāmu has had only one herd infection with M.bovis back in the 2017/18 year.

Sheep sales were $63 million, an increase of 1.6% (2017/18: $62 million) with strengthening lamb prices offset by lower sale volumes. The latest year's lamb crop was down to 421,995 (2017/18: 474,000) due to a reduction in capital flock in Northland and losses resulting from spring storms on the North Island east coast. Pāmu's total annual sheepmeat supply to processors slipped 2.9% to 7,700 tonnes reflecting the dry summer and autumn. More than 60% of total prime lamb supply was covered by contracts, with prices generally above market schedule levels through the year.

FINANCIAL YEAR IN REVIEW

Deer sales rose 9.5% to $23 million (2017/18: $21 million) on the back of higher venison prices. Venison production slipped 5.4% during the 2018/19 year to 1,945 tonnes, due mainly to dry autumn conditions in Southland and Otago. Pāmu continued to develop supply arrangements into the North American market with established value chain partners and prices remained buoyant.

Carbon credit revenue of $3m from the allocation of new carbon units is less than half of that received last year ($8m)

Wool revenue was unchanged (2017/18: $4 million) despite an average price 22% lower than the previous year, consistent with a weaker international wool market. Wool volumes sold increased by 8% to 2,595 tonnes and Pāmu made further progress in selling direct to manufacturers on contracts managed by the New Zealand Merino Company.

PROPERTY TRANSFERS

In June 2019, the company transferred Taurewa Farm, in the central North Island, to Iwi owners under the terms of a Treaty of Waitangi settlement, and exited management of the Pouarua Dairy Complex on the Hauraki Plains. Taurewa had been one of 10 properties previously transferred into Landcorp Holdings Ltd, an entity set up (in 2008) to retain farms and land intended for eventual use by the Crown in Treaty settlements. Pouarua had been under Pāmu management since acquisition by the Hauraki Collective as part of a Treaty settlement in 2014. The company started the new financial year with 117 farms owned, leased or managed under contract.

While Pāmu has no current property sale programme, certain properties are classified as “available for sale” due to potential transfers under the terms of settlements under the Treaty of Waitangi.

OPERATING EXPENSES

Pāmu had operating expenses of $206 million (2017/18: $196 million), including farm working and maintenance expenses of $103 million which only increased 2%. Strong management of costs on-farm and off-farm continued. Personnel expenses of $62 million were unchanged from 2017/18. At 30 June 2019, the company had 650 fulltime employees, compared with 680 a year earlier, the drop a result of exiting the management of the Pouarua Dairy Complex.

Other expenses included a $4 million write-down on milk powder inventory held by Pāmu for supply into China, which was approaching its expiry date.

TOTAL COMPREHENSIVE INCOME

Total comprehensive income for the 2018/19 year included a $47 million loss in the book value of Pāmu’s land and improvements. There was no valuation gain or loss in 2018 as a full valuation exercise did not occur in accordance with the Group’s accounting policies. Rural land values have softened due to environmental concerns, the biosecurity threat of M.bovis, reduced liquidity due to tighter lending criteria and restrictions on foreign buyers. Pāmu’s farms tend to be of larger size and these factors have reduced the pool of potential buyers.

The latest year’s $65 million loss at the total comprehensive income line (2017/18: $30 million profit) includes this $47m fair value loss in addition to a fair value loss of $12 million in the value of Pāmu’s share investment in Fonterra.

BALANCE SHEET

Total assets declined to $1,782 million at 30 June 2019 (30 June 2018: $1,857 million), reflecting reduced valuations on livestock, forests, property, plant and equipment, and share investments (as noted above).

The level of bank borrowing increased to $223 million (30 June 2018: $209 million) due principally to slightly lower cash flows on Pāmu’s sale of milk and livestock, and the absence of land sale proceeds which were a feature of the previous years’ operations. Net cash flows from operating activities in the 2018/19 year were $24 million (2017/18: $28 million). Pāmu closely manages its borrowing from a syndicate of banks experienced in the traditional cycles of New Zealand agriculture.

At 30 June 2019, the ratio of shareholders’ funds including redeemable preference shares) to total assets was 85%.

KEY FINANCIAL DATA OVER FIVE YEARS

DOLLARS IN MILLIONS UNLESS OTHERWISE STATED

	2018/19	2017/18	2016/17	2015/16	2014/15
Total revenue	241	247	231	210	224
EBITDAR [1]	34	48	36	26	31
Net profit after tax	(11)	34	52	12	(20)
Total comprehensive income	(65)	30	57	(3)	(8)
Total shareholder return (%) [2]	(4.7)	2.2	3.9	(0.1)	(1.1)
Return on equity, adjusted for IFRS Fair Value (%) [3]	1.6	1.6	1.2	(0.4)	1.7
Dividend declared	5	5	–	–	–
Total assets	1,782	1,857	1,814	1,786	1,775
Total equity	1,428	1,497	1,466	1,411	1,413
Bank debt	223	209	207	220	211
Shareholders funds / Total assets (%) [4]	85.0	86.0	86.3	85.0	85.7

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

TARGETS FOR 2019/20

As a State-Owned Enterprise, Landcorp prepares an annual Statement of Corporate Intent (SCI) including targets and budget forecasts for financial performance during the year ahead. The 2018/19 financial targets and forecasts for 2019/20, including those in the SCI, are shown in the table below.

	Target 2019/20*	Actual 2018/19	Target 2018/19
Shareholder Returns			
Total Shareholder Return (%) [1]	0.7	(4.7)	3.8
Return on Equity, adjusted for IFRS Fair Value (%) [2]	1.9	1.6	4.1
Dividend Yield (%) [3]	0.3	0.3	0.4
Dividend Payout (%) [4]	192.3	75.8	27.9
Profitability & Efficiency			
EBITDAR ($m) [5]	61	34	46
Net Profit after tax ($m)	10	(11)	19
Operating cashflow after capex ($m)	(31)	(24)	(21)
Return on Capital Employed (%) [6]	3.1	2.2	3.7
Operating Margin (%) [7]	24.0	14.4	18.3
Dividends Declared – Group (ordinary and special) ($m)	5.0	5.0	5.0
Leverage & Solvency			
Gearing (%) [8]	13.3	13.4	11.6
Interest Cover (times) [9]	2.59	3.03	4.26
Solvency (times) [10]	4.01	6.22	3.77

1. The total of equity movement during the year and dividend paid / equity opening balance
2. Net profit after tax less fair value revaluations / average shareholders' equity less revaluation reserves
3. Dividends declared / average shareholders' equity
4. Dividends paid / net cash flow from operating activities less depreciation and amortisation expense (for 2019/20 excludes NZ IFRS 16 lease amortisation)
5. Earning before interest, tax, depreciation, amortisation and revaluations
6. EBITDAR less depreciation / average shareholders' equity, debt and redeemable preference share less revaluation and fair value revenue reserves
7. EBITDAR less profit on land sales and loss from equity accounted investments / total revenue
8. Net debt / net debt plus equity
9. EBITDAR / net interest
10. Current assets / current liabilities. Current assets is the value of all assets that can reasonably be expected to be converted into cash within one year, while current liabilities are obligations that are due to be paid within one year (excluding the current portion of long term debt on the basis that all debt will be refinanced as it matures)

* The 2019/20 targets have been set against forecast financial results which include the impact of the new lease standard (NZ IFRS 16) which is applied from 1 July 2019.

