

PĀMU STATEMENT OF CORPORATE INTENT

FOR THE PERIOD
FY23 – FY25



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ABOUT US



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

Pāmu is the brand name for Landcorp and is used throughout this Statement of Corporate Intent.

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

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

NATURE AND SCOPE OF ACTIVITIES

Pāmu manages a nationwide portfolio of 110 farms producing milk, beef, sheep meat, wool, venison, deer velvet, carbon credits and timber, and speciality crops. In recent years, Pāmu has also started marketing premium products under a business-to-business framework to lift farmgate returns. Pāmu strives to be a leader in New Zealand agriculture, standing for best practice in sustainable and safe farming, making the best use of land under its management and carefully creating natural products of high quality.

The Pāmu Group comprises Landcorp Farming Limited and its subsidiaries: Landcorp Estates Limited, Landcorp Holdings Limited, Landcorp Pastoral Limited and Focus Genetics LP (the Group). Pāmu also has four strategic joint ventures. Pāmu's Group structure and key strategic interests are set out in Appendix 1.



PĀMU'S OPERATING CONTEXT

The 2023 business plan has been prepared in the context of heightened global uncertainty due to the Russian invasion of Ukraine and the ongoing health and economic effects of the COVID-19 pandemic, including rising inflation and interest rates. While these macro factors have both positive impacts (higher commodity prices) and negative impacts (higher input costs) on Pāmu, the elevated economic uncertainty requires prudence and agility in the investments we make.

Pāmu's strategic direction remains consistent: improving the core profitability of our farming business while diversifying sources of income through highest and best land use and bringing ventures to generate higher margin products to their full fruition. This strengthens Pāmu's balance sheet, reduces our exposure to commodity prices, provides access to expertise and capital and helps our farms keep pace with ever-expanding health and safety, environmental, food safety and animal welfare regulations and public expectations.

Our purpose is to enrich our land, our people and the future of farming. We are living in the 'era of the public' requiring growth through having a positive impact that contributes to a better society and planet. Investing in on-farm practice change and innovation to maintain our social licence is of high importance to our future. We will also increase the protection of Pāmu's intangible assets and the value derived from these.

Pāmu's strategy is consistent with FY22 (see page 7). It addresses the shareholder's expectations for the business and the broader trends impacting the food and fibre sectors we operate in.

The potential for disruption to Pāmu's animal protein businesses, climate change risks, biosecurity incursions and virulent disease outbreaks and shifting consumer preferences place strain on the longer-term outlook for Pāmu's core pastoral farming, commodity meat and milk business. Consumer and regulatory changes require significant farm systems innovation, land-use diversification and a lower environmental footprint for Pāmu's products. While we must manage our debt levels sensibly, we must also find capacity to continue investing in the strategy, which will positively ripple through our regional communities and assist other farmers to achieve sustainable production systems.

Pāmu continues to embed operational excellence across our farms and in the way we work, including investment in technology platforms (rural broadband connectivity, new IT hardware and farmer-specific software applications such as FarmIQ). This positions us well to meet new regulations such as for climate change and freshwater and to apply digital tools to lift productivity across the total business.

The hastening transition towards a low-carbon circular bioeconomy and associated higher carbon prices has sharpened our focus on best land use and on how to best adapt to a warmer climate with more extreme events. Rising demand for speciality dairy segments and forest and plant products provide a positive outlook for Pāmu's diversification. This includes more climate-resilient, lower-footprint (natural capital regenerative) farming systems. Similarly, advances in data capture and analytics are enhancing Pāmu's ability to manage risk and lift productivity.

PĀMU'S BUSINESS IS ENTERING AN EXCITING PERIOD. MANY OF OUR INVESTMENTS UNDER THIS STRATEGY ARE NOW STARTING TO MATERIALISE INTO SIGNIFICANT VALUE FOR THE BUSINESS, AND WE ARE CONFIDENT THIS WILL BE REFLECTED ACROSS IMPROVEMENTS IN ALL OF PĀMU'S SIX CAPITALS OVER THE NEXT 3 YEARS OF THIS PLAN.

PURPOSE AND STRATEGY



PĀMU'S PURPOSE:

TO ENRICH OUR LAND, OUR PEOPLE AND THE FUTURE OF FARMING

This section of the Statement of Corporate Intent provides:

- an overview of Pāmu's strategy
- a summary of Pāmu's key initiatives
- Pāmu's performance targets (financial and detailed performance objectives).

