PĀMU™

STATEMENT OF CORPORATE INTENT

2019/20 – 2021/22

CONTENTS

PĀMU™

ABOUT US

Introduction to Pāmu

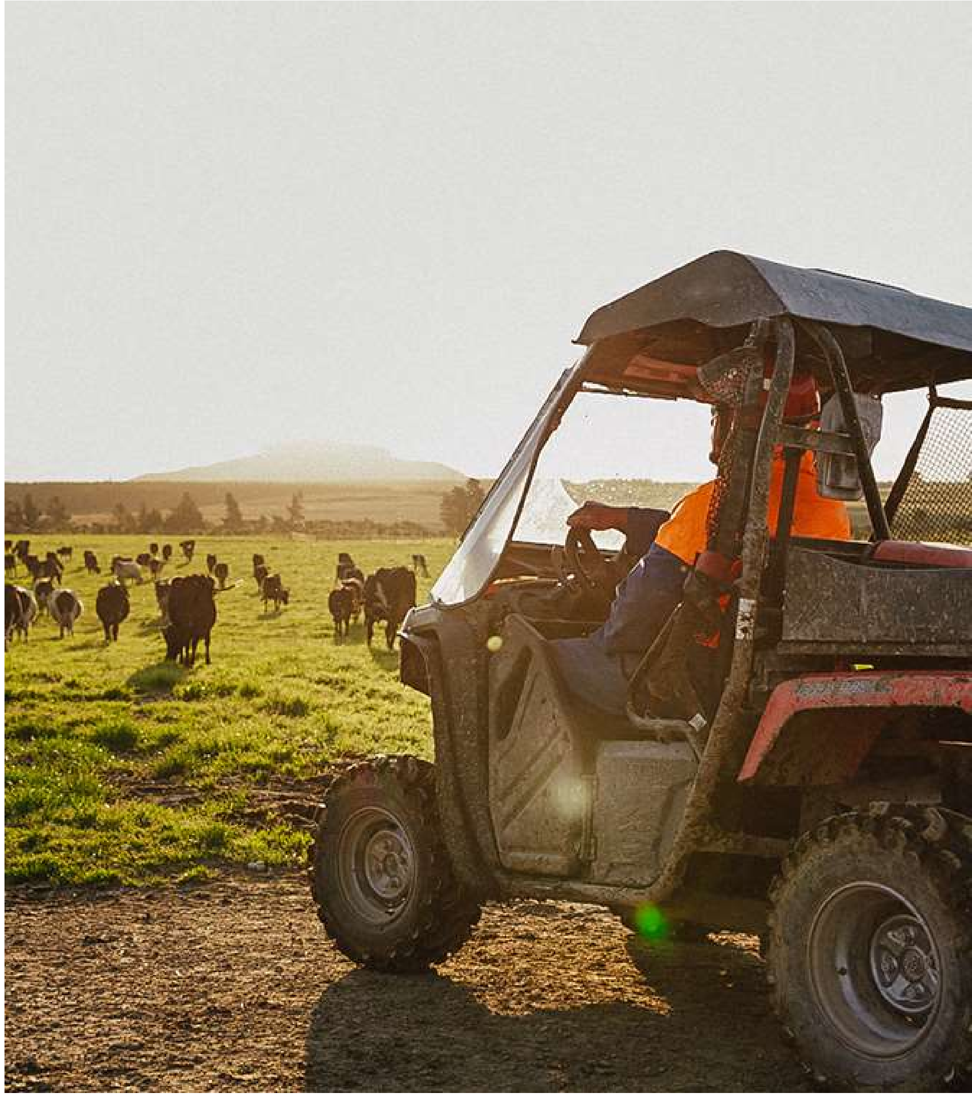
Landcorp Farming Limited (Pāmu) is a state owned enterprise established under the State Owned Enterprises Act 1986 (the Act) and is a company registered under the Companies Act 1993. The shareholders are the Minister of State Owned Enterprises and the Minister of Finance.