FINANCIAL STATEMENTS AND NOTES

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2019

	Note	Group 2019 $m	Group 2018 $m
Revenue			
Farm operating	3	224	227
Other business activities	4	17	20
		241	247
Operating expenses			
Farm working and maintenance	5	103	101
Personnel	6	62	62
Other	7	41	33
		206	196
(Loss) from equity accounted investments		(1)	(2)
(Loss) on sale of farm and forestry land		–	(1)
Earnings before interest, tax, depreciation, amortisation and revaluations		**34**	**48**
Depreciation and amortisation		(17)	(16)
Net finance expenses	8	(11)	(12)
Fair value (loss)/gain on financial instruments		(1)	3
Fair value (loss)/gain on biological assets	9	(22)	25
Impairment reversal/(loss) on property, plant and equipment	19	3	(3)
Net (loss)/profit before tax		**(14)**	**45**
Tax benefit/(expense)	10	3	(11)
Net (loss)/profit after tax		**(11)**	**34**
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Fair value (loss) on land and improvements	19	(47)	–
Fair value (loss) on share investments		(12)	(3)
Fair value gain on carbon credits		2	2
Tax benefit/(expense) recognised in equity		3	(3)
Total comprehensive income		**(65)**	**30**

The accompanying notes form part of these financial statements.

STATEMENT OF MOVEMENTS IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2019

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

	Note	Share capital $m	Retained earnings $m	Share revaluation reserve $m	Asset revaluation reserve $m	Total equity 2018 $m
Balance as at 1 July 2017		**125**	**579**	**16**	**745**	**1,465**
Net profit after tax		–	34	–	–	34
Fair value movement		–	–	(3)	2	(1)
Tax expense recognised in equity		–	–	–	(3)	(3)
Realised gains on farm sales		–	8	–	(8)	–
Net transfers under Protected Land Agreement		–	2	–	–	2
Balance as at 30 June 2018	23	**125**	**623**	**13**	**736**	**1,497**

The accompanying notes form part of these financial statements.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2019

	Group 2019 $m	Group 2018 $m
Cash flows from operating activities		
Receipts from customers:		
Livestock	147	151
Milk	93	98
Other receipts from customers	19	20
Dividends received	–	1
Payments to suppliers	(159)	(165)
Payments to employees	(66)	(65)
Interest paid	(10)	(12)
Net cash flows from operating activities	**24**	**28**
Cash flows from investing activities		
Proceeds from sale of land and improvements	–	13
Proceeds from sale of other property, plant and equipment	15	3
Purchase and development of land and forestry	(20)	(19)
Purchase of other property, plant and equipment and intangibles	(17)	(19)
Purchase of shares and interests in joint venture investments	(11)	(5)
Net cash flows from investing activities	**(33)**	**(27)**
Cash flows from financing activities		
Net borrowing receipts	14	2
Dividends paid	(5)	–
Net cash flows from financing activities	**9**	**2**
Net change in cash and cash equivalents	**–**	3
Cash and cash equivalents at beginning of year	2	(1)
Cash and cash equivalents at end of year	**2**	**2**

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

The accompanying notes form part of these financial statements.

RECONCILIATION OF PROFIT AND OPERATING CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2019

	Group 2019 $m	Group 2018 $m
Net (loss)/profit after tax	(11)	34
Non-cash items		
Non-cash livestock growth and aging	2	1
Carbon credit allocation	(3)	(8)
Depreciation and amortisation	17	16
Fair value movements	23	(28)
Impairment (reversal)/loss on property, plant and equipment	(3)	3
Tax (benefit)/expense	(3)	11
Movements in working capital		
Inventories	3	(1)
Accounts receivable	(4)	(5)
Accounts payable and accruals	(1)	(1)
Employee entitlements	(2)	(3)
Items classified as investing activities		
Net gain on movement of assets	1	1
Change in accounts receivable due to capital items	4	7
Change in accounts payable due to capital items	1	1
Net cash flows from operating activities	**24**	**28**

The accompanying notes form part of these financial statements.

STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2019

	Note	Group 2019 $m	Group 2018 $m
Assets			
Cash and cash equivalents		2	2
Accounts receivable	11	43	39
Inventories	12	13	16
Property held for sale	13	27	27
Livestock	14	305	340
Forests	15	37	36
Equity accounted investments	16	17	6
Share investments	17	45	57
Intangible assets	18	25	19
Property, plant and equipment	19	1,268	1,315
Total assets		**1,782**	**1,857**
Liabilities			
Bank loans	20	223	209
Accounts payable and accruals		15	16
Employee entitlements		8	10
Interest rate derivatives	21	12	10
Deferred tax liability	10	9	15
Redeemable preference shares	22	87	100
Total liabilities		**354**	**360**
Shareholders' funds			
Share capital		125	125
Retained earnings		640	623
Share revaluation reserve		1	13
Asset revaluation reserve		662	736
Total shareholders' funds	23	**1,428**	**1,497**
Total equity		**1,428**	**1,497**
Total equity and liabilities		**1,782**	**1,857**

Landcorp's Board of Directors authorised the financial statements for issue on 27 August 2019.

Signed on behalf of the Board

Dr. Warren Parker
Chair

27 August 2019

Chris Day
Chair of Audit and Risk Committee

27 August 2019

The accompanying notes form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2019

NOTE 1: BASIS OF ACCOUNTING

Reporting entity

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

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

Basis of preparation

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

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

Basis of consolidation

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

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

A list of subsidiaries and equity accounted investees is shown in note 30.

