STATEMENT OF

CORPORATE INTENT

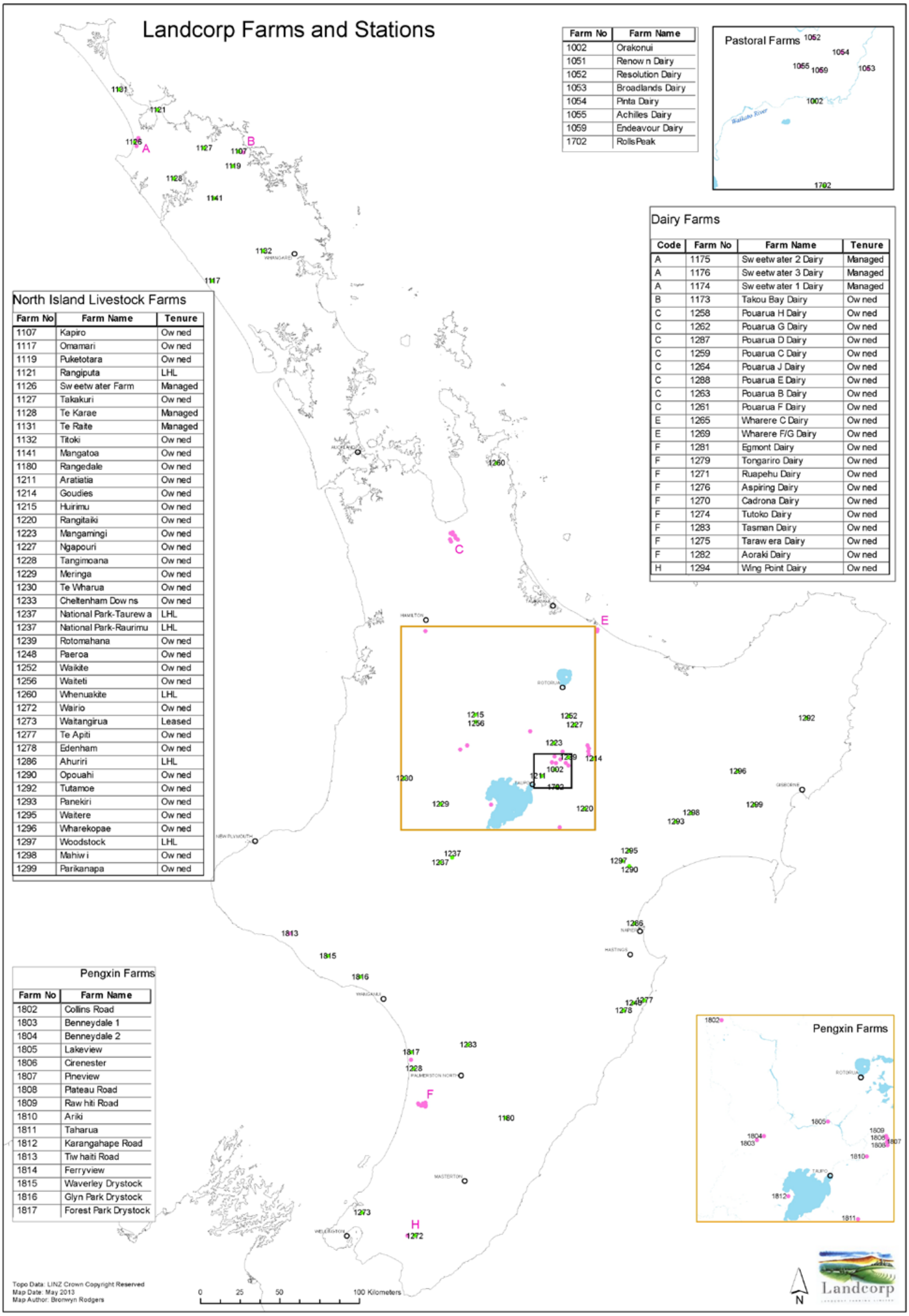
2013 - 2016

Contents

Landcorp Group Farms

	Owned (Sharemilker)	Owned	Landcorp Holdings Ltd	Leased	Grand Total
Beef				1	1
Deer/Sheep/Beef		23	3		26
Dairy	2	34		22	58
Dairy Support				4	4
Sheep/Beef		39	4	5	48
Grand Total	**2**	**96**	**7**	**32**	**137**

Maps Showing Location of Landcorp Farms and Stations



Farm No	Farm Name
1002	Orakonui
1051	Renow n Dairy
1052	Resolution Dairy
1053	Broadlands Dairy
1054	Pinta Dairy
1055	Achilles Dairy
1059	Endeavour Dairy
1702	RollsPeak

Dairy Farms

Code	Farm No	Farm Name	Tenure
A	1175	Sw eetw ater 2 Dairy	Managed
A	1176	Sw eetw ater 3 Dairy	Managed
A	1174	Sw eetw ater 1 Dairy	Managed
B	1173	Takou Bay Dairy	Ow ned
C	1258	Pouarua H Dairy	Ow ned
C	1262	Pouarua G Dairy	Ow ned
C	1287	Pouarua D Dairy	Ow ned
C	1259	Pouarua C Dairy	Ow ned
C	1264	Pouarua J Dairy	Ow ned
C	1288	Pouarua E Dairy	Ow ned
C	1263	Pouarua B Dairy	Ow ned
C	1261	Pouarua F Dairy	Ow ned
E	1265	Wharere C Dairy	Ow ned
E	1269	Wharere F/G Dairy	Ow ned
F	1281	Egmont Dairy	Ow ned
F	1279	Tongariro Dairy	Ow ned
F	1271	Ruapehu Dairy	Ow ned
F	1276	Aspiring Dairy	Ow ned
F	1270	Cadrona Dairy	Ow ned
F	1274	Tutoko Dairy	Ow ned
F	1283	Tasman Dairy	Ow ned
F	1275	Taraw era Dairy	Ow ned
F	1282	Aoraki Dairy	Ow ned
H	1294	Wing Point Dairy	Ow ned

