STATEMENT OF CORPORATE INTENT

PĀMU™

FOR THE PERIOD FY2022 – FY2024

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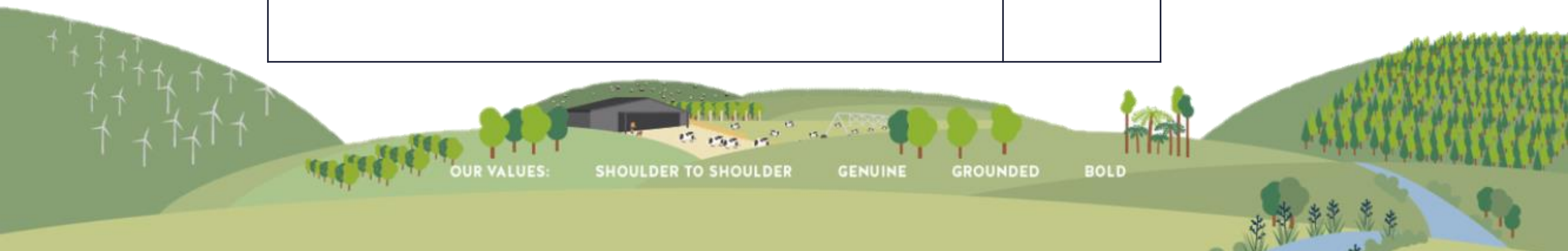

ABOUT US

Pāmu (Landcorp Farming Limited) was established under the State Owned Enterprises Act 1986 (the Act) and is registered under the Companies Act 1993.

Pāmu is the brand name for Landcorp and is used throughout this SCI. Pāmu manages approximately 115 farms, producing milk, beef, sheep meat, wool, venison, deer velvet, carbon credits and timber, and speciality crops. In recent years, Pāmu has also started marketing premium products under a business-to-business framework to lift farm gate returns.

The Pāmu group comprises Landcorp Farming Limited and its subsidiaries: Landcorp Estates Limited, Landcorp Holdings Limited, Landcorp Pastoral Limited, and Focus Genetics Management Limited (the Group). Pāmu also has four strategic joint ventures as illustrated overleaf.

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

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

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PĀMU GROUP STRUCTURE AND KEY STRATEGIC INTERESTS

Landcorp Farming Ltd

Four Operating Groups

- Livestock
- Dairy
- Forestry & Hort
- Pāmu Foods

- 100% — Landcorp Holdings Ltd (Owns land-banked properties for Treaty of Waitangi settlements)
- 100% — Landcorp Pastoral Ltd (Holding company)
  - 100% — Focus Genetics LP (Genetics business)
  - 50% — Spring Sheep Dairy LP (Sheep milking)
- 100% — Landcorp Estates Ltd (Land development company)
  - 50% — Wharewaka Estate Ltd (Property development)
- 26% — Farm IQ Systems Ltd (Farm software)
- 35% — Melody Dairies LP (Processing company)

