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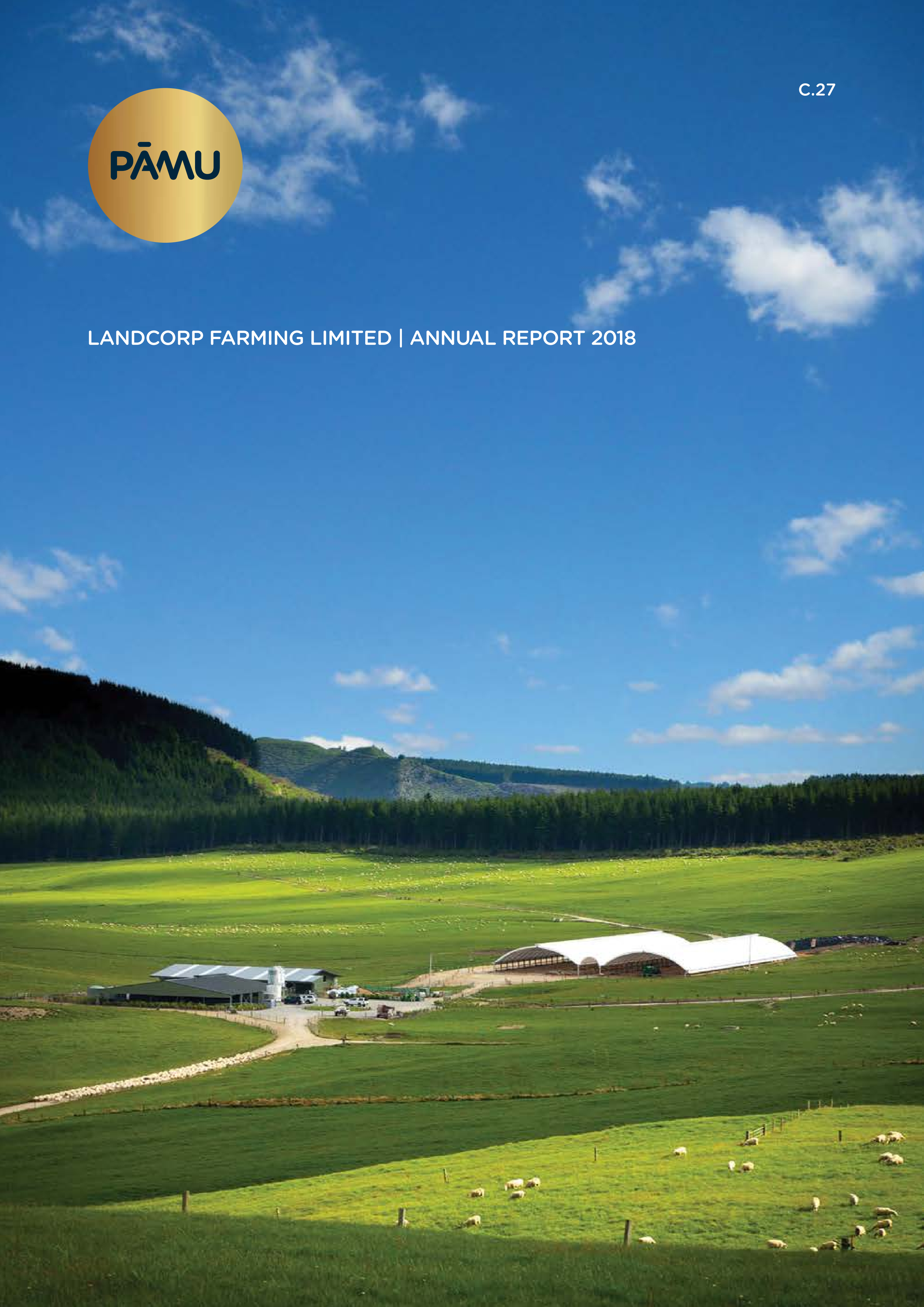
PĀMU

LANDCORP FARMING LIMITED | ANNUAL REPORT 2018



WE ARE KAITIAKI – GUARDIANS – OF NATURE.

For Pāmu this means looking out for one another, taking care of our animals, protecting the environment and delivering products for our customers with provenance, they can trust. This commitment to guardianship, conservation and sustainability, which we call kaitiakitanga, is the focus of this integrated report.

ABOUT OUR COVER PHOTO: *This photo is of our St Kilda Farm in Reporoa. This is the home of Spring Sheep Milk Co – a company that creates high-value nutrition food products made with milk from healthy sheep (we co-own Spring Sheep Milk Co in partnership with boutique sales and marketing company SLC Group). For us, this photo showcases forward thinking farming - the herd home speaks to our strong animal welfare principles, the trees in the background display our commitment to the environment, and the sheep represent our core farming business.*

WELCOME TO PĀMU'S FIRST TRULY INTEGRATED ANNUAL REPORT.

We are a business that touches the lives of many people across New Zealand – people in rural communities where we farm, in our markets and business supply chains, in government agencies and interest groups, and this country's Tangata Whenua. Pāmu's breadth of operation, and its touch points across New Zealand, make it imperative that we listen to the people who work and live with us.

Integrated reporting is not new, and last year Pāmu's report looked at the six forms of capital fundamental to our business, and at some of the issues that we must manage to be successful. This year we have gone further, asking a cross-section of our stakeholders about the issues we have in common – issues which shape our world and which must be addressed through our strategies and initiatives. In 2017/18 we report on the most important of those issues, and on their materiality to Pāmu and our stakeholders (see pages 14-19).

Indeed, we have found strong alignment between what most stakeholders expect of Pāmu and our strategies for creating value both within and beyond the farmgate at the forefront of New Zealand farming. Our issues list is by no means comprehensive. We will continue, and expand, our Company's dialogue with all those who have a stake in our success (and those whose success, in turn, is influenced by our business and its transformation).

This integrated report puts a focus also on Pāmu operations, strategies and performance with reference to our six capitals – the environment, people, finance, farms and animals, expertise, and business relationships. We work with, and care for, these capitals to create value over time. Integrated reporting is about providing a fuller explanation of our business and of how Pāmu strives for sustainability in its use of capitals. We will continue to grow our capacity for such reporting into the future.

Delivering on the strategy we have committed to is well underway and the Company performance for 2017/18 has been very pleasing. Our performance on financial and other key measures is explained in the following pages. In preparing this report we are taking the opportunity to reflect on and acknowledge the accomplishments of our people and the Company as a whole over the past year while of course being mindful of the journey ahead. The Board has strong confidence that Pāmu goes into the future with the people, expertise and relationships – and the other fundamental capitals – it needs for success over the long-term.

Chris Day
Acting Chairman
31 August 2018

STRATEGIES

PĀMU'S VISION IS TO BE THE PREMIUM SUPPLIER OF MEAT, MILK AND FIBRE FOR NICHE MARKETS GLOBALLY. WE PURSUE THIS VISION WITH STRATEGIES BASED ON PĀMU'S SIX CAPITALS – STRATEGIES FOR EXCELLENCE IN FARMING AND FOR ADDING VALUE TO PRODUCTS, INVESTORS, PEOPLE AND THE ENVIRONMENT.

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

through the determined efforts everyday 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.

PĀMU VALUES

We farm with **sheer determination**. In all weather. All seasons.
We farm with **deep insight**. We know our customers, our people and our land.
We farm with **complete openness**. Ask us anything. We'll give you a straight up answer.
Kaitiakitanga. We look after what's precious.

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, in environmental management, in marketing…

and through diverse business **relationships** that support farming excellence, and the creation and supply of valuable products to markets globally.

FARMS & ANIMALS

EXPERTISE

RELATIONSHIPS

VALUE CREATION

126 farms managed throughout New Zealand*; 84 farms owned – 42 leased or operated in joint venture; 679 employees; 372,115 hectares total under management*; 159,990 hectares farmed (effective).

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

7,461 hectares protected by covenants for regeneration and biodiversity* on properties throughout New Zealand.

Focus on supply to local and global markets.

Large scale farming– 67,483 cows*; 469,118 sheep; 88,972 cattle; 90,220 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 2018 ** Production during 2017/18

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

Total assets of $1,857.5 million*; shareholders' funds 86% of total funding.

Growing range of premium products under Pāmu and other brands. 16.5 million kg milksolids**; 11.1 million kg beef; 7.9 million kg sheepmeat; 2.1 million kg venison, 2.6 million kg wool.

Supply relationships with all New Zealand primary produce processors.

8,529 hectares in plantation forestry, with an accelerated planting programme in place.

PERFORMANCE SCORECARD

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

	Financial Year 2018	Financial Year 2017	Financial Year 2016
ENVIRONMENT			
Total area retired and protected in QEII covenants (hectares) [1]	7,461	6,409	n/a
GHG emissions on farms that we own (tonnes of CO_2e) [2]	n/a	gross 686,000 net 423,000	gross 821,000 n/a
GHG emissions on all farming operations (tonnes of CO_2e) [2]	n/a	gross 919,000	n/a
ETS-eligible (post 1989) forestry planting (hectares) [3]	n/a	6,575	5,155
Total nitrogen loss below the root zone (tonnes) [4]	n/a	5,080	5,772
Farm waterways excluded from stock (kms) and percentage of total length [5]	n/a	789 / 50%	n/a
PEOPLE			
Lost time injury frequency rate [6]	10.71	10.98	n/a
On-farm safety observations (number) [7]	967	785	n/a
Employee turnover (%) [8]	31.3	33.8	n/a
Employee diversity - Gender & ethnicity (% of total) [9]	Male Female		75.1 24.9
	NZ European NZ Maori European Asian Pacific peoples Middle Eastern, Latin American, African Other Undisclosed		52.5 14.3 3.9 3.1 0.7 0.3 1.0 24.2
Employee diversity - Gender pay gap 2018 [10]	4% (compared with NZ national pay gap 9.2%)		
FINANCE			
Return on capital employed (%) [11]	3.4	2.1	0.6
Operating margin (%) [12]	20.8	15.7	9.1
Solvency ratio (times, 30 June) [13]	5.76	4.75	4.35
Balance sheet gearing (%, 30 June) [14]	12.2	12.4	13.5

1 Pāmu land protected by covenants with the QEII Trust Board as at 30 June 2018, 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 CO_2e sequestered in all planted forestry and riparian areas and also all native forest and scrub growing on these properties. Pāmu continues to refine its modelling. Data reported in prior years are not directly comparable to the 2017 and 2016 figures above. 2017/18 data are not yet available. CO_2e, or carbon dioxide equivalent, is the global standard for measuring 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. 2017/18 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 2018.

6 LTIFR is number of employee working hours lost due to injury per 200,000 hours worked by all employees in the year.

7 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.

8 Number of employees who left during the year as a percentage of the average total of Pāmu employees.

9 Based on analysis of Pāmu's database on employees as at 30 June 2018.

10 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.

11 Profitable use of Pāmu's financial capital: Earnings before interest, tax, depreciation, amortisation

		Financial Year 2018	Financial Year 2017
FARMS & ANIMALS			
Animal health – dairy herd somatic cell count average (cell count per ml of milk) [15]		162,000	163,000
Milk solids per cow (kg)		336	349
Milk solids per hectare (kg)		855	883
Milk solids as a percentage of cows live weight (%)		73	76
Lamb live weight per hectare (kgs)		274	272
Lambing percentage (%)		137	134
EXPERTISE			
Revenue generated per head of livestock ($) [16]	Sheep	122	95
	Beef	1,403	1,428
	Deer	536	440
Farms managed using FarmIQ (% of total) [17]		100	100
Total area in forestry plantation (hectares) [18]		n/a	8,529
Market recognition of new products [19]		Fieldays Grassroots Established Award: Pāmu Deer Milk Product – world first intellectual product development.	NZ Food Awards: Spring Sheep Milk Co wins Massey University Supreme Award
RELATIONSHIPS			
Lamb, beef supply under contracts (% of total finished stock) [20]		48	48
Spring Sheep – Milking flock size (sheep) [21]		3,600	2,050
FarmIQ – NZ farms using management tools [22]		2,078	1116
Focus Genetics – Livestock genetic advance over 10 years (industry index, cents) [23]	Sheep – maternal breeding	FY17 3,972	FY07 1,473
	Beef – maternal breeding	FY17 152	FY07 94

and revaluations (EBITDAR) less depreciation / Average shareholders' equity, debt and redeemable preference share less revaluation reserves.

12 Pāmu profit per dollar of revenue: EBITDAR less profit on land sales / Total revenue.

13 Pāmu financial flexibility: Current assets / Current liabilities (excluding current portion of long term debt on basis that all debt will be refinanced as it matures).

14 Pāmu balance sheet leverage: Net Debt / Net debt plus equity.

15 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.

16 Pāmu revenues for each livestock category divided by the numbers of production animals sold during the year.

17 Pāmu farms using FarmIQ digital applications and cloud services.

18 Total area of Pāmu-owned plantation forestry as at 31 December 2017. The area was 7,371 hectares at 31 December 2016.

19 National awards received through independent judging of products and business developments.

20 Pāmu has contracts with leading primary product processors for supply of finished livestock to market specifications. Contracts ensure income levels across large volumes of production and also supply to processors within time windows that meet their customers' requirements.

21 Spring Sheep produces sheep milk powders and calcium tablets for export to a growing number of Asian markets. Pāmu owns 50% of this joint venture business (see page 25).

22 FarmIQ Systems' number of client farms using FarmIQ digital applications and cloud service as at 30 June 2018. Pāmu is a 30% shareholder in FarmIQ (see page 27).

23 Industry standard measures of genetic worth in ewes and cows, that worth expressed as the financial value of desired traits breed into their offspring. This index score is based on genetic analysis of Pāmu flocks and herds within the Focus Genetics breeding programme: The 2017 score for the desired maternal traits in sheep is 169% higher than the New Zealand average genetic worth of breeding flocks, and the score for Focus Genetics' cows is 14.3% higher than the nationwide average (see page 27).

CHAIRMAN AND CHIEF EXECUTIVE REVIEW

Pāmu enters its fifth year of delivering on our strategy of operational excellence and creating value beyond the farmgate with real momentum. New Zealand's new Government has brought a change in shareholder expectations. The focus today is much more on Pāmu as a land use company, which increasingly operates beyond its traditional farming role, with major responsibilities for stewardship of resources and industry.

CHRIS DAY ACTING CHAIRMAN

STEVEN CARDEN CHIEF EXECUTIVE

We are looking at land use across our portfolio to ensure that we are making the best use of the resources with which we are entrusted – best use from financial, social and environmental perspectives. In Northland, for example, we are studying our farms to see how horticulture and other alternative land uses, compare with current dairy operations that have a relatively high environmental footprint. While still at an early stage, such assessments will become the norm as we grapple with the fact that New Zealand is reaching environmental and social limits in traditional farming practices.

Pāmu's focus on adding value to products beyond the farmgate will become increasingly evident. The whole area of alternative dairy products is a great example. In 2018/19 Pāmu will be exploring the potential for deer milk, pushing ahead with the expansion of a very promising New Zealand sheep milk industry and developing the global market for organic bovine dairy products. We will soon be embarking on sales of premium organic milk powder in China.

These initiatives all complement our established supply of premium New Zealand lamb and venison into markets across the world. Over the past year we have confirmed our growing share of this country's high-value venison trade into the United States.

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.

Among highlights of 2017/18 was the hosting of various international customers on our farms. Bringing the buyers of what we produce back on to New Zealand farms where they see for themselves the care we take with animals and the environment, is invaluable to them and also to our own people who relish opportunities to meet our customers.