Critical accounting judgements, estimates and assumptions

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

Use of judgements and estimates

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

- Note 14 – Livestock – valuation of livestock
- Note 15 – Forests – valuation of forests
- Note 17 – Share investments – valuation of shares
- Note 18 – Intangible assets – measurement of the recoverable amount of intangibles
- Note 19 – Property, plant and equipment – valuation of land and buildings

Fair value hierarchy

A number of Landcorp's accounting policies and disclosures require the measurement of fair values. Fair value is the price that would be received upon sale of an asset or paid to transfer a liability in an orderly transaction between participants at the measurement date. The fair value hierarchy provides an indication about the reliability of inputs used to determine fair value. When measuring the fair value of an asset or liability, Landcorp uses market observable data as far as possible. An explanation of each level follows:

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2019

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES

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

Changes in accounting policies

The Group has adopted NZ IFRS 9 Financial Instruments and NZ IFRS 15 Revenue from Contracts with Customers from 1 July 2018.

NZ IFRS 9 Financial Instruments includes revised guidance on the classification and measurement of financial instruments and a new expected credit loss model for calculating impairment on financial assets. The standard requires financial instruments to be classified as measured at amortised cost or at fair value. The determination is made at initial recognition. The adoption of NZ IFRS 9 has not resulted in any material change to the measurement basis for Landcorp's financial instruments, but does change their classification and disclosure. The following notes and accounting policies have been updated to incorporate the changes imposed by NZ IFRS 9.

- Note 11 – Accounts receivable are now classified at amortised cost and were previously classified as loans and receivables
- Note 17 – Share investments are now classified as fair value through Profit or Loss or fair value through Other Comprehensive Income. Previously these were classified as available for sale financial assets.
- Accounts payable are still classified at amortised cost which is unchanged from its previous classification.
- Note 20 – Bank loans are still classified at amortised cost which is unchanged from its previous classification.
- Note 21 – Interest rate derivatives are still classified at fair value through Profit or Loss which is unchanged from its previous treatment.

NZ IFRS 15 Revenue from Contracts with Customers establishes a comprehensive framework for determining whether, how much and when revenue is recognised. The adoption of this standard has no impact on the financial statements.

Adoption status of relevant new financial reporting standards and interpretations

NZ IFRS 16 Leases (effective for annual periods beginning on or after 1 January 2019) will require Landcorp to recognise leased assets on its balance sheet by calculating the present value of the associated lease payments. The standard also requires changes to be made in the way in which expenditure is recorded in relation to those leases. Operating lease expenses will be replaced with an amortisation charge on leased assets and an interest expense in respect of lease liabilities.

When adopted, NZ IFRS 16 will have a material impact on the Group's financial statements. Landcorp has established that recognition of lease obligations in respect of the Wairakei Estate will create material assets and liabilities on the Group balance sheet. Based on leases held at 30 June 2019 there will be an increase in assets and liabilities of $244m. The leased asset will be amortised over the remaining lease term creating an amortisation charge of $8m and lease interest charges of $11m per annum, while operating expenses will decrease by $12m per annum. Due to the structure of the lease and provisions within the standard, it will be necessary to re-measure these amounts annually as the lease provides for systematic revaluation of leased land over the lease term.

In addition to the Wairakei Estate lease, Landcorp is party to a number of other lease arrangements. The estimated impact of NZ IFRS 16 on other leases held at 30 June 2019 will be to create an asset and liability of $7m, amortisation and interest charges of $2m per annum, and a decrease in operating expenses of $2m per annum.

The underlying commercial arrangements and cash flows relating to these leases are not affected by the adoption of NZ IFRS 16, and there is no impact on net profit over the life of the leases.

NOTE 3: FARM OPERATING REVENUE

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

Livestock revenue from livestock sales is recognised following the delivery of stock. Various forms of livestock sales contracts are held with meat processors. These contracts will generally fix prices for future sales by setting guaranteed minimum or spot prices. Livestock growth (aging) is recognised based on pre-determined standard values approved by the Board.

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

Landcorp holds New Zealand Stock Exchange ("NZX") milk price futures in order to manage commodity risk. The fair value gains or losses on these futures are reported in the Statement of Profit or Loss at balance date each year. When the futures are finally settled (in the subsequent financial year), the actual gains or losses are accounted for within milk revenue.

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

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

	Group 2019 $m	Group 2018 $m
Livestock	124	125
Milk	92	95
Wool	4	4
Forestry	4	3
Total farm operating revenue	**224**	**227**

Livestock revenue

Livestock revenue includes the recognition of net gains or losses arising from sales to customers, as well as volume changes arising due to the birth, growth and death of livestock. Any value change arising from a change in livestock numbers is calculated by assigning an internally assessed annual value to each livestock class

	Note	Sheep $m	Beef $m	Dairy $m	Deer $m	Group 2019 $m
Livestock sales		63	54	18	23	158
Livestock purchases		(10)	(7)	(2)	–	(19)
Birth and growth of animals	14	36	32	33	17	118
Livestock losses	14	(6)	(2)	(3)	(2)	(13)
Book value of livestock purchased and sold	14	(33)	(41)	(29)	(17)	(120)
Total livestock revenue		**50**	**36**	**17**	**21**	**124**

	Note	Sheep $m	Beef $m	Dairy $m	Deer $m	Group 2018 $m
Livestock sales		62	53	14	21	150
Livestock purchases		(8)	(13)	(3)	–	(24)
Birth and growth of animals	14	36	41	25	15	117
Livestock losses	14	(6)	(2)	(3)	(2)	(13)
Book value of livestock purchased and sold	14	(31)	(33)	(26)	(15)	(105)
Total livestock revenue		**53**	**46**	**7**	**19**	**125**

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2019

NOTE 4: OTHER BUSINESS ACTIVITIES

	Note	Group 2019 $m	Group 2018 $m
Grazing and feed income		9	10
Carbon credit allocation	18	3	8
Other business activities		5	2
Total other business activities		**17**	**20**

NOTE 5: FARM WORKING AND MAINTENANCE

	Group 2019 $m	Group 2018 $m
Cropping and feed costs	36	34
Pasture maintenance	23	22
Repairs and maintenance	14	14
Animal breeding and health	17	17
Shearing	6	5
Other farm working expenses	7	9
Total farm working and maintenance	**103**	**101**

NOTE 6: PERSONNEL

	Group 2019 $m	Group 2018 $m
Staff remuneration	57	57
Superannuation expense	2	2
Other personnel costs	3	3
Total personnel	**62**	**62**

NOTE 7: OTHER OPERATING EXPENSES

	Group 2019 $m	Group 2018 $m
Rent and rates	17	16
Electricity	4	4
Fuel	3	2
Professional services	6	5
Inventory write down	4	–
Other operating expenses	7	6
Total other operating expenses	**41**	**33**

Included in professional services are statutory audit fees of $0.3m (2018: $0.2m).