PĀMU'S OPERATING CONTEXT

- The 2022 Statement of Corporate intent is being written in the context of the global response to the unprecedented global health and economic crisis generated by Covid-19. While the impact of the crisis to date on Pāmu is low compared to some sectors, economic uncertainty over at least the next 24 months requires prudence and agility in the investment choices we make.
- Pāmu's strategic direction over the last six years remains consistent: improving core profitability and resilience while diversifying sources of income. This has strengthened Pāmu's balance sheet, started to reduce our exposure to commodity prices, and helped our farms keep pace with ever-expanding health & safety, environmental, food safety and animal welfare regulations and public expectations.
- We have refreshed the presentation of our 'Strategy on a Page' (see page 7) to make our aspirations for 2030 and 2025 targets clear. The strategy addresses the shareholder's expectations for the business and accounts for the broader trends impacting the food sector which are reshaping our operating environment.
- The likelihood of technological disruption to Pāmu's animal protein businesses, climate change risks, biosecurity incursions and virulent disease outbreaks, and shifting consumer preferences are all placing strain on the longer term outlook for Pāmu's core pastoral farming, commodity meat and milk business. And, both consumer and regulatory changes require significant farm systems innovation (especially around land use diversification) to lower the environmental footprint of Pāmu's food and fibre products. While we must manage our debt levels sensibly, we must also find capacity to continue investing in the strategy which will positively ripple through our regional communities and assist other farmers achieve sustainable production systems.
- Good progress has been made in instilling operational excellence across our farms and in the way we work. Investment into our technology platform (rural broadband connectivity, new IT hardware, and a range of farmer-specific software applications, such as FarmIQ and Farmstore) has positioned us well to meet new regulations such as for climate change and freshwater, and to apply digital tools to remove costs and lift productivity across the total business.
- The hastening transition towards a low carbon, circular bioeconomy has sharpened our focus on best land use and accelerated our adaption to a warmer climate with more extreme events. Higher carbon prices and rising demand for specialty dairy segments and forest and plant products provide a positive outlook for Pāmu's diversification plans. This includes more climate resilient, lower footprint farming systems (i.e. natural capital regenerative). Similarly, advances in data capture and analytics are enhancing Pāmu's ability to manage risk and lift productivity in all areas of the business.
- Pāmu's business is entering an exciting period – many of its investments under this strategy are now starting to materialise into significant value for the business. We are confident this will be reflected across improvements in all of Pāmu's six Capitals over the next three years.

NATURE & SCOPE OF ACTIVITIES

Pāmu's purpose is:

To enrich our land, our people and the future for farming

This next section of the SCI provides an overview of:

- An overview of Pāmu's strategy;
- Pāmu's performance targets; and
- A summary of Pāmu's key initiatives.

Please note that Pāmu's targets and initiatives should be read with caution given the background of domestic and international uncertainty arising from the impacts of and responses to Covid-19 as set out in more detail in the operating context section of this SCI. Pāmu will continue to closer monitor Covid's implications for the business and adjust its strategy and operational performance accordingly.

OUR AMBITION FOR 2030

- A global leader in sustainable land use and systems, delivering on our Pāmu Promise consistent with te Taiao priniciples
- One of NZ's top employers supporting what NZers love & need
- A uniquely diversified food and fibre producer
- A sought-after partner in NZ & abroad
- $130-140m per annum of EBITDA
- Recognised as an innovation partner and knowledge transfer lead for agtech in NZ

2025 MILESTONES

GROW OUR PEOPLE
To deliver an eNPS ≥ 20

GROW PLANT BUSINESS
Plant businesses (incl. ecosystem services) delivering $15m EBITDA

IMPROVE EFFICIENCY
>2% per annum net average profitability improvement in pastoral business

DIGITISATION
Digital ecosystem built to deliver leading farm management

GHG REDUCING FARMING TECHNOLOGIES & PRACTICES
Reduce our carbon emissions on farm, in line with our commitments to meet the 2021 Paris climate change targets

GROW SPECIALTY DAIRY AS A CATEGORY
Specialty dairy business delivers 5% of EBITDA business

ENABLERS OF GROWTH

- Invest in digitisation and innovation to drive productivity gains and a lower footprint
- Increase performance through leading people development
- Utilise our resources and capital responsibly to increase returns
- Integrate te Taiao concept, helping to regenerate the environment and adapt to climate change
- Engage stakeholders and partners to support Pāmu's purpose

AREAS OF GROWTH

- Make Specialty Dairy a significant source of earnings
- Drive excellence and innovation in all aspects of our pastoral farming forestry and horticulture business
- Build a Plants business (forestry, hort., and ecosystem services) of scale through complementary land use

PURPOSE

PĀMU

ENRICHING OUR LAND, OUR PEOPLE AND THE FUTURE OF FARMING

OUR VALUES: SHOULDER TO SHOULDER GENUINE GROUNDED BOLD

OUR STRATEGY

EXPLAINING PĀMU'S REFRESHED STRATEGY ON A PAGE

PĀMU'S REFRESHED STRATEGY ON A PAGE INCLUDES MORE DETAIL ON THE MID TO LONGER TERM ASPIRATIONS OF THE BUSINESS

2030 ambitions

- These are the key metrics / descriptors that will define Pāmu's business in 10 years, linked to the 6 Capitals

Key enablers

("the how" we will win)