Please note that Pāmu's targets and initiatives should be read with caution given the background of domestic and international uncertainty as set out in more detail in the operating context section of this Statement of Corporate Intent. Pāmu will continue to closely monitor implications for the business and adjust its strategy and operational performance accordingly.

OUR AMBITION FOR 2030

OUR CAPITALS



PEOPLE

One of New Zealand's top employers supporting what New Zealanders love and need



FINANCE

\$100-\$110m per annum of net operating profit (NOP)



FARMS AND ANIMALS

A uniquely diversified food and fibre company, produced with uncompromising care



EXPERTISE

Recognised as an innovation partner attracting leading science and technology from New Zealand and abroad



NATURAL ASSETS

A global leader in sustainable land use and systems, delivering on our Pāmu promise integrated with te ao Māori principles



RELATIONSHIPS

A sought-after partner in New Zealand and abroad

2025 MILESTONES

GROW OUR PEOPLE

To deliver an eNPS ≥20

GROW SPECIALITY DAIRY AS A CATEGORY

Speciality dairy business delivers 5% of NOP business

SUSTAINABLY IMPROVE EFFICIENCY

A sustainable >2% per annum net average profitability improvement in pastoral business

DIGITISATION

Digital ecosystem built to deliver leading farm management

GROW PLANT BUSINESS

Plant business (incl. ecosystem services) delivering \$15m NOP

GHG-REDUCING FARMING TECHNOLOGIES & PRACTICES

Reduce our carbon emissions on farm and across our operations, aligned with a scale of reduction required to keep to 1.5°C warming

ENABLERS OF GROWTH

Increase performance through leading people development

Utilise our resources, capital and intangible assets to increase Pāmu's value

Invest in digitisation and innovation to drive productivity gains and a lower footprint

Integrate te taiao concept, helping to regenerate the environment and adapt to climate change

Engage stakeholders and partners (including iwi) to support our collective purposes

AREAS OF GROWTH

Make speciality dairy a significant source of earnings

Drive excellence and innovation in all aspects of our pastoral farming business

Build a plant business (forestry, horticulture and ecosystem services) of scale through complementary land use



OUR PURPOSE

ENRICHING OUR LAND, OUR PEOPLE AND THE FUTURE OF FARMING

OUR VALUES

SHOULDER-TO-SHOULDER • GENUINE • GROUNDED • BOLD

OUR STRATEGY

KEY STRATEGIC INITIATIVES

This section outlines Pāmu's key initiatives in the three strategic areas of growth and five enablers to deliver on Pāmu's strategy. Performance targets across Pāmu's six capitals are set out in Appendix 2.

EXCELLENCE AND INNOVATION IN ALL ASPECTS OF FARMING

Ongoing rebalancing of livestock portfolio to reflect dairy beef integration, review of the scale of Pāmu's deer farming business, improved customer relationships to drive higher profitability and Pāmu's forestry strategy.

Expanding on the 'Chewing Grass, Kicking Ass' programme (getting the best out of forage/pasture in our dairy business).

Executing on dairy's 'fit for the future' strategy.

Implementing a wide range of sustainability initiatives that reduce our footprint on farm (across environment, agronomy and animal programmes).

SCALING SPECIALITY MILK BUSINESS

Continuing to grow Pāmu's organic dairy farming business to increase farmgate margin, decrease emissions and reduce nutrient loss.

Building value-added businesses for Pāmu Foods (speciality bovine and deer milk).

BUILD PLANTS BUSINESS OF SCALE

Expanding current horticulture operations, in particular executing on planned 30 ha expansion of Pāmu's existing avocado orchard and consideration of other horticulture opportunities.

Continued expansion of forestry programme (planting approximately 1,500 ha per year and planning for future years).

Developing Pāmu's strategy for restoring and monetising ecosystem services (e.g. wind, wetlands, pollination).

KEY ENABLER INITIATIVES

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

INCREASE PERFORMANCE THROUGH LEADING PEOPLE DEVELOPMENT

Initiatives to attract and retain talent in a challenging market (remuneration, benefits, leadership development, training etc.).

On health and safety, taking cultural change and performance to the next level through risk profiling of targeted farms, a focus on critical risks and improved assurance.