FINANCIAL PERFORMANCE

Our shareholder expects us, as a State Owned Enterprise, to operate in a commercial manner. Under our preferred measure of financial performance, we are pleased to report EBITDAR (earnings before interest, tax, depreciation, amortisation and revaluations) of $48.5 million, up $12.9 million (36 percent) from 2016/17. Net profit after tax was $34.2 million a reduction of $17.7 million (34 percent) largely due to lower gains from our biological assets (forestry and livestock) and a higher tax expense.

The Board is pleased to have declared a dividend of $5 million reflecting satisfactory financial performance, capital management initiatives and a continuing commitment to maintain a prudent level of debt. Subject to financial and operational performance we are hopeful of further dividends over future years albeit in the context of Pāmu continuing to have a large exposure to volatile pricing on global commodity markets.

Our focus on operational excellence and value-add strategies are all about taking Pāmu beyond commodity price cycles, with premium products for niche higher-value markets. In the past year, our stronger operational performance has been underpinned by higher prices for beef, sheep meat and venison, and continued recovery in farmgate milk prices. We have also benefited from the revaluation of our carbon unit (NZU) holdings.

We continued to effectively manage expenses, generating productivity gains where possible. This saw total expenses increasing by less than 1 percent compared to 2016/17. In support of getting the most from our technology investment this past year has seen a major roll-out of secure rural broadband services throughout Pāmu, enabling fast and reliable connectivity for all farms and offices. We are seeing greater uptake of on-farm digital tools with all the efficiency and insight gains that flow from highly efficient data capture, sharing and analysis (see page 27).

ONE HEALTH

Pāmu is a company with a passion for the wellbeing of our people, for our environment and for our animals – and an understanding that these elements are all interconnected. We refer to this concept as One Health – and we reflect it in Pāmu's core value of kaitiakitanga. We are committed to sound stewardship of, and care for, our environment, our people and our animals. We have had strong performance in all three areas over the past year.

For Pāmu's people, we have seen further improvements in our health and safety performance (see measures on page 8). That said, the Board and Leadership Team are determined to maintain momentum in this area of how we work every day. Our safety culture must be truly embedded on our farms so that safety in its broadest sense is simply a way of working. We are continually refreshing and refining our approach to achieving that – and indeed to helping improve health and safety across New Zealand farming overall – in collaboration with our joint venture company the Pāmu Academy.

CHAIRMAN AND CHIEF EXECUTIVE REVIEW

Unfortunately, we continue to see high employee turnover on our farms, which is an industry-wide issue. During 2017/18 we analysed reasons for high turnover in our dairy business and have made changes as a result. These include a new roster system giving our dairy teams more certainty about days off and working hours. This is extremely important to the teams given their demanding jobs which often mean working in adverse climatic conditions or at times with unpredictable animals.

We have also continued our focus on farm wellbeing to ensure our people have the support they need. Mental health issues have been neglected in New Zealand farming for too long. As a leading company in our sector, we are determined to ensure an appropriate level of focus and support in this area.

More broadly, Pāmu has put a stake in the ground over gender equity: We want to eliminate bias against women wherever it might occur in our workplace, and most obviously when it comes to remuneration. In pay reviews during the past two years, special attention has been paid to identifying differences in how females are paid in comparison with males where their work is the same or equivalent. In some cases, significant adjustments have been made and we have measured a Pāmu-specific pay gap based on comparisons of job size, tenure, experience, competency and actual remuneration. In 2017/18, we are pleased to report (see page 8) a reduction in the pay gap from 8% to 4%. More work will be done, as part of a company-wide embrace of equity and diversity in all our employment practices.

One Health is also very much about animal welfare. Pāmu has over a million animals in its care throughout the year and the importance of this issue cannot be over-stated. In 2017/18, New Zealand saw the outbreak of Mycoplasma bovis (M. Bovis) among cattle in both the dairy and livestock sectors, and Pāmu has not escaped the disease. Our Rangedale Station, near Pahiatua, was infected and its herd culled. This was a difficult experience for our people but they did what was required and this valuable property has now been disinfected. We were determined to be open about the issue and to engage with our neighbours as we worked to achieve infection-free status. Pāmu supports the Government's determination to eradicate M. Bovis. As a company we have redoubled efforts to ensure all farms are fully compliant with NAIT [1] requirements and ensure also that they are taking the proper precautions when stock are being moved, including voluntary movement bans where this is appropriate.

The third and equally crucial aspect of One Health is our care for the environment. We have again worked closely with the company's Environmental Reference Group (ERG) as we seek to lift our environmental performance to industry best practice. The focus on water quality is critical to the future of New Zealand agriculture and as the nation's largest farmer we need to take a lead. Our announcement of a Memorandum of Understanding with Forest & Bird in July 2018 will see an initial focus on the water issues around Pāmu farms in Canterbury. As one of the options in this region, we will look at how stocking rates can come down with limited impact on profitability.

We continue to retire and protect land with particular environmental values. A further 1,052 hectares was placed under QE II National Trust covenant during 2017/18 (see page 8). The Company has identified more areas of native vegetation or wetland for such protection from now on, alongside our continued focus on riparian planting and on withdrawal of other areas from farming practice. We estimate that we now have 789 kilometres (around 50 percent of our waterways) fenced and planted with riparian strips that is effectively reducing the nutrient content of the waterways on Pāmu farms. All of this is a solid demonstration of how seriously Pāmu takes its commitment to environmental stewardship. We feel strongly that we are entrusted with land to care for across generations.

Over the next two years we are committed to planting 2,000 additional hectares of trees as part of the Government's billion-tree programme. We have accelerated our already-established forestry programme to help meet national goals in this area. We will also explore options for carbon credits accrued from our expanding forestry programme, these being a useful offset to Pāmu's own Greenhouse Gas (GHG) emissions.

The current year will see the Company implement Environmental Impact Assessments farm-by-farm as a critical next step in refining management on each property to ensure the most effective protection of the environment in that locality.

MĀORITANGA

As a large landowner on behalf of the Crown, Pāmu has a unique relationship with Tangata Whenua. We farm land on behalf of iwi

1 National Animal Identification and Tracing

through both our relationship with the Office of Treaty Settlements and directly on behalf of some Māori incorporations. It is a role we take very seriously, and we need to be doing more to understand the unique relationship, or "kinship", that iwi have with land over which we have current stewardship. At least some of that land will one day revert to Māori ownership or it will neighbour Māori-owned land. Building a greater understanding of Māori perspectives will be a particular focus for Pāmu in 2018/19.

INNOVATION

Innovation is the critical component in all our strategies. Deer milk innovation is just one example – and our success so far in producing commercial quantities for this alternative dairy product has recently been recognised with a Grass Roots Innovation Award at the 50th Annual Fieldays. Our deer milk is getting rave reviews from chefs, who love its unique texture and flavour, and we are seeing good demand for the premium product in high-end restaurants in New Zealand, and we will launch it in Australia in 2018/19. (see page 20).

We are also seeing Spring Sheep Milk Co go from strength-to-strength (see page 25). This Pāmu joint venture business won the Supreme Award at the 2017 NZ Food Awards and it is another example of the role we can play in helping New Zealand agriculture move to higher-value, more sustainable products and markets. Recognising the huge potential for alternative dairy, Pāmu is aware that investment in new, state-of-the-art milk processing capacity will be required to support the continued expansion of the national sheep milk industry.

Agriculture must continue innovating – and Pāmu is solidly behind this imperative with all our six capitals, including established expertise in farm operation and in value chain connection to markets.

Our investments in FarmIQ and Focus Genetics are other examples of using our scale and expertise to enable value-add innovation in the agriculture sector(see page 27).

CLIMATE AND EMISSIONS

The past year brought further climate extremes that impacted on our farm operations in different parts of the country. Our people met the challenges with incredible resilience and together we managed to limit the financial and operational impact of dry conditions in some regions and unseasonably heavy rain in others. We face the prospect of more dramatic events in the years ahead as climate change really bites. Pāmu shares the deep concern of others that New Zealand must address its emissions, and the need for mitigation, with greater urgency in 2018/19 and beyond. The Company is actively considering its options.

CONCLUSION

We are satisfied with the performance of the business in 2017/18. The diversified farming activities of Pāmu, geographic spread, and commitment to on-farm and beyond the farmgate value add has delivered financial and operational value consistent with our strategy. Several strategic initiatives are beginning to take off, and we will continue to focus on operational excellence, productivity and sustainability in core farming operations which are so important to Pāmu.

The Board and Leadership Team are committed to managing the risks and costs inevitably involved in transforming our business – and to secure the benefits and rewards in prospect from now on.

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 sincerely thank four Board members who have retired in recent months. Our Chairman for the last six years, Traci Houpapa, has left a huge legacy for the Company, and her leadership has set the Company up for future success. While we acknowledge Traci for her broader leadership, we particularly thank her for helping connect Pāmu more deeply to Tangata Whenua. Likewise Eric Roy, Pauline Lockett and Nikki Davis-Colley have also contributed enormously to the direction of Pāmu during their time on the Board.

Finally, we thank everyone in the Pāmu whanau for your support, wisdom, technical excellence and commitment. It is the combined efforts of everyone that is building the Pāmu of the future we all aspire it to be.

Whāia te iti kahurangi ki te tūohu koe me he maunga teitei.

CHRIS DAY
ACTING CHAIRMAN

STEVEN CARDEN
CHIEF EXECUTIVE

WHAT OUR STAKEHOLDERS TOLD US

Pāmu develops its strategy and business plans with strong recognition of issues that shape our operating environment and effect our success. These are, fundamentally, issues arising from the values and concerns of New Zealanders, from global and local market trends, and from the risks and opportunities that attach to any large-scale farming and food company in this country. Pāmu seeks to identify and address those issues which are most important or material to the business – and to the successful implementation of our strategy and plans.

We can more clearly understand those issues and assess their materiality by consulting with Pāmu's external stakeholders. In 2018, the Company initiated an engagement process with a cross-section of 24 stakeholders to gather their perspectives on an array of matters. The process, (explained on page 17), is standard practice within Integrated Reporting.

Pāmu has arrived at 14 issues of particular importance to the Company's strategy and planning, and to our success over time. More broadly, we are very aware of biculturalism in New Zealand, and of the need for Pāmu to respect both Māori and Pākehā values and perspectives in major decision making on the future of this business. The 2018 review of our material issues has confirmed for Pāmu the importance of our striving for excellence in farming and land use, and in the care of our people and animals.

HEALTH & SAFETY

New Zealanders place high value on peoples' health and safety in the workplace. Accident and fatality rates have been especially high in farming. WorkSafe data show 88 workplace fatalities in this industry in the five years to December 2017. Pāmu stakeholders see high standards of health and safety practice as essential to good business risk management. They see a need for substantial attitude change among people who work on farms and for managers to show practical leadership for long-term behaviour change. **Pāmu is acknowledged for its deep commitment to improving its own and others' health and safety records**.

>> Right: *Environment Manager Gordon Williams and Malcolm Rutherford from QEII National Trust*

EMPLOYEE WELLBEING

New Zealand farmers' mental and social wellbeing are of national concern. Official statistics on suicide put the number of such deaths among farmers at 107 in the five years ended June 2017. Stakeholders see workplace isolation, heavy physical work demands, poor employment practices, unsympathetic attitudes and financial insecurities all being contributors. They say some farm jobs, especially in dairying, should be redesigned to recognise stress factors associated with traditional farming practices and to attract more young people. **Pāmu is recognised as having a workplace culture that is safer and more supportive of staff than New Zealand farms generally**.

FRESHWATER FOOTPRINT

Freshwater quality and quantity are New Zealand-wide concerns, these highlighted by advisers to Governments, industry bodies, environmental lobbies and media commentary. Deterioration in water quality and quantity is generally

attributed to intensification of New Zealand farming over the past 25 years, this raising levels of diffuse pollution in natural waterways and over-extraction from water sources. In 2017, an OECD report stated that nitrogen leaching from agriculture into soils increased by 29% between 1990 and 2012, the impacts of this seen in the deterioration of certain public health measures. **Stakeholders want to see Pāmu at the forefront of synthetic fertiliser reduction, and of land-use change in areas most vulnerable to leaching, e-coli pollution and sediment loss**.

ENVIRONMENTAL STEWARDSHIP

New Zealanders place high value on protecting and enhancing the natural environment. This value reflects, in particular, the importance Māori place on environmental stewardship, or kaitiakitanga, and on connections between the natural world and the wellbeing of people. Freshwater issues, and national concerns over the level of carbon emissions and the rate of biodiversity loss increasingly cast doubt over this country's commitment to stewardship. In 2018, the Productivity Commission has predicted a substantial conversion of land that has marginal profitability for livestock farming to plantation forestry. Stakeholders say that will require shifts in Government policy as well as action by individual farmers. **They want to see Pāmu continuing land use change, especially in Canterbury and the central North Island, for reduced impact on soils, waterways and natural eco-systems**.

ANIMAL WELFARE

The health and care of farmed animals is an area of growing interest to farmers, regulators and consumers worldwide. New Zealand's Animal Welfare Regulations were updated in 2018 to provide for stronger animal welfare standards and add to the enforcement powers of government agencies and

WHAT OUR STAKEHOLDERS TOLD US

the Royal NZ Society for the Prevention of Cruelty to Animals. **Pāmu stakeholders say this country's intensification of farming has increased practices that can be detrimental to animal health and has been accompanied by a general decline in veterinary surveillance on farms**. They say livestock welfare is integral to industry standards of care for the environment and for people. There is a broadly-held view that, further to the 2018 law changes, NZ needs to raise its general level of care for animals with more education for farmers and more routine

monitoring of the condition of livestock. This could become an area of international competitive advantage given the more clearly-seen welfare problems associated with agriculture in other countries. Stakeholders say domestic and international markets are increasingly sensitive to perceptions that traditional livestock farming practices are less humane than they should be. **Stakeholders also say that Pāmu is moving in the right direction on animal welfare and they look forward to future initiatives by the Company**.

>> Above: *Unveilling of the Mt Hamilton QEII Covenant.*

Right: *Pāmu Deer Milk makes its Australian debut.*

FINANCIAL RESILIENCE

The Reserve Bank of New Zealand (RBNZ) and others maintain a strong focus on the financial resilience of large farming and food businesses whose performance is critical to the national economy. The RBNZ reported in May 2018 that while systematic banking risks associated with the dairy sector have declined since mid-2016, some 20% of commercial bank loans into dairy farming still require close monitoring. Pāmu stakeholders recognise that this Company's size, and its diversity in operations, make it far more resilient that most other farming entities. **Stakeholders also note a Government-shareholder expectation of both low risk and social responsibility in how the business operates and performs in financial and non-financial terms**.

NEW FARMING SYSTEMS

There is broad acceptance that New Zealand needs to develop new farming systems that support the dual national interest in freshwater quality and sound environmental stewardship, and in profitable agriculture. In 2018, for example, DairyNZ's sector strategy seeks to create "the world's most competitive, resilient dairy farm businesses" while also "protecting and nurturing the environment for future generations". **Pāmu stakeholders commend the Company for progress within established farming models but say a step change is required industry-wide in land uses, farming practices and in the products originating from New Zealand**. Stakeholders concur that the national dairy sector is "at or past peak environmental footprint" but say new technologies are not yet capable of mass adoption with economic advantage. **Some stakeholders see Pāmu as ideally placed for on-farm research and development projects that could benefit the whole industry**.

MARKET CONNECTION

New Zealand food producers, including Pāmu, face substantial risks and opportunities in seeking to build and maintain connection with consumers and traders in global markets. This country generally promotes its food, other nutritional and fibre products on the basis of their

NZ provenance, and quality and safety attributes. The red meat industry, for example, has a presence in over 120 countries with sales of $6.8B in 2017/18. Beef + Lamb recently launched the "Taste Pure Nature" origin brand for producers and processors to communicate a distinct "NZ story" of ethically-produced, pasture-grown red meat that meets consumer demands for quality. **Pāmu stakeholders are very clear that the Company, like other large producers, must be increasingly attuned to consumer preferences in global markets and plan their production accordingly**. They say environmental issues and concerns over animal welfare are of rising importance in those markets, including China; New

Zealand must respond in its farming systems, although for the time being at least, this country's food is prized for being "natural, grass-fed and hormone free".