- These are the five core competencies and activities we will need to invest in to achieve our 2025 milestones and 2030 ambitions

Purpose

("the why")

- This is what Pāmu is seeking to achieve and why it exists

2025 milestones

- These are the key metrics that indicate our progress mid-way to our 2030 ambitions

Key strategies

("the what" we will do to grow)

- These are the three key growth areas of Pāmu's business which will attract investment and focus

Values

- These four values define how we behave, which is the foundation of all we do and organisational culture

KEY STRATEGIC INITIATIVES(1)

Key initiatives in the three strategic areas of growth include:

EXCELLENCE AND INNOVATION IN ALL ASPECTS OF FARMING
Driving productivity in the red meat business
Expending on the "Chewing Grass, Kicking Ass" programme (getting the best out of forage/pasture in our dairy business)
Expanding the dairy beef programme
Implementing a wide range of sustainability initiatives that reduce our footprint on-farm (across environment, agronomy and animal programmes)

SCALING SPECIALTY MILK BUSINESS
Continuing to grow Pāmu's organic dairy farming footprint
Building value added businesses for Pāmu Foods

BUILD PLANTS BUSINESS OF SCALE
Expanding current horticulture operations, in particular Pāmu's existing avocado orchard
Continued expansion of forestry programme (planting approximately 1,500 ha per year and planning for the next 10 years)
Developing Pāmu's strategy for ecosystems services

KEY INITIATIVES (2)

Initiatives for our key enablers to assist in the delivery of our strategy include:

INCREASE PERFORMANCE THROUGH LEADING PEOPLE DEVELOPMENT
Growing great people by designing and delivering the Pāmu Leadership Programme to people leaders throughout the organisation
On Health & Safety, focussing on reducing manual handling injuries and increasing leadership skills in the area of mental health

INVEST IN DIGITISATION AND INNOVATION TO DRIVE PRODUCTIVITY GAINS AND LOWER FOOTPRINT
Improved capture and use of farm data and information systems
Implementing the Pāmu Promise quality assurance framework

UTILISE OUR RESOURCES AND CAPITAL RESPONSIBLY TO INCREASE RETURNS
Exploring options for the best use of Pāmu's resources and capital
Continuous improvement in head office processes to lower costs and improve effectiveness

HELP TO REGENERATE THE ENVIRONMENT AND ADAPT TO CLIMATE CHANGE
Implementing a targeted sustainability plan and programme, delivering outcomes that support and realise measurable value across our six capitals
Implementing a climate change risk framework and reporting, and implementing targeted strategies and programmes on-farm to mitigate and adapt to climate change challenges

ENGAGE STAKEHOLDERS AND PARTNERS TO SUPPORT PĀMU'S PURPOSE
Improving stakeholder engagement including through stakeholder functions/events
Developing and leading a community investment and partnership strategy and programme to enrich Pāmu's regional presence

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INTEGRATED REPORTING – OUR SIX CAPITALS AND OUR 2022 TO 2024 TARGETS (1)

ENVIRONMENT	FARMS AND ANIMALS	EXPERTISE
A global leader in sustainable land use and systems delivering on our Pāmu Promise	A uniquely diversified food and fibre producer	Recognised as an innovation partner for precision-based agtech and systems
Gross & Net GHG emissions FY22 – Approval of Science Based Target FY23 - GHG reduction plan for FY23 achieved, no less than 4% reduction on prior year FY24 – GHG reduction plan for FY24 achieved, no less than 4% reduction on prior year **Achievement of Toitū Farm CarbonReduce Certification** FY22 – 15% of farms certified and have plans and targets FY23 – 50% of farms certified and have plans and targets FY24 – 100% of farms certified and have plans and targets **Sustainable Farm Performance Program** FY22 – 15% of farms assessed against the programme FY23 – 50% of farms assessed against the programme FY24 – 100% of farms assessed against the programme	**Forestry and Horticulture % of EBITDAR** FY22 – 6.7% FY23 – 10.3% FY24 – 10.6% **Forestry plantation hectares** FY22 – additional 1,500 hectares planted FY23 – additional 1,200 hectares planted FY24 – additional 1,500 hectares planted **Dairy and Livestock production** FY22 – 15.0m KgMS and 22.5m net kg product FY23 – 15.1m KgMS and 22.0m net kg product FY24 – 14.7m kgMS and 22.0m net kg product	**Productivity gain – Livestock** FY22 – 182.8 net kg product/effective ha FY23 – 185.8 net kg product/effective ha FY24 – 191.4 net kg product/effective ha **Productivity gain – Dairy** FY22 –382 kgMS / cow FY23 –393 kgMS / cow FY24 –403 kgMS / cow **Intensive Winter Crop area % of effective ha of farms with IWC** FY22 - <4.4% FY23 - <3.0% FY24 - <2.0%