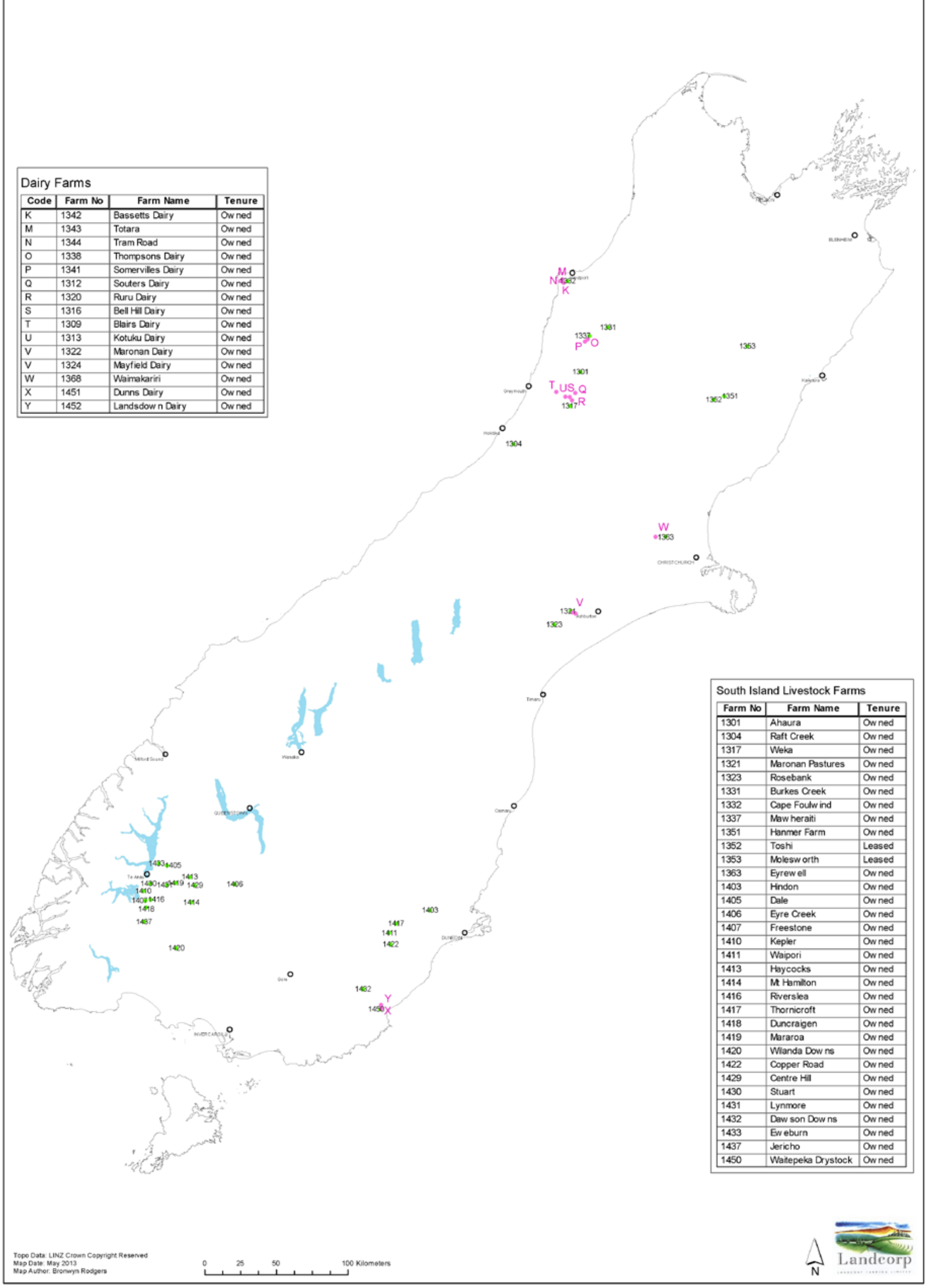
North Island Livestock Farms

Farm No	Farm Name	Tenure
1107	Kapiro	Ow ned
1117	Omamari	Ow ned
1119	Puketotara	Ow ned
1121	Rangiputa	LHL
1126	Sw eetw ater Farm	Managed
1127	Takakuri	Ow ned
1128	Te Karae	Managed
1131	Te Raite	Managed
1132	Titoki	Ow ned
1141	Mangatoa	Ow ned
1180	Rangedale	Ow ned
1211	Aratiatia	Ow ned
1214	Goudies	Ow ned
1215	Huirimu	Ow ned
1220	Rangitaiki	Ow ned
1223	Mangamingi	Ow ned
1227	Ngapouri	Ow ned
1228	Tangimoana	Ow ned
1229	Meringa	Ow ned
1230	Te Wharua	Ow ned
1233	Cheltenham Dow ns	Ow ned
1237	National Park-Taurew a	LHL
1237	National Park-Raurimu	LHL
1239	Rotomahana	Ow ned
1248	Paeroa	Ow ned
1252	Waikite	Ow ned
1256	Waiteti	Ow ned
1260	Whenuakite	LHL
1272	Wairio	Ow ned
1273	Waitangirua	Leased
1277	Te Apiti	Ow ned
1278	Edenham	Ow ned
1286	Ahuriri	LHL
1290	Opouahi	Ow ned
1292	Tutamoe	Ow ned
1293	Panekiri	Ow ned
1295	Waitere	Ow ned
1296	Wharekopae	Ow ned
1297	Woodstock	LHL
1298	Mahiw i	Ow ned
1299	Parikanapa	Ow ned

Pengxin Farms

Farm No	Farm Name
1802	Collins Road
1803	Benneydale 1
1804	Benneydale 2
1805	Lakeview
1806	Cirenester
1807	Pineview
1808	Plateau Road
1809	Raw hiti Road
1810	Ariki
1811	Taharua
1812	Karangahape Road
1813	Tiw haiti Road
1814	Ferryview
1815	Waverley Drystock
1816	Glyn Park Drystock
1817	Forest Park Drystock

Landcorp Farms and Stations



Dairy Farms

Code	Farm No	Farm Name	Tenure
K	1342	Bassetts Dairy	Owned
M	1343	Totara	Owned
N	1344	Tram Road	Owned
O	1338	Thompsons Dairy	Owned
P	1341	Somervilles Dairy	Owned
Q	1312	Souters Dairy	Owned
R	1320	Ruru Dairy	Owned
S	1316	Bell Hill Dairy	Owned
T	1309	Blairs Dairy	Owned
U	1313	Kotuku Dairy	Owned
V	1322	Maronan Dairy	Owned
V	1324	Mayfield Dairy	Owned
W	1368	Waimakariri	Owned
X	1451	Dunns Dairy	Owned
Y	1452	Landsdown n Dairy	Owned

South Island Livestock Farms

Farm No	Farm Name	Tenure
1301	Ahaura	Owned
1304	Raft Creek	Owned
1317	Weka	Owned
1321	Maronan Pastures	Owned
1323	Rosebank	Owned
1331	Burkes Creek	Owned
1332	Cape Foulwind	Owned
1337	Mawheraiti	Owned
1351	Hanmer Farm	Owned
1352	Toshi	Leased
1353	Molesworth	Leased
1363	Eyrewell	Owned
1403	Hindon	Owned
1405	Dale	Owned
1406	Eyre Creek	Owned
1407	Freestone	Owned
1410	Kepler	Owned
1411	Waipori	Owned
1413	Haycocks	Owned
1414	Mt Hamilton	Owned
1416	Riverslea	Owned
1417	Thornicroft	Owned
1418	Duncraigen	Owned
1419	Mararoa	Owned
1420	Wilanda Downs	Owned
1422	Copper Road	Owned
1429	Centre Hill	Owned
1430	Stuart	Owned
1431	Lynmore	Owned
1432	Dawson Downs	Owned
1433	Ewburn	Owned
1437	Jericho	Owned
1450	Waitepeka Drystock	Owned

LANDCORP FARMING LTD

STATEMENT OF CORPORATE INTENT ("SCI")

1 JULY 2013 - JUNE 2016

This statement is prepared in terms of section 14 of the State Owned Enterprises Act 1986 ("SOE Act").

1. Objectives

1.1 SOE Obligations

Under the SOE Act, Landcorp Farming Ltd ("Landcorp") is required to operate as a successful business and specifically to achieve the following objectives:

- To operate an efficient, effective and profitable business and provide to the owners a commercial return on the capital employed;
- To be a good employer; and
- To exhibit a sense of social responsibility by having regard to the interests of the community in which it operates and by endeavouring to accommodate or encourage these when able to do so.

Within this context the purpose, vision and key goals of Landcorp are defined and implemented.

1.2 Business Purpose

To maximise the economic production of animals (and their products) and land in a sustainable manner primarily within Landcorp but also in the wider pastoral sector.

1.3 Vision

To be the world’s most effective pastoral livestock farmer.

1.4 Mission

To be New Zealand’s best livestock farmer: environmentally, socially and economically, by:

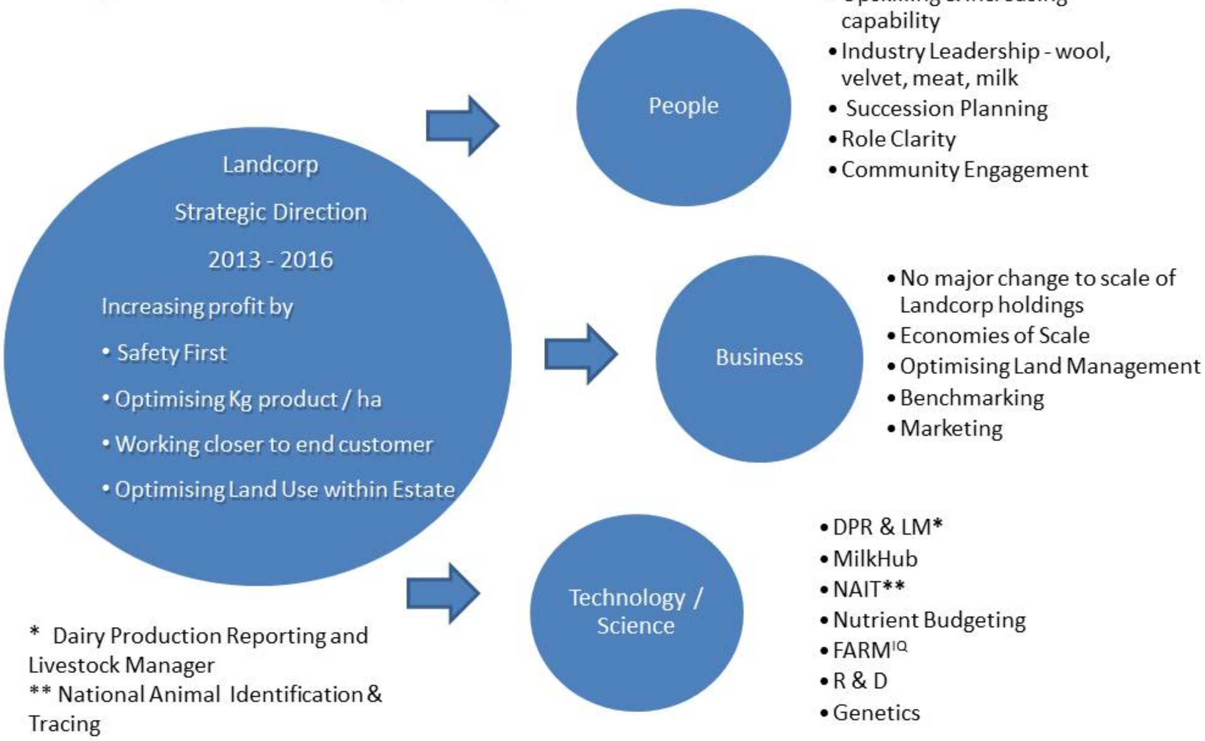
- Implementing best practice in dairy, sheep, beef and deer farming and by optimising forestry returns;
- Ensuring efficient, effective and sustainable land use management;
- Creating added value in fibre, food, and service based products;
- Identifying and meeting customer and consumer needs;
- Developing and promoting a culture of innovation;
- Being one farm, many paddocks;
- Optimising profit and creating more value for our shareholders by optimising land use within our estate;
- Developing the ability to profitably farm land that Landcorp Farming Limited doesn’t own.
- Facilitating the transfer of best practise to the wider pastoral sector; and
- Meeting social obligations.