BIOSECURITY

New Zealand primary industries recognise substantial, ongoing business and financial risk from many possible forms of biosecurity breach. The 2017 outbreak of M. Bovis bacterial infection in cattle herds has heightened that recognition and brought the national biosecurity system under closer scrutiny. The Ministry for Primary Industries (MPI) states that the system will "prevent or manage risks from harmful organisms like pests or disease", this system involving constant border inspection of people and imported items that might carry such organisms, and a series of "readiness and response" agreements between MPI and primary industry bodies. In 2018, Pāmu's use of the national animal tracing system enabled its early detection and containment of a M. Bovis episode on one farm. **Stakeholders generally see a serious disease outbreak as the biggest business risk facing Pāmu (and all other farmers)**. They favour review of the current system, with some stakeholders wanting a ban on all importation of animal feed from other countries.

PEOPLE CAPABILITY

Industry bodies and Government advisers have forecast significant potential gaps in the people capability of New Zealand agriculture and primary processors in coming years. Employee numbers will need to increase in some areas as will the standards of knowledge and skill. Research for Primary ITO in 2017 found that dairy farms would need to

STAKEHOLDER ENGAGEMENT

Pāmu commissioned a Wellington-based consultant, Martin Freeth, to undertake a series of interviews with a broad range of the Company's stakeholders during March-July 2018. The objective was to explore issues of importance for those stakeholders in the context of New Zealand agriculture and their relationship with Pāmu. Twenty-four organisations participated in this stakeholder engagement process, providing the Company with valuable insights into material issues for our business and our strategic planning. The stakeholders are listed below. Pāmu thanks them for contributing substantially to this report and to our planning.

Sweetwater Farms
Greenpeace NZ
TeamOne
Agricultural Leaders Group/Health & Safety Action Group
Duncan NZ
Ecologic
Instep
Royal Forest and Bird Protection Society of New Zealand Inc.
Waikato Regional Council
New Zealand Fish and Game Council
WorkSafe NZ
DairyNZ
ASB Bank
Fonterra
Office of Treaty Settlements
Ministry for Primary Industries
Livestock Improvement Corp
Silver Fern Farms
NZ Treasury
Pāmu Health & Safety Forum
New Zealand Rural General Practice network
Rural Women New Zealand
Primary ITO
NZ Veterinary Association

WHAT OUR STAKEHOLDERS TOLD US

fill 16,820 jobs over nine years (including replacements for retiring workers). The beef and sheep sector's requirement is lower but still significant. The demand for higher skill levels will rise as farming and primary processing become more automated and reliant on new technologies. In 2018, Primary ITO data show Pāmu to have 175 trainees enrolled in formal industry training programmes across 78 farms, albeit concentrated on a smaller number of North Island dairy farms. Stakeholders emphasise the general need for businesses to recruit and develop talented people if they are to achieve growth. That connection is clearer than ever. They say the onus is on employers to make jobs attractive for young recruits. **Pāmu is recognised as making more progress than most in this respect but stakeholders see issues in developing the farm managers of the future**.

GREENHOUSE GAS EMISSIONS

New Zealand faces a national requirement to reduce its net GHG emissions over the long term. Agriculture is a big source of emissions but also a big contributor to emissions sequestration and climate change (CC) mitigation. Government actions expected in 2018/19 include legal enactment of the New Zealand goal to be zero net emissions from 2050 and the inclusion of agriculture in the national Emissions Trading Scheme (ETS); individual farms then becoming the point of obligation for emissions reduction. In 2018, the Productivity Commission has predicted that emissions reduction in agriculture will "occur through both technological and structural change, for example further shifts in land use mostly away from marginal beef and sheep farming toward forestry and possibly from pastoral farming to horticulture". **Pāmu stakeholders say this country should lead with new approaches to carbon accounting recognising the positive contribution of all plant types and of emerging technologies to limit emissions from biological sources**. Some want all farmers to contribute through lower stocking rates in the shorter term. Others express confidence that technology developments will reduce or mitigate on-farm emissions in the future.

ALTERNATIVE PROTEINS

Red meat and dairy producers face potentially large competitive threats from alternative proteins now at "proof-of-concept" stage in the US and China, and from non-bovine sources of milk. Media reports indicate that synthetic meats, produced without animals, could be in commercial production in 3-5 years. In 2018, Beef + Lamb NZ has issued a research report on possible disruption to NZ's traditional markets from alternative proteins as competitor-countries seek to cut carbon emissions, younger generations adopt new diets and US investors engage with the trend. NZ Chief Science Adviser Sir Peter Gluckman warned in 2017 that NZ agriculture faced an "existential threat", with most milk produced globally in 20-25 years' time likely to come from non-animal sources. **Pāmu stakeholders agree that alternative proteins will change global markets but not eliminate all demand for foods from farmed animals**: They see opportunities for New Zealand to strengthen its role as a niche supplier of the world's best quality natural proteins from environmentally-sound pastoral farming. The development will push producers like Pāmu to hasten current developments.

>> Above: *Forest & Bird CEO Kevin Hague and Pāmu CEO Steve Carden.*

SOCIAL RESPONSIBILITIES

Large New Zealand companies increasingly give recognition to principles of corporate citizenship and social responsibility. These generally require companies to be legal and ethical in all their activities, and to advance the interests of society overall in addition to those of shareholders and other direct stakeholders. As a State Owned Enterprise, Pāmu is also subject to statutory requirements on social respons-ibility and to the policy expectations of Shareholding Ministers. The latter include operating at the forefront of farming best practice and identifying ways to support Government social, economic and environmental objectives (Shareholders' Letter of Expectations, February 2018). Pāmu seeks to include all such responsibilities in its planning and operations, including support for Treaty of Waitangi Settlements and for iwi-owned businesses, strong concern with animal welfare, and a commitment to gender and ethnic equality in its workforce. **Stakeholders see Pāmu as a cooperative party in current settlement processes and**

a constructive partner with two iwi groups. They recognise the potential for competition between the Company's commercial imperatives and its other, social responsibilities. **Pāmu also has acknowledgment for its development of an organisational culture that supports employee diversity and promotes respect for the stakeholder generally**.

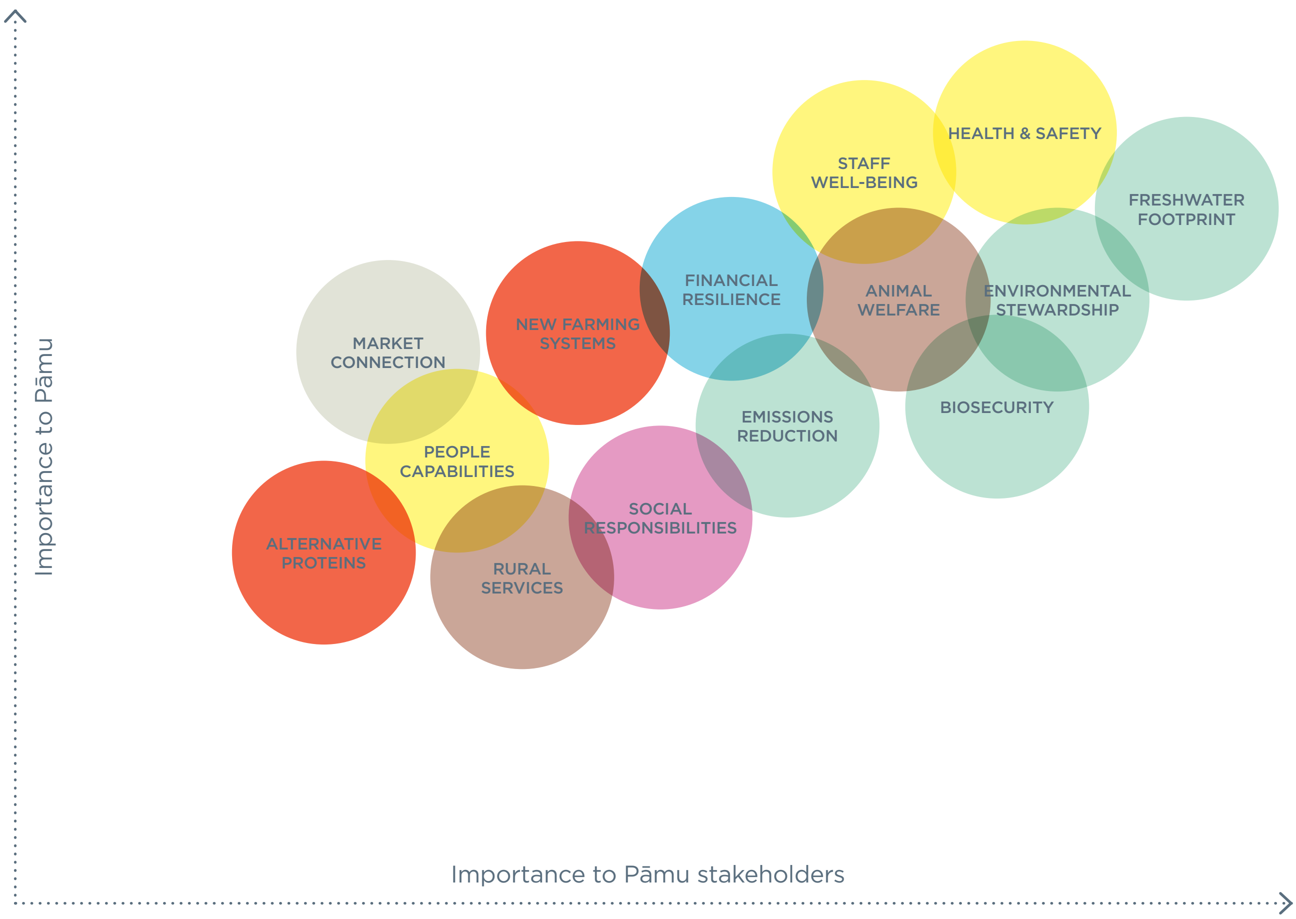
RURAL SERVICES

New Zealanders share a national concern over the social and economic consequences of declining rural population. The 2013 Census showed that population was down to 13.5% of the national total – and only 2% overall lived in remote locations, thus making it even more difficult to sustain infrastructure and services in those areas. As part of this, the current ratio of medical practitioners per 100,000 head of population has been put at 73 in rural NZ, well below the ratio of 95 in urban areas. **Pāmu stakeholders see a growing urban-rural divide which will impact further on rural communities and on the attractiveness of farms as workplaces, especially for younger people**. They say access to healthcare services is approaching crisis point in five areas, and 40% of farming families who live in remote areas have no access to mobile communications or internet. Stakeholders fear that the divide will impact on wellbeing and exacerbate agriculture's increasing gap in people capability.

MATERIALITY MATRIX

The 14 material issues outlined have been identified and described on the basis of a stakeholder engagement process and deliberation by a Pāmu Integrated Reporting Reference Group and the Leadership Team. The Materiality Matrix shown below shows Pāmu's understanding of the relative importance of these issues to our cross section of stakeholders and also the issues' relative importance to the Company's management. It should be noted that all issues are material to Pāmu and to Stakeholders, and the weightings given to different issues are approximate only. Overall, the matrix shows high consistency of views between Pāmu and Stakeholders.

Materiality Matrix 2018. Fourteen issues of importance to Pāmu and to stakeholders.



ALL-NATURAL, NUTRITIOUS AND TASTY

New product, new way of farming – Pāmu Deer Milk could also become a great new source of value in New Zealand agriculture.

Pāmu is pioneering the commercial supply of deer milk powder as an all-natural speciality product for the food service industry sector. We are first in the world to develop deer milk as a nutritious and very tasty food for use in food service.

So far, Pāmu Deer Milk is on the menu in Auckland and Wellington restaurants where some of this country's top chefs are using it to create new ice-creams, crème brulées and other dessert treats. Pāmu is now looking at the international market potential.

"We and our partners have produced something totally new for New Zealand agriculture… let's see what creative chefs make of the unique qualities of deer milk when it's available year-round to our consistently high standard," says Rob Ford, general manager – innovation, environment and technology. "We believe this product could fetch a premium around the world if we can successfully develop the market and expand volumes. It's an exciting innovation for Pāmu."

Deer milk has double the amount of healthy fat and protein compared to cow milk, this gives it a very rich and creamy flavour. In addition to its concentrated nutritional qualities, deer milk is being researched for the health-enhancing attributes of its minor components.

Pāmu Deer Milk is so far available in 107g sachets, six of these in each pouch as supplied at wholesale. When rehydrated, the powder in each sachet makes up 500 ml of liquid milk (three litres per pouch). The product is dried with no additives to ensure its all-natural qualities.

Deer milk is an entirely new farmed product for New Zealand – and for the world. This country's deer herd (836,000 in mid-2017) has, of course, been traditionally devoted to venison and velvet production, with Pāmu at the forefront of this sector. We have been working with partners, and the Ministry for Primary Industries, for the past three years to create suitable milking plant and refine animal management methods.

Today's Pāmu Deer Milk supply is all from the Southland farm of Peter and Sharon McIntyre, and their milking herd of 110 red deer hinds. The hinds have been reared especially for this purpose and are as amenable as bovine cows to milking in a purpose-built herringbone dairy through a season running from November to March. All fawns are retained on the McIntyre's farm as additions to breeding and commercial herds.

Typically hinds produce only one litre of milk daily, compared with cows' average 24 litres – a trade-off for the unique qualities of deer milk. Conversion to a powdered form obviously keeps Pāmu Deer Milk available year-round.

DAILY STEPS FOR WELLBEING

Financial resilience, new farming systems, market connection and greenhouse gas emissions *– material issues of particular significance in Pāmu's development of this initiative.*

INNOVATION AWARD

Pāmu Deer Milk won the Grassroots Award at Fieldays 2018. The judges declared the product to be "significant, world first research and intellectual property that has been developed from behind the farmgate through to a finished Risk Management Programme (RMP) approved product, which Pāmu can now use to assess market demand and price tolerance".

Personal wellbeing might be hard to measure but actions that promote it are not. Staff working on Sweetwater Farms, Northland, have certainly shown that in the past year – and set an example for all other Pāmu people interested in greater wellbeing, both physical and mental.

The actions are as simple as eating more fruit and vegetables, sleeping at least seven hours each night and getting more regular exercise. Benefits follow over time in the form of fewer safety incidents, higher productivity, increased job satisfaction and ... well, more happiness all round.

The Sweetwater team embraced the "Wellness Challenge" created for them by farm administration officer Sarena Johnson who came up with a list of activities all could do – and record – everyday. Over eight weeks, the 28 people scored themselves on Sarena's worksheet of eating, exercise and sleeping habits, and of social contacts. The simplest task was to make sure they drank at least eight cups of water daily. But people also had to quit, or cut down on, alcohol and smoking for the challenge's duration.

To make it easier and more fun, Sarena turned the challenge into a competition between four teams – one from each of Sweetwater's three dairy units and its drystock farm. Points were awarded for achievement of each activity and the completed worksheets collected every Friday. "It was really important to tick as many boxes as you could through the week and to make doing the activities just another part of your life," says Sarena

Sarena is passionate about the connection between physical and mental wellbeing, and also between these and safety in the workplace. "Safety starts in the mind and if you're feeling good, you're thinking more clearly and able to make the right decisions about managing risk and staying safe," she says.

