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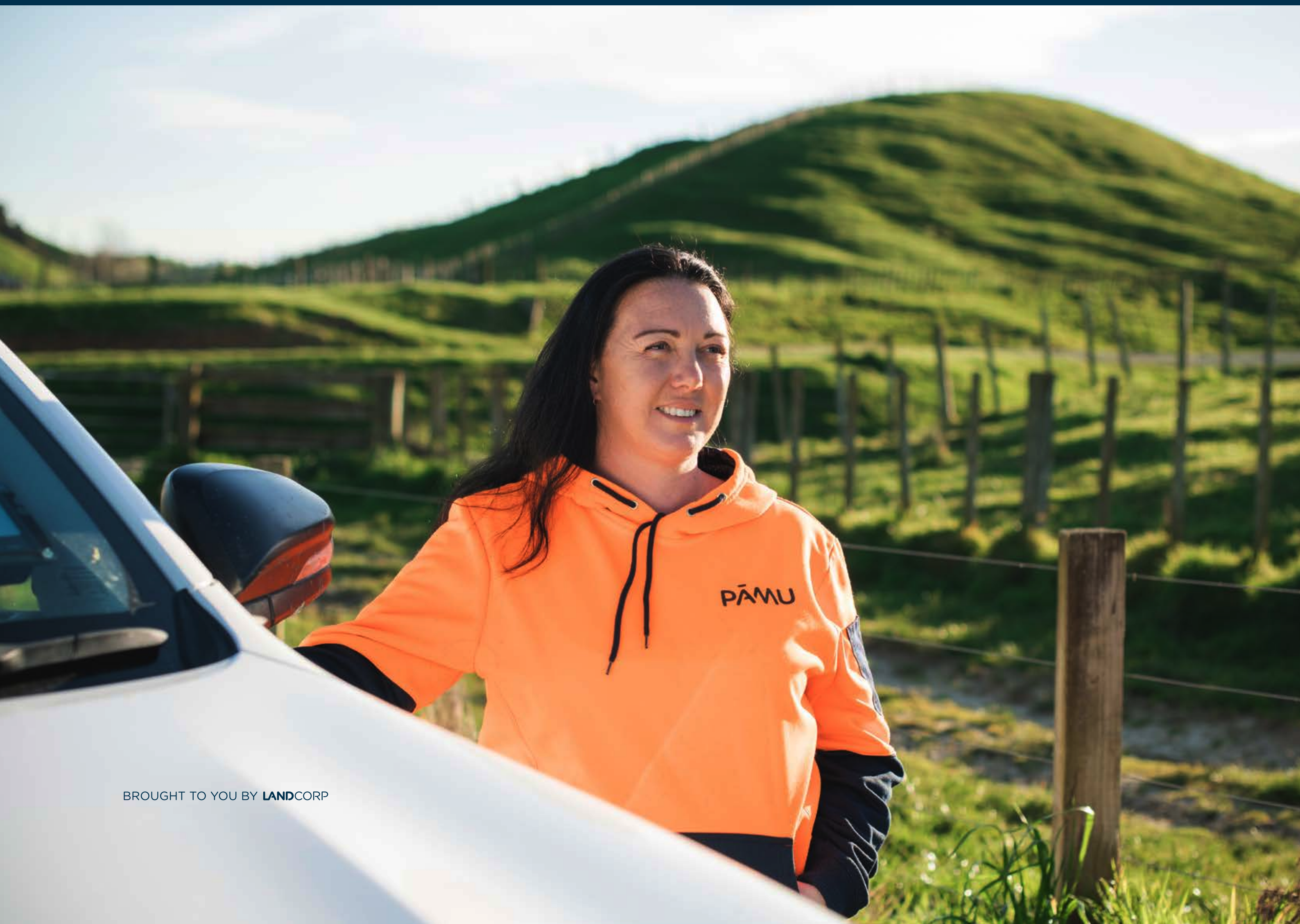
LANDCORP FARMING LIMITED | HALF YEAR REPORT
FOR THE SIX MONTHS ENDED 31 DECEMBER 2019

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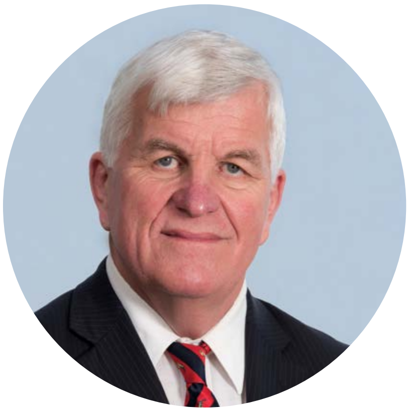
# HALF YEAR REVIEW
# CHAIRMAN AND CHIEF EXECUTIVE

## We have continued to make good progress on our strategy in the last six months, with a focus on cost control, maximizing returns from our livestock and dairy operations to take advantage of above long-run average commodity prices, and a review of our Foods business to ensure it is fit for future success. We have done all this while keeping a firm focus on the safety of our people and the health of our environment and waterways.



**WARREN PARKER** CHAIR

**STEVEN CARDEN** CHIEF EXECUTIVE

## FINANCIAL

Pāmu made a net profit after tax ("NPAT") of $68 million for the half year ended 31 December 2019. This compares to NPAT of $29 million for the half year ended 31 December 2018.