INVEST IN DIGITISATION AND INNOVATION TO DRIVE PRODUCTIVITY GAINS AND LOWER FOOTPRINT

Improving capture and use of farm data and information systems including enhanced capability through FarmIQ (farm management software).

Implementing the Pāmu Promise quality assurance framework.

UTILISE OUR RESOURCES AND CAPITAL RESPONSIBLY TO INCREASE RETURNS

Exploring options for the best use of Pāmu's resources and capital.

Continuous improvement in head office processes to lower costs and improve effectiveness.

HELP TO REGENERATE THE ENVIRONMENT AND ADAPT TO CLIMATE CHANGE

Implementing a targeted sustainability plan delivering outcomes that support and realise measurable value across our six capitals.

Implementing a climate change risk framework and reporting structure, and implementing targeted strategies including accreditation of science-based targets, development of an emissions reduction roadmap and Toitū carbonreduce certification.

ENGAGE STAKEHOLDERS AND PARTNERS TO SUPPORT PĀMU'S PURPOSE

Improving stakeholder engagement including through stakeholder functions/events (e.g. Taste of Pāmu and Field Days).

Supporting programmes that drive Pāmu reputation and engagement in the communities we operate in.

FINANCIAL PERFORMANCE MEASURES

	REVIEW FEB FY22	BUDGET FY23	BUSINESS PLAN FY24	BUSINESS PLAN FY25
Shareholder returns				
Total shareholder return % ¹	33.7%	1.0%	0.6%	1.3%
Return on equity %	3.4%	0.9%	0.3%	1.0%
Dividend yield %	0.3%	0.5%	0.3%	0.3%
Profitability and efficiency				
Return on invested capital %	5.3%	3.6%	3.6%	4.9%
Operating margin %	26.8%	22.1%	21.6%	25.2%
Leverage and solvency				
Gearing (net debt/net debt plus equity) %	8.9%	8.4%	9.3%	9.8%
Net debt and lease liability to EBITDAR (x)	4.9x	6.5x	6.8x	5.6x
Debt to EBITDAR (x)	2.4x	2.7x	3.1x	2.7x
Interest cover (underlying EBIT/net interest) (x) ²	5.2x	3.4x	3.0x	3.9x
Solvency (including current debt)	1.8	1.3	1.2	1.2
Solvency (excluding current debt)	3.3	3.3	3.0	2.8
Interest cover (as agreed with bank) ¹ (x)	7.4x	4.7x	4.1x	4.9x
Growth				
Revenue growth (x)	1.1x	1.0x	1.0x	1.1x
Capital replacement (x)	1.1x	1.3x	1.1x	1.3x
Underlying EBITDAR growth (x)	1.3x	0.8x	1.0x	1.2x
Net operating profit growth (x)	1.2x	1.4x	0.6x	1.5x

¹ This includes the change in commercial (market) value and any dividends paid, less equity invested.

² Interest cover calculation is based on the owners' expectation manual methodology. For its reporting to lenders, Pämu uses EBITDAR before the application of IFRS16 Leases.

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
Return on equity	How much profit a company generates with the funds the shareholder has invested in the company	Net profit after tax/average equity
PROFITABILITY/EFFICIENCY		
Return on invested capital	The efficiency and profitability of a company's capital from both debt and equity sources	EBIT less non-operating items/average interest-bearing debt plus average share capital (including RPS) plus average retained earnings plus average other equity
Operating margin	The profitability of the company per dollar of revenue	EBITDAR less non-operating items/revenue
LEVERAGE/SOLVENCY		
Gearing ratio (net)	Measure of financial leverage – the ratio of debt (liabilities on which a company is required to pay interest) less cash to debt less cash plus equity	Net debt/net debt plus equity
Debt and lease liability to EBITDAR	Size of debt and lease liability relative to earnings	Net debt plus lease liability/EBITDAR
Debt to EBITDAR	Size of debt relative to earnings	Net debt/EBITDAR less non-operating items
Interest cover	The number of times that earnings can cover interest	EBIT less non-operating items/net bank interest
Solvency	Ability of the company to pay its debts as they fall due	Current assets/current liabilities
GROWTH		
Revenue growth	Measure of growth	Current year's revenue/previous year's revenue
Capital replacement	Measure of capital investment relative to maintenance investment levels	Asset expenditure/depreciation and amortisation less lease amortisation
Underlying EBITDAR growth	Change in EBITDAR	Current year EBITDAR less non-operating items/previous year EBITDAR less non-operating items
Net operating profit growth	Change in net operating profit	Current year net operating profit/previous year net operating profit

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



CAPITAL STRUCTURE

The issued share capital of Pāmu as at 30 June 2022 is 125,000,000 ordinary shares at \$1.00 each (\$125 million) and 86,513,000 redeemable preference shares of \$1.00 each, giving a total share capital of \$211.5 million.