Buy-in to the challenge was high, helped by team rivalry and peer support on each farm. It started with everyone being weighed and given a health check – and it ended eight weeks later (just before Christmas) with the same, the results then being added to each team's score. Ages ranged from 18 to 60, and Sarena says "people came shining through" regardless of their on-farm roles.

And the winner? The BEEFIES+, the drystock farm team and three staff in the Sweetwater office, took home the wooden challenge trophy. Virtually everyone on Sweetwater wants to do another challenge – and other Pāmu teams are considering their own initiatives for promoting physical and mental wellbeing.

Health & safety, employee wellbeing, animal welfare, people capability, social responsibilities, rural services *– material issues of particular significance in Pāmu's development of this initiative.*

>> Above: *The Sweetwater wellbeing team.*

CARING FOR NATURE ON KAPIRO

Kiwis, trees and wetlands all have a special place on Kapiro Station, Northland. They're nurtured and grown alongside the stud bulls, the commercial cow herd and the ewe flock that make Kapiro a very successful farming operation.

Manager John Hallgarth and his five full-time staff are well advanced on implementation of their comprehensive land and environment plan for this 20,000-stock unit property. Kapiro has 2600 hectares of flat and rolling terrain on the northern fringes of the Bay of Islands. Over the years, 544 hectares have gone into plantation forestry, some of this on steep sidelings good for little else, and a further 245 hectares of wetland and native vegetation have been protected under QEII Trust covenant.

>> Above: *Steve McManus tags a kiwi on Mangatoa with dog Flow paying close attention.*

The environmental work goes on with more areas identified for plantation forestry or retirement, and new planting of eucalyptus and poplar trees for shelter, land stabilisation and carbon sequestration. Pāmu is using Kapiro to trial fast-growing eucalyptus varieties that might, in time, prove a better alternative to radiata pine as timber for some construction uses and for carbon farming.

Then there are the North Island Brown Kiwis. It turns out that Kapiro has grown a significant population thanks to the Company's fencing and retirement of gullies and wetlands, dog management and pest control efforts.

John Hallgarth and the team relish farming in such a diverse environment – Kapiro's rich bird life includes wild peacocks – which has certainly proved compatible with beef breeding and finishing, dairy support and lamb production. In fact, ewe numbers were drawn down to 3000 this year in recognition that humid Northland is better suited to beef and dairy grazing, plantation forestry and perhaps other non-traditional products. "Our environment here adds a whole new dimension to farming... we just love seeing all the wildlife around and the mix of trees for shelter and conservation," said John.

Freshwater footprint, environmental stewardship, animal welfare, new farming systems, market connection *– material issues of particular significance in Pāmu's development of this initiative.*

KIWIS ARE KA PAI

Pāmu has joined New Zealand's kiwi conservation effort in the most practical of ways – habitat protection, predator control and bird relocation when needed.

Northland kiwi contractor Steve McManus applauds the Company's willingness to "own" surprisingly large kiwi populations found on Kapiro and Mangatoa Stations during forest harvests this year and last. Pāmu has joined with its forestry contractors to engage Steve, his kiwi-trained dog and smart bird tracking equipment to locate and move kiwi from wood lots that were largely undisturbed for 26 years or more.

"A kiwi management plan has been developed for plantation forests where the birds are present and where logging is to occur... it's worked on both Pāmu properties and as far as I know, there have been no fatalities," says Steve.

On Kapiro this winter, 11 kiwis were found in or near two areas (11 hectares in total), each bird was tagged with a transmitter for the duration of the harvest. The kiwis were monitored each morning before logging started and work would stop if they were located in that particular area. Harvesting would resume when the kiwi was captured and removed by Steve. "You move them as far away as you can downstream although they will very likely be back at some stage."

Kiwi are territorial, and Steve says they have thrived in these small wood lots and adjacent native vegetation – perfect habitat created by the Company's careful land use and fencing-off practices over many years. Dogs are the biggest predator threat, he says, and the excellent, long-standing dog control habits of Pāmu shepherds have also been critical to the kiwi population growth. (Today, no dog is allowed on Kapiro unless kiwi aversion-trained).

Now retired from the Department of Conservation, Steve continues a lifetime's work with kiwi in Northland. "The species is still in trouble but what we've shown (on Pāmu Farms and elsewhere) is that if you set up places where the birds can be managed and protected from dogs and other predators, then you get good recovery in their numbers."

NOTHING STUPID ON MANGATOA

No-one gets far with unsafe work practices or the wrong gear on Mangatoa. Pāmu people on this Northland livestock farm pull each other up whenever something doesn't look right – and the safety reminder is usually received with a smiling "yeah, thanks".

Farm manager, Peter Eagles has seen big change in attitudes and behaviours among his ten staff over the past three years.

Their weekly discussion on incidents and hazards, and their clarity of understanding on work procedures, clothing and equipment have changed the culture on Mangatoa. Peter believes close supervision of new staff and refresher training for everyone who uses the farm's eight side-by-side vehicles – himself included – have also made a huge difference.

"If someone does something stupid, we pull them up and talk it through... even the young staff will speak up if they see someone doing something unsafe, and that includes contractors or other farm visitors, for example if they turn up without high viz gear," says Peter. "If we as a company have all the guidelines and systems clearly in place, then everyone learns and makes the changes needed."

Peter's Friday afternoon "toolbox" meetings of all staff are core to Mangatoa's safety culture. Everyone contributes as they list any washouts, faulty electric fences or other new hazards that have appeared in the week, and update their incidents register. "Three years ago, people would just sit there saying nothing. Now they speak up all the time."

Knocks and cuts sustained when working in the cattle yards are the most common incidents.

Mangatoa is 4,200 hectares of rolling hills and flats, and in addition to a significant beef breeding herd, the farm grows out dairy replacement and provides tail-up bulls for our own dairy farms (and has 9000 breeding ewes). Peter says the yard work has been improved with greater use of crushes, the wearing of leather gloves and a team meeting to clarify roles before each work session.

"When everyone knows exactly what they're doing, that makes work much safer and more enjoyable too," he says. All newcomers, regardless of previous farming experience, are instructed in cattle handling before getting into the yards and supervised until they are Mangatoa-fit.

Peter says the team leave the Friday meeting with a clear understanding of their assigned tasks for the week ahead, and of all maintenance and farm development work they or others will be doing. "We write everything on boards and they simply use their smartphones to make their own copy... everyone can see what they are doing for the week ahead."

Four years managing Mangatoa and 34 years' farming experience in total have taught Peter that safety must be a never-ending concern. "There will always be small incidents and it's a matter of avoiding the major ones by managing everything which might cause them as best we can."

***Health & safety, employee wellbeing, animal welfare, people capability, social responsibilities, rural services** – material issues of particular significance in Pāmu's development of this initiative.*

SHEEP MILK FOR ASIAN MARKETS

Asian consumers love the nutritious goodness of Spring Sheep milk powder and calcium tablets – and they will have increasing access to these products as the Pāmu joint venture business expands steadily from now on.

Spring Sheep Milk Co (Spring Sheep) has commissioned two new sheep dairy farms in 2018/19, with additional farms planned for development in the next season. The powdered milk drink with added probiotics and prebiotics, and the calcium tablets are now being supplied into Taiwan, Malaysia and Vietnam.

"These are natural, distinctly-New Zealand products created specially to serve the needs and tastes of Asian consumers," says Thomas Macdonald, Spring Sheep business manager. "Having developed our products in this way and established the Spring Sheep brand in target markets, we are now working hard to meet growth in consumer demand."

Spring Sheep is an example of excellence in Kiwi innovation, and also demonstrates Pāmu's commitment to creating valuable new products for niche markets globally in partnership with talented others.

The business is a 50/50 joint venture with internationally-experienced marketing company SLC Group. It was formed in 2014 expressly to develop a vertically integrated sheep dairy operation that would draw on Pāmu's farming expertise and supply branded products into niche markets where their special qualities would earn a premium.

The milk powder, lightly flavoured with vanilla, is marketed as a natural source of protein and essential vitamins and minerals.

The calcium tablets, flavoured with strawberry or blackcurrent, are a health supplement of particular value in supporting good health and growth among children and young adults.

For the past three seasons, Spring Sheep has produced on St Kilda farm, near Taupo, from a base flock of East Friesian ewes. The two newly-converted pilot farms in operation this season are in the Waikato, near Cambridge and on the fringe of Hamilton. They have been stocked with new milking sheep genetics from Europe. These two units take the total Spring Sheep flock to around 3,600 animals.

The business is central to the Government-supported research programme Sheep – Horizon Three Primary Growth Partnership and its aim of building a high-value, sustainable New Zealand sheep dairy industry by 2030 (see page 24).

Financial resilience, new farming systems, market connection and greenhouse gas emissions *– material issues of particular significance in Pāmu's development of this initiative.*

>> Above: *Spring Sheep Chews – strawberry flavour.*

LOW INPUT DAIRYING

Biological farming methods are keeping cows and pasture in great shape on Burgess dairy unit, Wairakei Estate. Big environmental benefits are also in prospect from lower nitrate losses over the longer term.

Input of synthetic fertilizer has been halved, and paddocks planted with diversified grass and herbage are growing very well. Burgess milked 650 cows at the peak during 2017/18 and annual production was up to 402 kg of milksolids per cow. Somatic cell counts declined and farm manager Warwick Halford says the farm has gone into the new season with “very healthy cows”.

Warwick and his three-person team started the move into biological farming last year with replanting of a centrally-located area in rye grass, clover, chicory and plantain. Burgess is now Pāmu’s pilot farm for biological farming. The latter generally involves low and careful use of fertilisers, and the growing of diverse pastures that foster richer microbial communities in the soil. The enhanced soil will release more bound nutrients for the herbage and so compensate for the lower synthetic inputs. Grazing management must be adapted to such pasture diversity but New Zealand research suggests potentially big gains in productivity and animal health from biological farming.

On Burgess, Warwick says early indications are very positive. It will take longer to see any measured reduction of nitrate losses but the 265-hectare farm has already been recognised for its environmental management. In the 2018 Ballance Farm Environment Awards, Burgess won the Massey University Innovation Award for this region and a Waikato River Authority Catchment Improvement Award. Judges applauded the farm’s riparian and wetland protection and planting, and Warwick’s high standards of input control and animal welfare.

Having a large covered stand-off area, or “herd home”, is a key enabler. Cows come in at night and during heavy rainfall, and wood chips on which they stand become an excellent form of manure for periodic application to pastures. Warwick says the cover is also very beneficial to calving in this elevated region. (His animal health management includes use of the SCR Cow Intelligence system where each animal’s ruminant activity is constantly monitored and recorded on a digitally-enabled collar fitted round her neck.) Early intervention on health issues keeps antibiotic use low.

Burgess was converted only in 2015 and the inevitable need to re-open and re-sow initial pasture has facilitated the move to a diverse mix of rye grass, clover, chicory and plantain. Warwick says he plans eight-species pasture in some areas as biological methods are extended. So far, he says, cows have thrived on such a diverse feed regime (which includes breaks on lucerne alone). Stocking rates have been reduced slightly, and Burgess is now targeting further reduction in fertilizer application and animal health costs.

Freshwater footprint, environmental stewardship, animal welfare, new farming systems, market connection *– material issues of particular significance in Pāmu’s development of this initiative.*

INVESTING IN DATA FOR BEST-PRACTICE FARMING

Data collection and analysis are critical for best practice farm management. Pāmu continues to prove this through ever-increasing use of the FarmIQ Systems platform and tools in the management of land, animals and other farm assets, and of people.

FarmIQ software has been available to every Pāmu farm since 2014, with its functionality progressively expanded since then. Managers and staff now make daily use of the data collection and analysis tools to help plan all aspects of farm operations, and to record inputs and outputs.

Much of that recording can be done from the field using a smartphone app. Data held in the FarmIQ cloud can be accessed by Pāmu people working at other locations and where appropriate, by processing companies, business partners and regulatory agencies.

Of course, the information is also available at any time for farm managers and staff to run reports, and to monitor and evaluate various parts of their operation. Decisions are better informed and much time is saved from the automation of data collection and sharing.

The latest additions from FarmIQ include tools for standardised reporting on all aspects of peoples' health and safety, and feed management software for use in dairying.

On Pāmu's Moutoa Dairy Complex, farm business manager Tony Dowman says the software is in constant use, with new data on pasture growth in every paddock uploaded weekly. Team members walk the Complex weekly using a plate meter to measure growth and then a smartphone app to immediately upload the data to the FarmIQ cloud. "We use the technology to create all our pasture feed wedge reports and these are a crucial tool in our daily management of pasture and feed allocation," says Tony.

Across Pāmu, the data/management link has been further strengthened in the past year with the Company switching to its own secure, fast and reliable broadband network. Vodafone has been contracted to provide Pāmu with dedicated wireless connectivity between offices on each farm, and in Wellington and Auckland (and also into farm houses). The network includes mobile coverage across most areas of Pāmu farmland.

Digital mobile radio (DMR) technology is used as the primary form of connectivity, with secondary backup links that use 4G technology. No longer do Pāmu people have to wait to get online while colleagues are using the limited bandwidth that used to be available, or while DMR outages on the public network are repaired.

Health & safety, freshwater footprint, environmental stewardship, animal welfare, new farming systems, market connection, biosecurity *– material issues of particular significance in development of this initiative.*

<< Above: *Tony Dowman, dairy business manager, Pāmu Moutoa Dairy Complex*

FARMIQ

FarmIQ Systems develops and markets world-leading software for farm and agribusiness management.

The business is 30% owned by Pāmu, which was the lead commercial partner when FarmIQ was launched as a Primary Growth Partnership [1] in 2010. Pāmu farm managers and staff played a critical role in developing and testing the software. Last year FarmIQ became a stand-alone business with four shareholders and a mission to expand the sale and use of its software to farmers throughout New Zealand and internationally.

FarmIQ has begun distributing through agribusinesses, which have large client and membership bases among farmers.

FOCUS GENETICS

Focus Genetics continues to enable genetic advances in sheep, cattle and deer with huge benefits to productivity within Pāmu and New Zealand farming.

Focus Genetics, a Pāmu subsidiary, is this country's largest supplier of maternal and terminal sheep, beef and deer genetics. Its programmes are backed by over 50 years of breeding to support genetic advances in lamb, beef and venison production.

The Company's geneticists select the best genetics using the latest technologies available, for farm productivity and welfare, supplying animals with unique characteristics to Pāmu and discerning customers.

Focus Genetics also has breeding flocks in Australia, the UK and South America. Its professional staff have experience across the supply chain and provide genetic advice and tailored genetic plans to Pāmu and private clients. Pāmu's productivity has doubled over the last 25 years and half of that increase has come from compounding genetic gain.

1 PGP is a joint venture between government and industry for investment in long-term innovation programmes that benefit the market success of primary industries.

BOARD OF DIRECTORS

JOHN BRAKENRIDGE
NIGEL ATHERFOLD

DAVID NELSON
HAYLEY GOURLEY

TONY REILLY
BELINDA STOREY

CHRIS DAY

CHRIS DAY

Acting Chairman
Member of Audit Committee
Member of Performance and Safety Committee
Board Chair of LEL, LPL and LHL*

Chris was appointed as Acting Chairman of the Pāmu Board in May 2018. He joined the Pāmu Board in May 2012. Chris is the Chief Financial Officer of Z Energy Limited. A Chartered Accountant, he has a range of international and New Zealand business experience in executive and governance roles. Chris grew up on a sheep and beef farm at Pahiatua in North Wairarapa. His family has farmed in Wairarapa since the 1850s.