NOTE 8: NET FINANCE EXPENSES

	Group 2019 $m	Group 2018 $m
Finance expenses		
Interest expense on borrowings	8	8
Interest expense on interest rate derivatives	3	4
Total net finance expenses	**11**	**12**

NOTE 9: FAIR VALUE (LOSS)/GAIN ON BIOLOGICAL ASSETS

	Note	Group 2019 $m	Group 2018 $m
Effect of price changes on livestock	14	(20)	22
Effect of price changes on forestry	15	(2)	3
Total fair value (loss)/gain on biological assets		**(22)**	**25**

NOTE 10: TAX

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

Tax benefit/(expense)	**Group 2019 $m**	**Group 2018 $m**
Current tax	–	–
Deferred tax	3	(11)
Total tax benefit/(expense)	**3**	**(11)**
Reconciliation between tax benefit/(expense) and accounting profit		
Net (loss)/profit before tax	(14)	45
Tax benefit/(expense) at the New Zealand tax rate 28% (2018: 28%)	4	(13)
Adjusted for the tax effect of:		
Prior period adjustment	(8)	–
Non-assessable income	9	3
Non-deductible expenses	(2)	(1)
Total tax benefit/(expense)	**3**	**(11)**

Deferred tax liability

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

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

	Tax losses recognised $m	**Biological assets $m**	**Property, plant and equipment $m**	**Other $m**	**Group 2019 $m**
Balance as at 1 July 2017	47	(37)	(13)	2	(1)
Amount recognised in Profit or Loss	(2)	(10)	1	–	(11)
Amount recognised in Other Comprehensive Income	–	–	(2)	(1)	(3)
Balance as at 30 June 2018	45	(47)	(14)	1	**(15)**

Imputation credits

Imputation credits available for use in subsequent reporting periods are $0.3m (2018: $2.3m).

NOTE 11: ACCOUNTS RECEIVABLE

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

	Group 2019 $m	Group 2018 $m
Trade debtors	10	8
Milk income receivable	17	18
Other receivables and prepayments	16	13
Total accounts receivable	**43**	**39**

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

	Group 2019 $m	Group 2018 $m
Current	34	29
Non-current	9	10
Total accounts receivable	**43**	**39**

NOTE 12: INVENTORIES

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

	Group 2019 $m	Group 2018 $m
Agricultural produce	12	11
Pāmu branded product	1	5
Total inventories	**13**	**16**

During the year Pāmu branded milk powder approaching its expiry date was written down by $4m (2018: none).

NOTE 13: PROPERTY HELD FOR SALE

Properties are identified for sale when a sales plan has been implemented and an unconditional sales contract is expected to be signed within a year or a property is subject to a Treaty settlement sale. They comprise farm land and associated buildings. Properties that are the subject of Treaty settlements may sometimes be classified as held for sale for periods greater than one year due to final negotiation of settlement terms. As these properties are still likely to be purchased by claimants, Directors consider it probable that their value will be recovered by way of sale rather than ongoing operations.

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

	Note	Group 2019 $m	Group 2018 $m
Opening balance		27	59
Property declassified as held for sale	19	–	(17)
Disposals		–	(15)
Total property held for sale		**27**	**27**

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2019

NOTE 14: LIVESTOCK

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

Livestock valuations at 30 June 2019 were provided by PGG Wrightson Ltd. These market values reflect livestock of similar age, breed and genetic merit throughout New Zealand.

	Note	Sheep $m	Beef $m	Dairy $m	Deer $m	Group 2019 $m
Balance as at 1 July 2018		**83**	**112**	**95**	**50**	**340**
Birth and growth of animals	3	36	32	33	17	118
Livestock losses	3	(6)	(2)	(3)	(2)	(13)
Book value of livestock purchased and sold	3	(33)	(41)	(29)	(17)	(120)
Fair value (loss)/gain	9	4	(14)	(5)	(5)	(20)
Balance as at 30 June 2019		**84**	**87**	**91**	**43**	**305**

	Note	Sheep $m	Beef $m	Dairy $m	Deer $m	Group 2018 $m
Balance as at 1 July 2017		**70**	**109**	**95**	**45**	**319**
Birth and growth of animals	3	36	41	25	15	117
Livestock losses	3	(6)	(2)	(3)	(2)	(13)
Book value of livestock purchased and sold	3	(31)	(33)	(26)	(15)	(105)
Fair value (loss)/gain	9	14	(3)	4	7	22
Balance as at 30 June 2018		**83**	**112**	**95**	**50**	**340**

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

	Group 2019 $m	Group 2018 $m
Current	96	96
Non-current	209	244
Total value of livestock	**305**	**340**

Livestock numbers comprised of:

	Group 2019	Group 2018
Sheep	439,899	469,118
Beef	79,747	88,972
Dairy	73,883	67,483
Deer	88,803	90,220

NOTE 15: FORESTS

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

Forestry valuations at 30 June 2019 were provided by PF Olsen Ltd. These market values reflect the specific characteristics of the forests and recent sales in both the domestic and export log market. The valuation is for productive tree crops only and excludes the value of land and improvements and any value arising from participation in the Emissions Trading Scheme ("ETS") (refer to Note 18).

	Note	Group 2019 $m	Group 2018 $m
Forests value at start of year		**36**	**27**
Planting		4	4
Growth		1	3
Book value of forests harvested/sold		(2)	(1)
Fair value (loss)/gain	9	(2)	3
Forests value at end of year		**37**	**36**

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

	Group 2019 $m	Group 2018 $m
Current	4	2
Non-current	33	34
Forests value at end of year	**37**	**36**

The age of Landcorp's forests are shown below:

	Group 2019 Hectares	Group 2018 Hectares
Less than 10 years	8,898	6,928
Between 10–25 years	1,936	1,897
Greater than 25 years	257	202
Total hectares planted	**11,091**	**9,027**

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2019

NOTE 16: EQUITY ACCOUNTED INVESTMENTS

Investments in equity accounted investees are initially recognised at cost and the carrying value is increased or decreased to recognise the share of surplus or deficit of the entity after the date of acquisition. Distributions received from the investee reduce the carrying amount of the investment. Cash contributions made to the investee increase the carrying amount of the investment. When Landcorp's share of losses exceeds its investment, a liability is recognised to the extent that Landcorp has incurred a constructive or legal obligation. A list of equity accounted investees is shown in note 30.

