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STATEMENT OF CORPORATE INTENT

2018/19 – 2020/21

PĀMU

FARMS OF NEW ZEALAND

BROUGHT TO YOU BY **LAND**CORP

ABOUT US

Landcorp Farming Limited (Pāmu) is a state owned enterprise established under the State Owned Enterprises Act 1986 (the Act) and is a company registered under the Companies Act 1993. The shareholders are the Minister of State Owned Enterprises and the Minister of Finance.

Pāmu Farms of New Zealand (Pāmu) is the brand name for Landcorp and is used throughout this SCI.

The Pāmu group comprises Landcorp Farming Limited and its subsidiaries: Landcorp Estates Limited, Landcorp Holdings Limited, Landcorp Pastoral Limited, Focus Genetics Limited Partnership and Focus Genetics Management Limited (the Group).

Under the Act, Pāmu is required to operate as a successful business and specifically to be:

- As profitable and efficient as comparable businesses that are not owned by the Crown
- A good employer
- An organisation that exhibits a sense of social responsibility having regard to the interests of the community in which it operates.

NATURE AND SCOPE OF BUSINESS

INTRODUCTION TO PĀMU

Pāmu has a nationwide portfolio of 125 farms that produce milk, beef, sheepmeat, wool, venison, deer velvet, wood and more. The Company manages the land with care and kaitiakitanga.

At Pāmu we:

- Stand for best practice in sustainable and safe farming, and for the unique provenance of New Zealand foods, nutrition products and fibre on global markets; and
- Strive to be a leader in New Zealand agriculture, carefully creating natural products of high quality and helping transform pastoral-based industries.

The nature and scope of our business activities over the next three years are reflected in our strategy and performance targets described in more detail in the following sections of this SCI.

PĀMU'S STRATEGY

Pāmu will undertake a review and, where appropriate, refresh of its strategy in 2018/19.

At its core, Pāmu's current strategy is to develop a business model that does three things:

1. Drives significantly higher levels of free cashflow for Pāmu and, in turn, our shareholder,
2. Futureproofs our business from disruptions in the broader operating environment (e.g. climate change, environmental regulation, consumer food preferences),
3. Enhances the company's reputation to make it a business all New Zealanders are proud to own.

NATURE AND SCOPE OF BUSINESS (2)

In line with the shareholders' expectations of the business, Pāmu seeks to:

1. Drive exceptional performance from our farms under a quality assurance framework called *Pāmu Promise*, which ensures consistent excellence across all our farms in:

    - Protecting and developing our people to ensure Pāmu has a future-ready workforce
    - Nurturing our environment to create resilient, sustainable farm systems
    - Using best practice systems to improve the efficiency and consistency of our performance
    - Adopting leading science and technology to drive innovation in all areas of our operations

2. Leverage our scale to create value, both in our operating cost structure and in niche product opportunities where we have sufficient scale to capture value in the supply chain
3. Evolve products and associated land uses to meet the future requirements of regional communities, regulators, and consumers. We cannot afford to be a static business.

This strategy – further illustrated on the next page – will deliver improved financial performance and the continuity of Pāmu's proud tradition of innovation across New Zealand's agricultural landscape.

NATURE AND SCOPE OF BUSINESS (3)

PĀMU STRATEGY

WHAT we will do

1. Drive farming excellence
2. Leverage scale to create value
3. Create valuable products from sustainable land uses

HOW we will do it

1. Develop talented, cared for PEOPLE
2. Enrich our ENVIRONMENT
3. Build efficient SYSTEMS and continuously INNOVATE
4. Enhance the performance and welfare of our ANIMALS
5. Exceed the needs of our CUSTOMERS

WHY we will do it

1. To grow our dividend and value to our shareholder
2. To create a future-fit organisation
3. To be a company every NZer is proud to own

WHAT defines us

1. Sheer determination
2. Deep insight
3. Complete openness
4. Kaitiakitanga

PĀMU
FARMS OF NEW ZEALAND

NATURE AND SCOPE OF BUSINESS (4)

KEY INITIATIVES AND ACTIVITIES

1. Drive farming excellence

a. Build ongoing controls around health and safety, environmental and animal welfare risks to enhance Pāmu reputation and license to operate

b. Review and reduce capital expenditure and benchmark farming performance against top decile farmers across regions to identify farm system improvement opportunities

c. Reduce turnover of farm staff in dairy business by enhancing training and improving working conditions

2. Leverage scale to create value

d. Utilise adoption of key systems (Farmstore, FMS, TM1 and Farmax) to improve operating efficiencies and lower costs across the business.