DAVID NELSON

Board Member
Acting Chair of Performance and Safety Committee

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

JOHN BRAKENRIDGE

Board Member
Member of Performance and Safety Committee
Board Member of LEL, LPL and LHL*

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

TONY REILLY

Board Member
Acting Chair of Audit 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 Ravensdown Fertiliser Co-op Limited and Network Tasman Limited. Tony grew up on and still farms the family dairy farm in Golden Bay, with a strong emphasis on environmental sustainability and intergenerational stewardship.

NIGEL ATHERFOLD

Board Member
Member of Audit 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 New Zealand Dairy Board's treasury. Nigel is currently a director of two 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.

HAYLEY GOURLEY

Board Member
Member of Audit Committee

Hayley was appointed to the Pāmu Board in May 2018. She is the General Manager, Country Banking New Zealand at Rabobank. An agricultural economist, she has more than 20 years experience, in New Zealand and globally; 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

Board Member
Member of Performance and 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 Ngati Mahuta at Taniwha.

* For full subsidiary names see page 34.

LEADERSHIP TEAM

MARK JULIAN
GENERAL MANAGER
DAIRY OPERATIONS

ALISTAIR McMECHAN
GENERAL COUNSEL

ROB FORD
GENERAL MANAGER
INNOVATION, TECHNOLOGY & ENVIRONMENT

GRAEME MULLIGAN
GENERAL MANAGER
LIVESTOCK OPERATIONS

PETER SIMONE
GENERAL MANAGER
PEOPLE, SAFETY & QUALITY

ANDREW SLIPER
GENERAL MANAGER
COMMERCIAL DEVELOPMENT & STRATEGY

SARAH RISELL
GENERAL MANAGER
SALES AND MARKETING

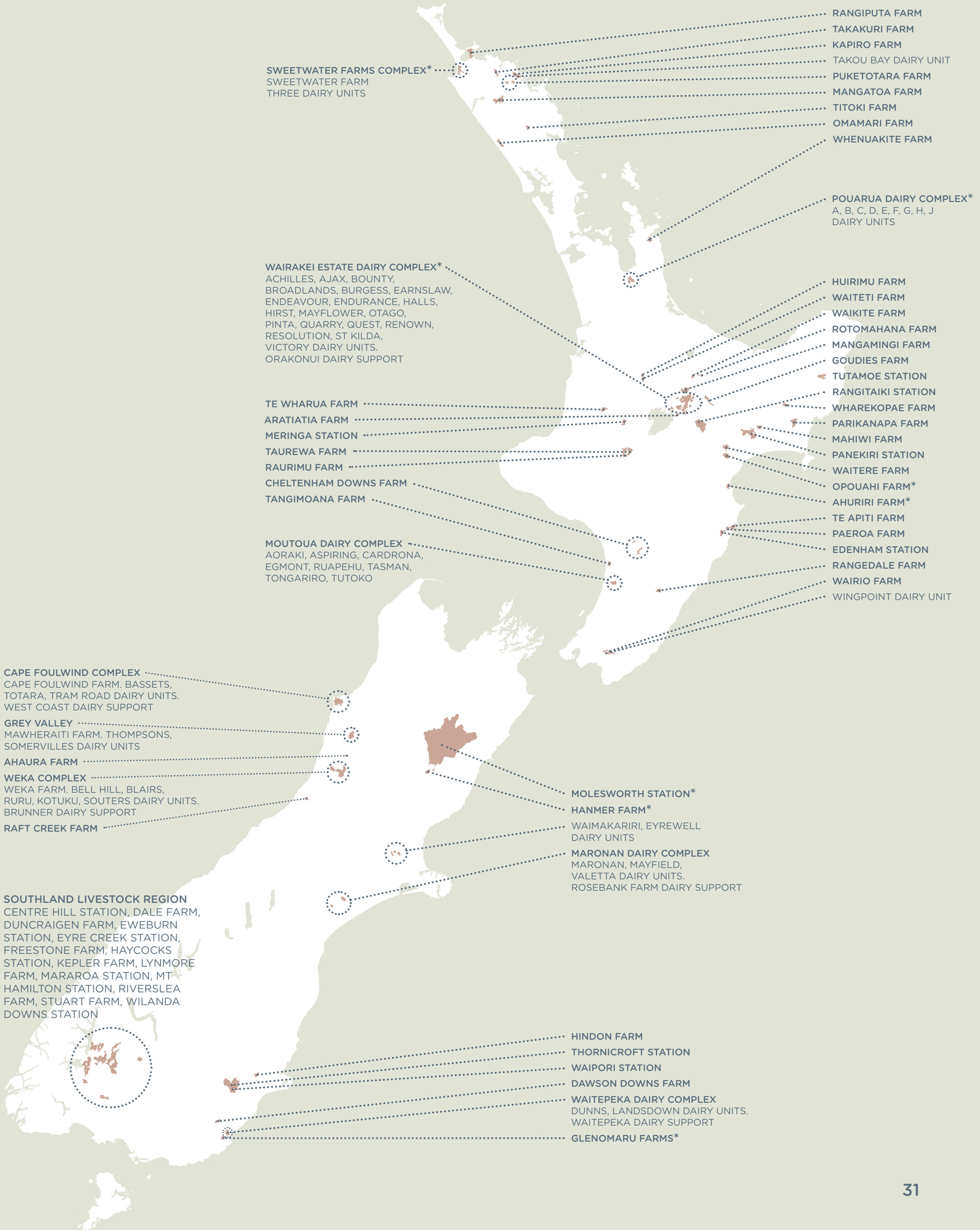
STEVEN CARDEN
CHIEF EXECUTIVE OFFICER

STEVEN McJORROW
CHIEF FINANCIAL OFFICER

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

PĀMU FARMS OF NEW ZEALAND

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



GOVERNANCE AND STATUTORY DISCLOSURES

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

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

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

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

THE BOARD

The Board is appointed by the Shareholding Ministers and is currently comprised of seven non-executive independent Directors (including the Chairman). The terms of four directors expired on 30 April 2018: Traci Houpapa (Chair), Pauline Lockett, Nikki Davies-Colley and Eric Roy. Shareholding Ministers appointed three new Directors with effect from 1 May 2018: Nigel Atherfold, Hayley Gourley and Belinda Storey. Current Director Chris Day was appointed Acting Chair.

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; and
- recognise the legitimate interests of all stakeholders including staff.

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

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 2018 are set out in the following table (variations in attendance reflect the changes to Board composition noted below).

Director	Board meetings (6 meetings)	Audit Committee (4 meetings)	Performance and Safety Committee (6 meetings)
T Houpapa*	5	4	4
J D Brakenridge	5		3
N P Davies-Colley	5		4
C W Day	5	3	2
D R Nelson	5	4	1
P N Lockett	5	4	2
A P Reilly	6	4	
E W Roy	5	4	
N W Atherfold	1		
H M Gourley	1		
B G A Storey	1		1

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

GOVERNANCE AND STATUTORY DISCLOSURES

SUBSIDIARIES

Pāmu's subsidiaries and their respective purposes are:

Landcorp Holdings Ltd (LHL)	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 (LEL)	Develops and sells land of higher value for uses other than farming.
Landcorp Pastoral Ltd (LPL)	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.

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
C W Day	Z Energy Ltd	CFO
	C W & C R Day Trust	Trustee
	Fairholm Farming Ltd	Director and Shareholder
N W Atherfold	TDB Advisory Ltd	Director and shareholder
	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
J D Brakenridge	The New Zealand Merino Company Ltd	CEO
	Alpine Origin Merino Ltd	Director
	Medbury School Trust Board	Member
H M Gourley	Rabobank New Zealand Ltd	General Manager
D R Nelson	D R & L P Nelson Farming	Partner
	Ratahiwi Trust Investments	Trustee
	Independent Beef & Lamb Directors Remuneration Committee	Chairman
A P Reilly	A P & K M Reilly Ltd	Director
	Ravensdown Fertiliser Coop Ltd	Director
	Network Tasman Ltd	Director
	Dos Rios Dairy Ltd	Director
B G A Storey	Climate Sigma Ltd	Director
	350 Aotearoa (Charitable Trust)	Director

RISK MANAGEMENT

Risk management is a key focus for the Board. The Board has overall responsibility for the Company's risk management framework. This includes ensuring that the Leadership Team's risk management policies and procedures are appropriate and that they appropriately identify and manage risks affecting Pāmu's business.

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 the operational and financial policies. In addition, a Treasury Management Committee comprising executive staff and an external advisor meets regularly to oversee the Company's treasury management functions, which are then reported to the Board.

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

ENVIRONMENTAL REFERENCE GROUP

The Environmental Reference Group (ERG) met four times in 2017/18. Members of the ERG are: Guy Salmon (Chair), Dr Mike Joy, Dr Tanira Kingi, Dave Maslen, Angus Robson and Dr Alison Dewes, who resigned from the group when she joined Pāmu as Head of Environment.

INDEMNITY AND INSURANCE

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

EMPLOYEES' REMUNERATION AND OTHER BENEFITS

Set out below are the numbers of employees and former employees whose total remuneration was within the specified bands. Remuneration is inclusive of applicable benefits including performance incentives paid during the 2017/18 year, employer superannuation contributions, health and life insurance and accommodation benefits (where applicable).

Remuneration paid to employees earning $100,000 or more during 2017/18

Dollars in thousands	Number of employees	Dollars in thousands	Number of employees
100-109	37	200-209	1
110-119	35	210-219	4
120-129	22	220-229	1
130-139	12	230-239	1
140-149	15	320-329	1
150-159	14	330-339	2
160-169	7	340-349	1
170-179	4	370-379	1
180-189	4	380-389	2
190-199	6	720-729	1

COMPANY DONATIONS

During the year Pāmu made donations of $117,000, and undertook community and event sponsorship of $58,768.

FINANCIAL YEAR IN REVIEW

Pāmu achieved EBITDAR (earnings before interest, tax, depreciation, amortization and revaluations) of $48.5 million for the year ended 30 June 2018, based on solid growth in the annual earnings of its farm operations. The result was up from EBITDAR of $35.6 million in the previous year.

NET PROFIT AFTER TAX

Although EBITDAR improved by $12.9 million, net profit after tax for 2017/18 was $34.2 million, down from $51.9 million in the previous year. The $12.9 million uplift in EBITDAR was offset by a decrease in the fair value gains in biological assets ($18.2 million), an increase in the tax expense ($11.2 million) and other minor items ($1.2 million). The lower fair value gain in biological assets was due to a reduction in animal numbers and a levelling off in the upward trajectory of market prices of some species. The tax expense reflects a higher deferred tax liability caused by non-cash items relating to livestock, carbon credits and forestry revaluations. Depreciation and finance expenses were comparable year on year, with fair value gains on financial instruments being largely offset by impairment charges on a handful of properties.

Pāmu achieved 7% growth in total revenues to $247.1 million (2016/17: $230.9 million). This included a 15% increase in livestock revenues ($16.3 million) and income of $8.1 million from an allocation of additional carbon units (NZU) to the company based on its forestry assets following the Ministry of Primary Industries five yearly audit of those assets. This was offset by declines in milk revenue ($6.7 million) and wool ($1.8 million), and a slight increase in operating expenses and other losses ($2.9 million).

Like other New Zealand farmers, Pāmu saw significant improvement in dairy and red meat prices through 2017/18 although the benefit to earnings was partly offset by the impact of weather extremes, particularly during the first half of the year.

A dividend of $5 million has been declared by Directors.

REVENUES

Beef revenue increased to $52.5 million (2016/17: $51.1 million) due to continued strength in market prices and higher production by Pāmu. Total beef carcass production was 11,094 million tonnes, 6% ahead of the previous year. More than half of this production was sold under supply contracts to processors. This included the Silver Fern Farms quality beef programme where producers earn a premium for meat delivered to quality specifications.

Sheep revenue was $52.8 million, up 26% on the previous year ($41.9 million). Industrywide indicators of return to lamb producers rose to highs last seen in 2008, and Pāmu's average prime lamb farmgate price was 28% higher than in 2016/17. However the company has reduced its total breeding ewe flock in recent years as a consequence of farm sales and planned reduction on some North Island properties better suited to beef production. The latest year's lamb crop was down slightly to 474,000 and Pamu's total annual sheepmeat supply slipped 6% to 7,934 tonnes. This partly reflected a very dry early summer in the lower South Island, the company having to sell store lambs to other producers outside those regions. More than 50% of Pāmu's finished lambs were sold on supply contracts with processors.

Deer revenue was $19.7 million, 25% ahead of the previous year ($15.7 million). The company lifted venison production during 2017/18 to 2,055 tonnes and continued to develop supply arrangements into the North American market through established value chain partners.

Wool revenue slipped to $4.5 million (2016/17: $6.3 million) on a weakening of strong wool prices across the market. Pāmu increased wool volume sold by 8% to 2,595 tonnes and made further progress in selling direct to manufacturers on contracts managed by New Zealand Merino Company. However the company's average price received was 22% lower than the previous year, consistent with a weaker international wool market.

Milk revenue for 2017/18 declined 6.6% to $94.8 million (2016/17: $101.5 million) on production of 16.5 million kg of milksolids (kgMS) across all Pāmu owned, sharemilked and managed farms. Total production fell 18.7% from 20.3 million kgMS to 16.5 million kgMS, but the prior year included Pāmu's final year of operating 12 North Island dairy farms owned by Shanghai Pengxin. Excluding the SPG farms underlying production decreased by only 2.9%. Climatic conditions affected production, with extremes of wet and dry weather through the season in the lower North Island and West Coast.

FINANCIAL YEAR IN REVIEW

New Zealand farmgate milk prices rose again in 2017/18, back to a level not seen for five years. Pāmu's average price was up 8.9% to $6.63 per kgMS (including Fonterra dividends), up from $6.09 in the previous year. Pāmu continued to use milk price futures contracts (which settle in September 2018) purchased on NZX's derivatives market to help manage volatility in milk revenue.

The company continued to expand alternative dairy farming systems including A2 milk production for Canterbury-based company Synlait, and organic certification on two North Island units. Production of milk solids per cow was in line with past years. Stocking rates were reduced slightly. Pāmu's ongoing refinement of feed systems, including withdrawal from any use of palm kernel supplements, combined with adverse weather put pressure on production costs in 2017/18 which rose 6.0% on a per kgMS basis. However per-hectare operating profit in the dairy business remained strong.

PROPERTY SALES

Pāmu completed two property sales during 2017/18, including Jericho Farm in Southland and a block of mining land on Burkes Creek Farm, West Coast. Overall, property sales contributed a $0.6 million loss to EBITDAR, whereas the previous year's comparable result benefited from a $1.2 million gain on three property sales. Pāmu has no current property sale programme. Certain properties are classified as "available for sale" as a result of potential transfers under the terms of settlements under the Treaty of Waitangi.

OPERATING EXPENSES

Pāmu had operating expenses of $195.8 million (2016/17: $194.7 million) with personnel expenses being $61.6 million of the total. The prior year contained one-off costs related to holiday pay entitlements dating back a number of years. Also, casual labour costs are lower in 2017/18 as a result of the exit from the 12 dairy farms in the Shanghai Pengxin joint venture. At 30 June 2018, the company had 680 fulltime employees, compared with 661 a year earlier. Farm working and maintenance expenses increased 5% to $100.8 million largely as result of the adverse impact of the climate on the production of feed stocks in the first half of the financial year.

TOTAL COMPREHENSIVE INCOME

Total Comprehensive Income includes a $3.2 million loss in the book value of available-for-sale financial assets. That loss was offset by a valuation gain of $1.6 million on other intangible assets and a tax charge on income recognised in equity.

BALANCE SHEET

Total assets increased to $1,857.5 million at 30 June 2018 (30 June 2017: $1,814.2 million). This reflected growth in the balance sheet valuation of livestock, forestry and intangible assets and also investment in the company's land and improvements.