The redeemable preference shares holding reflects the commercial arrangement with the Crown under which Pāmu's shareholder purchased redeemable preference shares in an amount equal to the agreed market value of designated land that has been protected from sale. This land is held by Pāmu's subsidiary Landcorp Holdings Limited for the purpose of future historical Treaty of Waitangi settlements by the Crown.

After balancing operating, capital, and dividend cash flows, Pāmu's estimated closing interest-bearing debt for the next 3 years is \$175 million (30 June 2023), \$195 million (30 June 2024) and \$208 million (30 June 2025).

The estimated Pāmu Group capital structure for the next 3 years is as follows:

	BUDGET FY23	BUSINESS PLAN FY24	BUSINESS PLAN FY25
Total assets	2,391.8	2,414.5	2,444.2
Total liabilities	543.6	560.7	571.7
Total equity	1,848.2	1,853.8	1,872.6
Interest-bearing debt/total funding	8.4%	9.3%	9.8%
Shareholder's funds/total assets	77.3%	76.8%	76.6%

DIVIDEND POLICY

Pāmu aims to make distributions from net cash flows from operating activities less maintenance capital expenditure and contractually committed capital expenditure. In determining the level of funds available for distribution, the Directors will take into account:

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

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

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

REPORTING AND DISCLOSURE

REPORTING TO SHAREHOLDING MINISTERS

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

- Annual report within 3 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 2 months of the end of each half year, including an unaudited statement of financial position and a qualitative report from the Chairman and Chief Executive on the company's performance
- Quarterly reports within 1 month of the end of each quarter and comprising a commentary and summary of financial performance
- Annual benchmarking reports – each year, Pāmu benchmarks its operational performance against appropriate regional and national results and reports the results to Ministers.

In addition, Pāmu has regular meetings with officials and one-off meetings with shareholding Ministers on an as-needed basis to ensure shareholding Ministers are appraised of Pāmu's strategy and performance.

CONSULTATION

Pāmu will consult with shareholding Ministers on transactions that:

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

COMMERCIAL VALUE AND COMPENSATION

COMMERCIAL VALUE

The Pāmu Board considers the commercial value of the company (including subsidiaries) to be \$1.8 billion as at 30 June 2022.

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 (the most significant component at \$1.4 billion)
- 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.

Pāmu's property valuation methodology is set out in the accounting policies in Appendix 3. Pāmu's commercial value has increased significantly since last year (\$1.4 billion as at 30 June 2021). Valuations undertaken in FY22 included market data relating to actual sales, Pāmu's production metrics and an assessment of the sale price that may be achieved by each property in today's open market on a highest and best-use basis. Strong commodity prices and strong demand for land for conversion to forestry have affected land values.

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 that constrain Pāmu from acting in a normal, business-like manner or that 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 that might be required by the Crown to fulfil Treaty of Waitangi settlement obligations. As at the date of this Statement of Corporate Intent, Pāmu has no, and has not sought any, section 7 agreements.