Pāmu uses EBITDAR (earnings before interest, tax, depreciation, amortisation and revaluations) as a key performance measure. This measure excludes components of NPAT such as fair value gains on livestock ($71m), fair value losses on financial instruments ($2m), depreciation & amortisation expenses ($13m) and net finance expenses ($11m). EBITDAR for the half year was a gain of $22 million compared to a loss of $3 million in the half year to December 2018.

The $25 million improvement in EBITDAR reflects an increase in revenue of $12 million, decreased expenses of $7 million and a realised gain of $6m from the sale of shares in Westland Dairy Co-operative. The uplift in revenue was due to increases in both milk revenue ($7m) and livestock ($5m) largely driven by higher market prices during the period. The decrease in expenses is primarily due to the impact of a new accounting standard for leases (NZ IFRS 16) which was adopted on July 1st 2019. Under this standard, operating lease costs ($7m for the half year) are no longer reported within operating expenses, while additional depreciation ($5m) and lease interest costs ($6m) have been recognised.

## DEVELOPMENTS ON FARM

The North Island winter was generally drier and milder than usual with the South Island winter very much as expected. These relatively settled conditions made for overall favourable farming conditions over the six month period under review. However the unseasonable spring weather did see lamb survival down slightly and winter fodder crops were sown later than usual. Prices remained firm for beef, lamb, mutton and venison and the wool contract Pāmu has with NZ Merino continued to help to counter an otherwise subdued wool market. Intensive beef systems were put in place on some of our Far North Island farms, continuing our farm system diversification on appropriate farms.

In our dairy business, we had two of our dairy farms, Earnslaw at Taupo and Tasman at Foxton fully certified to the U.S Department of Agriculture standard in October 2019 after a three year conversion process and we are now receiving full organic payment from Fonterra. Tutoko farm at Foxton is in its second year in organic conversion and two additional farms have entered the organic conversion programme with Fonterra this year.

Pāmu has commissioned a composting barn for housing cows at Landsdown farm at Balclutha to reduce the requirement for intensive winter grazing on this property to protect the environment, resulting in better animal welfare outcomes and higher utilization of supplementary feeds.

An increased focus on dairy operations in the last six months has been on increasing pasture harvest and feed utilization, with feed data including feed wedges captured in Farm IQ milk production information to lift performance of farms with gaps to budgets.

Pāmu is trialling future farm systems and in November held a fieldday on our Eyrewell farm in the Waimakariri. We discussed with farmers and the industry how the farm is adopting a lower stocking rate farm system incorporating fertigation, dairy beef, and lucerne to reduce nitrogen leaching and maintain profitability.

## HEALTH AND SAFETY

Health and safety remains a core focus for Pāmu, and our performance as measured by the Lost Time Injury Frequency Rate (LTIFR) was 8.84 for the half year under review, an improvement on the previous half year. This is pleasing, and is testament to the ongoing initiative and training that the Health, Safety and Wellbeing team continue to implement. Our Health and Safety Forums, which are driving a health and safety leadership culture on our farms, are having a marked impact on keeping our people safe.

# HALF YEAR REVIEW CONTINUED

## PĀMU FOODS

Our deer milk product continues to make inroads into the food service industry, and our deer milk cosmetics partnership with Yuhan of Korea has had a very solid start. Yuhan is pleased with the initial consumer response to their deer milk range of skin care products in Korea and are looking to expand this range into new markets.

The construction of a specialist milk drying facility in the Waikato, of which Pāmu holds a 35% percent stake through our investment in Melody Dairies, is on schedule and budget to be commissioned in late April. This dryer provides essential supply chain infrastructure for New Zealand's growing and award winning sheep milk industry and will provide an additional option for drying the milk from our Spring Sheep joint venture, as well as for other speciality milks such as deer milk, at a time where capacity for such specialist facilities is severely stretched.

In China we are selling Pāmu Pure Organic milk powder and UHT milk through in-market relationships to China's most premium retailers.

In 2019 we reviewed the performance of the Foods business to date and with Board endorsement we are adapting in 2020 to find the right business model and partners to scale and be successful in international markets. There is strong demand for high end 'natural' milk products, however with the recent outbreak of the Covid-19 (Coronavirus) this has added to the challenges of the Chinese market for New Zealand exporters and our in-market partners and customers.

## WINTER CROPPING

Reducing reliance on, and lifting the quality of, winter crops was a specific focus of Pāmu for the 2019 winter and spring. We follow best management practice in the use of winter crops as a valuable part of our farm systems. We trialled ways to reduce the amount of winter cropping on our farms, including through all grass wintering on a Southland drystock farm and the construction of specific housing to keep dairy cows off sensitive soils in Otago and provide shelter for them leading up to calving.

Pāmu will continue to work to ensure the safety and comfort of our animals, particularly at vulnerable times of the year.

## MOLESWORTH STATION

The Minister of Conservation extended Pāmu's lease on this iconic New Zealand station for another three years in late 2019. This was a pleasing acknowledgment of the hard work we have put into making sure that Molesworth is well managed for the benefit of all New Zealanders, while still maintaining successful farming operations on the property. In December we were also pleased to host the Conservation Minister on Molesworth, where she reopened the newly restored Homestead, which had been badly damaged in the Kaikoura earthquakes. Pāmu was pleased to participate in protecting the unique heritage of Molesworth by undertaking the restoration of the Homestead.

## PĀMU VALUES

In the second half of 2019, Pāmu launched refreshed values, following an extensive staff-led design and consultation process. Over 500 of our staff played a part in bringing these values to life. The values are a core expression of who we are at Pāmu and the way we work together, and have been warmly embraced by staff. You can see the values on page 5 of this report.