e. Work with partners to explore opportunities to obtain higher returns for key Pāmu products in-market, notably organic powder and UHT, deer milk, and Pāmu venison

3. Create valuable products from sustainable land uses

f. Complete a land use review of the livestock portfolio, seeking and exploring alternative land use options (including the expansion of Pāmu's forestry plantations on marginal land)

g. Complete the investment of a minority stake in NZ Food Innovation Waikato's second dryer to secure the future of the Spring Sheep business and Pāmu branded dairy opportunities

PĀMU'S HEADLINE TARGETS

	IR Capital*	Key Performance Indicator	Target for 2018-19	Indication for 2019-20+
Performance targets	People	Reduced staff turnover	Reduced by 15% from 2018 levels	Reduced by 15% from 2019 levels
		Reduce harm	LTIFR reduced by 10% from 2018 levels	Reduced by 25% from 2018 levels
	Finance	EBITDAR	$45.8m	FY20: $43.7m FY21$48.4m
		Operating cashflow after capex	$(20.6)m	FY20: $(2.8)m FY21: $0.8m
	Relationships	New Pāmu products to market and strategic relationships formed	3 & 2	FY20: 3 & 1 FY21: 2 & 1
	Farms	EBITDAR per effective hectare	Livestock $232/Ha Dairy $1,398/Ha	Livestock $235/Ha Dairy $1,402/Ha
	Environment	100% farms demonstrate an activity or current plan to lower emissions (water, nitrogen and GHG)	70% of farms	100% of farms
	Expertise	Consistent use of core systems	Spend under Purchase Order 65% Auto Matched Purchase Orders 70%	Spend under Purchase Order 70% Auto Matched Purchase Orders 75%

PĀMU
FARMS OF NEW ZEALAND

* Pāmu's six capitals: Pāmu is transitioning to integrated reporting in 2017/18

FINANCIAL PERFORMANCE MEASURES

This following table sets out financial performance measures based on standards reporting and definitions requested by the Shareholder for all SOEs in the Owner's Expectation Manual.

	Budget 2019	Budget 2020	Budget 2021
Shareholder Returns			
Total Shareholder Return	3.8%	1.0%	1.3%
Return on Equity %	1.4%	1.1%	1.4%
Return on Equity, adjusted for IFRS fair value %	4.1%	3.2%	4.0%
Dividend Yield %	0.4%	0.3%	0.3%
Dividend Payout %	27.9%	29.3%	25.4%
Profitability & Efficiency			
Return on Capital Employed %	3.7%	3.2%	3.8%
Operating Margin %	18.3%	17.5%	19.1%
Leverage & Solvency			
Gearing (Net Debt/Net debt plus equity) %	11.6%	11.4%	11.5%
Interest Cover x (EBITDAR/Net Interest)	4.26	4.11	4.85
Solvency*	3.77	3.76	3.83

* Current portion of long term debt is excluded from the definition of Current Liabilities, on the basis that all debt will be refinanced as it matures, and operating cash flow is positive i.e. debt is used to fund capital expenditure, not working capital.

DESCRIPTION OF CALCULATION OF FINANCIAL PERFORMANCE MEASURES FOR SOE PORTFOLIO

Shareholder's return Measure	Description	Calculation
Total shareholder return	Performance from an investor perspective - dividends and investment growth	(Commercial value-end less Commercial value-beg plus dividends paid less equity injected)/Commercial value-beginning
Dividend yield	The cash return to the shareholder	Dividends paid/Average commercial value
Dividend payout	Proportion of an SOE's net operating cash flow less allowance for capital maintenance paid out as a dividend to the shareholder	Dividends paid/Net cash flow from operating activities less depreciation expense
Return on equity	How much profit a company generates with the funds the shareholder has invested in the company	Net profit after tax/Average equity
Return on equity adjusted for IFRS fair value Movements & asset revaluations	Return on equity after removing the impact of IFRS fair value movements and asset revaluations	Net profit after tax adjusted for IFRS fair value movements (net of tax)/Average of share capital plus retained earnings
Profitability/efficiency Measure		
Return on capital employed	The efficiency and profitability of a company's capital from both debt and equity sources	EBIT adjusted for IFRS fair value movements/Average capital employed
Operating margin	The profitability of the company per dollar of revenue	EBITDAR/Revenue
Leverage/solvency Measure		
Gearing ratio (net)	Measure of financial leverage - the ratio of debt (liabilities on which a company is required to pay interest) less cash, to debt less cash plus equity	Net debt/net debt plus equity
Interest cover	The number of times that earnings can cover interest	EBITDAR/Interest paid
Solvency	Ability of the company to pay its debts as they fall due	Current assets/current liabilities

CAPITAL STRUCTURE

The issued share capital of Landcorp Farming Limited as at 30 June 2018 is 125 million ordinary shares at $1.00 each ($125 million) and 99.7m redeemable preference shares of $1.00 each, giving a total share capital of $224.7m.