APPENDICES

- 1 PĀMU GROUP STRUCTURE AND KEY STRATEGIC INTERESTS
- 2 PĀMU PERFORMANCE TARGETS FY23-FY25
- 3 PĀMU ACCOUNTING POLICIES

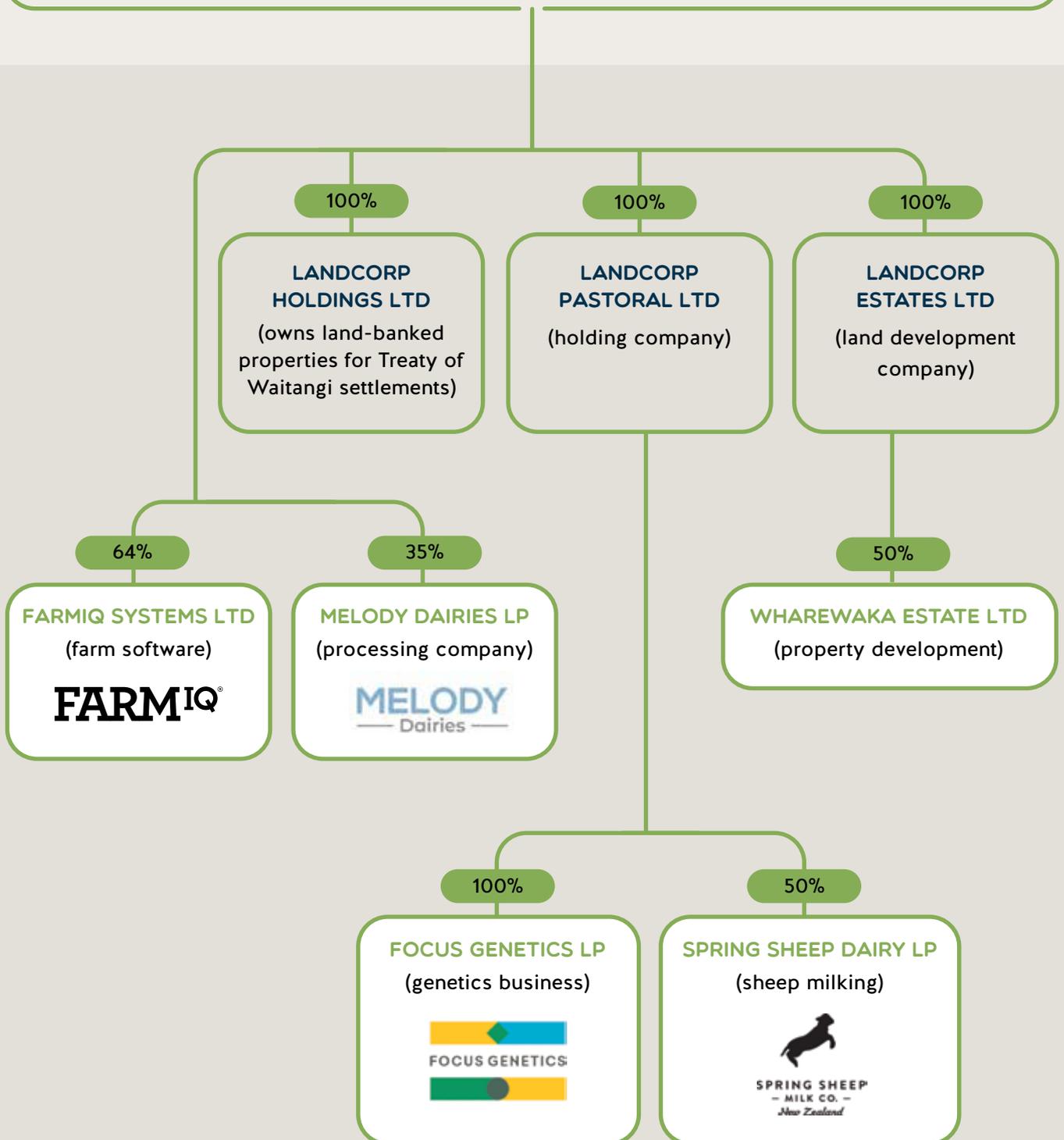
APPENDIX 1

PĀMU GROUP STRUCTURE AND KEY STRATEGIC INTERESTS

LANDCORP FARMING LTD

FOUR OPERATING GROUPS

LIVESTOCK | DAIRY | FORESTRY AND HORTICULTURE | PĀMU FOODS



APPENDIX 2

PERFORMANCE TARGETS FY23–FY25

This appendix sets out Pāmu's FY23–FY25 targets. FY22 targets are also stated, together with a 'traffic light' assessment of Pāmu's progress against that target as at the date of the publication of this *Statement of Corporate Intent*. Refer to Pāmu's 2022 *Integrated Report* for FY22 results and more information.