1.5 Strategies

The following diagram represents a summary of the strategic direction of Landcorp Farming:

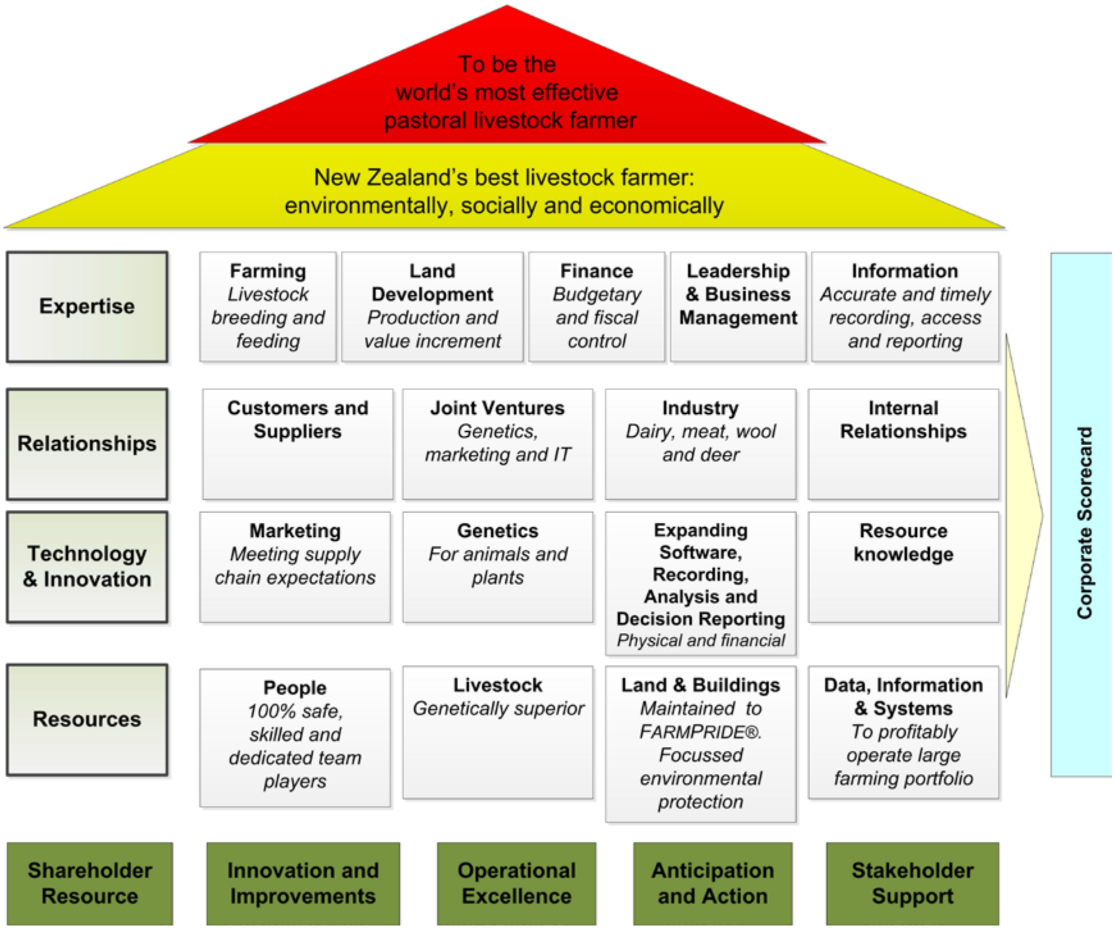
Figure 1 : Strategic Direction of Landcorp Farming Limited

Strategic Direction of Landcorp Farming Limited



The linkages between the four important elements of Landcorp's performance are shown in the following figure:

Figure 2 : Four Important Elements of Landcorp's Performance



1.6 Strategic Initiatives

While a significant portion of Landcorp's operational focus could be described as continuous improvements of elements within the business operating within the strategic direction for Landcorp as outlined in Figure 1 above, there are key strategic initiatives that the Company will pursue within the new business plan's timeline. These are:

1. *People Capability Development*

   Landcorp will continue to recruit and develop people to form an organisation with strong leadership, depth of capability and a focus on safety.

2. *Water*

   Landcorp recognises water as a key strategic focus. Over the plan Landcorp will optimise the use of water assets throughout the farming portfolio and gain an in-depth understanding of the water responsive areas of New Zealand and their nascent water storage and reticulation schemes.

3. *Sale and Purchase of Land*

   Landcorp will continue to rationalise its portfolio of properties to achieve economies of scale through amalgamations, clustering and the purchase of land.

   Properties that have ceased to have strategic value will be sold. In all instances market value will be sought through valuations from registered valuers and where appropriate through a competitive tender process.

4. *Overseas Partnerships*

   Landcorp's strategy has three phases. In the first three years Landcorp will farm its animals on land owned by Chinese investors. In the second three year phase Landcorp will form joint ventures with New Zealand researchers (CRIs and universities) to assist the development of Chinese farming ventures in China. The final phase will see Landcorp assisting its Chinese partners with exports of New Zealand produced and packaged dairy products into China. Landcorp does not intend to invest capital overseas as part of this strategy.

5. *FARM^{IQ} Systems Ltd*

Landcorp, Silver Fern Farms and MAF are the partners in FARM^{IQ} Systems Ltd. This company aims to create a demand-driven integrated value chain for red meat that delivers sustainable benefits to all participants - farmers, processors and marketers. Landcorp is leading the Farm Information System (database) development and the genetics programme.

Landcorp will use its Dawson Downs property as an exemplar property.

6. *Benchmarking and Productivity*

As part of answering the question “How good are we?” Landcorp will expand its benchmarking programme in livestock and dairy. This will be used to lift on farm performance. Productivity is one of the three key strategic targets following the introduction of the long term hold policy by the owners.

7. *Marketing*

For those products which New Zealand trades a significant percentage of global trade, for example lamb, venison and dairy Landcorp aims to be rewarded for its volumes, quality and commitment.

Landcorp is working with fewer processors who are well connected into global markets. A preference is given to processors who are able to enter into fixed price contracts and with strong in-market marketing efforts.

8. *Wairakei Pastoral Limited*

Work has commenced on the removal of the stumps on 6,000 hectares lying fallow of which some 4,500 hectares will be available for conversion to dairy farming during the period 2013/16. This involves the establishment of up to seven additional milking platforms for a minimum of 18,270 cows.

9. *Shanghai Pengxin Group (SPG)*

Landcorp takes full control of Pengxin Group farms on 1 June 2013. These comprise 13 dairy units and three drystock farms. Landcorp will farm the properties under a sharemilking agreement reporting to a joint venture company, Pengxin New Zealand Farm Management Ltd which is 50:50 owned by Landcorp and SPG.

2. Nature and Scope of Business

2.1 The business activities of Landcorp over the next three years will be:

- To farm properties (owned or leased) according to best practice;
- To develop farms to their optimal sustainable potential;
- To offer farming related services, leveraging core competencies on a commercial basis on land it does not own (eg, to iwi, overseas investors);
- To participate where appropriate in industry good activities;
- To encourage the commercial development of electricity generation on its properties;
- To support and encourage R&D in nutrition, animal health and welfare, and in biotechnology and genetics;

- To optimise its farmland portfolio by:

  - Selling non-strategic properties including land of higher value than farming and land sought by iwi (subject to the requirements of the new protocol agreed between Landcorp and the OTS);

  - Amalgamating properties; and

  - Purchasing strategic properties to form clusters of farms or to complement existing farms to achieve economies of scale and synergies in their operation or to add value by developing those properties.

2.2 Within all these areas, Landcorp seeks the profitable utilisation of its existing assets and resources, including intellectual property and the expertise of its people.

2.3 These activities will be developed as part of the operation of the Company, through its subsidiary companies, Landcorp Estates Ltd and Landcorp Holdings Ltd, Focus Genetics Limited Partnership, and through alliances and joint ventures with business partners.

3. Corporate Responsibility Commitment

Landcorp's commitment to corporate responsibility is defined by its core values:

3.1 To act honestly and with integrity through:

- Good governance and high ethical standards as set out in the Charter adopted by the Board on 30 January 2012, and further articulated in the "Code of Practice for Directors" issued by the Institute of Directors in New Zealand (Inc) and the application of the nine principles developed by the New Zealand Securities Commission (now Financial Markets Authority) and set out in **Appendix 1**;

- Delivering to our customers, listening to them and involving them in our solutions and innovations; and

- Working with stakeholders in the pastoral sector to develop long-term partnerships based on best practice to mutual benefit and benefit to the rural community generally.