## OUR VALUES

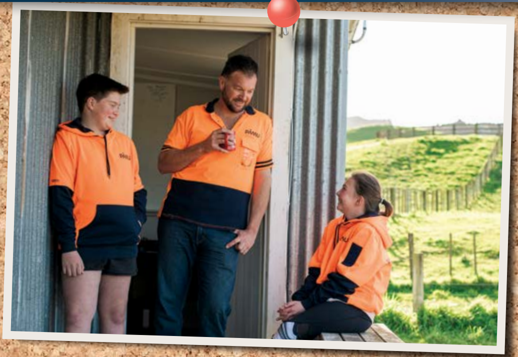
Our values are core to who we are at Pāmu and the way we all work together.

### GROUNDED

**We are proud guardians of our land and our animals**, and we are grounded in our connections with these; our proactive protection of the environment ensures a prosperous future for now and for generations to come.

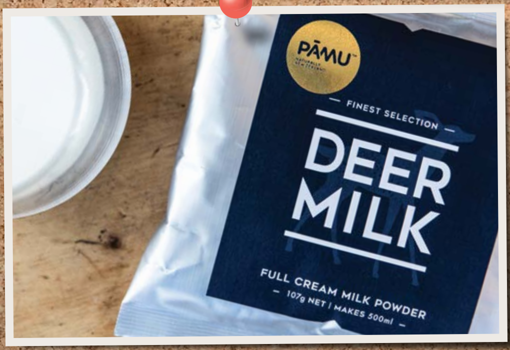
### GENUINE

**We are genuine**, always keeping it real, considering our neighbours and our impact; we are easy to engage with and we always deliver what we commit to.



### BOLD

**We are bold in our vision**, not afraid of the new; always growing and improving for a sustainable future in farming.




### SHOULDER-TO-SHOULDER

**We work together, shoulder-to-shoulder**, united as a team to ensure each others' safety and wellbeing; we bring out the best in each other and the communities we work in.

# HALF YEAR REVIEW CONTINUED

## LAND USE DEVELOPMENTS

Our ongoing review of land use, to ensure we are using our soils, water and geographic location in a manner that enhances shareholder value, saw the planting of a trial avocado crop on one of our Northland farms in late winter-spring 2019. If the trial is successful, the orchard may be expanded.

Land use changes will continue to be made where these make financial, social and environmental sense, and particularly considering the tighter environmental and social limits pastoral farming is confronting.

## FORESTRY

The tragic and catastrophic bush fires in Australia over the summer have highlighted the need for companies like ours, with extensive forestry holdings, to ensure we have the right protections in place against fire over the summer period. Our forest managers have specific fire plans for the forests they manage for us. We are undertaking further risk assessment work with them to ensure we are well prepared for fires and minimise their likelihood of occuring in our forestry woodlots and plantations.

## EXECUTIVE REMUNERATION

The Minister of Finance recently directed State Owned Enterprises to disclose the remuneration of Chief Executives and Chief Financial Officers separately from the salary band information already provided in our full year annual report.

Pāmu's Performance and Safety Committee reviewed this direction and determined that for future reporting, the total remuneration of the three highest paid executives will be disclosed. This information, for the 2018/19 Financial Year, can be found on pages 20-21. This will be updated in our full year report in September, and will thereafter be incorporated into our annual reporting.

## OUTLOOK

Pāmu is currently forecasting a full-year EBITDAR of between $73m and $78m compared to its original forecast of $61 million.

This forecast is now under review as Pāmu assesses the impact of the Covid-19 (Coronavirus) outbreak and the drier than normal climatic conditions.

Thanks must go to our dedicated and committed people across New Zealand, who work hard farming in a way that is both profitable and innovative, with excellence at its core.

Thanks in particular to Graeme Mulligan who left in January after more than forty years with the company. His dedication and passion for excellence in farming were huge assets which will be missed. We wish him well.

**Dr Warren Parker**
Chair

**Steven Carden**
Chief Executive

# FINANCIAL STATEMENTS AND NOTES

# STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 31 DECEMBER 2019

| | Note | Unaudited 6 months ended 31 Dec 19 $m | Audited 12 months ended 30 Jun 19 $m | Unaudited 6 months ended 31 Dec 18 $m |
|---|---|---|---|---|
| **Revenue** | | | | |
| Farm operating | 3 | 117 | 224 | 105 |
| Other business activities | | 6 | 17 | 6 |
| | | 123 | 241 | 111 |
| **Operating expenses** | | | | |
| Farm working and maintenance | | 60 | 103 | 62 |
| Personnel | | 34 | 62 | 32 |
| Other | | 12 | 41 | 19 |
| | | 106 | 206 | 113 |
| (Loss) from equity accounted investments | | (1) | (1) | (1) |
| Realised gain on sale of shares | | 6 | - | - |
| **Earnings before interest, tax, depreciation, amortisation and revaluations** | | **22** | **34** | **(3)** |
| Depreciation and amortisation | | (13) | (17) | (9) |
| Net finance expenses | | (11) | (11) | (6) |
| Fair value (loss)/gain on financial instruments | | (2) | (1) | 3 |
| Fair value gain/(loss) on biological assets | | 71 | (22) | 51 |
| Impairment reversal on property, plant and equipment | | - | 3 | - |
| **Net profit/(loss) before tax** | | **67** | **(14)** | **36** |
| Tax benefit/(expense) | | 1 | 3 | (7) |
| **Net profit/(loss) after tax** | | **68** | **(11)** | **29** |
| **Other comprehensive income** | | | | |
| **Items that will not be reclassified to profit or loss** | | | | |
| Fair value (loss) on land and improvements | | (1) | (47) | - |
| Fair value gain/(loss) on share investments | | 1 | (12) | (5) |
| Fair value gain on carbon credits | | 4 | 2 | 3 |
| Tax (expense)/benefit recognised in equity | | (2) | 3 | 2 |
| **Total comprehensive income** | | **70** | **(65)** | **29** |