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

	Group 2017 $m	Cash contributions/ (distributions) $m	Profit/(loss) from continuing operations $m	Group 2018 $m
Farm IQ Systems Ltd	–	2	(1)	1
Spring Sheep Dairy Limited Partnership	3	3	(2)	4
Wharewaka (2003) Ltd	1	(1)	–	–
Wharewaka East Ltd	–	–	1	1
Total equity accounted investments	**4**	**4**	**(2)**	**6**

NOTE 17: SHARE INVESTMENTS

	Group 2019 $m	Group 2018 $m
Share investments at fair value through Profit or Loss:		
Westland Co-operative Dairy Company Limited	5	5
Other	1	1
Share investments at fair value through Other Comprehensive Income:		
Fonterra Co-operative Group Ltd	27	38
Waimakariri Irrigation Ltd	9	10
Ravensdown Limited	2	2
MHV Water Limited	1	1
Total share investments	**45**	**57**

The Group is required to hold certain shares and investments in cooperative companies to facilitate farming operations. Shares are held as a consequence of business operations and not held for trading.

Share investments are initially recognised at cost, and subsequently revalued to fair market value. Landcorp has elected to account for fair value changes through Other Comprehensive Income except in cases where the shares can be redeemed at “par” value from the issuer. In such cases any value change will be accounted for through the Statement of Profit or Loss.

Any dividends from share investments are recognised in the Statement of Profit or Loss.

NOTE 18: INTANGIBLE ASSETS

Genetic royalties

Genetic royalties goodwill is the excess of purchase consideration over the net identifiable assets of the Focus Genetics Group acquired. The value of goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired. Goodwill is deemed to have an indefinite life.

Carbon credits

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

At 30 June 2019 Landcorp held 796,830 post-1989 NZUs (2018: 651,308 units) and 143,460 pre-1990 NZUs (2018: 143,460 units). Landcorp NZUs are revalued at each reporting date and any fair value movement is reflected within Other Comprehensive Income. Had the Group's carbon credits been measured on a historical cost basis, their carrying amount would have been $14m (2018: $10m).

Software

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

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

	Genetic royalties $m	Carbon credits $m	Software $m	Group 2018 $m
Opening balance	2	6	5	13
Additions/(disposals)	–	8	–	8
Revaluation	–	2	–	2
Balance at end of year	2	16	5	23
Accumulated amortisation				
Opening balance	–	–	(4)	(4)
Amortisation	–	–	–	–
Balance at end of year	–	–	(4)	(4)
Total intangible assets	**2**	**16**	**1**	**19**

NOTE 19: PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consists of land and improvements, protected land and plant and equipment.

Land is measured at fair value and buildings are measured at fair value less accumulated depreciation and impairment losses. Leased land and improvements are held at cost. 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.

Fair value is based on periodic valuations by an independent valuer. The valuations use a market approach and take into account general factors that influence farm land prices as well as market evidence such as recent farm sales in the relevant regions. Full property valuations are undertaken every three years and the last valuation was performed on 30 June 2019. In years where there is not a full valuation, an assessment is carried out and if there is a material change in the fair value of a property portfolio, a full revaluation of that portfolio is carried out. Revaluations are reflected in the asset revaluation reserve and included in Other Comprehensive Income, with any revaluations below cost or recoveries to cost being recognised in the Statement of Profit or Loss. Asset additions that occur between revaluations are initially recorded at cost. Gains and losses on disposal are determined by comparing the disposal proceeds with the carrying amount of the asset.

The valuation also considers the price effects of various legal obligations placed on Landcorp's land ownership. The impact of the Conservation Act 1987 relating to the establishment of marginal strips and conservation management plans is considered where applicable. In the North Island deductions of 0–6% have been made for the effects of the Treaty of Waitangi (State Enterprises) Act 1988 and the memorials pertaining to section 27B of the State Owned Enterprises Act 1986, which provides for the resumption of land on recommendation of the Waitangi Tribunal. The South Island properties include a deduction of up to 5% to reflect the effect of the Right of First Refusal memorial granted to Ngāi Tahu under the Ngāi Tahu Claims Settlement Act.

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

All other items of plant and equipment are measured at cost less accumulated depreciation and impairment losses.

Depreciation is provided on a straight-line basis on all property, plant and equipment other than land and land improvements over their useful lives. The useful lives of property, plant and equipment are as follows:

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

NOTE 19: PROPERTY, PLANT & EQUIPMENT (continued)

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

	Note	Land and improvements				
	Note	Freehold land and buildings $m	Improvements leased land $m	Protected land $m	Plant and equipment $m	Group 2018 $m
Opening balance		1,079	65	106	131	1,381
Additions		15	5	4	12	36
Disposals		(2)	–	(3)	(9)	(14)
Impairment (loss) recognised in profit and loss		(3)	–	–	–	(3)
Reclassified from property held for sale	13	17	–	–	–	17
Balance at end of year		1,106	70	107	134	1,417
Accumulated depreciation						
Opening balance		(2)	(7)	(1)	(84)	(94)
Depreciation		(3)	(1)	–	(11)	(15)
Disposal		–	–	–	7	7
Balance at end of year		(5)	(8)	(1)	(88)	(102)
Total property, plant and equipment		**1,101**	**62**	**106**	**46**	**1,315**

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2019

NOTE 19: PROPERTY, PLANT & EQUIPMENT (continued)

Total land and improvements includes work in progress of $1m at 30 June 2019 (2018: $1m).

Had the Group's freehold land and buildings (other than land and buildings classified as held for sale) and protected land been measured on a historical cost basis, their carrying amount would have been freehold land $549m (2018: $536m) and buildings on freehold land $68m (2018: $67m).

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

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

	Note	North Island Dairy $m	South Island Dairy $m	North Island Livestock $m	South Island Livestock $m	Group 2018 $m
Opening balance		73	196	433	377	1,079
Additions		2	2	6	5	15
Disposals		–	–	–	(2)	(2)
Impairment (loss) recognised in profit and loss		–	(3)	–	–	(3)
Reclassified from property held for sale	13	–	–	(1)	18	17
Balance at end of year		75	195	438	398	1,106
Accumulated depreciation						
Opening balance		–	–	(1)	(1)	(2)
Depreciation		–	(1)	(1)	(1)	(3)
Disposals		–	–	–	–	–
Balance at end of year		–	(1)	(2)	(2)	(5)
Total freehold land and buildings		**75**	**194**	**436**	**396**	**1,101**

NOTE 20: BANK LOANS

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

	Group 2019 $m	Group 2018 $m
Current	36	85
Non-current	187	124
Total bank loans	**223**	**209**

Cash advance facilities are as follows:

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

	Within one year	Between one and five years	Group 2018 $m
Drawn	85	124	209
Undrawn	–	106	106
Total bank loans	**85**	**230**	**315**

Financial guarantees

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

NOTE 21: INTEREST RATE DERIVATIVES

Interest rate derivatives

Interest rate derivatives are valued at fair value ('exit price' basis). Accrued interest is calculated based on the market 90 day rate which was 1.70% at balance date (2018: 1.97%) and is removed from the revaluation provided by each swap provider. Any fair value gains or losses on these financial instruments are reported in the Statement of Profit or Loss.