The redeemable preference shares reflect the commercial arrangement with the Crown that saw Pāmu's shareholder purchase redeemable preference shares up to an agreed market value of designated land that has been protected from sale. This land is held by Landcorp's subsidiary, Landcorp Holdings Limited, for the purpose of future historical Treaty of Waitangi settlements by the Crown.

After balancing operating, capital, and dividend cash flows, Landcorp's estimated closing interest bearing debt for the next three years is: $202.2m (30 June 2019), $199.1m (30 June 2020) and $203.3m (30 June 2021).

The estimated Pāmu Group capital structure for the next three years is as follows:

$m	*Budget 2019*	*Budget 2020*	*Budget 2021*
Total Assets	1,864	1,871	1,889
Total Liabilities	(356)	(353)	(356)
Total Equity	**(1,508)**	**(1,519)**	**(1,533)**
Interest Bearing Debt / Total Funding	11.6%	11.4%	11.5%
Shareholders' Funds / Total Assets	80.9%	81.1%	81.1%

PĀMU
FARMS OF NEW ZEALAND

DIVIDEND POLICY

Directors will consider dividends after achieving a target debt level consistent with the Board's risk appetite. Assuming the target debt level is achieved then Pāmu aims to pay Net Cash Flows From Operating Activities, less:

- maintenance capital expenditure; and
- contractually committed capital expenditure.

Investment in new business opportunities will be considered in light of the Shareholder's preference for dividends over new investment. The level of forecast dividend will be reviewed annually as part of the business planning process and at the end of each financial year. This policy ensures that Pāmu manages its capital structure prudently and allows for re-investment in accordance with its strategy, where appropriate.

As a farming company, most of Pāmu revenue flows are in the second half of each financial year and Pāmu is also significantly exposed to commodity prices and exchange rates. This means that in the absence of extraordinary circumstances, farming operations are not in a position to fund an interim dividend. Therefore, dividends are normally paid in October following financial year end.

REPORTING AND DISCLOSURE

REPORTING TO SHAREHOLDING MINISTERS

Pāmu presents the following reports in accordance with the Act and requirements of the shareholding Ministers:

- Annual Report: within three months of the end of each financial year and including audited financial statements of the year and a report from the Chairman and Chief Executive
- Half-Yearly Report: within two months of the end of each half year, including unaudited statement of financial position, and a qualitative report from the Chairman and Chief Executive on the company's performance
- Quarterly Reports: within one month of the end of each quarter and comprising a commentary and summary of financial performance

In addition, Pāmu has regular meetings with officials and one-off meetings with shareholding Ministers on an as-needed basis.

CONTINUOUS DISCLOSURE

Pāmu is subject to SOE Continuous Disclosure Rules. Under these rules once Pāmu becomes aware of any "Material Information" concerning it, then Pāmu immediately releases that information to the public through its own and the Treasury's website after ensuring that shareholding Ministers are aware of that information.

Material Information requiring disclosure includes matters that may have a material effect on the current commercial value of Pāmu, dividend declarations or a transaction representing 5% or more of Pāmu's current commercial value. Exceptions to the disclosure rules include breach of an obligation of confidentiality, trade secrets, incomplete proposals or negotiations, matters of supposition and information generated for internal management purposes.

CONSULTATION AND COMPENSATION

CONSULTATION

All share, equity or asset acquisitions or disposals will reflect Pāmu's strategy. Pāmu will consult with shareholding Ministers before it or any of its subsidiaries:

a) invests, by one or more related transactions, $20m or more in any activity within the nature and scope of its core business;

b) makes, by one or more related transactions, a significant investment in a business that is outside the nature and scope of its core business; and

c) sells or disposes of the whole or any substantial part of the company.

COMPENSATION FROM THE CROWN

Section 7 of the Act allows for the Crown to enter into an agreement with Pāmu under which the Crown would pay Pāmu for undertaking a non-commercial activity.

If the Crown wishes or requires Pāmu to undertake activities or assume obligations which constrain Pāmu from acting in a normal, business-like manner or which will or could impact on Pāmu's profit or value, Pāmu will seek compensation in accordance with section 7 of the Act. This includes compensation for retaining properties normally intended for sale but which might be required by the Crown to fulfil Treaty of Waitangi obligations.