Pāmu Farms of New Zealand (Pāmu) is the brand name for Landcorp and is used throughout this SCI. Pāmu manages approximately 115 sheep, beef, dairy and deer farms, selling milk, beef, sheepmeat, wool, venison, deer velvet timber and speciality crops to most of New Zealand's largest national food processors along with smaller regional producers. In recent years, Pāmu has also started marketing premium products under the Pāmu brand around the world.

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 and its subsidiaries (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; 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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NATURE AND SCOPE OF BUSINESS (1 OF 3)

Pāmu's strategy

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
- Aspire to be a leader in New Zealand agriculture, carefully creating natural products of high quality and value; thereby helping transform pastoral-based industries into a more sustainable future through farm system, supply chain and product innovation.

The Pāmu Board has recently undertaken a refresh of the company's strategy to ensure it continues to meet the expectations of our shareholder and addresses the winds of change shaping the food industry.

These winds of change include: the increasing impact of climate change on our weather patterns throughout the country; the availability of water and the need to prevent our farms from polluting it; shifts in consumer preferences towards sustainably produced natural foods (and against farming practices considered damaging to the environment or inappropriate in the treatment of animals); and the digitisation and automation of farming practices.

In light of these changes, Pāmu's mission is as important as ever: to enrich our land, our people and the future for farming. We are here, fundamentally, to benefit New Zealand, today and for generations to come. We benefit New Zealand by striving towards achieving Pāmu's vision: to be a world leader in farming natural resources sustainably to produce premium, high margin food and fibre products. We know we're being successful in that when we are:

1. Generating a return to the shareholder in a sustainable way across all of our capitals;
2. Leading and sharing innovation in farming practices, connected to changing consumer needs; and
3. Becoming a company New Zealanders love and want to work for.

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NATURE AND SCOPE OF BUSINESS (2 OF 3)

Achieving our ambitious vision requires Pāmu to focus on, and excel in, three areas:

1. Ensure Pāmu exhibits excellence in food and fibre production. In short, we need to be high performing farmers. That means not only optimising the financial performance of our farms, it also includes building upon each of the six capitals upon which our business relies;
2. Match our products to the best customers with the right partners. This means producing products that meet market requirements and also finding partners who have access to the right consumers who value what we produce; and
3. Drive innovation in sustainable land use and farm systems. Pāmu will continue to do what it has always done – look for land use changes that both improve the value of the land and its fit within its natural environment.

To progress on each of those three areas we have planned a number of key initiatives. These are outlined in the pages that follow.

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.

The next section of the SCI sets out Pāmu's key initiatives under the three strategic headings above and with reference to Pāmu's six integrated reporting capitals.

The capitals represent the six areas in which Pāmu creates value over time, through a combination of quantitative and qualitative measures. This methodology is taken from the internationally-recognised integrated reporting framework that Pāmu has recently adopted. The framework – explained in more detail in Appendix 2 – categorises the six capitals as financial, manufactured (farms and animals), intellectual, human, social and relationships, and natural, and they represent stocks of value that are affected or transformed by Pāmu's activities. We believe that reporting on Pāmu's performance in this manner not only increases transparency about our performance, it also illustrates the many ways Pāmu creates value for its wider set of stakeholders.

NATURE AND SCOPE OF BUSINESS (3 OF 3)

HOW we will do it?

WHAT we will do?

1. Ensure excellence in food and fibre production
2. Match our products to the best customers with the right partners
3. Drive innovation in sustainable land use and farm systems

1. Develop & attract talented **PEOPLE** and ensure their **SAFETY & WELLBEING**

3. INNOVATE new FARM SYSTEMS and **SUPPLY CHAINS** to generate higher returns

5. Exceed the needs of our **CUSTOMERS**

2. Enrich our **ENVIRONMENT**

4. Enhance the productivity of our **ANIMALS** and **LAND**

WHY will we do this?

- To generate a strong financial return to the shareholder in a sustainable way
- To lead and share innovation in farming practices, connected to changing consumer needs
- To be a company New Zealanders love and want to work for

WHAT behaviours defines us?

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

PĀMU'S VISION AND MISSION SPEAKS TO OUR UNIQUE ROLE IN NZ

OUR VISION

what do we aspire to become

A world leader in farming natural resources sustainably to produce premium, high margin food and fibre products.