The accompanying notes form part of these financial statements

# STATEMENT OF MOVEMENTS IN EQUITY

FOR THE SIX MONTHS ENDED 31 DECEMBER 2019

| | Share capital $m | Retained earnings $m | Share revaluation reserve $m | Asset revaluation reserve $m | Total equity $m |
|---|---|---|---|---|---|
| **Balance at 1 July 2019** | **125** | **640** | **1** | **662** | **1,428** |
| Net profit after tax | - | 68 | - | - | 68 |
| Dividend paid | - | (5) | - | - | (5) |
| Fair value movement | - | - | 1 | 3 | 4 |
| Tax expense recognised in equity | - | - | (1) | (1) | (2) |
| Realised loss on share sales | - | (1) | 1 | - | - |
| **Unaudited balance at 31 December 2019** | **125** | **702** | **2** | **664** | **1,493** |

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

| | Share capital $m | Retained earnings $m | Share revaluation reserve $m | Asset revaluation reserve $m | Total equity $m |
|---|---|---|---|---|---|
| **Balance at 1 July 2018** | **125** | **623** | **13** | **736** | **1,497** |
| Net profit after tax | - | 29 | - | - | 29 |
| Dividend paid | - | (5) | - | - | (5) |
| Fair value movement | - | - | (5) | 3 | (2) |
| Tax benefit recognised in equity | - | - | - | 2 | 2 |
| Realised gains on farm sales | - | - | - | 1 | 1 |
| Reclassification of reserves relating to prior period sales | - | 16 | - | (16) | - |
| **Unaudited balance at 31 December 2018** | **125** | **663** | **8** | **726** | **1,522** |

The accompanying notes form part of these financial statements

## STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 31 DECEMBER 2019

| | Unaudited 6 months ended 31 Dec 19 $m | Audited 12 months ended 30 Jun 19 $m | Unaudited 6 months ended 31 Dec 18 $m |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Receipts from customers: | | | |
| Livestock | 46 | 147 | 44 |
| Milk | 50 | 93 | 55 |
| Other receipts from customers | 15 | 19 | 10 |
| Payments to suppliers | (75) | (159) | (86) |
| Payments to employees | (33) | (66) | (34) |
| Interest paid | (6) | (10) | (6) |
| **Net cash flows from operating activities** | **(3)** | **24** | **(17)** |
| **Cash flows from investing activities** | | | |
| Proceeds from sale of land and improvements | - | 15 | - |
| Proceeds from sale of other property, plant and equipment | 1 | - | 1 |
| Proceeds from sale of share investments | 13 | - | - |
| Purchase and development of land and forestry | (11) | (20) | (10) |
| Purchase of other property, plant and equipment and intangibles | (8) | (17) | (9) |
| Purchase of shares and interests in joint venture investments | (9) | (11) | (2) |
| **Net cash flows from investing activities** | **(14)** | **(33)** | **(20)** |
| **Financing activities** | | | |
| Net borrowing receipts | 37 | 14 | 48 |
| Payment of lease liabilities | (7) | - | - |
| Dividends paid | (5) | (5) | (5) |
| **Net cash flows from financing activities** | **25** | **9** | **43** |
| **Net change in cash and cash equivalents** | **8** | **-** | **6** |
| Cash and cash equivalents at beginning of year | 2 | 2 | 2 |
| **Cash and cash equivalents at end of year** | **10** | **2** | **8** |

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

The accompanying notes form part of these financial statements

# RECONCILIATION OF PROFIT AND CASH FLOWS

FOR THE SIX MONTHS ENDED 31 DECEMBER 2019

| | Unaudited 6 months ended 31 Dec 19 $m | Audited 12 months ended 30 Jun 19 $m | Unaudited 6 months ended 31 Dec 18 $m |
|---|---|---|---|
| **Net profit/(loss) after tax** | **68** | **(11)** | **29** |
| | | | |
| **Non cash items** | | | |
| Non-cash livestock growth and aging | (19) | 2 | (11) |
| Carbon credit allocation | - | (3) | - |
| Depreciation and amortisation | 13 | 17 | 9 |
| Fair value movements | (69) | 23 | (54) |
| Milk futures cash margin calls | (3) | - | 3 |
| Lease interest | 6 | - | - |
| Impairment (reversal)/loss on property, plant and equipment | - | (3) | - |
| Tax (benefit)/expense | (1) | (3) | 6 |
| **Movements in working capital** | | | |
| Inventories | 4 | 3 | 2 |
| Accounts receivable | (4) | (4) | (5) |
| Accounts payable and accruals | 4 | (1) | 3 |
| Employee entitlements | 1 | (2) | 2 |
| **Items classified as investing activities** | | | |
| Net gain on movement of assets | (4) | 1 | - |
| Change in accounts receivable due to capital items | 4 | 4 | 1 |
| Change in accounts payable due to capital items | (3) | 1 | (2) |
| **Net cash flows from operating activities** | **(3)** | **24** | **(17)** |