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INTEGRATED REPORTING – OUR SIX CAPITALS AND OUR 2022 TO 2024 TARGETS (2)

PEOPLE	FINANCE	PARTNERSHIPS
One of New Zealand's top employers and loved by New Zealanders	$130m per annum of EBITDAR	A sought-after partner in New Zealand and abroad
eNet Promoter Score FY22 +4 FY23 +6 FY24 +14	**Group EBITDAR** FY22 – $73.2m FY23 – $49.9m FY24 – $62.6m	**Dairy production supplied under value added contracts** FY22 – 69% FY23 – 73% FY24 – 76%
LTIFR and LTISR FY22 – LTIFR 8.9 and LTISR 20.7 FY23 – LTIFR 7.8 and LTISR 18.6 FY24 – LTIFR 6.9 and LTISR 16.8	**Net debt and lease liability to EBITDAR** FY22 – 5.8x FY23 – 8.4x FY24 – 6.5x	**Cattle, sheep and deer under contract (% of budgeted sales)** FY22 – 55% FY23 – 55% FY24 – 55%
Turnover FY22 – no greater than 20% turnover FY23 – no greater than 20% turnover FY24 – no greater than 20% turnover	**Return on capital employed** FY22 – 3.9% FY23 – 2.0% FY24 – 3.2%	**Pāmu Foods: New or expansion of strategic partnerships** FY22 – Deliver >$10m revenue with key partner FY23 – Partnership models explored and approved by Board FY24 – External equity attracted & partnership model implemented

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FINANCIAL PERFORMANCE MEASURES

	Budget FY22	Business Plan FY23	Business Plan FY24
Shareholder Returns			
Total Shareholder Return %	2.5%	1.2%	1.4%
Return on Equity %	2.5%	0.9%	1.1%
Dividend Yield %	0.4%	0.4%	0.4%
Profitability & Efficiency			
Return on Invested Capital %	3.5%	2.4%	3.6%
Operating Margin %	23.8%	20.2%	23.0%
Leverage & Solvency			
Gearing (Net Debt/Net debt plus equity) %	11.9%	11.6%	10.9%
Net debt and lease liability to EBITDAR (x)	5.8	8.4	6.5
Debt to EBITDA (x)	3.1	3.7	2.9
Interest Cover x (Underlying EBIT / Net Interest)	4.2	3.1	5.1
Solvency (including current debt)	0.6	0.6	0.6
Solvency (excluding current debt)	4.1	4.0	3.6
Interest Cover x (As agreed with Bank)[1]	7.4	4.9	7.4
Growth			
Revenue Growth (x)	1.0	1.0	1.1
Capital Replacement (x)	1.8	1.6	1.6
Underlying EBITDAR Growth (x)	1.0	0.8	1.2

Note: Interest Cover calculation is based on the Owners' Expectation Manual methodology. For its reporting to lenders, Pāmu uses EBITDAR before the application of IFRS16 Leases.