The level of bank borrowing was little changed at $209.1 million (30 June 2017: $206.9 million), the company being well supported during the latest year by cash flows from its farming operations and farm sale proceeds. Net cash flows from operating activities in 2017/18 were $27.5 million (2016/17: $32.3 million). Pāmu closely manages its borrowing from a syndicate of banks which are experienced in the traditional cycles of New Zealand agriculture.

At 30 June 2018, the ratio of shareholders' funds (including redeemable preference shares) to total assets was 86%.

KEY FINANCIAL DATA OVER FIVE YEARS

DOLLARS IN MILLIONS UNLESS OTHERWISE STATED

	2017/18	2016/17	2015/16	2014/15	2013/14
Total revenue	247.1	230.9	210.0	224.3	247.0
EBITDAR [1]	48.5	35.6	25.5	30.9	54.5
Net profit after tax	34.2	51.9	11.5	(20.0)	54.7
Total comprehensive income	29.3	56.8	(2.9)	(8.4)	115.9
Total shareholder return (%) [2]	2.2	3.9	(0.1)	(1.1)	8.4
Return on equity, adjusted for IFRS Fair Value (%) [3]	1.6	1.2	(0.4)	1.7	2.7
Dividend declared	5.0	–	–	–	7.0
Total assets	1,857.5	1,814.2	1,786.3	1,774.7	1,748.5
Total equity	1,497.3	1,465.6	1,411.2	1,412.9	1,427.4
Bank debt	209.1	206.9	219.6	210.7	172.4
Shareholders funds / Total assets (%) [4]	86.0	86.3	85.0	85.7	87.8

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

TARGETS FOR 2018/19

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 2017/18 financial targets and forecasts for 2018/19, including those in the SCI, are shown in the table below.

	Target 2018/19	Actual 2017/18	Target 2017/18
Shareholder Returns			
Total Shareholder Return (%) [1]	3.8	2.2	0.3
Return on Equity, adjusted for IFRS Fair Value (%) [2]	4.1	1.6	0.7
Dividend Yield (%) [3]	0.4	0.3	0.0
Dividend Payout (%) [4]	27.9	44.2	0.0
Profitability & Efficiency			
EBITDAR ($m) [5]	45.8	48.5	38.0
Net Profit after tax ($m)	19.0	34.2	13.3
Operating cashflow after capex ($m)	(20.6)	(15.7)	(24.5)
Return on Capital Employed (%) [6]	3.7	3.4	1.4
Operating Margin (%) [7]	18.3	20.8	16.0
Dividends Declared - Group (ordinary and special) ($m)	5.0	5.0	0.0
Leverage & Solvency			
Gearing (%) [8]	11.6	12.2	11.5
Interest Cover (times) [9]	4.26	4.18	3.47
Solvency (times) [10]	3.77	5.76	4.33

These targets are based on commodity price assumptions including forecast milk price of $6.50 per kg of milk solids.

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 declared / Net cash flow from operating activities less depreciation expense.
5 Earning Before Interest, Tax, Depreciation, Amortisation and Revaluations.
6 EBITDAR less depreciation / Average shareholders' equity, debt and redeemable preference share less revaluation reserves..
7 EBITDAR less profit on land sales / Total revenue.
8 Net debt / Net debt plus equity.
9 EBITDAR / Net interest.
10 Current assets / Current liabilities (excluding current portion of long term debt on the basis that all debt will be refinanced as it matures.

FINANCIAL STATEMENTS AND NOTES

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2018

	Note	Group 2018 $m	Group 2017 $m
Revenue			
Farm operating	6	227.2	218.8
Other business activities	7	19.9	12.1
		247.1	230.9
Operating expenses			
Farm working and maintenance	8	100.8	96.0
Personnel	9	61.6	64.8
Other	10	33.4	33.9
		195.8	194.7
(Loss) from equity accounted investments		(2.2)	(1.8)
(Loss)/profit on sale of farm and forestry land		(0.6)	1.2
Earnings before interest, tax, depreciation, amortisation and revaluations		**48.5**	**35.6**
Depreciation and amortisation		(16.2)	(17.1)
Net finance expenses		(11.6)	(11.6)
Fair value gain in financial instruments		3.2	2.5
Fair value gain in biological assets	6	24.5	42.7
Impairment on property, plant and equipment		(2.8)	–
Net profit before tax		**45.6**	**52.1**
Tax expense	17	(11.4)	(0.2)
Net profit after tax		**34.2**	**51.9**
Other comprehensive income			
Gain on revaluation of land and improvements		–	0.2
(Loss)/gain on revaluation of available-for-sale financial assets		(3.2)	3.3
Gain/(loss) due to price changes on intangible assets		1.6	(0.4)
Tax (expense)/income recognised in equity		(3.3)	1.8
Total comprehensive income		**29.3**	**56.8**

The accompanying notes form part of these financial statements

STATEMENT OF MOVEMENTS IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2018

	Note	Group 2018 $m	Group 2017 $m
Ordinary shares			
Balance beginning of year		125.0	125.0
Balance end of year	16	**125.0**	**125.0**
Retained earnings			
Balance beginning of year		134.8	126.8
Net profit after tax		34.2	51.9
Transfer to revenue reserves		(27.7)	(45.7)
Other movements		0.1	1.8
Balance end of year	16	**141.4**	**134.8**
Revenue reserves			
Balance beginning of year		146.5	100.8
Transfer from retained earnings		27.7	45.7
Balance end of year	16	**174.2**	**146.5**
Fair value reserve			
Balance beginning of year		16.2	12.8
Revaluation of available-for-sale financial assets		(3.2)	3.3
Other movements		0.1	0.1
Balance end of year	16	**13.1**	**16.2**
Asset revaluation reserves			
Balance beginning of year		745.3	750.2
Net value change during year		1.6	(0.2)
Tax effect of reserve movements		(3.3)	1.8
Transfers to other equity on sale		(8.4)	(4.3)
Other movements		1.1	(2.2)
Balance end of year	16	**736.3**	**745.3**
Other equity			
Balance beginning of year		297.8	295.6
Transfers from asset revaluation reserves		8.4	4.3
Capital expenditure reimbursed by the Crown		1.8	0.8
Assets transferred to the Crown		(0.7)	(2.9)
Balance end of year	16	**307.3**	**297.8**
Total equity			
Balance beginning of year		1,465.6	1,411.2
Net profit after tax		34.2	51.9
Other comprehensive income:			
Gain on revaluation of land and improvements		–	0.2
(Loss)/gain on revaluation of available-for-sale financial assets		(3.2)	3.3
Gain on revaluation of intangible assets		1.6	(0.4)
Tax effect of reserve movements		(3.3)	1.8
Capital expenditure reimbursed by the Crown		1.8	0.8
Assets transferred to the Crown		(0.7)	(2.9)
Other movements		1.3	(0.3)
Balance end of year		**1,497.3**	**1,465.6**

The accompanying notes form part of these financial statements

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2018

	Note	Group 2018 $m	Group 2017 $m
Operating activities			
Cash was received from:			
Receipts from customers			
Livestock		151.1	138.9
Milk		97.5	94.3
Other receipts from customers		20.2	17.1
Dividends received		0.8	1.4
Income tax received		-	0.4
		269.6	252.1
Cash was applied to:			
Payments to suppliers		165.0	148.3
Payments to employees		65.2	61.5
Interest paid		11.8	11.4
Net GST paid/(received)		0.2	(1.4)
		242.1	219.8
Net cash flows from operating activities		**27.5**	**32.3**
Investing activities			
Cash was received from:			
Sale of land and improvements		13.2	15.0
Sale of other property, plant and equipment		2.8	4.3
		16.0	19.3
Cash was applied to:			
Purchase and development of land		19.2	19.1
Purchase of other property, plant and equipment		18.7	11.4
Purchase of intangible assets		0.1	-
Purchase of shares and advances		3.9	3.8
Net joint venture investment		1.3	2.0
		43.2	36.3
Net cash flows from investing activities		**(27.2)**	**(17.0)**
Financing activities			
Cash was received from:			
Net borrowing receipts/(payments)		2.1	(15.1)
		2.1	(15.1)
Net cash flows from financing activities		**0.1**	**(15.1)**
Net change in cash and cash equivalents		**2.4**	**0.2**
Cash and cash equivalents at beginning of year		(0.8)	(1.0)
Cash and cash equivalents at end of year		**1.6**	**(0.8)**
Cash and cash equivalents comprises cash balances held with registered New Zealand banks -			
Cash at bank/(bank overdraft)		**1.6**	**(0.8)**

The accompanying notes form part of these financial statements

RECONCILATION OF PROFIT AND OPERATING CASH FLOW

FOR THE YEAR ENDED 30 JUNE 2018

	Note	Group 2018 $m	Group 2017 $m
Net profit after tax		**34.2**	**51.9**
Non cash items			
Depreciation and amortisation		16.2	17.1
Revaluation gains		(27.7)	(45.2)
Change in deferred tax liability		14.8	0.5
Deferred tax on revaluation of assets		(3.3)	1.8
Other non cash items		(7.8)	13.5
Movement in working capital items			
Inventories		(1.2)	(5.4)
Accounts receivable		(4.3)	(8.2)
Accounts payable and accruals		(1.4)	(0.6)
Employee entitlements		2.5	2.8
Items classified as investing or financing activities			
Net profit/(loss) on movement of assets		0.8	(1.5)
Change in accounts receivable due to capital items		4.1	2.9
Change in accounts payable due to capital items		0.6	2.7
Net cash flows from operating activities		**27.5**	**32.3**

The accompanying notes form part of these financial statements

STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2018

	Note	Group 2018 $m	Group 2017 $m
Assets			
Cash and cash equivalents		1.6	(0.8)
Accounts receivable	11	38.7	34.4
Inventories		16.8	15.6
Property held for sale	15	26.9	59.1
Biological assets			
Livestock	6	339.7	318.9
Forests		35.9	26.8
Total biological assets		375.6	345.7
Equity accounted investments		4.5	4.7
Other financial assets	12	58.8	58.1
Intangible assets	13	19.5	10.6
Property, plant and equipment			
Land and improvements	14	1,162.2	1,135.1
Protected land	14	106.2	104.6
Plant	14	20.2	21.3
Motor vehicles	14	23.0	22.3
Furniture and equipment		1.8	1.9
Computer equipment		1.7	1.6
Total property, plant and equipment		1,315.1	1,286.8
Total assets		**1,857.5**	**1,814.2**

The accompanying notes form part of these financial statements

	Note	Group 2018 $m	Group 2017 $m
Liabilities			
Accounts payable and accruals		16.1	17.5
Employee entitlements		10.4	13.0
Deferred tax liability	17	15.2	0.3
Other financial liabilities	12	218.8	218.1
Redeemable preference shares	16	99.7	99.7
Total liabilities		**360.2**	**348.6**
Shareholders' funds			
Share capital		125.0	125.0
Retained earnings		141.4	134.8
Revenue reserves		174.2	146.5
Fair value reserve		13.1	16.2
Asset revaluation reserves		736.3	745.3
Other equity		307.3	297.8
Total shareholders' funds	16	**1,497.3**	**1,465.6**
Total equity		**1,497.3**	**1,465.6**
Total equity and liabilities		**1,857.5**	**1,814.2**

Landcorp's Board of Directors authorised the financial statements for issue on 28 August 2018.

Signed on behalf of the Board

Chris Day
Acting Chairman

28 August 2018

Tony Reilly
Acting Chair of Audit Committee

28 August 2018

The accompanying notes form part of these financial statements

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

STATEMENT OF ACCOUNTING POLICIES

NOTE 1: REPORTING ENTITY

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

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

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

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

The financial statements of the Group are for the year ended 30 June 2018. The financial statements were authorised for issue by the Board of Directors on 28 August 2018.

NOTE 2: BASIS OF PREPARATION

Statement of compliance

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

Measurement base

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

Functional and presentation currency

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

Changes in accounting policies

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

Comparative information

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

NOTE 3: SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation

Subsidiaries

Subsidiaries are companies controlled by Landcorp and are included in the consolidated financial statements using the purchase method of consolidation.

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

Interests in joint ventures

Jointly controlled entities are companies that Landcorp shares joint control over and are included in the financial statements using the equity method. When Landcorp's share of losses exceeds its investment, a liability is recognised to the extent that Landcorp has incurred a constructive or legal obligation.

Business combinations

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

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

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

Revenue

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

Livestock sales

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

Agricultural produce

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

Accounts receivable

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

Property held for sale

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

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

Livestock biological assets

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

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

Other financial assets

(a) Investments in subsidiaries, associates and joint ventures

Investments in subsidiaries are recorded at cost.

Investments in associates and joint ventures are accounted for using the equity method. The investment is initially recognised at cost and the carrying value is increased or decreased to recognise the share of surplus or deficit of the entity after the date of acquisition. Distributions received from the entity reduce the carrying amount of the investment. If the share of losses exceeds the value of the investment a liability is recognised to the extent that the company has incurred a constructive or legal obligation.

(b) Loans to subsidiaries and other loans and receivables

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

(c) Held-for-trading instruments

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

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

(d) Available-for-sale investments

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

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

(e) Impairment of financial assets

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

Property, plant and equipment

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

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

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

(a) Revaluations

An assessment of the fair value of freehold land and improvements (including buildings) is performed annually by management. If there is any material change in fair value a full revaluation is required. At a minimum, a revaluation of the portfolio by independent registered valuers will be performed on a recurring basis every three years. The last revaluation was performed on 30 June 2016. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount restated to the asset's revalued amount. Changes in valuation are taken to the freehold land and improvements revaluation reserve using the net revaluation method. Where an asset's downwards revaluation exceeds previous positive revaluations, the amount of the revaluation is reported within profit or loss in the Statement of Comprehensive Income.

(b) Additions

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

(c) Disposal

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

(d) Depreciation

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

(e) Impairment

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

(f) Protected land

The Crown wishes to protect from sale that land which is sensitive to public policy issues as defined in the Protected Land Agreement. Protected land (including buildings on protected land) is valued at fair value at the time it is classified as protected land. Under the Protected Land Agreement, this value is considered to be the ongoing fair value of the land to Landcorp.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

Other financial liabilities

(a) Bank loans

Bank loans are recognised at their fair value.

(b) Financial guarantees

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

Income tax

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

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

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

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

Dividends

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

NOTE 4: CRITICAL ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

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

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

(i) Critical accounting estimates and assumptions

Measurement of fair value

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

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

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

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

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

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

Valuation of investments and derivatives

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

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

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

Valuation of freehold land and buildings

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

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

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

Valuation of livestock

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

Livestock revenue

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

(ii) Critical judgements in applying accounting policies

Classification of revenue

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

Revenue recognition

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

Profit on land sales

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

Classification as property held for sale

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

Classification of investments and derivatives

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

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

Taxation

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

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

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

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

Standard	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
NZ IFRS 15 Revenue from Contracts with Customers	1 January 2018	30 June 2019
NZ IFRS 9 Financial Instruments: Classification and Measurement	1 January 2018	30 June 2019
NZ IFRS 16 Leases	1 January 2019	30 June 2020

NZ IFRS 15 will supersede NZ IAS 18 Revenue, and NZ IAS 11 Construction Contracts. In April 2016 the International Accounting Standards Board (IASB) issued amendments to IFRS 15. A review of contracts shows they are consistent with the requirements of NZ IFRS 15 and the adoption is not expected to have any material effect on the financial statements.

The adoption of NZ IFRS 9 will result in the reclassification of Landcorp's financial instruments. Landcorp's share portfolio will change from the current available-for-sale classification to fair-value-through-other-comprehensive-income. Revaluations of these shares and associated gains and losses on disposal will be reported within other comprehensive income. The adoption of NZ IFRS 9 will not result in any material change to the accounting for Landcorp's financial instruments, rather the categorisation and disclosure will change.