The accompanying notes form part of these financial statements

# STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2019

| | Note | Unaudited 6 months at 31 Dec 19 $m | Audited 12 months at 30 Jun 19 $m | Unaudited 6 months at 31 Dec 18 $m |
|---|---|---|---|---|
| **Assets** | | | | |
| Cash and cash equivalents | | 10 | 2 | 8 |
| Accounts receivable | 4 | 47 | 43 | 44 |
| Inventories | | 9 | 13 | 15 |
| Property held for sale | | 27 | 27 | 27 |
| Livestock | 5 | 394 | 305 | 404 |
| Forests | | 39 | 37 | 37 |
| Equity accounted investments | | 24 | 17 | 7 |
| Share investments | 6 | 38 | 45 | 52 |
| Intangible assets | | 29 | 25 | 22 |
| Property, plant and equipment | | 1,274 | 1,268 | 1,320 |
| Leased assets | 7 | 245 | - | - |
| **Total assets** | | **2,136** | **1,782** | **1,936** |
| | | | | |
| **Liabilities** | | | | |
| Bank loans | 8 | 260 | 223 | 257 |
| Accounts payable and accruals | | 19 | 15 | 19 |
| Employee entitlements | | 9 | 8 | 8 |
| Interest rate derivatives | | 10 | 12 | 10 |
| Deferred tax liability | | 9 | 9 | 20 |
| Lease liabilities | 7 | 249 | - | - |
| Redeemable preference shares | | 87 | 87 | 100 |
| **Total liabilities** | | **643** | **354** | **414** |
| | | | | |
| **Shareholders' funds** | | | | |
| Share capital | | 125 | 125 | 125 |
| Retained earnings | | 702 | 640 | 663 |
| Share revaluation reserve | | 2 | 1 | 8 |
| Asset revaluation reserve | | 664 | 662 | 726 |
| **Total shareholders' funds** | | **1,493** | **1,428** | **1,522** |
| | | | | |
| **Total equity** | | **1,493** | **1,428** | **1,522** |
| | | | | |
| **Total equity and liabilities** | | **2,136** | **1,782** | **1,936** |

Landcorp's Board of Directors authorised the financial statements for issue on 13 February 2020.

Signed on behalf of the Board

Warren Parker

Dr Warren Parker
Chair

13 February 2020

Chris Day

Chris Day
Chair of Audit and Risk Committee

13 February 2020

The accompanying notes form part of these financial statements

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 31 DECEMBER 2019

## NOTE 1: BASIS OF ACCOUNTING

### REPORTING ENTITY

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

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

### BASIS OF PREPARATION

The condensed consolidated interim financial statements have been prepared in accordance with NZ IAS 34 Interim Financial Reporting.

These unaudited, condensed consolidated interim financial statements do not include all of the information and disclosures required in the annual financial statements. Accordingly, these financial statements should be read in conjunction with the annual report for the year ended 30 June 2019.

Where necessary, comparative information has been reclassified to achieve consistency with the current period's presentation.

### ACCOUNTING POLICIES

The accounting policies used in the preparation of these financial statements are consistent with those used in the annual report for the year ended 30 June 2019, with the exception that NZ IFRS 16 Leases ("NZ IFRS 16") has been adopted from 1 July 2019. Landcorp has applied NZ IFRS 16 using the modified retrospective approach under which comparative information has not been restated.

The Group holds leases for farm land and buildings. Landcorp previously classified its leases as operating leases and costs were recognised on a straight-line basis over the life of the lease. NZ IFRS 16 requires Landcorp to recognise leased assets and liabilities in the Statement of Financial Position for current leases that the Group is committed to, by measuring the present value of remaining lease payments, discounted using Landcorp's incremental borrowing rate. On transition to NZ IFRS 16 Landcorp recognised leased assets and liabilities of $250m, at Landcorp's weighted average incremental borrowing rate of 4.77%. At inception, there was no difference to recognise in retained earnings. Further details are disclosed in note 7.

The standard also changes the way in which costs are now recorded in relation to those leases. Operating lease costs have been replaced with a depreciation charge on leased assets and an interest expense in respect of lease liabilities. Depreciation on leased assets is included within depreciation and amortisation and interest expense on the lease liability is a component of net finance expenses, within the Statement of Profit or Loss. During the six months ended 31 December 2019, the Group recognised $5m of lease depreciation and $6m of lease interest from these leases, partially offset by a reduction in other operating expenses by $7m.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 31 DECEMBER 2019

## NOTE 2: SEASONALITY OF OPERATIONS

Landcorp's operations are seasonal and are largely a function of the annual farming cycle. The six months from July to December covered by these financial statements primarily reflect the cessation of winter and commencement of spring conditions when the majority of livestock births occur.

### STATEMENT OF PROFIT OR LOSS

The overall half year net profit before tax is seasonal and reflects the following:

- Landcorp's sheep, beef and deer operations follow a cycle where the bulk of livestock is reared in spring and conditioned for sale over the late summer and autumn period. This means that a large portion of Landcorp's livestock income is not generated until the second half of the financial year. The sale prices for processed livestock will be a function of market conditions at the time of sale and will reflect the prevailing impact of international commodity prices, exchange rates and any local climatic considerations.
- Harvested feed, comprising hay, silage and baleage, is generally harvested in late summer, during the second half of the financial year, and consumed in winter and early spring, in the first half of the financial year. Consequently, the six months to 31 December 2019 reflect the cost of the seasonal consumption of this feed. The second half of the financial year will reflect the benefit of rebuilding feed stocks for consumption early in the following financial year.
- Under NZ IFRS, Landcorp revalues livestock at each balance date and includes the revaluation gain or loss within profit. The value of livestock will reflect market conditions at the time and is likely to change between balance dates. Hence, any profit or loss arising from livestock revaluations at 31 December 2019 may not reflect the market conditions prevailing at the financial year end.