3.2 To be environmentally responsible by:

- Implementing on-farm quality assurance and best practice through FARMPRIDE®. All farms will continue to be externally audited to minimise use of chemicals, protect water quality, soil quality, and atmospheric quality and to promote care of the environment through management systems that meet or exceed legal and ethical requirements. Animal health and welfare are paramount. Dairy units are audited annually and all sheep, beef and deer farms are audited biennially;

- Continuing to protect conservation values by setting aside areas of particular natural importance where practical through QEII National Trust, the Department of Conservation or through local conservation trusts;

- Undertaking nutrient budgeting in compliance with the Code of Practice for Nutrient Management developed by the fertiliser industry;

- Converting land use from pasture to forestry to reduce nitrogen run-off in sensitive areas such as the Taupo catchment; and

- Identifying methods for greenhouse gas (GHG) management mitigation through initiatives relating to carbon footprint estimation, financial and in-kind contribution to the Pastoral Greenhouse Gas Research Consortium, investigation of carbon “farming”, energy use reduction and use of alternative energy sources such as windfarming.

3.3 To be a fair employer through:

- *Our commitment to the safety and wellbeing of our staff.*
  The safety of our workforce is always a priority. Landcorp’ has a sound existing policy base, but requires a significant change in culture in order to reduce the number of days lost due to accidents. Landcorp is developing and implementing the ‘100% Safety’ campaign during 2013/14. The aim of this programme is a substantial (20%) per annum drop in lost days, full time equivalent. Landcorp continues to provide and expand a range of activities connected to a Wellness programme (flu vaccinations, basic medical checks for Farm Managers, education on dealing with stress, depression and relationship breakdown).

- *Targeting, selection, training and development to form an organisation with strong leadership, depth of capability and a focus on safety.*

  Landcorp will build high performing teams consisting of individuals who are capable and committed proponents of leading edge farming techniques and farm business management.

- *Partnering with others to gain results for the whole sector.* Wherever possible, Landcorp's people capability initiatives will be aligned to industry-wide projects in order to develop a strong pastoral livestock sector. As part of the purchase arrangement by SPG, Landcorp will develop a Dairy Academy in conjunction with an established provider. The outcome will be highly skilled and motivated dairy leaders at a variety of levels. Landcorp will continue to work with AgNZ on the "Future Farmer Programme" at Aratiatia Station near Taupo, as well as with other providers who are looking to provide similar training in other parts of New Zealand.

3.4 To champion success and excellence by:

- Encouraging staff to up-skill by undertaking AgITO and NZQA certified courses;
- Encouraging staff to enter industry regional and national competitions that recognise and reward excellence in farm management;
- Recognising excellence and outstanding contribution through annual awards for farm innovation, environmental best practice and individual performance;
- Benchmarking farm performance internally and externally; and
- Mentoring staff through the formation of farm clusters and through regional workshops and national meetings.

3.5 Landcorp's Corporate Responsibility Commitment is also exemplified by:

(a) Its recognition of the social and economic needs of the rural communities through sponsorship and grants in support of farming-related activities within those communities, and for educational purposes associated with the pastoral sector;

(b) Its co-operation with recreational users seeking access across Landcorp land. Permission must necessarily be at users' risk and at the farm manager's sole discretion, taking into account the impact of such access on farming operations and whether there is a likelihood of danger; and

(c) Technology transfer through particular species workshops undertaken nationally specifically: 'Beef Cows 4 Profit' workshops (undertaken in Northland, East Coast North Island and Southland), sheep management workshops on East Coast North Island and Otago and deer management workshops in Central North Island, West Coast South Island and Otago/Southland. Open public days are held to share learnings from these workshops with the farming industry. Technology transfer is also augmented through our relationship with AgResearch (principal research provider) and subsequent public disclosure of research outcomes wherever possible.

4. Research and Development

4.1 To achieve Landcorp's strategic objectives, research and development that increases productivity and profitability through new farming initiatives and techniques are a continuing priority. The focus is to deliver implementable solutions to on-farm problems. Where such R&D has industry-wide application, its transfer to the wider pastoral sector is supported wherever possible.

4.2 Key areas include animal reproduction/production, soil and pasture quantity/quality, environmental issues such as nutrient leaching and GHG mitigation, and stock and plant disease management. Landcorp currently invests $100,000 per annum in the Pastoral Greenhouse Gas Research Consortium. These areas are limiting factors for Landcorp and industry performance, and require technology-based solutions.

4.3 Landcorp paid levies of approximately $714,000 in the 2012/13 season to DairyNZ, Beef + Lamb New Zealand and Deer Industry New Zealand and will continue to contribute approximately $250,000 per annum to industry good R&D. Deer Industry NZ collect levies on velvet antler and venison from all deer farmers. In the case of the deer research investment, Landcorp's $100,000 R&D investment is directly leveraged against $483,000 from DeeResearch and $1.33 million from AgResearch's Core Purpose Funding. These investments support technology transfer to the wider pastoral sector.

4.4 In seeking out high quality researchers and programmes, Landcorp has established a number of strategic partnerships with R&D deliveries. These include The Liggins Institute, AgResearch, Landcare and Massey University.

5. Performance Targets and Measures

5.1 Corporate Scorecard

A balanced scorecard methodology is used to articulate and measure financial performance, customer service, internal business processes, learning and growth perspectives. The performance targets and efficiency measures are set out in **Appendix 2**.

5.2 Forecast financial results and targets

Landcorp's forecast results for 2012/13 and targets for 2013/14, 2014/15 and 2015/16 are:

	Forecast 2012/13	Budget 2013/14	Budget 2014/15	Budget 2015/16
Shareholder Returns				
Total Shareholder Return after tax / average shareholders' equity	4.8%	4.6%	4.6%	5.7%
Dividend Yield (Ordinary)	0.1%	0.1%	0.7%	1.2%
Dividend Yield (Ordinary + Special)	0.1%	0.5%	1.0%	2.4%
Dividend Payout (Ordinary)	(9.1%)	40.3%	230.4%	72.9%
Dividend Payout (Ordinary + Special)	(9.1%)	141.0%	335.1%	145.9%
Profitability/Efficiency				
Economic Value Added	(0.95%)	(0.16%)	0.43%	1.49%
Dividends – Group (including recommended final) ($m)	$ 1	$ 7	$ 16	$ 40
Leverage/Solvency				
Gearing Ratio (net)	14.5%	11.8%	12.6%	12.9%
Interest Cover (Times) (EBITDA / Interest) [1]	2.56	2.72	3.36	3.50
Capital				
Net Capital ($m)	$ (63)	$ 35	$ (32)	$ (35)

[1] Includes profit on land sales.

5.3 Industry-wide factors impacting, or expected to impact, on Landcorp's Performance and Implementation of Strategy

- The widespread drought of 2012/13 is one of the most severe experienced by the farming community for 70 years. This drought has adversely affected some 80% of Landcorp's farms. The impact will continue to be felt for the 2013/14 year.
- The Global Financial Crisis continues to suppress traditional markets with spill-over affecting emerging markets. Economic growth in New Zealand is expected to remain subdued.
- Comparatively high commodity prices (beef, venison and milk) are expected to remain stable. Sheep and wool prices have however fallen sharply.
- Volatile and persistently high exchange rates and potential for increases in volatility of commodity prices (especially dairy) will continue.
- Rural land price stability at levels lower than seen in the recent past will better reflect its productive value.
- Availability and cost of capturing and reticulating water for irrigation consumption as well as ensuring adherence to high ecological standards for discharge of waste water.
- High and volatile input costs - fertiliser, fuel.
- Availability of skilled people who are essential to increasing productivity on-farm in increasingly complex farming businesses.

5.4 Opportunities, risks and returns affecting or likely to affect Landcorp

Identified Opportunities:

- Provision of high speed broadband to all farms and subsequent optimisation of information flows through enhancement of IT systems and infrastructure.
- Investors seeking equity exposure to agriculture, to the production of high quality protein and to secure food resources.

- The demand for experienced asset managers of large scale enterprises with appropriate systems and technology needed to produce long term profitable and sustainable returns.
- The impact of reliable water on farms to lift productivity and profitability.

Risks managed/minimised through:

- Continued upskilling through all levels of Landcorp staff.
- Income spread over species - sheep, deer, dairy, and beef.
- Geographical spread of properties limit impact of local climatic factors and activity targeting water consents for irrigation purposes.
- Ability to move stock as appropriate eg, for finishing to meet specific customer needs (eg, in the UK market) or to alleviate climate stress.
- Mentoring, farm clusters and centralised procurement.
- Achieving greater certainty through negotiating longer term supply contracts to fix volumes and prices.
- Management of debt and foreign exchange through a Treasury Management Committee applying policies to minimise exchange rate volatility and the cost of short and long-term debt.
- Application of appropriate hurdle rates of return to projects and capital development programmes.
- Complying with FARMPRIDE® and the Work Safe programme: “Landcorp - A Safe Place to Farm”.
- Implementing management strategies to reduce potential disease problems and biosecurity risks.
- Appointing Directors of subsidiary companies in accordance with the requirements of **Appendix 1, Section E**.

Returns enhanced through:

- Rigorous cost control and by driving efficiencies in operations.
- Stabilisation of rural land values.
- Careful capital allocation given predetermined hurdle rates.
- Expansion of joint venture relationships, eg Wairakei Pastoral Limited and Shanghai Pengxin Group.
- Implementation of 3 year Business Plan.