NZ IFRS 16 will require Landcorp to recognise leased assets on its balance sheet by recognising 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. In summary, operating lease expenses will be replaced with an amortisation charge on leased assets and an interest expense in respect of lease liabilities. Landcorp is in the process of assessing the full impact of this standard. As part of this assessment Landcorp has established that recognition of lease obligations in respect of land development activity in central North Island on the Wairakei Estate will create material corresponding assets and liabilities on the Group balance sheet. Based on current values there will be an increase in land and buildings of $217m with a corresponding increase in liabilities. The leased asset will be amortised over the remaining lease term creating an amortisation charge of around $7m per annum and lease interest charges of around $3m per annum. Operating expenses will decrease by around $10m. Due to the structure of the lease and provisions within the standard, it will be necessary to re-measure all of these amounts annually. The lease provides for systematic revaluation of land parcels over the lease term, and given the value of the overall asset and the uncertain quantum of these revaluations the size of the IFRS 16 adjustments both upon adoption and from year to year cannot be predicted with any certainty.

In addition to the Wairakei Estate lease, Landcorp is party to a number of other lease arrangements. The estimated impact of IFRS 16 based on leases held at 30 June 2018 is an increase in property, plant and equipment of $8.0m, liabilities of $8.0m, amortisation charges of $1.0m, interest expense of $0.4m, and a decrease in operating expenses of $1.4m.

It should be noted that 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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

NOTE 6: FARM OPERATING REVENUE

A Nature of activities

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

	Group 2018 $m	Group 2017 $m
Revenue		
Livestock	125.0	108.7
Milk	94.8	101.5
Wool	4.5	6.3
Forestry	2.9	2.3
	227.2	**218.8**

B Livestock revenue

Livestock revenue by species was:

	Group 2018 $m	Group 2017 $m
Sheep	52.8	41.9
Beef	52.5	51.1
Deer	19.7	15.7
Total livestock revenue	**125.0**	**108.7**
Livestock sales	150.2	138.2
Birth of animals	39.5	43.4
Growth of animals	66.9	66.4
Livestock losses	(12.6)	(13.4)
Book value of livestock sold	(119.0)	(125.9)
Total livestock revenue	**125.0**	**108.7**

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

C Value of livestock

The value of livestock at 30 June was:

	Group 2018 $m	Group 2017 $m
Sheep	80.9	69.7
Beef	112.0	109.3
Dairy	95.7	94.6
Deer	51.1	45.3
Total value of livestock	**339.7**	**318.9**

Livestock valuations at 30 June 2018 were provided by PGG Wrightson Ltd. These market values reflect livestock of similar age, breed and genetic merit throughout New Zealand.

Livestock numbers comprised of:

	Group 2018	Group 2017
Sheep	469,118	490,028
Beef	88,972	83,423
Dairy	67,483	70,521
Deer	90,220	93,726

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

Livestock value at start of year	318.9	288.5
Value changes caused by:		
Birth and growth of animals	106.4	109.8
Purchases	24.2	16.8
Livestock losses	(12.6)	(13.4)
Livestock available for sale or production	436.9	401.7
Book value of stock sold	(119.0)	(125.9)
Effect of price changes	21.8	43.1
Livestock value at end of year	**339.7**	**318.9**

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

Current	95.5	95.7
Non-current	244.2	223.2
Total value of livestock	**339.7**	**318.9**

D Fair value movements on biological assets

	Group 2018 $m	Group 2017 $m
Effect of price changes on livestock	21.8	43.1
Effect of price changes on forestry	2.7	(0.4)
Total fair value movements on biological assets	**24.5**	**42.7**

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

NOTE 7: OTHER BUSINESS ACTIVITIES

	Group 2018 $m	Group 2017 $m
Sundry income	9.7	6.5
Carbon credit allocation	8.1	0.1
Other business activities	2.1	5.5
Total other business activities	**19.9**	**12.1**

NOTE 8: FARM WORKING AND MAINTENANCE EXPENSES

	Group 2018 $m	Group 2017 $m
Cropping and feed	31.3	31.2
Pasture maintenance	22.1	23.4
Maintenance	13.8	14.1
Animal breeding	7.7	7.4
Animal health	7.2	7.7
Shearing	4.6	5.2
Grazing charges	3.2	3.3
Other farm working expenses	10.9	3.6
Total farm working and maintenance	**100.8**	**95.8**

NOTE 9: PERSONNEL

	Group 2018 $m	Group 2017 $m
Staff remuneration	56.6	60.4
Other personnel costs	5.0	4.4
Total personnel costs	**61.6**	**64.8**

NOTE 10: OTHER OPERATING EXPENSES

	Group 2018 $m	Group 2017 $m
Fees to auditors - statutory audit	0.2	0.2
Directors' remuneration - Group	0.3	0.4
Directors' remuneration - Subsidiaries	0.1	0.1
Rent	11.3	10.9
Other operating expenses	21.5	22.3
Total other operating expenses	**33.4**	**33.9**

NOTE 11: ACCOUNTS RECEIVABLE

	Group 2018 $m	Group 2017 $m
Trade debtors	7.9	12.4
Milk income receivable	17.9	18.1
Other receivables and prepayments	12.9	3.9
Total accounts receivable	**38.7**	**34.4**

NOTE 12: OTHER FINANCIAL ASSETS AND LIABILITIES

	Group 2018 $m	Group 2017 $m
Other financial assets		
Available-for-sale financial assets		
Share investments	58.8	58.1
Total other financial assets	**58.8**	**58.1**
Other financial liabilities		
Financial liabilities measured at amortised cost		
Bank loans	209.1	206.9
Held-for-trading financial liabilities		
Interest rate derivatives	9.7	11.2
Total other financial liabilities	**218.8**	**218.1**
Other financial liabilities are classified as follows:		
Current	85.0	135.0
Non-current	133.8	83.1
Total other financial liabilities	**218.8**	**218.1**

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

A Current and non-current financial assets and liabilities

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

Interest rate derivatives are valued using a level two fair value measurement in accordance with the fair value hierarchy. There were no transfers between levels during the year. Interest rate derivatives are valued on an 'exit price' basis. Accrued interest is calculated based on the market 90 day rate (30 June 2018 1.97%) and is removed from the revaluation provided by each swap provider.

B Bank loans

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

Cash advance facilities have been drawn as follows:

	Group 2018 $m	Group 2017 $m
Drawn	209.1	206.9
Undrawn	105.9	108.1
Total	**315.0**	**315.0**

Cash advance facilities are committed to:

	Group 2018 $m	Group 2017 $m
0 - 6 months	85.0	90.0
One to two years	90.0	135.0
Two to five years	140.0	90.0
Total	**315.0**	**315.0**

C Financial guarantees

The Parent is party to a bank account offset facility with other Group companies. This facility allows more efficient management of Group cash balances and funding facilities. Under the facility individual company bank accounts are combined for interest payment calculations, and the bank has the right to offset accounts in the event of default by any Group company. At a Group level the maximum allowable combined total of all 'overdraft' accounts is $2.0m (2017 $2.0m).

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

NOTE 13: INTANGIBLE ASSETS

	Group 2018 $m	Group 2017 $m
Genetic royalties		
Fair value		
Net carrying amount	**2.0**	**2.0**
Carbon credits		
Fair value		
Opening balance	7.2	8.3
Additions/(disposals)	7.8	(0.7)
Revaluation	1.6	(0.4)
Closing balance	16.6	7.2
Net carrying amount	**16.6**	**7.2**
Other intangible assets		
Net carrying amount	**0.9**	**1.4**
Total intangible assets	**19.5**	**10.6**

Landcorp holds 1,542,364 Fonterra vouchers which have a notional value of $nil. These vouchers are used in meeting the Fonterra share ownership requirements to be able to supply milk to Fonterra.

As a forester, Landcorp has gained emission credits (“New Zealand Units” or “NZU”) and may incur liabilities through the Emissions Trading Scheme (ETS). Landcorp has applied for and received credits on forestry plantations which are revalued as at 30 June each year.

Had the Group’s carbon credits been measured on a historical cost basis, their carrying amount would have been $10.3m (30 June 2017 $2.5m).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

NOTE 14: PROPERTY, PLANT AND EQUIPMENT

	Group 2018 $m	North Island Dairy $m	South Island Dairy $m	North Island Livestock $m	South Island Livestock $m
Land and improvements					
Freehold land and buildings (Fair value)					
Opening balance	1,079.2	72.7	196.1	433.0	377.4
Additions	14.8	1.9	2.0	6.0	4.9
Disposals	(2.5)	-	(0.1)	(0.3)	(2.1)
Impairment losses recognised in profit and loss	(2.8)	-	(2.8)	-	-
Reclassified from property held for sale	16.8	-	-	(1.4)	18.2
Closing balance	1,105.5	74.6	195.2	437.3	398.4
Accumulated depreciation					
Opening balance	(2.3)	(0.1)	(0.7)	(0.7)	(0.8)
Depreciation	(2.3)	(0.1)	(0.7)	(0.7)	(0.8)
Disposals	0.1	-	-	0.1	-
Closing balance	(4.5)	(0.2)	(1.4)	(1.3)	(1.6)
Net carrying amount	**1,101.0**	**74.4**	**193.8**	**436.0**	**396.8**
Buildings and improvements leased land (Cost)					
Opening balance	65.0	65.0	-	-	-
Additions	4.7	4.7	-	-	-
Closing balance	69.7	69.7	-	-	-
Accumulated depreciation and impairment					
Opening balance	(6.8)	(6.8)	-	-	-
Depreciation	(1.2)	(1.2)	-	-	-
Impairment	(0.5)	(0.5)	-	-	-
Closing balance	(8.5)	(8.5)	-	-	-
Net carrying amount	**61.2**	**61.2**	-	-	-
Total land and improvements	**1,162.2**	**135.6**	**193.8**	**436.0**	**396.8**
Protected land and improvements (Cost)					
Opening balance	105.5	-	-	105.5	-
Additions	4.3	-	-	4.3	-
Disposals	(2.6)	-	-	(2.6)	-
Closing balance	107.2	-	-	107.2	-
Accumulated depreciation					
Opening balance	(0.9)	-	-	(0.9)	-
Depreciation	(0.1)	-	-	(0.1)	-
Disposals	-	-	-	-	-
Closing balance	(1.0)	-	-	(1.0)	-
Net carrying amount	**106.2**	-	-	**106.2**	-

Total land and improvements above includes work in progress of $0.7m at 30 June 2018 (30 June 2017 $0.5m).

	Group 2018 $m
Plant (Cost)	
Opening balance	70.6
Additions	3.8
Disposals	(3.7)
Closing balance	70.7
Accumulated depreciation	
Opening balance	(49.3)
Depreciation	(4.5)
Disposals	3.3
Closing balance	(50.5)
Net carrying amount	**20.2**
Motor vehicles (Cost)	
Opening balance	47.4
Additions	7.0
Disposals	(4.2)
Closing balance	50.2
Accumulated depreciation	
Opening balance	(25.1)
Depreciation	(5.6)
Disposals	3.5
Closing balance	(27.2)
Net carrying amount	**23.0**

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

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

	Group 2017 $m
Plant (Cost)	
Opening balance	69.7
Additions	2.7
Disposals	(1.8)
Closing balance	70.6
Accumulated depreciation	
Opening balance	(45.6)
Depreciation	(4.9)
Disposals	1.2
Closing balance	(49.3)
Net carrying amount	**21.3**
Motor vehicles (Cost)	
Opening balance	49.2
Additions	3.5
Disposals	(5.3)
Closing balance	47.4
Accumulated depreciation	
Opening balance	(23.9)
Depreciation	(5.5)
Disposals	4.3
Closing balance	(25.1)
Net carrying amount	**22.3**

Valuation techniques

Freehold land and improvements (including buildings) are fair valued on a periodic basis by independent registered valuers. A revaluation of the portfolio will be performed on a recurring basis at a minimum of every three years with the last revaluation being performed on 30 June 2016. The valuations use a market approach and take into account general factors that influence farm land prices and recent farm sales in the relevant regions.

Significant unobservable inputs

- The effects of the Conservation Act 1987 relating to the establishment of marginal strips and conservation management plans where applicable.
- The effects of the Treaty of Waitangi (State Enterprises) Act 1988 and the memorials pertaining to section 27B of the State Owned Enterprises Act 1986, which provides for the resumption of land on recommendation of the Waitangi Tribunal. In the North Island many section 27B memorials are in place and their effect has been considered resulting in deductions from unencumbered current market value of 0-6%.
- South Island properties include a deduction of up to 5%, reflecting the effect of the Right of First Refusal memorial to Ngai Tahu registered on the title of those properties.

Inter-relationship between key unobservable inputs and fair value measurement

The estimated fair value would increase (decrease) if:

- The effects of the Conservation Act 1987 relating to the establishment of marginal strips and conservation management plans were lower (higher).
- The effects of the Treaty of Waitangi (State Enterprises) Act 1988 and the memorials pertaining to section 27B of the State Owned Enterprises Act 1986 were lower (higher).
- The effects of the Right of First Refusal memorial to Ngai Tahu on the South Island properties were lower (higher).

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

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

	Group 2018 $m	Group 2017 $m
Freehold land	535.9	526.5
Buildings on freehold land	66.5	64.9
Total land and buildings at historical cost	**602.4**	**591.4**

NOTE 15: PROPERTY HELD FOR SALE

Property held for sale comprises:

	Group 2018 $m	Group 2017 $m
Opening balance	59.1	88.5
Property declassified as held for sale	(16.8)	(9.3)
Disposals	(15.4)	(20.1)
Net carrying amount	**26.9**	**59.1**
Development land	0.2	9.8
Farm land	25.3	45.3
Buildings	1.4	4.0
Total property held for sale	**26.9**	**59.1**

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

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

NOTE 16: CAPITAL MANAGEMENT

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

	Components	Group 2018 $m	Group 2017 $m
Share capital	A	125.0	125.0
Retained earnings	B	141.4	134.8
Revenue reserves	C	174.2	146.5
Fair value reserve	D	13.1	16.2
Asset revaluation reserves	E	736.3	745.3
Other equity	F	307.3	297.8
Total shareholders' funds		**1,497.3**	**1,465.6**
Redeemable preference shares	G	99.7	99.7
Total managed capital		**1,597.0**	**1,565.3**

COMPONENTS OF CAPITAL

A Share capital

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

All shares are fully paid up. Share capital comprises:

	Group 2018 $m	Group 2017 $m
Ordinary shares	125.0	125.0

B Retained earnings

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

C Revenue reserves

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

D Fair value reserve

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

E Asset revaluation reserves

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

F Other equity

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

G Redeemable preference shares

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

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

NOTE 17: INCOME TAX

A Income tax expense

Tax income recognised for the year was:

	Group 2018 $m	Group 2017 $m
Current tax expense		
Current tax expense for year	-	0.6
Adjustments to prior year	-	-
Reimbursement for tax expense receivable from the crown	(0.1)	(0.5)
	(0.1)	0.1
Deferred tax expense		
Tax loss not recognised/(recognised)	2.0	(10.5)
Temporary differences	12.8	10.6
Tax expense recognised in equity	(3.3)	-
	11.5	0.1
Total income tax expense	**11.4**	**0.2**

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

	Group 2018 $m	Group 2017 $m
Net profit before tax	45.6	52.1
Income tax expense	12.8	14.6
Prior year current tax adjustments	-	0.1
Reimbursement for tax expense receivable from the Crown	(0.1)	(0.5)
Increase in income tax expense due to:		
Reimbursement due from the Crown under Protected Land Agreement	0.1	0.1
Non-deductible expenses	1.8	2.2
Current year tax loss not recognised	2.0	-
Deferred tax not previously recognised	12.8	-
Other	-	0.9
Decrease in income tax expense due to:		
Land development expenditure	(9.1)	(3.6)
Livestock	(1.1)	(9.1)
Non assessable income	(1.9)	(1.0)
Current year tax loss recognised	-	(10.5)
Other	(5.9)	7.0
Total income tax expense	**11.4**	**0.2**