### STATEMENT OF FINANCIAL POSITION

Landcorp's Statement of Financial Position at 31 December 2019 reflects the following seasonal factors:

- Landcorp's policy is to review the fair value of land and improvements annually. If there is a material change in fair values a revaluation is performed. At a minimum a revaluation of the portfolio is performed every 3 years. The last revaluation of the portfolio took place in June 2019. Since that date the market for dairy farms has remained subdued. Directors are continuing to monitor the situation, and the next scheduled review of market values will commence in March 2020. Early indications are that the value of some dairy properties may decrease but these decreases are likely to be offset by increases in the value of livestock properties. Therefore, the half year financial statements do not reflect any changes in market values of land and improvements from 1 July 2019 to 31 December 2019.
- Term debt is seasonal as much of Landcorp's revenue is not received in cash until the second half of the financial year. This reflects both the timing of livestock sales and the date at which milk solids revenue is received.
- Inventories of harvested feed reflect the seasonal consumption/production cycle.

## NOTE 3: FARM OPERATING REVENUE

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

| | Unaudited 6 months ended 31 Dec 19 $m | Audited 12 months ended 30 Jun 19 $m | Unaudited 6 months ended 31 Dec 18 $m |
|---|---|---|---|
| **Revenue** | | | |
| Livestock | 50 | 124 | 45 |
| Milk | 65 | 92 | 58 |
| Wool | 1 | 4 | 1 |
| Forestry | 1 | 4 | 1 |
| **Total revenue** | **117** | **224** | **105** |

### LIVESTOCK REVENUE

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

Landcorp's livestock revenue by species/composition was:

| | Unaudited 6 months ended 31 Dec 19 $m | Audited 12 months ended 30 Jun 19 $m | Unaudited 6 months ended 31 Dec 18 $m |
|---|---|---|---|
| Sheep | 20 | 50 | 19 |
| Beef | 26 | 53 | 21 |
| Deer | 4 | 21 | 5 |
| **Total livestock revenue** | **50** | **124** | **45** |
| | | | |
| Livestock sales | 44 | 158 | 43 |
| Livestock purchases | (12) | (19) | (12) |
| Birth of animals | 26 | 42 | 25 |
| Growth of animals | 26 | 76 | 25 |
| Livestock losses | (6) | (13) | (5) |
| Book value of livestock purchased | 6 | 10 | 6 |
| Book value of livestock sold | (34) | (130) | (37) |
| **Total livestock revenue** | **50** | **124** | **45** |

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 31 DECEMBER 2019

## NOTE 4: ACCOUNTS RECEIVABLE

| | Unaudited 6 months at 31 Dec 19 $m | Audited 12 months at 30 Jun 19 $m | Unaudited 6 months at 31 Dec 18 $m |
|---|---|---|---|
| Trade debtors | 4 | 10 | 7 |
| Milk income receivable | 31 | 17 | 25 |
| Other receivables and prepayments | 12 | 16 | 12 |
| **Total accounts receivable** | **47** | **43** | **44** |

## NOTE 5: LIVESTOCK

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

Livestock valuations at 31 December 2019 were provided by PGG Wrightson Ltd. These market values reflect livestock of similar age, breed and genetic merit throughout New Zealand.

| | Unaudited 6 months at 31 Dec 19 $m | Audited 12 months at 30 Jun 19 $m | Unaudited 6 months at 31 Dec 18 $m |
|---|---|---|---|
| **Livestock value at start of year** | 305 | 340 | 340 |
| | | | |
| Birth and growth of animals | 52 | 118 | 50 |
| Livestock losses | (6) | (13) | (5) |
| Book value of livestock purchased and sold | (28) | (120) | (32) |
| Fair value gain/(loss) | 71 | (20) | 51 |
| **Balance at end of period** | **394** | **305** | **404** |

## NOTE 6: SHARE INVESTMENTS

| | Unaudited 6 months at 31 Dec 19 $m | Audited 12 months at 30 Jun 19 $m | Unaudited 6 months at 31 Dec 18 $m |
|---|---|---|---|
| Share investments at fair value through Profit or Loss: | | | |
| Westland Co-operative Dairy Company Limited | - | 5 | 5 |
| Other | 1 | 1 | 1 |
| | | | |
| Share investments at fair value through Other Comprehensive Income: | | | |
| Fonterra Co-operative Group Limited | 26 | 27 | 33 |
| Waimakariri Irrigation Limited | 9 | 9 | 10 |
| Ravensdown Limited | 1 | 2 | 2 |
| MHV Water Limited | 1 | 1 | 1 |
| | | | |
| **Total share investments** | **38** | **45** | **52** |

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

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

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

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 31 DECEMBER 2019

## NOTE 7: LEASES

The Group leases farm land and buildings. For all leases the Group recognises assets and liabilities in the Statement of Financial Position. Leased assets and liabilities are initially recognised at cost, being the present value of remaining unpaid lease payments discounted by Landcorp's incremental borrowing rate. Thereafter leased assets are depreciated over the life of the lease and lease liabilities reduce as lease payments are made.