OUR MISSION

why we exist

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

KEY INITIATIVES (1 OF 3)

Strategic goal: ensure excellence in food and fibre production. We will:	Capitals
Reduce cost of production and increase net returns including: • Focussing the genetics programme on optimising lamb survival and eating quality • Increasing our capacity to capture premiums, increase productivity and enhance resilience (eg organic milk, all-grass wintering on livestock farms) • Setting farm-specific targets for productivity improvements against applicable industry benchmarks	Finance Farms & Animals Relationships Environment People & Safety
Integrate sustainability into all our activities including initiatives to lower nutrient loss in high risk areas	
Improve performance and wellbeing of our people including continuous improvement in our H&S culture and initiatives to lower turnover	
Undertake a review of corporate overhead and capital expenditure and explore initiatives to reduce them	
Leverage our investment in systems and technology across the business including expanding our dairy beef operation	

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KEY INITIATIVES (2 OF 3)

Strategic goal: match our products to the best customer, in the most valuable way. We will:	Capitals
Obtain and increase value from farm gate customers including seeking fixed price and premium-based contracts	Finance Relationships Expertise
Build our value-add business in China for Pāmu branded products	
Continue to grow the Pāmu deer milk business through sales and product development	
Continue to seek premiums for Pāmu produced product in the foodservice industry including building on existing and exploring new relationships and partnerships	

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KEY INITIATIVES (3 OF 3)

Strategic goal: drive innovation in sustainable land use and farm systems. We will:	Capitals
Explore opportunities to diversity into new, improved land uses	Farms & Animals Environment Finance Expertise Relationships
Test and integrate targeted innovations, for example virtual fencing and fertigation	
Continue to consider options to realise more value from Pāmu's subsidiaries and joint ventures. This includes increasing the profile of Focus Genetics and its role driving productivity and environmental outcomes (eg lower methane producing animals)	
Investigate and trial farm system innovation including biological and regenerative farming system options	
Progress towards carbon neutrality with the ongoing execution of the forestry planting programme (1,500 hectares in FY20)	

OUR PERFORMANCE SCORECARD

ENVIRONMENT

- Reduce nitrogen applied per hectare:
  - Dairy – No greater than **165 KgN** per effective hectare (FY18 167kgN)
  - Livestock – No greater than **18.5 KgN** per effective hectare (FY18 19kgN)
- GHG emissions on all farming operations: **875,000 MT of CO2e** (FY18 919,000)
- Planting in forestry **1,500 Hectares**

FARMS AND ANIMALS

- Livestock product: **21m Kg** (FY19 18m Kg)
  - Sheep 44%
  - Beef 47%
  - Deer 9%
- Dairy product: **15.7m KgMS** (FY19 14.9m KgMS)
- Cost of production:
  - per kgLWT **$2.20**
  - per kgMS **$4.91**
- Establishment of productivity benchmarks and plans

EXPERTISE

- New products developed and approved to launch: **2**
- Technology development, engagement, transfer and industry engagement: **5 pilots/initiatives**

PEOPLE

- LTIFR and LTISR: **8.5 and 23.41** (FY19 9.44 and 26.01)
- Turnover: **21%** (FY19 22.2%)
- Engagement: **62%** (FY19 59%)
- Talent measure: **Establishment of Learning Management System**

FINANCIAL

- Return on Capital Employed **3.1%**
- EBITDAR (excluding rent/lease expense):
  - Group EBITDAR **$61.1m**
  - Livestock EBITDAR/ha (effective)**: $322**
  - Dairy EBITDAR/ha (effective): **$1,578**
- Net debt and lease liability to EBITDAR **7.7 x**
- Pāmu Foods sales **$1.6m**

RELATIONSHIPS

- Strategic in market relationships developed and contracts signed: **2**
- Finished livestock under fixed price / GMP Contract: **48%** of supply
- Dairy farms supplying into added value customer contracts: **40%** (FY19 19%)
- Reputation – **10% improvement** in favourability rating

As at the date of preparation of this SCI the FY19 financial results are not available and therefore no comparatives are provided. For some other metrics comparatives are provided for the most recent available year, where relevant.