NATURAL ASSETS

	FY22 TARGETS	FY23 TARGETS	FY24 TARGETS	FY25 TARGETS
Implement targeted strategies and programmes across Pāmu and on farm to mitigate risk, decarbonise our operations and adapt to climate change	Acceptance and approval of a science-based target (SBT) by a recognised verifier	SBT accredited, GHG emissions reduction plan approved and FY23 target achieved	GHG emissions reduction target for FY24 achieved	GHG emissions reduction target for FY25 achieved
	15% Pāmu farms achieve Toitū farm carbonreduce certification	50% of Pāmu farms achieve Toitū certification	100% of Pāmu farms achieve Toitū certification	Recertification achieved and farm-based reduction plans creating change
	Review of physical and transition climate risks and opportunities to Pāmu, with mitigation plan and resilience strategy incorporated into Pāmu Risk Management Framework	Mitigation plan and resilience strategies implemented, reviewed	Mitigation plan and resilience strategies implemented, reviewed	Mitigation plan and resilience strategies implemented, reviewed
Targeted sustainability plan and programme delivering outcomes that support and realise measurable value across our six capitals	Gap analysis and roadmap for TCFD disclosure defined, with first-year climate risk reporting initiated	TCFD climate-related financial disclosure delivered, with roadmap for ongoing development defined	Fully compliant TCFD climate-related financial disclosure delivered	Fully compliant TCFD climate-related financial disclosure published
	Sustainable Farms Performance Programme (scorecard) developed, piloted in 15% of Pāmu farms	Sustainable Farms Programme in place in 50% of Pāmu farms	Sustainability Farms Programme in place in 100% of Pāmu farms	Sustainability Farms Programme resulting in improvement in farm sustainability outcomes
	Integrated Farm Plans: Building blocks across FW and FEP, preferred template and platform in place to support integrated farm plans. New plans implemented for five priority farms (based on risk, business strategy)	Appropriate platforms investigated and preferred platform identified fit-for-purpose FEPs in place across 15% of Pāmu farms, integrated into business planning and on-farm decision making	Fit-for-purpose FEPs in place across 40% of Pāmu farms with an appropriate platform in-place, FEPs used as part of business plans and on-farm decision making	Fit-for-purpose FEPs in place across 75% of Pāmu farms with an appropriate platform in-place, FEPs used as part of business plans and on-farm decision making

Target achieved

Target partially achieved

Target not achieved or recalibrated


FINANCE

	FY22 TARGETS	FY23 TARGETS	FY24 TARGETS	FY25 TARGETS
Pāmu EBITDAR/ NOP	Group EBITDAR FY22 target \$73.2m	Group NOP \$55.0m	Group NOP \$31.4m	Group NOP \$46.0m
Forestry and hort as a % of Pāmu total	10.4%	Forestry and hort % = 41.2	Forestry and hort % = 53.9%	Forestry and hort % = 44.0
Net debt and lease liability to EBITDAR	5.8x	7.3x	6.7x	5.5x
Cost of production	Per kgMS \$5.34	Per kgMS \$6.32	Per kgMS \$6.31	Per kgMS \$6.31
• Productivity benchmarks	Per kg \$3.75	Per kg \$4.59	Per kg \$4.67	Per kg \$4.74


FARMS AND ANIMALS

	FY22 TARGETS	FY23 TARGETS	FY24 TARGETS	FY25 TARGETS
Dairy production	15.0m kgMS	14.7m kgMS	15.0m kgMS	15.4m kgMS
Livestock production	22.5m kg ¹	20.2m kg	20.2m kg	20.3m kg
Forestry establishment	Forestry plantings +1,500 ha ²	15,980 ha	17,480 ha	18,980 ha

Target achieved

Target partially achieved

Target not achieved or recalibrated

¹ Costs of production were set in April 2022 for benchmarking purposes. There is significant volatility in cost at present. Data from Q1 2022 shows the cost of operating a dairy farm increased by 12.7% y/y, while sheep and beef farm operating costs have lifted 10.7% y/y. Source: Stats NZ and ANZ Research.

² The 2022 metric was total new hectares planted. From 2023 onwards the metric is total hectares planted.



PEOPLE

	FY22 TARGETS	FY23 TARGETS	FY24 TARGETS	FY25 TARGETS
Engagement (eNPS)	+4	+12	+14	+20
LTIFR result	8.9	7.8	6.9	6.2



EXPERTISE

	FY22 TARGETS	FY23 TARGETS	FY24 TARGETS	FY25 TARGETS
Define, implement and drive improvement across farm digitisation and information systems strategy and governance	Digitisation and technology strategy defined with roadmap developed that provides direction and key milestones to support innovation, sustainable land-use optimisation, animal welfare and sound business decision making	Board approval of a digitisation strategy and prioritisation of business-wide initiatives that : <ul style="list-style-type: none"> • capture data • meet critical BAU reporting requirements • utilise agritech/innovative solutions • provide enhanced analytics 	Develop and deliver a pipeline of agritech business solutions, targeting two deployments in FY24	Shift focus from foundational aspects of data management to utilising technology and data more effectively and at pace to address business challenges Develop a more advanced analytics strategy to leverage machine learning to support business needs