6. Financial

6.1 Capital Structure

The issued share capital of Landcorp Farming Ltd as at 30th June 2012 is 125 million ordinary shares at $1.00 each ($125 million) and 117,755,000 redeemable preference shares at $1.00 each, giving a total share capital of $242,755,000.

Under the Protected Land Agreement ("PLA"), the shareholder has purchased redeemable preference shares in Landcorp up to the agreed market value of land that has been protected from sale. This share capital has been provided by a combination of one-off capital injection ($52.2 million) with the balance ($52.347 million) being achieved by 31st October 2010 through dividend diversions.

Landcorp's target debt level is set by direct reference to ensuring Landcorp meets its banking covenants. In setting the target debt level, it is necessary to factor in a "buffer" to provide Landcorp with sufficient surplus borrowing capacity to enable it to "ride out" reasonably foreseeable adverse scenarios[1].

Dividends are paid subject to ensuring compliance with banking covenants and other fiduciary requirements.

The Business Plan balances operating, capital, dividend cash flows producing closing interest bearing debt of:

-	30th June 2014	$207.5M
-	30th June 2015	$233.4M
	30th June 2016	$252.1M

[1]Landcorp targets a capital structure and debt level based on an interest cover ratio of 3:1 with an expected range between 2.75:1 and 3.25:1. This was agreed as part of the Protected Land Agreement.

The target capital structure of subsidiary companies is as follows:

- Landcorp Estates	25% debt	75% equity
- Landcorp Holdings	15% debt	85% equity

The estimated Landcorp Group capital structure at 30th June 2013 and for the next three years is as follows:

Landcorp Group Capital Structure

	Forecast 2012/13 ($m)	Budget 2013/14 ($m)	Budget 2014/15 ($m)	Budget 2015/16 ($m)
Total assets	1,750	1,777	1,870	1,968
Liabilities	268	226	252	271
Equity	1,483	1,552	1,618	1,697
Interest bearing debt to debt plus equity	14.5%	11.8%	12.6%	12.9%
Equity to total assets	84.7%	87.3%	86.5%	86.2%

If Landcorp is unable to fund a significant commercially-viable investment from its own cashflows or from debt markets, then it will seek an equity injection from its shareholder based upon the commercial merits of the proposal.

6.2 Commercial Value of the Crown's Investment

The Board's estimate of the current commercial value of the Crown's investment in the Landcorp Group as at 30th June 2013 is $1.45 billion. This is based on the estimated market value of Landcorp assets and liabilities as assessed each year. This includes external valuation of land and buildings, forests, and market prices for livestock, shares and financial instruments. The value of liabilities (excluding the redeemable preference shares issued to the Crown) is deducted from the value of the assets to determine the commercial value. This approach is considered by the Board to fairly reflect the commercial value of the Crown's investment.

The commercial value of Landcorp is unchanged from $1.45 billion at 30th June 2012. The key reason is that rural land values are unchanged over the year.

In addition, at the request of the shareholder, the Board commissioned a value analysis of the Company based on a Discounted Cash Flow (DCF) methodology as at 30th June 2009. This approach assesses the potential value of Landcorp's future cash flows over a 10 year time frame using a discount rate of 8% and simulated over a range of possible scenarios using "Monte Carlo" analysis.

As was the case in June 2012, an independent review of the June 2009 DCF valuation has found no evidence to suggest that a 30th June 2013 DCF valuation of Landcorp would be materially different from the valuation conclusion for 30th June 2009.

The implied equity value of Landcorp using this approach is estimated to be between $0.33 billion and $1.80 billion within an 80% confidence interval and an average of $0.98 billion. The distribution of values and the assumptions on which these values are based are outlined in **Appendix 3**.

The Board notes that it is normal to observe material shortfalls in calculated DCF values relative to market prices, with respect to rural land. This shortfall reflects the combination of non-pecuniary and pecuniary benefits of owning rural land that cannot be captured by a DCF approach. This conclusion was supported by an independent review of Landcorp's commercial value in 2011/12 by PricewaterhouseCoopers. Given these limitations, the Board considers the market value of Landcorp to most appropriately represent the commercial value of the Company.

6.3 Dividend Policy

Landcorp's dividend policy is to pay up to 75% of Net Operating Profit after tax. In addition, the Company will pay 100% of profits realised by Landcorp Estates from land development for highest value urban use.

The Board will consider the payment of extraordinary dividends where surpluses arise from non-core activities or from one-off profit realisation.

The payment of dividends is subject to the Board first meeting all fiduciary and commercial responsibilities. Consideration of fiduciary responsibilities includes ensuring Landcorp meets all relevant legal obligations and satisfies its obligations to lenders, including compliance with banking covenants.

In determining dividends payable to its shareholders, Landcorp will follow the procedure laid down in its Constitution and the Companies Act 1993.

As a farming company, most of Landcorp's revenue flows are in the second half of each year. This means that in the absence of extraordinary circumstances, farming operations are not in a position to fund an interim dividend. This mismatch is disclosed in the Half Yearly Report.

Accordingly, dividends are normally paid in October following financial year end. Landcorp will disclose its performance against the dividend targets in its annual report. Any change in the milk payout, lamb schedule or exchange rates will have a significant impact on Landcorp's ability to pay a dividend.

6.4 Accounting Policies

Landcorp's financial statements are prepared in accordance with the Financial Reporting Act 1993 and generally accepted accounting practice, using a fair value basis, except for a historical cost basis for certain assets and liabilities.

The policies are also consistent with the legal requirements of the Companies Act and any other relevant legislation; and generally accepted accounting principles.

Landcorp’s detailed accounting policies are attached as **Appendix 4**.

Landcorp adopted New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) from 1 July 2007.

NZ IFRS impacts significantly on Landcorp’s reported income through the requirement to include material unrealised gains and losses within reported profits. This substantially increases the volatility of reported income. In addition, Landcorp’s forecast profits are significantly different to actual results, depending on changes in the fair value of livestock, investments and income tax as calculated under NZ IFRS. These value changes are not realisable on a going concern basis.

6.5 Compensation from the Crown

As provided in section 7 of the SOE Act 1986, where the Crown wishes Landcorp to undertake activities or assume obligations which will have a negative effect on Landcorp's profit or net worth, or are of a non-commercial nature, Landcorp will seek compensation to ensure its commercial position is maintained. This includes compensation for retaining properties normally intended for sale but which might be required by the Crown to fulfil Treaty of Waitangi obligations. In particular Landcorp Estates Ltd would seek redress for the full marketable value of any completed development unable to be sold due to such requirements.

7. Reporting and Disclosure

7.1 To enable the shareholding Ministers to make an informed assessment of the governance, performance and value of Landcorp, meaningful and timely disclosure of relevant information is presented to them (see Principle 4, Section C, **Appendix 1**). Annual and half-yearly reports are submitted in accordance with the SOE Act 1986 and tabled in Parliament. Quarterly financial reports and commentary are also provided within one month after the end of each quarter.

7.2 Half-yearly reports include unaudited statements of financial performance, movements in equity, financial position and cash flows, and such details as are necessary to permit an informed assessment of Landcorp's performance during that reported period.

7.3 Regular meetings with officials and one-off meetings with shareholding Ministers on an as-needed basis.

7.4 Shareholding Ministers will also be consulted on any single or connected series of transactions that fall within the terms specified in Section F, **Appendix 1.**

8. Continuous Disclosure

8.1 From 1 January 2010 Landcorp, along with other larger SOEs, became subject to "SOE Continuous Disclosure Rules". Under these rules once Landcorp becomes aware of any "Material Information" concerning it, then Landcorp shall immediately release that information to the public through its own and the Crown Ownership Monitoring Unit's website after ensuring that shareholding Ministers are aware of that information.

8.2 Material Information requiring disclosure includes matters that may have a material effect on the Current Commercial Value of Landcorp, dividend declarations or a transaction representing 5% or more of Landcorp'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.

8.3 The requirements of those disclosure rules are in addition to the requirements for consultation with shareholding Ministers set out in **Appendix 1**, Section F.

Appendix 1

GOVERNANCE

A. Board Charter

The Charter adopted by the Board on 30 January 2012 sets out the authority, responsibilities, membership and operation of the Board of Directors in the governance of Landcorp. Specifically, it requires directors to embrace the following principles:

1. To observe high standards of ethical and moral behaviour.
2. To act in the best interests of the Shareholders.
3. To ensure that Landcorp acts as a good corporate citizen, taking into account environmental, social and economic issues.
4. To recognise the legitimate interest of all stakeholders.
5. To ensure that staff are remunerated and promoted fairly and responsibly.

The primary responsibility of the directors is to exercise their business judgement to act in what they believe to be the best interests of the Company and its Shareholders and to take appropriate steps to protect and enhance the value of the assets of the Company in the best interests of the Shareholders. They will ensure that at the heart of the organisation there is a culture of honesty, integrity, and excellent performance.