	Group 2019 $m	Group 2018 $m
Current	–	–
Non-current	12	10
Total interest rate derivatives	**12**	**10**

NOTE 22: REDEEMABLE PREFERENCE SHARES

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

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

	Group 2019 $m	Group 2018 $m
Value at start of period	100	100
Transferred back to the Crown	(13)	–
Total redeemable preference shares	**87**	**100**

NOTE 23: CAPITAL MANAGEMENT

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

	Group 2019 $m	Group 2018 $m
Share capital	125	125
Retained earnings	640	623
Share revaluation reserve	1	13
Asset revaluation reserve	662	736
Total shareholders' funds	**1,428**	**1,497**

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

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

COMPONENTS OF CAPITAL

Share capital

Landcorp's share capital is held equally by the Minister of Finance and the Minister for State-Owned Enterprises. Ordinary shares carry one vote per share and carry the right to participate in dividends. There are 125,000,000 authorised shares on issue (2018: 125,000,000). All shares are fully paid up.

Retained earnings

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

Share revaluation reserve

The share revaluation reserve comprises the cumulative net change in the fair value of share investments, until the investment is sold. When revalued shares are sold, the portion of the share revaluation reserve relating to those shares is effectively realised and transferred directly to retained earnings.

Asset revaluation reserve

The asset revaluation reserve is used to record changes in the fair value of land and buildings and intangible assets. When revalued assets are sold, the portion of the asset revaluation reserve relating to that asset is effectively realised and transferred directly to retained earnings.

NOTE 24: DIVIDENDS PAID

	Group 2019 Cents per share	Group 2018 Cents per share	Group 2019 $m	Group 2018 $m
Ordinary shares – final dividend	4.00	–	5	–
Total dividends paid	**4.00**	**–**	**5**	**–**

NOTE 25: VALUATION OF FINANCIAL INSTRUMENTS

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

Classification of financial assets and financial liabilities

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

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

	Amortised Cost	Fair value hierarchy			Group 2018 $m
		Level 1	Level 2	Level 3	
Accounts receivable	39	–	–	–	39
Share investments at fair value through Profit or Loss	–	–	6	–	6
Share investments at fair value through Other Comprehensive Income	–	48	3	–	51
Total financial assets	**39**	**48**	**9**	**–**	**96**
Accounts payable and accruals	16	–	–	–	16
Interest rate derivatives	–	10	–	–	10
Bank loans	209	–	–	–	209
Total financial liabilities	**225**	**10**	**–**	**–**	**235**

Landcorp recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred. There have been no transfers during this year (2018: none).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2019

NOTE 26: RISK MANAGEMENT

The Landcorp Board has adopted a risk appetite statement which acts as a link between the strategic objectives of a company and its risk management framework. The Board, as the governing body, is ultimately accountable for risk and has delegated the oversight of the risk framework (including risk register and monitoring the internal audit programme) to the Audit and Risk Committee. In addition, Landcorp has a Treasury Management Committee ("TMC") 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.

Risks due to agricultural activities

Agricultural risks

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

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

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

Mycoplasma bovis

At 30 June 2019, six farms have been identified as 'trace' farms and are currently undergoing periodic testing by MPI. None of the group's farms are infected and there are currently no restrictions imposed. The potential incidence of Mycoplasma bovis on Landcorp farms and the potential economic cost cannot be forecast. Any material impact would also depend on a number of significant variables including farm type, farm size, the history of livestock movements and the level of compensation (if any) awarded by MPI.

Financing risk

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

Market risk

Commodity price and volume risk

Landcorp is exposed to risks arising from fluctuations in the price and sales volume of milk, livestock and forestry. Commodity price risk for milk is managed through the sale of milk price futures, which are available through the NZX. Landcorp's policy is to hedge a minimum of 25% and a maximum of 50% of total milk production through the NZX. To mitigate commodity price risk for livestock, Landcorp's policy is to fix a minimum of 20% of sales revenue by entering into fixed price contracts with livestock processors.

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.

Interest rate risk

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

NOTE 26: RISK MANAGEMENT (continued)

	Note	Effective interest rate	Within one year $m	One to five years $m	Greater than five years $m	Group 2019 $m
Bank loans	20	2.91%	223	–	–	223
Interest rate derivatives			(100)	50	50	–
Net interest rate exposure			**123**	**50**	**50**	**223**

	Note	Effective interest rate	Within one year $m	One to five years $m	Greater than five years $m	Group 2018 $m
Bank loans	20	2.80%	209	–	–	209
Interest rate derivatives			(90)	40	50	–
Net interest rate exposure			**119**	**40**	**50**	**209**

Although wholesale interest rates have declined in the past twelve months, the capital requirements of banks have led to increased margins and therefore increased interest rates.

Based on term debt at balance date the interest rate on borrowing inclusive of interest costs on derivatives was as follows:

	Group 2019 $m	Group 2018 $m
Interest rate	4.40%	4.75%

Sensitivity analysis

The effect on net profit before tax of a higher or lower term borrowing rate is shown below. The effect has been estimated taking account of any hedging instruments used in the year.

	Group 2019 $m	Group 2018 $m
Net finance costs would have changed by:		
Term borrowing rate on unhedged borrowings higher/lower by 1%	($1m)/+$1m	($1m)/+$1m

NOTE 26: RISK MANAGEMENT (continued)

Foreign currency risk

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

To mitigate direct foreign currency risk Landcorp's policy is to hedge a minimum of 25% and a maximum of 100% of the exposure using foreign currency derivatives such as forward foreign exchange contracts and foreign currency options.

Direct foreign currency hedging in place at 30 June 2019 was US$450k (2018: none).

Credit risk

Credit risk is the risk of loss arising from a counterparty to a contract failing to discharge its obligations. In the normal course of its business, Landcorp incurs credit risk from trade and other receivables. Landcorp has developed a credit policy to manage credit risk exposure. As part of this policy, credit evaluations are performed on all customers requiring credit over a certain amount. Limits on exposures are set and monitored on a regular basis. At balance date Landcorp did not have any significant concentrations of credit risk except for milk customers. Landcorp's maximum credit exposure is shown below.