APPENDICES

APPENDIX 1: COMMERCIAL VALUE OF THE CROWN'S INVESTMENT

MARKET VALUE

The Pāmu Board considers the commercial value of the company (including subsidiaries) to be $1.5 billion as at 30 June 2018.

This valuation is based on the estimated market value of Pāmu assets and liabilities as assessed each year. The valuation includes:

- external valuation of land and buildings, and forests; and
- market prices for livestock, shares and financial instruments.

The value of liabilities is deducted from the value of the assets to determine the commercial value.

APPENDIX 2: SUMMARY OF FINANCIAL ACCOUNTING POLICIES

STATEMENT OF COMPLIANCE

The financial statements are prepared in accordance with NZ Generally Accepted Accounting Principles(GAAP) under the Companies Act 1993 and the Financial Reporting Act 2013, using a fair value basis, except for an historical cost basis for certain assets and liabilities. The financial statements comply with New Zealand equivalents of the International Financial Reporting Standards (NZ IFRS), and other applicable financial reporting standards, as appropriate for profit-oriented entities.

NZ IFRS can significantly impact on Pāmu's reported income through the requirement to include material unrealised gains and losses within reported profits. This can substantially increase the volatility of reported income. In addition, Pāmu's forecast profits can be significantly different to actual results, depending on changes in the fair value of livestock, investments and income tax as calculated under NZ IFRS.

MEASUREMENT BASE

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

FUNCTIONAL AND PRESENTATION CURRENCY

The financial statements are presented in New Zealand dollars (NZ$) and all values are rounded to the nearest million dollars ($m). The functional currency of Pāmu is NZ$.

SUMMARY OF FINANCIAL ACCOUNTING POLICIES

CHANGES IN ACCOUNTING POLICIES

There have been no changes in accounting policies during the 2017/18 financial year.

The adoption of NZ IFRS 16 in the 2020 financial year will require Pāmu to capitalise leases by recognising the present value of future lease payments. In summary, operating lease expense will be replaced with an amortisation charge on leased assets and an interest expense in respect of lease liabilities. Accounting for the depreciation and amortisation in respect of these amounts will consequently generate a revised presentation of related expenses in the Group's Statement of Comprehensive Income. Due to the provisions within the standard, it will be necessary to remeasure these amounts annually. It should be noted that the underlying commercial arrangements and cashflows relating to the lease are not affected by the adoption of NZ IFRS 16. The adoption of NZ IFRS 16 is not reflected in the financial forecasts contained in this SCI. More information on the impact of the change on Pāmu will be described in the 2018 Annual Report.

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.

APPENDIX 2 SUMMARY OF FINANCIAL ACCOUNTING POLICIES

SIGNIFICANT ACCOUNTING POLICIES

BASIS OF CONSOLIDATION

Subsidiaries

Subsidiaries are companies controlled by Landcorp Farming Limited and are included in the consolidated financial statements using the purchase method of consolidation. In the Parent, subsidiaries are valued at cost.

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

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.

APPENDIX 2 SUMMARY OF FINANCIAL ACCOUNTING POLICIES

PROPERTY HELD FOR SALE

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

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

LIVESTOCK BIOLOGICAL ASSETS

Livestock are recorded at fair value less estimated point-of-sale costs. Changes in the value of livestock are recognised in the Statement of Comprehensive Income. Value changes that form part of Pāmu'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 Pāmu's control and do not form part of Pāmu's livestock management policies. These value changes are recognised in the Statement of Comprehensive Income as fair value gain/loss on biological assets.

OTHER FINANCIAL ASSETS

(a) Investments in subsidiaries, associates and joint ventures

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

(b) Loans to subsidiaries and other loans and receivables

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

OTHER FINANCIAL ASSETS (CONTINUED)

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

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

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

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

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

PROPERTY, PLANT AND EQUIPMENT

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

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

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

(a) Revaluations
An assessment of freehold land and improvements (including buildings) fair value 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 assets revalued amount. Changes in valuation are taken to the freehold land and improvements revaluation reserve using the net revaluation method. Where an asset's downwards revaluation exceeds previous positive revaluations, the amount of the revaluation is reported within profit or loss in the Statement of Comprehensive Income.

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

(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 major classes of property, plant and equipment have been estimated as follows:

Buildings	30 - 60 years
Plant	3 -10 years

(e) Impairment

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

OTHER FINANCIAL LIABILITIES

(a) Bank loans
Bank loans are initially recognised at their fair value.

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

INCOME TAX

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

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

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

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

PROVISION FOR DIVIDENDS

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