B. Code of Practice

In addition to the Board Charter, the Code of Practice for Directors issued by the Institute of Directors in New Zealand (Inc) provides guidance to Directors to assist them in carrying out their duties and responsibilities in accordance with the highest professional standards. The values which guide behaviour and performance are integrity, enterprise, fairness, transparency, accountability and efficiency. The principles applied also include those set out below in Section C issued by the New Zealand Securities Commission (now the Financial Markets Authority).

C. Principles for Corporate Governance issued by the New Zealand Securities Commission

1. Directors should observe and foster high ethical standards.

2. There should be a balance of independence, skills, knowledge, experience, and perspectives among directors so that the Board works effectively.

3. The Board should use committees where this would enhance its effectiveness in key areas while retaining Board responsibility.

4. The Board should demand integrity both in financial reporting and in the timeliness and balance of disclosures on entity affairs.

5. The remuneration of directors and executives should be transparent, fair and reasonable.

6. The Board should regularly verify that the entity has appropriate processes that identify and manage potential and relevant risks.

7. The Board should ensure the quality and independence of the external audit process.

8. The Board should foster constructive relationships with shareholders that encourage them to engage with the entity.

9. The Board should respect the interests of stakeholders within the context of the entity's ownership type and its fundamental purpose.

D. Professional Development

Professional development of Landcorp's Directors is encouraged through education and training. During their three year term, each director is entitled to an allowance of up to $3,000 for such purposes.

E. Subsidiaries

The terms "Share", "Shareholding Ministers" and "Subsidiary" have the same meanings as in section 2 of the SOE Act 1986.

Landcorp shall ensure at all times that:

- Control of the affairs of every subsidiary of Landcorp is exercised by a majority of the directors appointed by Landcorp; and that
- A majority of the directors of every subsidiary of Landcorp are persons who are also directors or employees of Landcorp, or who have been approved by Landcorp's Board for appointment as directors of the subsidiary.

F. Consultation

Landcorp will in relation to any single or connected series of transactions, consult with shareholding Ministers on items outside normal operations and having a material impact on the Landcorp's financial position not contemplated in the Business Plan including:

(a) any substantial capital investment in activities within the scope of its core business;

(b) any substantial expansion of activities outside the scope of its core business into new business areas;

(c) subscriptions for, sale of, shares in any company or equity interests in any other organisation which are material, involve a significant overseas equity investment, or are outside Landcorp's scope of business;

(d) the sale or other disposal of the whole or any substantial part of the business or undertaking of Landcorp; and

(e) where Landcorp holds 20 per cent or more of the shares in any company or other body corporate (not being a subsidiary of Landcorp), the sale or disposal of any shares in that company.

In reference to (a), (d) and (e) above, Landcorp will consult on investment or divestment decisions with a gross value of $15 million or more and for (b) and (c) Landcorp will consult on transactions of $5 million or more.

Landcorp will also consult on specific items included in the Business Plan as agreed between Landcorp and shareholding Ministers from time to time.

Appendix 2

CORPORATE SCORECARD 2013 - 16

Vision "To be the world's most effective pastoral livestock farmer."

Mission - "To be New Zealand's best livestock farmer: environmentally, socially and economically."

Our values: Act honestly and with integrity, be environmentally responsible, be a fair employer, champion success and excellence.

	Objectives	Measures	Note	2012/13 Target	2012/13 Forecast	2013/14 Budget	2014/15 Budget	2015/16 Budget
Economically	Production(8)	Total dairy Kgs product sold		13,565,192	13,091,131	17,524,007	18,850,897	21,688,224
		Core Landcorp dairy Kgs product sold	8	13,086,785	12,626,896	13,392,285	14,546,522	14,836,288
		Livestock (Total Liveweight) Kg/ha	1	284.2	281.0	282.7	292.3	301.8
		Total Dairy KG MS/ha		937	902	840	875	911
		Core Dairy Kg MS/ha	8,9	898	892	943	1024	1084
		Other Revenue $	2	1,770	7,621	5,137	4,989	5,755
	Productivity(8)	COP - Livestock - Nominal		2.15	2.17	2.20	2.10	2.05
		COP - Total Dairy - Nominal		5.64	6.00	5.43	5.37	5.16
		COP - Core Dairy - Nominal	8,9,10	5.51	5.44	5.19	4.96	4.84
	Optimal carcass weights	Average lamb prime carcass weight (Kg)		17.6	17.5	17.7	17.6	17.9
		Average venison prime carcass weight (Kg)		53.5	53.2	52.4	52.9	52.9
		Average prime bullock carcass weight (Kg)		306.1	305.4	304.6	307.6	311.2
	Quality assured	Average FARMPRIDE* rating		8	8	8	8	8
	Use Landcorp's scale to maximise returns	Marketing premiums - Lamb		5.0%	5.0%	5.5%	6.0%	6.5%
		Marketing premiums - Venison		2.0%	2.0%	3.0%	4.0%	4.5%
		Marketing premiums - Beef		5.0%	5.0%	5.0%	5.5%	5.8%
		Marketing premiums - Wool		5.0%	5.0%	5.5%	5.5%	5.7%
		Marketing premiums - Milk		1.0%	1.0%	1.0%	1.0%	1.0%
		Prime Lamb - Delivery In Full On Time (days around mean)	3	0	0	-8 to +8	-7 to +7	-6 to +6
		Prime Beef - Delivery In Full On Time (days around mean)	3	0	0	-11 to +11	-10 to +10	-9 to +9
	Area Farmed (Incl. owned, leased and managed)	Owned / leased effective area farmed (hectares)	4	173,539	173,508	175,261	175,104	175,811
		Opening stock units per managed effective hectare	8	8.6	8.6	9.0	9.2	9.5
	Improve pasture production and utilisation on a sustainable basis	Pasture productivity tools	5	80%	80%	80%	90%	100%
	Increase MS and meat production per eff ha	BMSCC		200,000	192,000	180,000	170,000	150,000
		Milk production - MS/cow	8	360	340	370	380	400
		MS as % of B.Wgt		78%	74%	80%	83%	85%
		Livestock meat cc/wgt production (kg) per ha		133	138	132	135	143
	Increase MS & CC weight production(8)	Annual change in MS production (tonnes) %	4,6	-2.8%	-3.6%	6.1%	8.7%	2.1%
		Annual change in Sheep meat production (tonnes) %	6	0.3%	0.6%	-1.2%	6.1%	5.2%
		Annual change in Beef meat production (tonnes) %	6	1.1%	-4.3%	-5.9%	-2.7%	5.6%
		Annual change in Venison production (tonnes) %	6	0.2%	6.1%	-6.4%	6.8%	2.1%
	Labour utilisation(8)	Dairy - FTE/milking cow		170	170	175	185	190
		Livestock - opening stock units per FTE		2,482	2,482	2,935	2,728	2,620
	Improve reproductive efficiency(8)	Lambing percentage	7	140.2%	140.2%	140.8%	143.9%	145.1%
		Calving percentage (beef)		90.4%	90.4%	90.9%	91.6%	91.7%
		Fawning percentage		88.2%	88.2%	89.5%	90.5%	91.0%
		Dairy cow Empty %		12.0%	10.0%	10.0%	9.0%	8.5%
Environ-mentally	Environmentally sound business practice	Land and Environment Management Plans on farms		20%	20%	30%	40%	50%
Socially	Safe and healthy workplace	Minimum Work Safe compliance rating %		80%	80%	80%	80%	80%
		Lost workdays due to accidents		<0.325%	<0.325%	<0.30%	<0.275%	<0.25%
	Appropriate labour resource through recruitment and training	Employee turnover rate		<23%	<23%	<23%	<23%	<23%
		Training days per employee		4.0	4.0	4.0	4.0	4.0
		Training investment as a percentage of total expenses		0.6%	0.4%	0.4%	0.4%	0.4%
	Research and development (R&D)	R&D as a percentage of total revenue		0.4%	0.4%	0.4%	0.4%	0.4%

Notes to the Corporate Scorecard

1 Meat / Wool
2 Rentals / Access Rights / Carbon / Nitrogen / Afforestation Grants / Dividends / Sundry
3 Actual v's October Review
4 Excludes planned farm purchases and land under management contracts
5 % of farms that have DPR and feed budgeting tools
6 For external sale
7 Number of lambs tailed / Net potential dams X 100. Net potential dams = breeding ewes available prior to lambing commencement excluding dry's
8 Excludes farms under management (e.g SPG farms), new WPL farm developments and Wharere farms
9 Excludes rent paid
10 2012/13 Forcast includes $2.2m additional expenses as result of the droughts.

BACKGROUND INFORMATION – DCF VALUATION OF LANDCORP

Landcorp commissioned a Discounted Cash Flow ("DCF") valuation of the Company as at 30th June 2009. This valuation was completed by Ernst and Young Transaction Advisory Services Ltd (EYTAS). EYTAS have assessed whether they have any cause to believe that a valuation range this year would be materially different to the valuation range last year. EYTAS have found no evidence to suggest that a 30th June 2013 DCF valuation of Landcorp would be materially different from the valuation conclusion for 30th June 2009.