PERFORMANCE MEASURE DESCRIPTORS

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
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
Profitability/efficiency	**Description**	**Calculation**
Return on invested capital	The efficiency and profitability of a company's capital from both debt and equity sources	EBIT less non-operating items / Average interest bearing debt plus average share capital (including RPS) plus average retained earnings plus average other equity
Operating margin	The profitability of the company per dollar of revenue	EBITDAR less non-operating items / Revenue
Leverage/solvency	**Description**	**Calculation**
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
Debt and Lease Liability to EBITDAR	Size of debt and lease liability relative to earnings	Net debt plus lease liability / EBITDAR
Debt to EBITDA	Size of debt relative to earnings	Net debt / EBITDAR less non-operating items
Interest cover	The number of times that earnings can cover interest	EBIT less non-operating items / Net bank interest
Solvency	Ability of the company to pay its debts as they fall due	Current assets / Current liabilities
Growth	**Description**	**Calculation**
Revenue growth	Measure of growth	Current year’s revenue / previous year’s revenue
Capital replacement	Measure of capital investment relative to maintenance investment levels	Asset expenditure / depreciation and amortisation less lease amortisation
Underlying EBITDAR growth	Change in EBITDAR	Current year EBITDAR less non-operating items / previous year EBITDAR less non-operating items

Note: Non-operating items include fair value adjustments and other gains/losses. Asset expenditure excludes non-depreciable land development expenditure

CAPITAL STRUCTURE

The issued share capital of Pāmu as at 30 June 2021 is 125,000,000 ordinary shares at $1.00 each ($125 million) and 86,513,000 redeemable preference shares of $1.00 each, giving a total share capital of $211.5m.

The redeemable preference shares holding reflects the commercial arrangement with the Crown under which Pāmu's shareholder purchased redeemable preference shares in an amount equal to the agreed market value of designated land that has been protected from sale. This land is held by Pāmu'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, Pāmu's estimated closing interest bearing debt for the next three years is: $190m (30 June 2022), $187m (30 June 2023) and $176m (30 June 2024).

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

$m	*Budget FY22*	*Business Plan FY23*	*Business Plan FY24*
Total Assets	1,934	1,938	1,941
Total Liabilities	556	549	538
Total Equity	**1,377**	**1,389**	**1,403**
Interest Bearing Debt / Total Funding	11.9%	11.6%	10.9%
Shareholders' Funds / Total Assets	71.2%	71.7%	72.3%

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DIVIDEND POLICY

Pāmu aims to make distributions from Net Cash Flows from Operating Activities, less maintenance capital expenditure and contractually committed capital expenditure. In determining the level of funds available for distribution, Directors will take into account:

- The appropriate management of Pāmu's financial structure;
- The shareholder's preference for dividends over new investment; and
- Capital investment required to support the execution of Pāmu's strategy.

To ensure that Pāmu manages its capital structure appropriately, Pāmu will forecast an appropriate dividend at the beginning of each financial year as part of its business planning process and review that forecast at the end of each financial year.

As a farming company, most of Pāmu revenue flows are in the second half of each financial year and, therefore, dividends are normally paid in October following financial year end.

REPORTING & DISCLOSURE

Reporting to shareholding Ministers

Pāmu presents the following reports in accordance with the Act and requirements of 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; and
- 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.

Consultation

Pāmu will consult with shareholding Ministers on transactions:

- involving investing, by one or more related transactions, $20m or more in any activity within the nature and scope of its core business;
- outside the nature and scope of its core business;
- which meet any applicable criteria for consultation as set out in Pāmu's current letter of expectations from shareholding Ministers;
- when selling or disposing of the whole or any substantial part of the company's assets;
- involving diversification or overseas expansion (including offshore investments).

COMMERCIAL VALUE AND COMPENSATION

Commercial value

The Pāmu Board considers the commercial value of the company (including subsidiaries) to be $1.4 billion as at 30 June 2021.

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

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

It does not include commercial valuations of Pāmu's investments in joint ventures which are likely to be higher than their carrying value.

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

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 settlement obligations.