FINANCIAL PERFORMANCE MEASURES

	Budget FY20	Budget FY21	Budget FY22
Shareholder Returns			
Total Shareholder Return %	0.7%	1.0%	1.3%
Return on Equity %	0.7%	1.0%	1.3%
Return on Equity, adjusted for IFRS fair value %	1.9%	0.6%	1.8%
Dividend Yield %	0.3%	0.3%	0.3%
Dividend Payout %	-69.4%	104.2%	47.2%
Profitability & Efficiency			
Return on Capital Employed %	3.1%	2.8%	3.4%
Operating Margin %	24.0%	23.2%	25.3%
Leverage & Solvency			
Gearing (Net Debt/Net debt plus equity) %	13.3%	14.0%	14.3%
Net debt and lease liability to EBITDAR (x)	7.7	8.3	7.5
Interest Cover x (EBITDAR/Net Interest)	2.59	2.44	2.86
Solvency (including current debt)	0.88	1.22	1.12
Solvency (excluding current debt)*	4.01	3.58	3.16

Definitions are set out on the following page.

* The 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.

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PERFORMANCE MEASURES 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
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 (IFRS adjusted)	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	**Description**	**Calculation**
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 (including lease liability)
Operating margin	The profitability of the company per dollar of revenue	EBITDAR/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 to EBITDAR	Ratio of debt to earnings before interest, tax, depreciation, amortisation and revaluations	Net debt and lease liability/EBITDAR
Interest cover	The number of times that earnings can cover interest	EBITDAR/Total interest (including lease liability interest)
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 2019 is 125,000,000 million ordinary shares at $1.00 each ($125 million) and 86,513,000m redeemable preference shares of $1.00 each, giving a total share capital of $211.5m.

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, Pāmu's estimated closing interest bearing debt for the next three years is: $225m (30 June 2020), $239m (30 June 2021) and $248m (30 June 2022).

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

$m	*Budget FY20*	*Budget FY21*	*Budget FY22*
Total Assets	2,044	2,068	2,095
Total Liabilities	605	620	633
Total Equity	**1,439**	**1,448**	**1,462**
Interest Bearing Debt / Total Funding	13.3%	14.0%	14.3%
Shareholders' Funds / Total Assets	70.4%	70.0%	69.8%

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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 after discussion with the shareholder. 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 price volatility, exchange rates and climatic conditions. 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; 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.

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 makes a significant capital investment decision which means:

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

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

c) selling or disposing of the whole or any substantial part of the company;

d) diversification or overseas expansion (including offshore investments).