EYTAS note that for Landcorp, a DCF valuation will not necessarily capture all sources of potential future value even under an assumption of indefinite Crown ownership.

Among other things, a conventional DCF analysis will not assign any value to any "real options" attaching to rural land, such as the ability to switch use in response to changes in relative returns to alternative forms of land use or zoning restrictions. A DCF analysis may also fail to adequately account for a rural land owner's ability to vary output levels and cost structures in response to changing price signals. Further, uncertainty surrounding future NZ dollar commodity returns is such that it will in general be possible to support a wide range of outcomes using a DCF methodology.

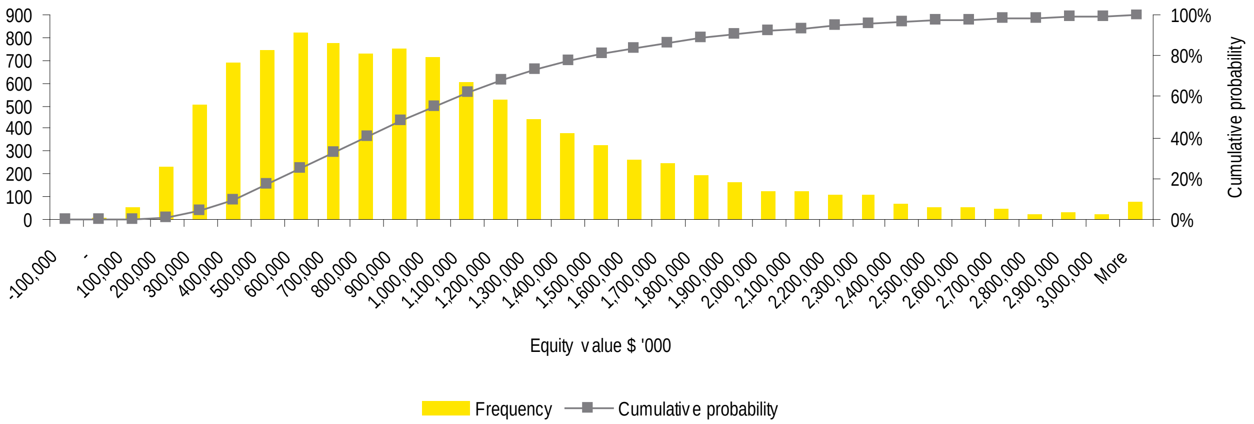
- The DCF valuation was calculated as at 30th June 2009.
- The DCF valuation was based on the Landcorp Group excluding Landcorp Holdings Limited. Landcorp Holdings was excluded as the net gain or loss for Landcorp Holdings reverts to the shareholder under the Protected Land Agreement.
- The DCF methodology was used to construct a range of Net Present Values using Monte Carlo analysis.
- A discount rate of 8% was assumed.

- The DCF was based on a 10-year financial model of Landcorp's Business units (excluding Landcorp Holdings). The 10 year financial model forecast future cash flows based on Landcorp's five year business plan, with forward projections for years five to 10.
- The terminal value is calculated under the assumption that Landcorp's assets are retained in perpetuity, and is based on the forecast cashflows in year 10 and a terminal growth rate of between 2.5% and 3.5%.
- Other material factors are:

    - Constant land holdings.
    - 1.5% pa productivity improvement for livestock for years 6 to 10.
    - 2.5% productivity improvement for dairy for years 6 to 10.
    - Product price and cost growth in line with general inflation (ie constant margin).
    - Capital expenditure marginally above depreciation.

EYTAS advise that the fair market value of Landcorp is likely to be materially different to the DCF valuation due to the limitations as outlined above of applying the DCF methodology in respect of valuing rural farm land.

<u>Histogram – DCF valuation (equity value) - Landcorp</u>



Summary of Significant Accounting Policies

Basis of preparation

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.

The reporting currency used in the preparation of these financial statements is New Zealand dollars (NZ$) rounded to the nearest thousand.

These consolidated financial statements have been prepared on the basis of NZ IFRSs on issue that are effective at 30 June 2011. Landcorp has chosen to adopt NZ IFRS-8 *Operating Segments* and early adopt the revised NZ IAS-24 *Related Party Disclosures*, to improve the disclosures in the notes to the financial statements.

The standards below have been issued by the Accounting Standards Review Board (ASRB) but have not been adopted by Landcorp as they are not effective for the financial year ending 30 June 2011. Except for NZ IFRS-9 *Financial Instruments: Classification and Measurement*, initial application of the following Standards and Interpretations is not expected to have any material impact on the financial results of the Parent and Group.

The adoption of NZ IFRS-9 will result in the reclassification of Landcorp's financial instruments. Landcorp's share portfolio will change from the current available-for-sale classification to either fair-value-through-profit-or-loss, or fair-value-through-other-comprehensive-income. Depending on the election made, revaluations of these shares and associated gains and losses on disposal will be classified as either part of net profit or other comprehensive income. NZ IFRS-9 is the first stage of a three stage revision of NZ IAS-39 *Financial Instruments: Recognition and Measurement*. Other effects on Landcorp's financial statements are unknown until the later stages of the revision are known.

All other standards not yet effective either do not apply to Landcorp's operations or will have no effect on Landcorp's reported financial results.

Standard	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
NZ IFRS-9 '*Financial Instruments: Classification and Measurement*'	1 January 2013	30 June 2014

The accounting policies set out below have been applied consistently throughout the Group to all periods presented in these consolidated financial statements.

Basis of consolidation

Subsidiaries are companies controlled by Landcorp and are included in the consolidated financial statements using the purchase method of consolidation. In the Parent, subsidiaries are valued at cost and are subject to an impairment test at each reporting date.

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 Landcorp's interest in the entity.

Interests in joint ventures

Joint ventures comprise jointly-controlled entities and jointly-controlled operations. Jointly controlled entities are companies that Landcorp shares joint-control over and are included in the financial statements using the equity method. When the Group's share of losses exceeds the Group's investment a liability is only recognised to the degree that the Group has incurred a constructive or legal obligation.

Landcorp's assets and liabilities used in jointly controlled operations, including sharemilking, are accounted for in the same manner as assets and liabilities used in Landcorp's other farming operations. Landcorp does not account for any assets owned by the joint venture partners. Landcorp recognises its share of revenue (and any expense) under the same revenue recognition policies used in other farming operations.

Accounting for goods and services tax (GST)

All items in the Statement of Financial Position are stated exclusive of GST, with the exception of receivables and payables, which include GST. All items in the Statement of Comprehensive Income and Statement of Cash Flows are stated exclusive of GST.

Revenue recognition

Revenue is the inflow of economic benefits to Landcorp in the course of Landcorp's ordinary activities, other than increases due to contributions from shareholders. Inflows of economic benefits arising from other activities are included in the Statement of Comprehensive Income, separate from revenue.

The ordinary activities of the Group comprise pastoral farming, land development activities, and provision of farm management services. The Parent's ordinary activities comprise pastoral farming and provision of farm management services.

Changes in the general price level of biological assets and share investments are considered incidental to the activity of pastoral farming, as is any profit resulting from the sale of land and standing forests. These are not classified as revenue and are recorded separately in the Statement of Comprehensive Income.

Significant revenue policies are:

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

(b) Profit on asset sales is recognised at the point of formal unconditional contract for sale and when the significant risks and rewards of ownership have been transferred.

(c) 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.

(d) Revenue from services is recognised as services are provided.

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

(f) Dividend revenue from investments is recognised when the shareholder's right to receive payment has been established.

Interest Revenue

Interest revenue is accrued on a time basis, by reference to the principal outstanding and at the applicable effective interest rate.

Operating leases

Operating lease rentals are recognised evenly over the expected period of benefit to the Group, which is over the term of the lease.

Borrowing costs

Borrowing costs that are directly attributable to the acquisition of an asset that takes a substantial time to construct are capitalised as part of the cost of that asset. Other borrowing costs are recognised in the Statement of Comprehensive Income when they are incurred.

Accounting for taxation

Income tax expense/income 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 expected tax payable on the taxable income of 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 liability 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 only to the extent that 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.

Receivables

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

Inventory

All inventory items are stated at lower of cost or net realisable value at balance date. The cost of agricultural produce transferred into inventory is measured at its fair value less estimated point-of-sale costs at date of harvest. The net realisable value represents the estimated selling price of inventories less all estimated costs of completion and costs necessary to make the sale.

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 cost to sell.

Biological assets

(a) Livestock

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. Changes in value due to livestock price movements are beyond Landcorp's control and do not form part of Landcorp's livestock management policies, so are recognised in the Statement of Comprehensive Income as gain/loss due to price changes on livestock. Value changes that form part of Landcorp's livestock management policies, including animal growth and changes in livestock numbers, are recognised in the Statement of Comprehensive Income within revenue.

(b) Forests

Forests are recorded at fair value less estimated point-of-sale costs, based on estimated cashflows and using a market discount rate.

Changes in the value of forests are recognised in the Statement of Comprehensive Income. Changes in value due to movements in forestry prices are beyond Landcorp's control and do not form part of Landcorp's forest management practices. These changes in value due to price movements are recognised as gain/loss due to price changes on forests.