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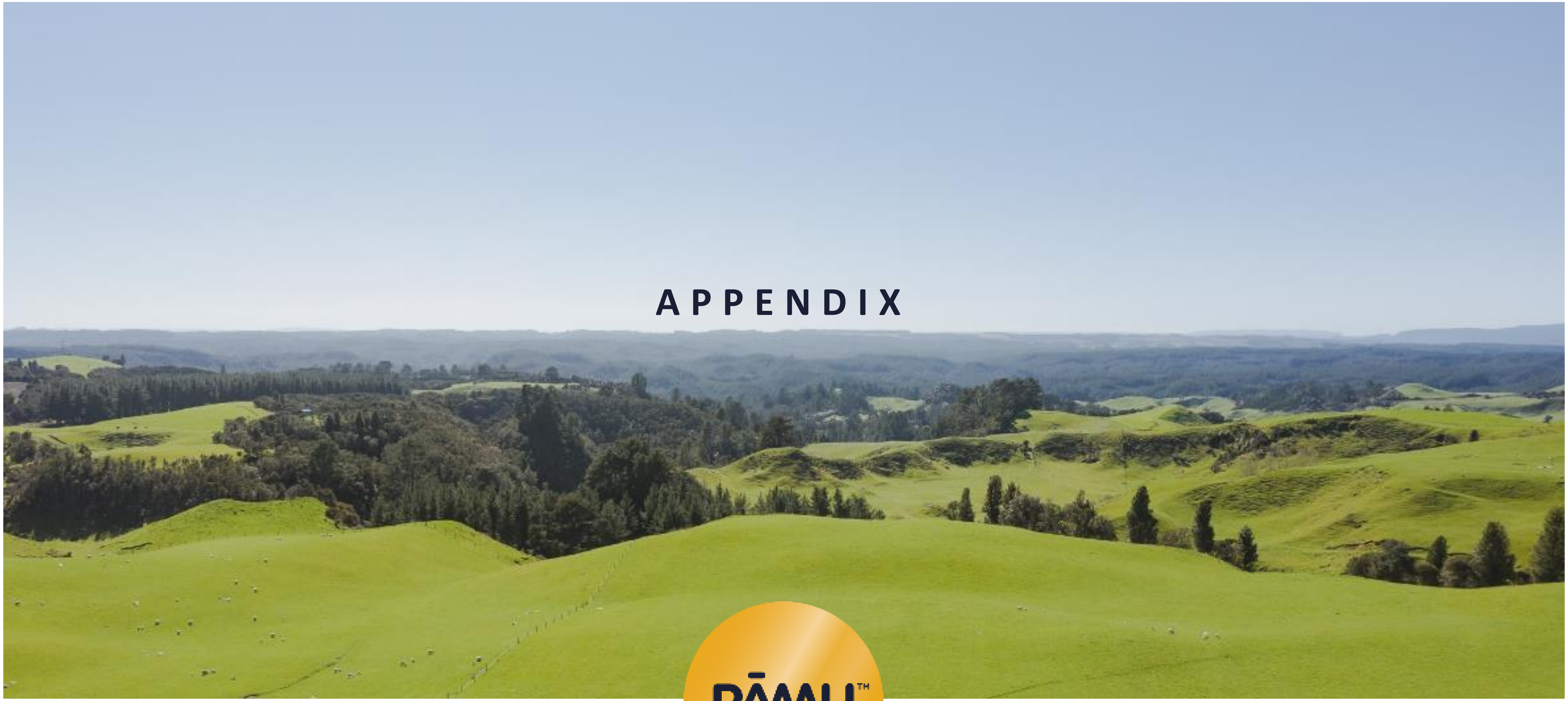
APPENDIX



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APPENDIX: 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, land and buildings, 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$.

BASIS OF CONSOLIDATION

Subsidiaries are companies controlled by Pāmu and are included in the consolidated financial statements using the acquisition method of consolidation, and the results of its equity accounted investees (associates and joint ventures) accounted for using the equity method. All significant intercompany balances and transactions are eliminated on consolidation. Transactions with jointly controlled entities are eliminated to the extent of Pāmu's interest in the entity.

APPENDIX: ACCOUNTING POLICIES

CHANGES IN ACCOUNTING POLICIES

There are currently no changes to accounting standards or interpretations issued but not yet effective that are relevant to the 2021 financial statements.

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.

REVENUE

Farm operating revenue is derived from the sale of livestock, milk and other agricultural produce such as wool and timber. Revenue is measured at the transaction price specified in the customer contract. Livestock revenue is recognised following the delivery of stock. Various forms of livestock sales contracts are held with meat processors. These contracts will generally fix prices for future sales while setting guaranteed minimum or spot prices. Milk revenue is recognised following delivery to the milk processor using the processor's most recent forecast price and dividend information. Differences between forecast and actual revenue for the current year are accounted for in the following financial year.