RELATIONSHIPS

	FY22 TARGETS	FY23 TARGETS	FY24 TARGETS	FY25 TARGETS
Pāmu Foods: New or expansion of strategic partnerships, including customer, R&D, supply chain, investment partnerships	Deliver >\$10m revenue with key partners	Deliver >\$20m revenue with key partners Partnership models explored and approved by Board	Phase 1 of structural evolution of Pāmu Foods to a separate entity fully implemented	

Target achieved

Target partially achieved

Target not achieved or recalibrated

APPENDIX 3

PĀMU ACCOUNTING POLICIES

STATEMENT OF COMPLIANCE

The financial statements are prepared in accordance with NZ generally accepted accounting practice (NZ GAAP) under the Companies Act 1993 and the Financial Reporting Act 2013. NZ GAAP consists of 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 historical cost basis, modified by the revaluation of certain assets, investments and financial instruments as disclosed below. The functional and reporting currency used to prepare the financial statements is New Zealand dollars, rounded to the nearest million dollars (\$m).

BASIS OF CONSOLIDATION

The consolidated financial statements use the acquisition method of consolidation for Pāmu and its subsidiaries. Associates and joint ventures are accounted for using the equity method. All material 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.

SIGNIFICANT ACCOUNTING POLICIES

There have been no changes in accounting policies during the financial year, but a change has been made to the presentation of the statement of comprehensive income. The subtotal earnings before interest, tax, depreciation and revaluation (EBITDAR) has been replaced with a subtotal net operating profit (NOP). Both are non-GAAP measures. Where necessary, comparative information has been reclassified to achieve consistency with the current period's presentation.

REVENUE

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

Livestock revenue is recognised following delivery. Sales contracts either fix prices in advance or allow livestock to be sold at the prevailing spot rate. Each year, the Board approves a standard value for each livestock class. Changes in the value and volume of livestock arising from purchases, sales, births, deaths and aging are determined using standard values.

Milk revenue is recognised following collection by the milk processor using the processor's most recent forecast price and dividend information.

Pāmu holds New Zealand Stock Exchange (NZX) milk futures in order to manage commodity price risk. Fair value gains or losses are reported as a component of fair value movements on financial instruments within the statement of profit or loss. Any realised gains or losses are accounted for within milk revenue in the year that settlement occurs.

Wool revenue is recognised following delivery to the wool broker. Contracts are held that either fix prices in advance or allow wool to be sold at the prevailing spot rate.

Forestry revenue is recognised from the sale of logs (at the market rate net of harvesting costs) together with revenue attributable to the growth of forest stands.

ACCOUNTS RECEIVABLE

Trade and other receivables are recognised at cost less any provision for lifetime expected credit losses.

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 or a property is subject to a Treaty settlement sale. Properties held for sale comprise farm land and associated buildings. Properties subject to Treaty settlements may be classified as held for sale for periods greater than 1 year while settlement terms are negotiated. These properties are still likely to be purchased by claimants, and it is probable that their value will be recovered by way of sale rather than ongoing operations. 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

Livestock are recorded at fair value less estimated point-of-sale costs. Changes in the value and volume of livestock arising from purchases, sales, births, deaths and aging are recognised within revenue in the statement of profit or loss. Changes in value due to general livestock price movements are recognised in the statement of profit or loss within fair value movement in biological assets. Livestock valuations are provided by independent valuers. These market values reflect livestock of similar weight and age throughout New Zealand.

FORESTRY AND CARBON ASSETS

Forest establishment and direct management expenses are recorded as planting costs. Forestry stands below 10 years of age are valued at cost. After 10 years, forestry stands are recorded at fair value. Changes to value due to forestry growth are recognised within revenue in the statement of profit or loss. Changes due to movements in forestry prices are recognised in the statement of profit or loss within fair value movement in biological assets.

As a forester, Pāmu is allocated emission credits (NZUs) and will incur liabilities through the Emissions Trading Scheme. Pāmu holds credits for forestry plantations. Should these plantations be harvested and/or deforested, a liability would be incurred up to a maximum of the credits received. NZUs are revalued at each reporting date, and any fair value movement is reflected within other comprehensive income.