	Group 2019 $m	Group 2018 $m
Accounts receivable	43	39
Maximum credit exposure	**43**	**39**

The status of accounts receivable at balance date was:

	Note	Group 2019 $m	Group 2018 $m
Not yet due		42	39
Past due – up to 30 days		1	–
Total accounts receivable	11	**43**	**39**

Landcorp completes an expected credit loss assessment on trade and other receivables at balance date to estimate possible default events over the life of these financial instruments. At 30 June 2019 Landcorp did not expect the non-performance of any obligations (2018: none).

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 to accommodate seasonal fluctuations in debt levels. 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 non-discounted amount of future cashflows, including forecast interest expense on interest-bearing liabilities.

NOTE 26: RISK MANAGEMENT (continued)

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

	Within one year $m	One to five years $m	No fixed maturity $m	Group 2018 $m
Accounts payable and accruals	16	–	–	16
Bank loans	90	127	–	217
Interest rate derivatives	3	9	–	12
Redeemable preference shares	–	–	100	100
Total contractual maturity	**109**	**136**	**100**	**345**

NOTE 27: COMMITMENTS

Operating lease commitments relate to the lease of land and buildings.

	Group 2019 $m	Group 2018 $m
Contracted capital commitments	5	2
Operating lease commitments:		
Within one year	14	12
Between one and five years	55	54
More than five years	410	424

These amounts represent non-discounted cashflows.

NOTE 28: CONTINGENT ASSETS AND LIABILITIES

At 30 June 2019 Landcorp had no contingent assets and the following contingent liability:

Focus Genetics Group

Focus Genetics Limited Partnership is involved in proceedings brought by an Australian-based former genetic breeding partner for breach of contract, breach of the Fair Trading Act and negligence. The claim seeks damages of not less than AU$1.5m, plus costs, and ancillary orders in relation to animals and data. Focus Genetics Limited Partnership is defending the claim and has issued a counterclaim. The claim and associated defence costs will be partially covered by the Group's professional indemnity insurance.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2019

NOTE 29: RELATED PARTIES

Ultimate controlling party

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

Transactions with subsidiaries and jointly controlled entities

Transactions with related parties are entered into in the normal course of business.

At 30 June 2019 $9m was included in accounts receivable as owing from Wharewaka East Ltd (2018: $10m).

At 30 June 2019 $4m was included in accounts receivable as owing from the Crown in accordance with the Protected Land Agreement (2018: $1m).

No other transactions or balances with related party entities are considered material. No expense has been recognised in the current year for bad or doubtful debts in respect of amounts owed by related parties (2018: none).

Key management personnel compensation

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

Short-term employment benefits paid to the Chief Executive Officer and the executive team for the Group during the year were $3.4m (2018: $2.9m). These amounts include bonus payments for the prior year.

Post-employment benefits paid to the Chief Executive Officer and the executive team for the Group during the year were $0.1m (2018: $0.2m).

Directors' fees paid during the year were $0.4m (2018: $0.3m).

NOTE 30: SUBSIDIARY COMPANIES AND JOINTLY CONTROLLED ENTITIES

		Balance	Percentage held	
Subsidiaries	**Principal activity**	**date**	**2019**	**2018**
Landcorp Estates Ltd	Property development	30 June	100%	100%
Landcorp Pastoral Ltd	Invests in Focus Genetics and Spring Sheep	30 June	100%	100%
Landcorp Holdings Ltd	Holding protected land	30 June	100%	100%
Landcorp Pastoral Ltd has the following subsidiaries:				
Focus Genetics Limited Partnership	Development and sale of genetically superior sires	30 June	100%	100%
Focus Genetics Limited Partnership has the following subsidiaries:				
Focus Genetics UK Ltd	Livestock genetics	30 June	100%	100%
Focus Genetics Scotland Ltd	Livestock genetics	30 June	100%	100%
Focus Genetics S.A. Ltd	Livestock genetics	30 June	100%	100%
Focus Genetics Australia Pty Ltd	Livestock genetics	30 June	100%	100%
Rissington Uruguay SA	Livestock genetics	30 June	100%	100%

NOTE 30: SUBSIDIARY COMPANIES AND JOINTLY CONTROLLED ENTITIES (continued)

Joint ventures	Principal activity	Balance date	Percentage held 2019	Percentage held 2018
Wharewaka (2003) Ltd	Property development	31 March	50%	50%
Wharewaka East Ltd	Property development	31 March	50%	50%
Spring Sheep Dairy Limited Partnership	Production and marketing of sheep milk products	30 June	50%	50%
Sweetwater Farms Unincorporated Joint Venture	Dairy farming	30 June	33%	33%
Pāmu Academy Ltd	Health and safety leadership training	30 June	50%	50%

Associates		Balance date	Percentage held 2019	Percentage held 2018
Farm IQ Systems Ltd	Development and licensing of farm management software	30 June	30%	30%
Farm IQ PGP Ltd	Research and development of an integrated red meat value chain	30 June	18%	18%
Melody Dairies Limited Partnership	Specialist milk drying services	30 June	35%	0%

NOTE 31: SUBSEQUENT EVENTS

Westland sale

On 4 July 2019, the shareholders of Westland Co-operative Dairy Company Limited ("Westland") voted to accept the offer from China's Yili Group to purchase Westland. The sale was effected through a scheme of arrangement and received Overseas Investment Office consent. The transaction settled on 1 August 2019. Landcorp realised a gain of $6m from the sale.

Dividend

On 27 August 2019, the Directors approved a dividend of $5m (2018: $5m) to be paid on 14 October 2019.

INDEPENDENT AUDITOR'S REPORT

KPMG

TO THE READERS OF LANDCORP FARMING LIMITED'S GROUP FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

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

Opinion

We have audited the financial statements of the Group on pages 54 to 81, that comprise the statement of financial position as at 30 June 2019, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date and the notes to the financial statements that include accounting policies and other explanatory information.

In our opinion the financial statements of the Group:

- present fairly, in all material respects:
  - its financial position as at 30 June 2019; 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 27 August 2019. 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 our opinion

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

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

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

Responsibilities of the Board of Directors for the financial statements

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

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

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

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

Responsibilities of the auditor for the audit of the financial statements

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

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

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

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

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

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

Our responsibilities arise from the Public Audit Act 2001.

Independence

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

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

Sonia Isaac
KPMG Wellington
On behalf of the Auditor-General
Wellington, New Zealand

INVESTING IN THE COMMUNITY

>> Children from Wairakei Primary School on one of our central plateau farms near Taupō.

>> Prime Minister Rt Hon Jacinda Ardern with (L-R) Deidre Otene of Te Kotahitanga e Mahi Kaha Trust and Peter and Reona Eagles of Mangatoa farm.

>> Talking to visitors at our Fieldays 2019 stand.

Pāmu's farms across New Zealand are actively involved in the communities in which they are located.