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

B Deferred tax balances

Deferred tax balances at balance date were:

	Group 2018 $m	Group 2017 $m
Deferred tax asset		
Temporary differences	12.5	3.2
Tax losses recognised	45.1	48.3
	57.6	51.5
Deferred tax liability		
Temporary differences	72.8	51.8
	72.8	51.8
Net deferred tax liability	**(15.2)**	**(0.3)**

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

Taxable and deductible temporary differences arise from the following:

	Balance sheet		Tax expense/(credit)	
	Group 2018 $m	Group 2017 $m	Group 2018 $m	Group 2017 $m
Deferred tax assets				
Property, plant and equipment	7.0	0.8	(6.2)	(0.2)
Fair-value-through-profit-and-loss financial assets	2.7	(0.2)	(2.9)	5.5
Provisions	2.7	1.8	(0.9)	0.3
Trade and other payables	0.1	0.8	0.7	0.3
	12.5	3.2	(9.3)	5.9
Deferred tax liabilities				
Biological assets	46.6	36.9	9.7	5.3
Property, plant and equipment	21.6	14.3	7.3	(0.5)
Intangibles	4.6	0.6	4.0	(0.1)
	72.8	51.8	21.0	4.7
Deferred tax expense			**11.7**	**10.6**

C Imputation credit account balances

	Parent 2018 $m	Parent 2017 $m
Balance at beginning of the period	1.7	1.6
Imputation credits attached to dividends received	0.1	0.1
Imputation credits available directly and indirectly to shareholders of Landcorp Farming Limited	**1.8**	**1.7**

NOTE 18: RISK MANAGEMENT

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

A Risks due to agricultural activities

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

Environmental and climatic risks

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

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

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

Commodity price risk

Landcorp is exposed to risks arising from fluctuations in the price and sales volume of milk, livestock and forestry. Certain milk processors offer fixed price contracts for the purchase of a portion of a supplier's output under schemes that offer a guaranteed minimum price for milksolids. The New Zealand Stock Exchange ("NZX") also offer fixed price contracts in the form of milk futures. Landcorp evaluates both types of purchase contracts and uses them to manage commodity risk by securing a minimum price for the milksolids produced under the contract. Commodity risk in respect of livestock is mitigated to some extent by entering into supply contracts to ensure sales volumes can be met by processing companies. Landcorp is unable to use financial instruments to hedge livestock commodity price risk due to a lack of effective hedging markets.

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

Financing risk

The nature of livestock farming means that most of Landcorp's revenue is received in the second half of the financial year, whereas expenses are incurred throughout the year. Landcorp manages this financing risk through budgeting and actively managing working capital requirements, as well as maintaining credit facilities at levels sufficient to meet working capital requirements, as described in Note 12 (B).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

B Credit risk

Credit risk is the risk of loss arising from a counter-party to a contract failing to discharge its obligations. In the normal course of its business, Landcorp incurs credit risk from trade receivables and transactions with financial institutions. Landcorp has developed a credit policy to manage credit risk exposure. As part of this policy, credit evaluations are performed on all customers requiring credit over a certain amount. Limits on exposures are set and monitored on a regular basis. As at 30 June 2018 Landcorp did not have any significant concentrations of credit risk except for milk customers. Landcorp's maximum credit exposure is shown below. Landcorp does not expect the non-performance of any obligations at balance date.

	Note	Group 2018 $m	Group 207 $m
Accounts receivable	11	38.7	34.4
Other financial assets	12	58.8	58.1
Maximum credit exposure		**97.5**	**92.5**

The status of accounts receivable at balance date was:

	Group 2018 $m	Group 2017 $m
Not yet due	38.6	33.4
Past due - up to 30 days	-	0.8
Past due - 31 to 60 days	-	0.2
Past due - 61 to 90 days	-	-
Past due - more than 90 days	0.1	-
Total accounts receivable	**38.7**	**34.4**

C Liquidity risk

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

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

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

Group	Note	2018 Total $m	Within one yr $m	One to two yrs $m	Two to five yrs $m	Greater than 5 yrs $m	No fixed maturity $m
Liabilities							
Other accounts payable and accruals		16.1	16.1	-	-	-	-
Other financial liabilities							
Bank loans		216.6	89.9	76.2	50.5	-	-
Interest rate derivatives		12.4	3.0	6.3	3.0	0.1	-
Redeemable preference shares	16	99.7	-	-	-	-	99.7
Total contractual maturity		**344.8**	**109.0**	**82.5**	**53.5**	**0.1**	**99.7**

Group	Note	2017 Total $m	Within one yr $m	One to two yrs $m	Two to five yrs $m	Greater than 5 yrs $m	No fixed maturity $m
Liabilities							
Other accounts payable and accruals		17.5	17.5	-	-	-	-
Other financial liabilities							
Bank loans		211.9	124.3	85.7	1.9	-	-
Interest rate derivatives		14.8	4.3	5.7	4.1	0.7	-
Redeemable preference shares	16	99.7	-	-	-	-	99.7
Total contractual maturity		**343.9**	**146.1**	**91.4**	**6.0**	**0.7**	**99.7**

D Foreign currency risk

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

To mitigate indirect foreign currency risk, Landcorp's policy is to fix a minimum of 20 percent of sales revenue by entering into fixed price contracts with livestock processors and purchasing milk futures. To mitigate direct foreign currency risk Landcorp's policy is 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.

No direct foreign currency hedging was in place at 30 June 2018 (30 June 2017 none).

E Interest rate risk

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

Net interest rate exposure analysis **Group**	**Effective interest rate**	**2018 Total $m**	**Within one yr $m**	**One to two yrs $m**	**Two to five yrs $m**	**Greater than 5 yrs $m**
Liabilities						
Other financial liabilities						
Bank loans	2.80%	209.1	209.1	-	-	-
Interest rate derivatives		-	(90.0)	-	40.0	50.0
Net interest rate exposure		**209.1**	**119.1**	**-**	**(40.0)**	**(50.0)**

Based on term debt at 30 June 18 the interest rate on term borrowing inclusive of interest costs on derivatives was 4.75% (30 June 17 4.56%).

Re-pricing Analysis **Group**	**Effective interest rate**	**2017 Total $m**	**Within one yr $m**	**One to two yrs $m**	**Two to five yrs $m**	**Greater than 5 yrs $m**
Liabilities						
Other financial liabilities						
Bank loans	2.58%	206.9	206.9	-	-	-
Interest rate derivatives		-	(130.0)	50.0	50.0	30.0
Net interest rate exposure		**206.9**	**76.9**	**(50.0)**	**(50.0)**	**(30.0)**

F Sensitivity analysis

Interest rate risk

For the 2017/18 year, the effect on net profit before tax of a higher or lower term borrowing rate is shown below. The effect has been estimated after the effect of any hedging instruments used in the year.

	Group 2018 $m	**Group 2017 $m**
Net finance costs would have changed by:		
Term borrowing rate higher/lower by 1%	(1.0)/+1.0	(0.9)/+0.9

Foreign currency risk

During 2017/18 Landcorp did not undertake any direct hedging of foreign currency transactions. Indirect hedging occurred through Landcorp's suppliers and it is not possible to accurately determine any effect that this indirect hedging may have had on Landcorp's revenue generated from commodities.

NOTE 19: CONTINGENT ASSETS AND LIABILITIES

At 30 June 2018 Landcorp had no contingent assets and the following contingent liabilities:

Carbon credits

As a forester, Landcorp has gained emission credits ("New Zealand Units" or "NZU") and will incur liabilities through the Emissions Trading Scheme (ETS). Landcorp has applied for and received credits on pre-1990 forestry plantations. In the event that pre-1990 forests are deforested, a deforestation liability would be incurred. Landcorp has also claimed and received credits on its post-1989 forest carbon sequestration. Should these plantations be harvested and/or deforested, a liability would be incurred up to a maximum of the credits received. At 30 June 2018 Landcorp held 651,308 post-1989 NZUs (2017 264,257 units) and 143,460 pre-1990 NZUs (2017 147,447 units).

Mycoplasma bovis

On 22 July 2017 the Ministry for Primary Industries ("MPI") confirmed the presence of the cattle disease Mycoplasma bovis (M.bovis) on a non-Landcorp dairy farm near Oamaru. M.bovis is a bacterial disease commonly found in cattle all over the world, including Australia. New Zealand was one of the last countries free of the disease until July 2017. M.bovis can lead to serious animal health conditions and therefore represents an animal welfare and a productivity issue for Landcorp. M.bovis spreads from animal to animal through close contact and between farms through the movement of animals. It can also spread through contaminated equipment but more commonly through the feeding of untreated infected milk to calves.

On 23 May 2018 Landcorp confirmed that Rangedale Farm had been declared an infected farm by MPI. Prior to 30 June 2018 all animals were culled.

Farmers can claim compensation where MPI's exercise of legal powers (under the Biosecurity Act 1993) has caused them a verifiable loss. In the case of Rangedale this loss occurred as a result of directions given by MPI to cull the Rangedale animals in order to manage M.bovis. Accordingly, Landcorp lodged a claim for compensation with MPI on 22 June 2018.

No other Landcorp farms have been declared infected to date but a small number of farms have been served with a Notice of Direction whilst testing proceeds to determine whether or not the disease is present.

Landcorp has implemented the following protocols to limit the opportunity for infection to occur:

- Landcorp has performed a desk top analysis to ascertain where potential risk is heightened due to properties being open to transferring animals e.g. bull beef and/or dairy grazers. On our closed livestock properties, only store and finished Landcorp stock leave the property and hence the property is very unlikely to have any trace of the disease. Part of our risk management plan is to protect this technically unproven status until commercial testing is available. On our dairy properties there is a similar risk profile and we manage transfers of dairy stock using appropriate protocols.
- Landcorp has implemented additional controls over the purchase and grazing of external animals.
- Landcorp has taken steps to minimise non-essential visits to farms.
- Landcorp has taken additional biosecurity measures (including the placement of disinfection stations and biosecurity fencing).

The potential incidence of M.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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

NOTE 20: RELATED PARTIES

Ultimate controlling party

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

Key management personnel compensation

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

Key management personnel compensation comprised:

	Group 2018 $m	Group 2017 $m
Short-term management benefits	2.9	3.1
Post-employment benefits	0.2	0.1
	3.1	3.2

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

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

Other related party transactions

At 30 June 2018 $0.5m was included in accounts receivable as owing from the Crown in accordance with the variation to the Protected Land Agreement signed in June 2013 (2017 $1.8m).

No related party debts were written off during the year.

NOTE 21: COMMITMENTS

	Group 2018 $m	Group 2017 $m
Contracted capital commitments	2.3	1.8
Operating lease commitments:		
Within one year	12.9	12.2
One to two years	13.1	12.7
Two to five years	38.4	37.6
Later than five years	312.8	304.9

Operating lease commitments relate to the lease of farmland.

NOTE 22: SUBSEQUENT EVENT

On 28 August 2018, the directors approved a dividend of $5m (2017 nil) to be paid on 15 October 2018.

NOTE 23: SUBSIDIARY COMPANIES AND JOINTLY CONTROLLED ENTITIES

			Percentage held	
Subsidiaries	**Principal activity**	**Balance date**	**2018**	**2017**
Landcorp Estates Ltd	Property development	30 June	100%	100%
Landcorp Pastoral Ltd	Invests in Focus Genetics and Spring Sheep	30 June	100%	100%
Landcorp Holdings Ltd	Holding protected land	30 June	100%	100%
Landcorp Pastoral Ltd has the following subsidiaries:				
Focus Genetics Ltd Partnership	Development and sale of genetically superior sires	30 June	100%	100%
Focus Genetics Ltd Partnership has the following subsidiaries:				
Focus Genetics UK Limited	Livestock genetics	30 June	100%	100%
Focus Genetics Scotland Limited	Livestock genetics	30 June	100%	100%
Focus Genetics S.A. Limited	Livestock genetics	30 June	100%	100%
Focus Genetics Australia Pty Ltd	Livestock genetics	30 June	100%	100%
Rissington Uruguay SA	Livestock genetics	30 June	100%	100%

Transactions with subsidiary companies

During the year Landcorp Farming Ltd provided management and support services to its subsidiaries at a cost of $1.5m (2017 $1.3m).

All inter-group transactions are undertaken upon an arms length commercial basis. At 30 June 2018, Landcorp Farming Ltd's accounts receivable balance included $0.3m (2017 $0.6m) owing from subsidiary companies and accounts payable had $0.3m (2017 $0.1m) owing to subsidiary companies. The accounts payable balance includes the pass-through of the Crown's reimbursement of protected land losses through Landcorp Farming Ltd to Landcorp Holdings Ltd.

Jointly controlled entities

The Group has the following interests in jointly controlled entities:

			Percentage held	
Joint ventures	**Principal activity**	**Balance date**	**2018**	**2017**
Wharewaka (2003) Ltd	Property development	31 March	50%	50%
Wharewaka East Ltd	Property development	31 March	50%	50%
Pengxin New Zealand Farm Management Ltd	Management company for farm properties	31 December	0%	50%
Spring Sheep Dairy Limited Partnership	Production and marketing of sheep milk products	30 June	50%	50%
Associates				
Farm IQ Systems Ltd	Research and development of an integrated red meat value chain	30 June	30%	15.7%
Farm IQ PGP	Research and development of an integrated red meat value chain	30 June	18%	18%
Focus Genetics has the following associates:				
Practical Systems Ltd	Computer software	30 June	5%	6%

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

INDEPENDENT AUDITOR'S REPORT

TO THE READERS OF LANDCORP FARMING LIMITED GROUP'S FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

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

Opinion

We have audited the financial statements of the Group on pages 42 to 77, that comprise the statement of financial position as at 30 June 2018, 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 2018; 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 28 August 2018. 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.

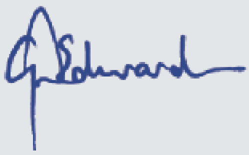
We communicate with the Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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.



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

SUPPORTING OUR COMMUNITY

Throughout the year, Pāmu's employees - on farm and in the office - are involved with supporting local communities and charities. This year, such activities included:

- Supporting community initiatives.
- Anti-bullying campaign (picture: Pink Shirt Day, Pāmu Wellington office).
- Donations towards IHC's Calf and Rural Scheme.
- General fundraising days for a range of charities.
- Opening our farms for community and school events (picture: community activity on Cheltenham Downs).
- Sponsorship of tertiary students through the First Foundation (picture: Georgia Boland receives her First Foundation scholarship, sponsored by Pāmu).

DIRECTORY

CORPORATE AND REGISTERED OFFICE

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

WEBSITES

pāmu.co.nz
pāmumilk.com

DIRECTORS

Chris Day (Acting Chairman)

Nigel Atherfold

John Brakenridge

Hayley Gourley

David Nelson

Tony Reilly

Belinda Storey

LEADERSHIP TEAM

Steven Carden
Chief Executive Officer

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 Sales & Marketing

Peter Simone
GM People, Safety & Quality

Andrew Sliper
GM Commercial & Strategy

AUDITOR

Graeme Edwards, KPMG

Under appointment by the Auditor-General

BANKERS

Westpac New Zealand Limited

ANZ Bank New Zealand Limited

ASB Bank Limited

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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ERNST & YOUNG

This report was prepared with the assistance of Ernst & Young's Climate Change & Sustainability Services.