Value changes that form part of Landcorp's forest management policies, including forest growth, are recognised in the Statement of Comprehensive Income within profit before property sales and revaluations.

Standing forests are only sold as part of a land sale and do not form part of Landcorp's forest management practices. Profits arising from the sale of standing forests are recognised in the Statement of Comprehensive Income as profit on sale of forests, after net profit before property sales and revaluations.

Other financial assets

(a) Investments in subsidiaries
Investments in subsidiaries are recorded at cost and reviewed for impairment at each reporting date.

(b) Loans to subsidiaries
Loans to subsidiaries are recorded at amortised cost, using the effective interest method, and reviewed for impairment at each reporting date.

(c) Other loans and receivables
Other loans and receivables are recorded at amortised cost, using the effective interest method, and reviewed for impairment at each reporting date.

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

Held-for-trading instruments are recognised in the Statement of Financial Position 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.

(e) Available-for-sale investments

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

Available-for-sale investments are valued at fair value.

Other changes in value are reported directly in equity. On sale the revaluation component is recognised in the Statement of Comprehensive Income.

(f) Impairment of Financial Assets

Where objective evidence of impairment exists, the investment is written down to the present value of expected cash flows, with the reduction in value being reported 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.

Intangible assets

(a) Research and development

Research costs are expensed as incurred. An internally generated intangible asset arising from development costs is recognised when it is probable that the asset will be completed and will generate future economic benefits.

(b) Carbon credits

Allocations of New Zealand Units (NZU) and/or other carbon credits are initially recognised at fair value where Landcorp is reasonably certain that they will be received and there is a market determined price. Other changes in the quantity of carbon credits are recognised as an operating gain or loss based on fair value at time of transaction.

Carbon credits are valued at fair value in the Statement of Financial Position as an intangible asset, with changes in value being recorded as revaluation gain/loss on carbon in the Statement of Comprehensive Income.

(c) Other intangible assets

Other intangible assets that are acquired by the Group are recorded at cost, less accumulated amortisation and impairment losses.

(d) Amortisation

Intangible assets are amortised on a straight line basis over the expected useful life of the asset. The estimated useful lives for intangible assets are:

Computer software	5 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 and 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.

Property, plant and equipment

(a) Recognition and measurement

The initial cost of property, plant and equipment is the initial purchase price plus directly attributable costs of bringing the item to working condition for its intended use.

(b) Subsequent measurement

Freehold land and improvements (including buildings) are valued annually on 30 June at fair value by independent registered valuers. Any accumulated depreciation on an asset at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset. 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 net negative amount of the revaluation is reported within net profit in the Statement of Comprehensive Income.

Protected land (including buildings on protected land) is valued at fair value at the time it is classified as protected land. Under the protected land agreement, this value is considered to be the ongoing fair value of the land to Landcorp. Buildings are stated at this value less accumulated depreciation.

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

(c) Depreciation

Depreciation is calculated on a straight line basis on all items of property, plant and equipment, except for land, to allocate the cost or revalued amount of an asset less any residual value, over its useful life. The estimated useful lives of property, plant and equipment are as follows:

Buildings on freehold land	30 - 60 years
Buildings on leased land	30 - 60 years
Plant	3 -10 years
Motor vehicles	4 -10 years
Furniture and equipment	7 years
Computer equipment	3 years

(d) 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.

(e) Disposal

When an item of property, plant and equipment is disposed, the difference between the net disposal proceeds received and the carrying amount of the item is recognised in the Statement of Comprehensive Income. Any gain or loss on disposal of land is recognised as profit or loss on sale of land. 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. For items that have been revalued, the revaluation reserve attributable to that item is transferred from the asset revaluation reserve to other equity.

Employee entitlements

Employee benefits include salaries, wages, annual leave, accrued sick leave and long service leave. A provision for employee entitlements is recognised for benefits attributable to employees. The provision is the estimated net present value of benefits expected to be paid.

Financial liabilities

(a) Initial recognition

Financial liabilities, including financial guarantees and accounts payable, are recognised at fair value on initial recognition.

(b) Subsequent recognition

After initial recognition, bank loans, other loans and accounts payable are recognised at amortised cost using the effective interest method.

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

Statement of cash flows

Cash includes cash at bank, including bank overdrafts, and cash on hand.

Operating activities include all transactions and other events from Landcorp’s principal revenue activities including interest costs and other cash flows not investing or financing activities.

Investing activities are those activities relating to the acquisition and disposal of current and non-current investments, purchases of livestock and any other non-current assets.

Financing activities are those activities relating to changes in the equity and debt capital structure of the Group and those activities relating to the cost of servicing the Group's equity capital.

Cash flows are presented net where the receipts and payments are for items with short maturity and quick turnover, such as drawdowns and repayments of bank funding.

Provision for dividends

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

This Appendix sets out financial performance measures based on standardised reporting and definitions requested by the Shareholder for all SOEs.

	Forecast 2012/13	Budget 2013/14	Budget 2014/15	Budget 2015/16
Shareholder Returns				
Total Shareholder Return [1]	1.4%	4.8%	4.9%	5.6%
Dividend Yield (Ordinary) [2]	1.4%	0.1%	0.1%	0.7%
Dividend Yield (Ordinary + Special) [2]	1.4%	0.1%	0.4%	1.0%
Dividend Payout (Ordinary) [2]	(181.4%)	20.1%	41.9%	40.1%
Dividend Payout (Ordinary + Special) [2]	(181.4%)	20.1%	146.6%	58.4%
Return on Equity	4.8%	4.6%	4.6%	5.7%
Return on Equity adjusted for IFRS fair value movements and asset revaluations	0.7%	1.7%	5.0%	8.1%
Profitability/Efficiency				
Return on capital employed	2.9%	4.1%	7.0%	9.8%
Operating Margin	14.6%	16.2%	20.5%	23.8%
Leverage/Solvency				
Gearing Ratio (net)	14.5%	11.8%	12.6%	12.9%
Interest Cover (Times) (EBITDA / Interest)	2.56	2.72	3.36	3.50
Solvency	1.15	1.09	1.08	1.07

[1] Under this approach, Shareholder return is calculated by using the movement in commercial value (as estimated in the SCI) plus dividends.
Landcorp's approach is to use actual audited change in Shareholders equity (Total Comprehensive Income) divided by average Shareholder Equity.
Landcorp considers Total Comprehensive Income to more accurately reflect the actual return to the Shareholder.

[2] Under this approach, Dividend Yield and Dividend Payout is calculated by using actual dividends paid within the financial year.
Landcorp pays dividends in October, from profit generated in the previous financial year.
Therefore the Landcorp method more accurately reflects the dividend to the appropriate financial year.

Description of calculation of Financial Performance Measures for SOE Portfolio

Shareholder Returns

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$_{beg}$.
Dividend yield	The cash return to the shareholder.	Dividends paid/Average commercial value.
Dividend payout	Proportion of SOE's net operating cash flows 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 and 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	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.
Operating margin	The profitability of the company per dollar of revenue.	EBITDAF/Revenue.

Leverage/Solvency

Measure	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.
Interest cover	The number of times that earnings can cover interest.	EBITDAF/Interest paid.
Solvency	Ability of the company to pay its debts as they fall due.	Current assets/Current liabilities.

Definitions of Key Terms Used in Calculations of Performance Measures for SOE Portfolios

Term	Definition
Capital employed	Interest-bearing debt plus share capital plus retained earnings.
Capital expenditure	Payments for the purchase of property, plant and equipment items taken from the cash flow statement.
Commercial value	This is the Board's estimate of the current commercial value of the Crown's investment in the Group as per the company's Statement of Corporate Intent.
Depreciation expense	Depreciation expense per the profit and loss account.
Dividends paid	Dividends paid to the shareholder during the financial year per the cash flow statement.
EBIT	Earnings before interest and taxation.
EBITDA	Earnings before interest and taxation, depreciation and amortisation
EBITDAF	Earnings before interest and taxation, depreciation and amortisation and fair value adjustments.
Equity	Total shareholders' equity taken from the balance sheet.
Fair value adjustments	Includes unrealised fair value gains/losses on derivatives or all fair value gains/losses on derivatives where the entity does not separately identify unrealised items. Also includes changes in the fair value of biological assets and investment properties.
Interest paid	Interest paid for the financial year on interest-bearing debt per the company's cash flow statement.
Net cash flow from operating activities	Taken directly from the cash flow statement – this is cash flows from operating activities less cash flows to operating activities. Ensure that interest paid is included in operating activities.
Net debt	Interest-bearing debt such as loans, bonds and commercial paper plus interest-bearing finance leases less cash.
Retained earnings	Profits retained in the business (i.e. after dividends to the shareholder).
Revaluation reserve	When an asset is revalued to fair market value for accounting purposes the increase in the value of the asset is reflected in a revaluation reserve within equity.
Revenue	Revenue from the operations of the business. Interest revenue should be excluded.
Share capital	The amount of capital originally invested by the shareholder and any subsequent equity injections.
Tax on fair value adjustments	This is the tax effect relating to the changes in the fair values.