Pāmu's economic activity contributes to rural communities, from spending with local suppliers to the salaries we pay our employees, much of which is spent locally.

Our multi-million dollar procurement programme – from fertiliser to vehicles – also adds to the country's economic activity and prosperity.

In addition to our economic contribution, Pāmu also plays a part in the life of the communities in which we live and work.

Throughout the year, we open our farms for a range of community events, and throw our support behind good local initiatives.

This year we were particularly pleased to have the light shine on an employment initiative at our Mangatoa farm Northland, when the Prime Minister and other Ministers and MPs visited to see first-hand the partnership between the farm and Te Kotahitanga e Mahi Kaha Trust. The farm and the trust have worked together to establish a native nursery on the farm, which is providing local young people with vital work experience and life skills. This initiative utilises Pāmu land and a transfer of farmer knowledge to young people, in an area of high unemployment, and has been successful in seeing these rangatahi move to other employment opportunities.

Our Kepler Farm in Te Anau celebrated their win at the Southland Ballance Farm Environment Awards this year with an open day, which saw many interested locals come and see what made this farm an award winner.

We also welcomed school children on many of our farms and we were pleased to connect with many rural stakeholders at our stand at Fieldays 2019 at Mystery Creek.

Pāmu farms across the country continued their support for the IHC Calf and Rural scheme, and we sponsored two tertiary students through the First Foundation, along with a range of on-farm and office-based staff fund raising events for many worthy causes.

DIRECTORY

CORPORATE AND REGISTERED OFFICE

Level 2
15 Allen Street
PO Box 5349
Wellington 6140

AUDITOR

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

BANKERS

Westpac New Zealand Limited

ANZ Bank New Zealand Limited

ASB Bank Limited

WEBSITE

www.pamunewzealand.com

DIRECTORS

Warren Parker, Chair

Nigel Atherfold

Chris Day

Tony Reilly

Hayley Gourley

Belinda Storey

Doug Woolerton

Jo Davidson

LEADERSHIP TEAM

Steven Carden
Chief Executive

Rob Ford
GM Innovation, Technology & Environment

Mark Julian
GM Dairy Operations

Steven McJorrow
Chief Financial Officer

Alistair McMechan
General Counsel

Graeme Mulligan
GM Livestock Operations

Sarah Risell
GM Pāmu Foods

Peter Simone
GM People, Safety & Quality

Andrew Sliper
GM Commercial & Strategy

FURTHER INFORMATION

If you would like more information on anything contained in this report please contact:

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or

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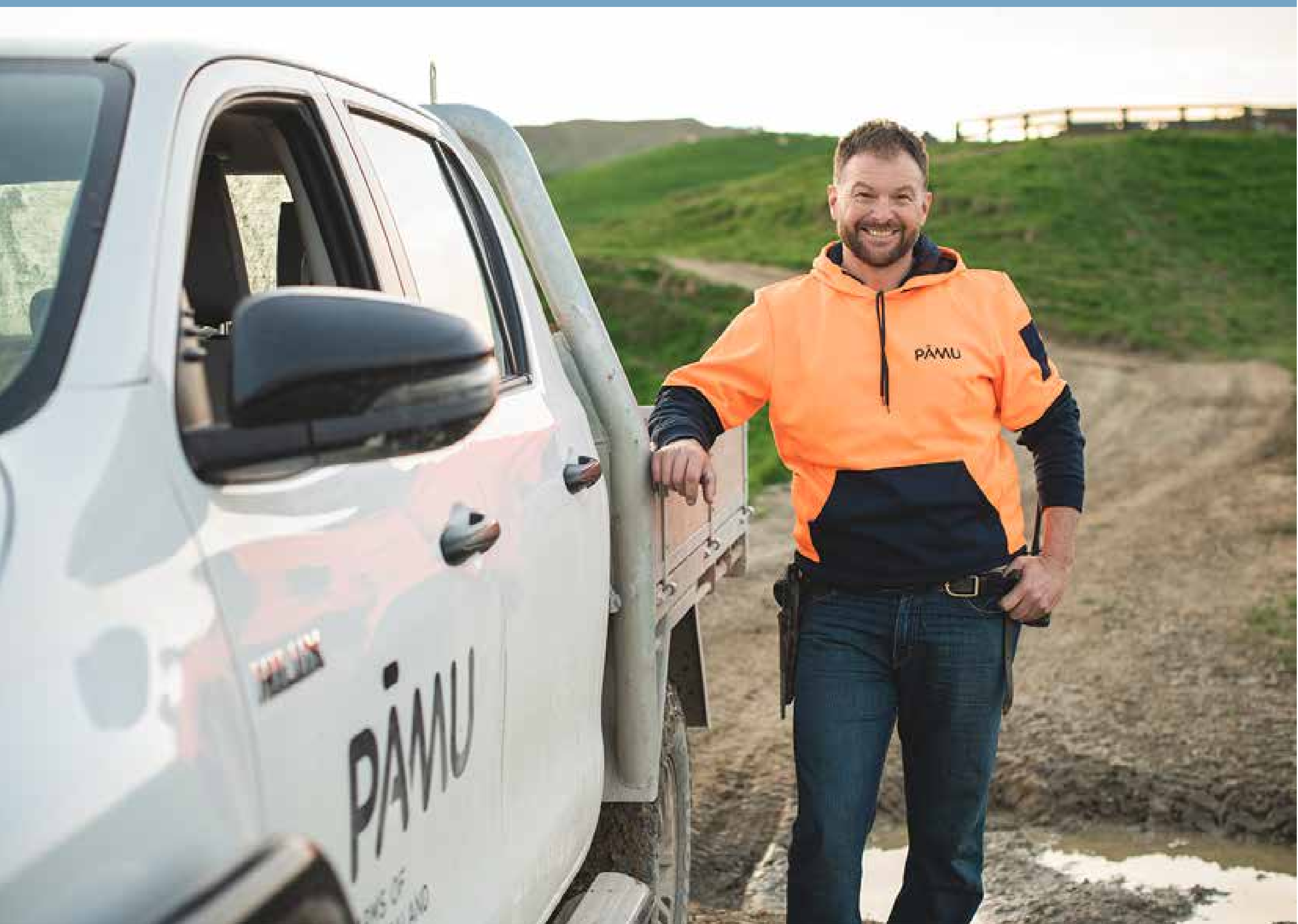
About our cover photo: Aimee Somerville, Senior Shepherd at Waitere Farm in Napier, took this photo in winter 2019 on her favourite part of the farm. Aimee uses Instagram to showcase her love of farming, adventures, the landscape and her dogs. Follow her at: @adventures.with.aimz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