The Group leases land at Wairakei Estate predominantly for dairy farming. The lease was entered into in 2004 with land being handed over progressively during the lease term which ceases in 2049. The land handed over has previously been used for forestry, and the lease requires Landcorp to convert this land to pastoral farming. At 31 December 2019, approximately 12,629 hectares of land had been handed over across 12 transfers. The final parcel of land is expected to be handed over in 2032 when approximately 15,530 hectares would have been leased.

Other leases held by the Group relate to farm land and office buildings. These leases vary in length. Some leases include options to renew the lease for an additional period after the end of the contract term.

Details of the Group's leased assets are as follows:

| | Wairakei Estate $m | Other leases $m | Unaudited 6 months at 31 Dec 19 $m |
|---|---|---|---|
| Opening balance | 242 | 8 | 250 |
| Additions | - | - | - |
| **Balance at end of year** | **242** | **8** | **250** |
| | | | |
| Accumulated depreciation | | | |
| Opening balance | - | - | - |
| Depreciation | (4) | (1) | (5) |
| **Balance at end of year** | **(4)** | **(1)** | **(5)** |
| | | | |
| **Total leased assets** | **238** | **7** | **245** |

The undiscounted maturity analysis of lease liabilities is as follows:

| | Less than one year | One to five years | More than five years | Unaudited 6 months at 31 Dec 19 $m |
|---|---|---|---|---|
| Undiscounted lease payments | 13 | 56 | 396 | 465 |
| Finance charges | (12) | (45) | (159) | (216) |
| **Total lease liabilities** | **1** | **11** | **237** | **249** |

## NOTE 8: 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 approximates fair value.

Cash advance facilities have been drawn as follows:

| | Unaudited 6 months at 31 Dec 19 $m | Audited 12 months at 30 Jun 19 $m | Unaudited 6 months at 31 Dec 18 $m |
|---|---|---|---|
| Drawn | 260 | 223 | 257 |
| Undrawn | 55 | 92 | 58 |
| **Total bank loans** | **315** | **315** | **315** |

Cash advance facilities are committed to:

| | Unaudited 6 months at 31 Dec 19 $m | Audited 12 months at 30 Jun 19 $m | Unaudited 6 months at 31 Dec 18 $m |
|---|---|---|---|
| Less than one year | 110 | 90 | 90 |
| One to five years | 205 | 225 | 225 |
| **Total bank loans** | **315** | **315** | **315** |

## NOTE 9: DIVIDENDS PAID

A final dividend for the 2018/19 financial year of $5m was declared in August 2019 and paid in October 2019 (2017/18: $5m).

## NOTE 10: CONTINGENT LIABILITIES

Focus Genetics Limited Partnership is involved in proceedings brought by an Australian-based former genetic breeding partner for breach of contract, breach of the Fair Trading Act and negligence. The claim seeks damages of approximately AU$1.8m, plus costs, and ancillary orders in relation to animals and data. Focus Genetics Limited Partnership is defending the claim and has issued a counterclaim. The claim and associated defence costs will be partially covered by the Group's professional indemnity insurance.

## NOTE 11: COMMITMENTS

| | Unaudited 6 months at 31 Dec 19 $m | Audited 12 months at 30 Jun 19 $m | Unaudited 6 months at 31 Dec 18 $m |
|---|---|---|---|
| Contracted capital commitments | - | 5 | 12 |

# EXECUTIVE REMUNERATION

## EXECUTIVE REMUNERATION

Pāmu's remuneration policy is to provide a sustainable remuneration system that recognises individual contribution, incentivises performance, provides a mix of rewards, and is compelling relative to the market(s) in which we compete for talent.

Total remuneration at Pāmu constitutes two components: fixed remuneration and short-term performance incentives.

The Performance and Safety (P&S) Committee reviews the annual performance appraisal outcomes for all members of the Leadership Team and approves the outcomes for all members other than the Chief Executive. The Chief Executive's remuneration is approved by the Board on the recommendations of the P&S Committee. The review takes into account external benchmarking to ensure competitiveness with comparable market peers, along with consideration of an individual's performance, skills, expertise and experience.

External benchmarking is commissioned from an expert party, KornFerryHay Group (KFHG). KFHG is required to declare independence of any management influence in the collation of the information provided. Additionally PriceWaterhouseCoopers (PwC) provides comparator market information. External benchmarking for non-executive remuneration is requested by Pāmu's management and provided again by KFHG.

## FIXED REMUNERATION

Pāmu offers an employee remuneration package which comprises a competitive base salary supplemented by a range of benefits appropriate to employee needs and job requirements. Pāmu's policy is to pay fixed remuneration to the fixed pay market median.

## SHORT-TERM PERFORMANCE INCENTIVES

Pāmu operates a discretionary short term incentive (STI) scheme determined by the Board each financial year. At its discretion the Board may approve STIs based on Key Performance Indicators (KPIs) set prior to the start of that year. There is no assurance of incentives being paid.

The Board determines STI target values as a percentage. The Chief Executive's STI was renegotiated in 2017 from a dollar value incentive to a percentage total fixed remuneration.

- Chief Executive is 30% of Total Fixed Remuneration.
- All other executives are 20% of Base Salary.

Pāmu KPIs are aligned to individual and company achievement and a proportion of the STI percentage is focused on each of those. The ratio can change year to year on Board direction. For FY2019 KPI's were arranged as below.