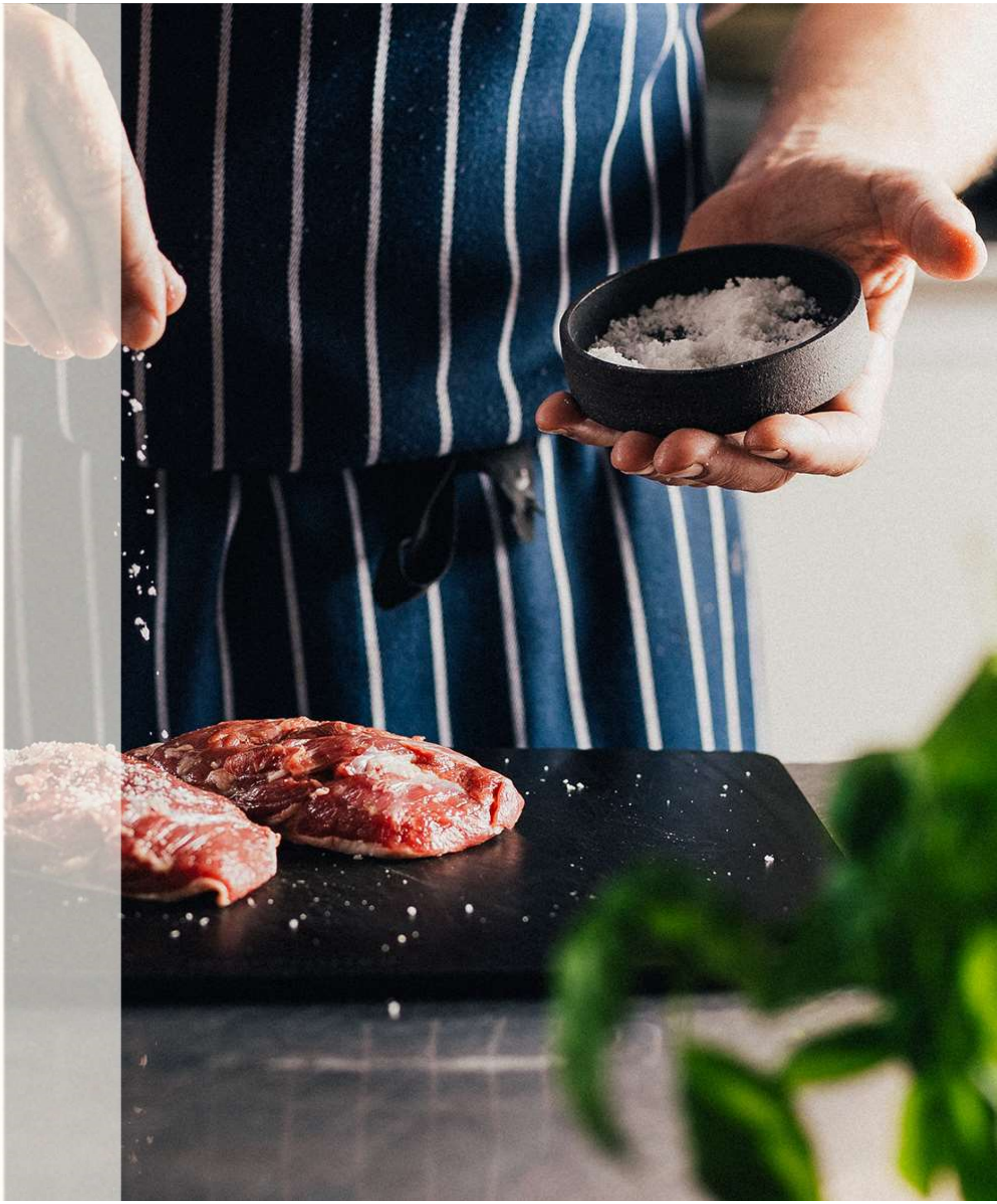
As required by the shareholder's current letter of expectations, Pāmu will seek the consent of shareholding Ministers before entering into any new off-farm value-add activities beyond its current portfolio of activities.

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.

APPENDICES



APPENDIX 1: SHAREHOLDER LETTER OF EXPECTATIONS

Our shareholder's most recent Letter of Expectations outlined the following three key expectations:

1. **On farm**
    1. Manage the core farming operations
    2. Lower environmental footprint in line with best practices
    3. Ensure land is used for its highest and best use
    4. Contribute to 1BT
2. **Off Farm**
    1. A focus on the existing value to reach scale
    2. Investigate a clear separation of Pāmu Foods
3. **Transparency**
    1. Greater transparency with Treasury

APPENDIX 2: INTEGRATED REPORTING – OUR 6 CAPITALS

Accomplishing our vision will deliver our mission, resulting in value created across our six capitals:

ENVIRONMENT

- Developing **climate resilient** farm systems suitable for a limits-based environment.
- Encouraging thriving **biodiversity** within our farm systems that enhance natural capital.
- Protecting and enhancing the **freshwater** used in our farming systems.

FARMS AND ANIMALS

- Leadership in **shifting land uses** to higher return systems, both animal and plant-based.
- To foster and enhance the **selected animal's** natural behavior, productivity, and surrounds using nature's toolbox first to have a life worth living.
- Emerging leader in establishing a plantation and permanent **forest footprint** that neutralises emissions, enhances biodiversity and generates profitable tree products inter-generationally.

EX[illegible]

- A hub that supports the trialling and development of new **agriculture technologies and science-based solutions** from NZ and international providers.
- Leaders in the integration of pasture-to-plate products, including product development to supply chain management and market development.