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

Wool revenue is recognised following delivery to the wool broker. Various forms of sales contracts are held which generally fix prices or the wool is sold at the spot rate.

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

APPENDIX: ACCOUNTING POLICIES

ACCOUNTS RECEIVABLE

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

INVENTORIES

Inventory is stated at the lower of cost and net realisable value. Costs include all expenses directly attributable to the manufacturing process. Cost is determined on a weighted average basis. Net realisable value is the estimated selling price in the ordinary course of the business less applicable selling expenses.

PROPERTY HELD FOR SALE

Properties are identified for sale when a sales plan has been implemented and an unconditional sales contract is expected to be signed within a year and comprise farm land and associated buildings. 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. Properties that are the subject of Treaty settlement may sometimes be classified as held for sale for periods greater than one year due to final negotiation of settlement terms.

LIVESTOCK BIOLOGICAL ASSETS

Livestock are recorded at fair value less estimated point-of-sale costs. Value changes that form part of Pāmu'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 Pāmu's control and so do not form part of Pāmu's livestock management policies. These value changes are recognised in the Statement of Profit or Loss within fair value movement in biological assets.

APPENDIX: ACCOUNTING POLICIES

FORESTRY BIOLOGICAL ASSETS

Forestry stands below ten years of age are valued at cost. After ten years, forest stands are recorded at fair value less estimated point-of-sale costs. Valuation is separated into growth and value change components. The growth component forms part of operating revenue and is recognised in Statement of Profit or Loss within revenue. Changes in value due to movements in forestry prices are beyond Pāmu's control and do not form part of Pāmu's forest management practices. These value changes are recognised in the Statement of Profit or Loss within fair value movement in biological assets.

EQUITY ACCOUNTED INVESTMENTS

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

SHARE INVESTMENTS

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. Pāmu 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.

APPENDIX: ACCOUNTING POLICIES

INTANGIBLES

(a) Genetic royalties

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

(b) Carbon credits

As a forester, Pāmu is allocated emission credits (NZUs) and will incur liabilities through the ETS. Pāmu had 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. Pāmu has also claimed and received credits on its post-1989 forest carbon sequestration. When credits are received, they are recognised as revenue at the market determined price. Should these plantations be harvested and/or deforested, a liability would be incurred up to a maximum of the credits received.

(c) Software

Acquired software is capitalised at purchase cost plus costs incurred to bring the software into use. The costs incurred internally in developing computer software are also recognised as intangible assets. Software costs are amortised over 5 years on a straight-line basis.

PROPERTY, PLANT AND EQUIPMENT

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

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

APPENDIX: ACCOUNTING POLICIES

PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

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

Depreciation is provided on a straight-line basis on all property, plant and equipment other than land and land improvements. 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
Leasehold improvements	lease term
Plant	3 -10 years

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 Pāmu. The facilities are subject to a negative pledge agreement which means that Pāmu 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.

Financial guarantees

The Group is party to a primary growth partnership (PGP) with the Ministry of Primary Industries (MPI) and Spring Sheep Dairy NZ LP. MPI requires shareholder guarantees as a condition of providing funding and accordingly, Pāmu has provided limited guarantees in respect of that PGP. In addition, Landcorp Pastoral Limited has provided a limited shareholder guarantee of Spring Sheep Dairy Limited Partnership’s indebtedness to its lender, ASB Bank.

APPENDIX: ACCOUNTING POLICIES

INTEREST RATE DERIVATIVES

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

TAX

Tax expense/benefit reflects the impact of both current and deferred tax. Current tax is the expected tax payable on the taxable income for the year and any adjustment to tax payable for previous years based on applicable tax law. Deferred tax is provided for temporary differences between the carrying amounts for financial reporting purposes and the carrying amounts used for taxation purposes, using tax rates enacted or substantially enacted at balance date. A deferred tax asset relating to unused tax losses is only recognised to the extent that taxable profits will be available against which that tax losses can be utilised.

Tax expense/benefit is recognised in Statement of Profit or Loss, unless it relates to an item recognised in Other Comprehensive Income.

PROVISION FOR DIVIDENDS

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