- Chief Executive: 60% Company: 40% Individual
- All other Executives: 50% Company : 50% Individual

Pāmu utilises KPIs to measure success at the end of the financial year. KPIs for FY2019 were aligned to the achievement of the Strategy and Business Plan across the six capitals. They were either shared across functions or individually focussed. Shared KPI objectives created focus on the company priorities.

KPIs are percentage rated at the end of the financial year, aligned to performance levels of Threshold, Target and Stretch. Stretch performance levels allow employees to be rewarded for exceptional performance. Stretch targets allow recognition up to 120%.

## LONG-TERM PERFORMANCE INCENTIVES (LTI)

Pāmu operates a long term incentive (LTI) plan for the Chief Executive. The LTI plan is designed to align the interest of the Chief Executive with those of our shareholders to enhance long-term shareholder value over a multi-year period.

The LTI payment for the CEO is up to a maximum of 25% of total cost fixed remuneration accumulating annually and paid out at the end of his contract.

Payment of the LTI is subject to achievement of Enterprise Value (EV) targets as set by the Board after required financial adjustments. For the LTI Plan, EV is defined as, Equity Value, plus Debt, less Cash.

The LTI methodology is as follows:

- The 2017 Pāmu Business Plan is the basis to set performance targets for EV purposes;
- Annual audited financial statements will be used to measure actual EV performance against targets;
- The LTI calculation will include a return-on-capital measure to provide a cross-check on value creation (but not used in the calculation of the payment);
- The LTI payment is based on whole-company EV including the EV of Investments (after adjusting for any investment returns already reflected in the annual accounts to ensure no duplication arises);
- EV to be adjusted for capital transactions;
- The valuation of Investments for the purposes of input to the EV calculations will be determined by the Board in its absolute discretion based on the best evidence available; and
- The maximum LTI payment will be made on a progressive straight line basis based on actual performance relative to threshold (the performance level at which payment would commence) and target performance (the performance level at which the full payment would be made).

## TOTAL REMUNERATION FOR 2019

### CHIEF EXECUTIVE'S REMUNERATION (FY2019 and FY2018)

| Financial year | Salary $ | Benefits $ | Subtotal $ | STI $ | LTI $ | Pay for performance $ | Total remuneration $ |
|---|---|---|---|---|---|---|---|
| | | | | | | Subtotal | |
| FY2019 | 607,688 | 3,120 | 610,808 | 185,142 | 0 | 185,142 | 795,950 |
| FY2018 | 597,522 | 2,860 | 600,382 | 169,270 | 0 | 169,270 | 769,652 |

Pāmu's Chief Executive has one benefit, a car park. There is no KiwiSaver, insurance or medical within the current package.

The salary paid for Chief Executive in FY2018 includes pay remediation payment and FY2019 Actual salary paid includes holiday pay paid as per NZ legislation.

### FIVE YEAR SUMMARY – CHIEF EXECUTIVE'S REMUNERATION

| Chief Executive | Financial year | Total remuneration paid | Percentage STI individual % | Percentage STI company performance |
|---|---|---|---|---|
| Steven Carden | FY2019 | $795,950 | 75% | 25% |
| | FY2018 | $769,652 | 104% | 105% |
| | FY2017 | $574,492 | 90% | 112% |
| | FY2016 | $572,196 | 100% | 0% |
| | FY2015 | $589,039 | 90% | 0% |

### BREAKDOWN OF CHIEF EXECUTIVE'S PAY FOR PERFORMANCE (FY2019)

| | Description | Performance measures | Percentage achieved % |
|---|---|---|---|
| STI | Set at 30% of Total Fixed Remuneration. | 60% company performance | 25% |
| | Based on financial and non-financial measures | 40% Individual performance | 75% |
| LTI | Up to 25% of total cost of fixed remuneration. Determined and paid at end of current contract | | |

### FY2020 CHIEF EXECUTIVE REMUNERATION STRUCTURE

| Financial year | Salary $ | Benefits $ | Subtotal $ | STI[3] at target | LTI | Pay for performance at target | Total potential remuneration at target $ |
|---|---|---|---|---|---|---|---|
| | | | | | | Subtotal STI & LTI | |
| FY2020 | 613,605 | 3,120 | 616,725 | 184,018 | TBA | 184,018 | 800,743 |

STI Performance Incentive constitutes 50% company performance and 50% individual performance.

### OTHER EXECUTIVE REMUNERATION

Pāmu's two highest earning executives after the Chief Executive are the Chief Financial Officer and the GM Pāmu Foods.

In FY2019, the Chief Financial Officer received remuneration totalling $353,517. This amount included a $57,351 STI payment for FY2019, the remaining $296,166 includes base salary and benefits.

In FY2019, the General Manager Pāmu Foods received remuneration totalling $374,433. The STI payment for FY2019 of $61,873 paid with the remaining $312,560 constituting base salary and benefits. No executives receive LTI.

# DIRECTORY

## CORPORATE AND REGISTERED OFFICE

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

## WEBSITES

pāmu.co.nz
pāmumilk.com

## DIRECTORS

Warren Parker, Chair

Nigel Atherfold

Chris Day

Tony Reilly

Hayley Gourley

Belinda Storey

Doug Woolerton

Jo Davidson

## LEADERSHIP TEAM

Steven Carden
Chief Executive 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 (resigned January 2020)

Sarah Risell
GM Pāmu Foods

Peter Simone
GM People, Safety & Quality

Andrew Sliper
GM Commercial & Strategy

Steve Tickner,
Acting GM, Livestock Operations (acting since January 2020)

## AUDITOR

Sonia Isaac, 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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