PEOPLE

- Creating the **safest** places to farm, fit in body and mind, that attracts and retains a talented, diverse workforce.
- A leader in **the development** of people in the primary sector across a wide range of disciplines.
- **Widely known** and respected by New Zealanders for who we are and what we do.

FINANCIAL

- **Returns on capital employed** are comparable to appropriate industry benchmarks
- **Capital recycled** into higher earning equity growth, real assets and other activities where they exist.
- A **dividend** stream for the shareholder based on sales & margin growth, strong cost control, and a sustainable balance sheet.
- **Risk and volatility** managed sensibly.

RELATIONSHIPS

- Being a **highly sought-after partner** to those in the farming sector and across our supply chains, locally and abroad.
- Creating high market value **subsidiaries** that generate strong returns and build valuable know-how to support Pāmu's business.
- A **constructive partner with iwi and Maori** organisations pre and post Treaty of Waitangi settlement.

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APPENDIX 3: COMMERCIAL VALUE OF THE CROWN'S INVESTMENT

MARKET VALUE

The Pāmu Board considers the commercial value of the company (including subsidiaries) to be $1.4 billion as at 30 June 2019.

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.

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APPENDIX 4: 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, 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.

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APPENDIX 4: SUMMARY OF FINANCIAL ACCOUNTING POLICIES

CHANGES IN ACCOUNTING POLICIES

The group adopted NZ IFRS 9 Financial Instruments and NZ IFRS 15 Revenue from Contracts with Customers from 1 July 2018. The adoption of NZ IFRS 9 did not result in any material change to the accounting for Pāmu's financial instruments but changes to the categorisation and disclosure. The adoption of IFRS 15 did not have any material effect on the financial statements.

The adoption of NZ IFRS 16 in FY20 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 Profit or Loss.

When adopted, NZ IFRS 16 will have a material impact on the Group's financial statements. Pāmu established that recognition of lease obligations on the Wairakei Estate will create material assets and liabilities on the Group's balance sheet. Due to the structure of the lease and provisions within the standard, it will be necessary to re-measure all of these amounts annually as the lease provides for systematic revaluation of leased land over the lease term. 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 reflected in the financial forecasts contained in this SCI. More information on the impact of the change on Pāmu will be described in the 2019 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 4: SUMMARY OF FINANCIAL ACCOUNTING POLICIES

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

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

Forestry revenue is recognised following the harvest and sale of timber. The logs are sold at the market rate net of harvesting costs.

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.

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APPENDIX 4: SUMMARY OF FINANCIAL ACCOUNTING POLICIES

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 of 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.

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.

FORESTRY BIOLOGICAL ASSETS

Forest 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 no form part of Pāmu's forest management practices. These value changes are recognised in Statement of Profit or Loss within Fair value movement in biological assets.

APPENDIX 4: SUMMARY OF FINANCIAL ACCOUNTING POLICIES

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 cooperative companies to facilitate farming operations. Shares are held as a consequence of business operations and not held for trading. Share investments are initially recognised at cost, and subsequently revalued to fair market value. 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.

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.

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APPENDIX 4: SUMMARY OF FINANCIAL ACCOUNTING POLICIES

INTANGIBLES (CONTINUED)

(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 4: SUMMARY OF FINANCIAL 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 valued at amortised cost and are the drawn components of bank cash advance facilities. The facilities may be borrowed against, or repaid, at any time by 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 two primary growth partnerships (PGPs) with the Ministry of Primary Industries (MPI) and other parties (Spring Sheep Dairy NZ LP and Manuka Research Partnership (NZ) Limited). MPI requires shareholder guarantees as a condition of providing funding and accordingly, Landcorp has provided limited guarantees in respect of those PGPs. In addition, Landcorp Pastoral Limited has provided a limited shareholder guarantee of Spring Sheep Dairy Limited Partnership's indebtedness to its lender, ASB Bank.

APPENDIX 4: SUMMARY OF FINANCIAL 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 (30 June 2019 1.7%) 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 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. 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 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.