EQUITY ACCOUNTED INVESTMENTS

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

SHARE INVESTMENTS

The Group is required to hold certain shares and investments in co-operative companies to facilitate farming operations. Shares are held as a consequence of business operations and are not held for trading. Share investments are initially recognised at cost and subsequently revalued to fair market value. Pāmu has elected to account for fair value changes through other comprehensive income except in cases where the shares can be redeemed at par value from the issuer. In such cases, any value change will be accounted for through the statement of profit or loss. Any dividends from share investments are recognised in the statement of profit or loss.

PROPERTY, PLANT AND EQUIPMENT

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

Land is measured at fair value and buildings are measured at fair value less accumulated depreciation and any impairment after the date of valuation. The revaluation of land and buildings is undertaken by an independent valuer every 3 years. During a revaluation, the valuer will conduct a physical inspection of a representative group of properties within each portfolio. The fair value of each remaining property is determined by considering a range of operational data for the property concerned together with information relating to sales of comparable properties. Additions to land and buildings after the most recent valuation are recorded at cost less accumulated depreciation.

The last full valuation was performed on 30 June 2022. In years where there is not a full valuation, a material change assessment of the property portfolio is performed by an independent valuer. Upon identification of a material change, an indexation to market price is carried out and carrying amounts are adjusted.

Revaluations are undertaken using a level 2 fair value methodology. They employ a market approach and take into account general factors that influence farm land prices as well as market evidence such as recent farm sales in

the relevant regions. The valuation also considers the price effects of various legal obligations placed on Pāmu's land ownership. The impact of the Conservation Act 1987 relating to the establishment of marginal strips and conservation management plans is considered where applicable. In the North Island, deductions of 0-6% have been made for the effects of the Treaty of Waitangi (State Enterprises) Act 1988 and the memorials pertaining to section 27B of the State-Owned Enterprises Act 1986, which provides for the resumption of land on recommendation of the Waitangi Tribunal. The South Island properties include a deduction of up to 5% to reflect the effect of the right of first refusal memorial granted to Ngāi Tahu under the Ngāi Tahu Claims Settlement Act 1998.

Improvements on leased land are held at cost.

Protected land is defined in the Agreement Concerning Pāmu Land Protected from Sale, signed with the Crown in 2007 and amended in June 2013 (the Protected Land Agreement), and relates to land that the Crown wishes to protect from sale for public policy reasons. Protected land (including buildings on protected land) was valued at fair value at the time it was classified as protected land as this is the ongoing fair value of the land to Pāmu. Buildings are measured at this value less accumulated depreciation.

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

LEASES

Leased assets and liabilities are initially recognised in the statement of financial position at the present value of remaining unpaid lease payments discounted by Pāmu's incremental borrowing rate. Thereafter, leased assets are depreciated over the life of the lease and lease liabilities reduce as lease payments are made. After commencement of a lease, any subsequent changes to the lease payments are reflected as a lease remeasurement adjustment.

Leased assets are largely made up of farm land in Wairakei, northeast of Taupō. The lease was entered into in 2004 and expires in 2049. The lease requires Pāmu to convert what was previously forestry land into pastoral farming land. Other leases are also held for office buildings and telecommunications equipment.

Pāmu acts as a lessor of farm land provided under operating leases. Income from operating lease agreements is recognised as lease income on a straight-line basis over the term of the lease. Lease terms are of various lengths, and some leases include rights of renewal.

BANK LOANS

Bank loans are the drawn components of bank cash advance facilities. Facilities may be borrowed against or repaid at any time by Pāmu and 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

Pāmu has provided limited guarantees to the Ministry for Primary Industries in relation to primary growth partnerships with Spring Sheep Dairy Limited Partnership. In addition, Landcorp Pastoral Limited has provided a limited shareholder guarantee of Spring Sheep Dairy Limited Partnership's indebtedness to its lender, ASB.

INTEREST RATE DERIVATIVES

Interest rate derivatives are valued at fair value (exit price basis). Accrued interest is calculated based on the market 90-day rate and is removed from the revaluation. Fair value gains or losses on these financial instruments are reported in the statement of profit or loss.

REDEEMABLE PREFERENCE SHARES

Redeemable preference shares were issued as a capital injection under the terms of the Protected Land Agreement. They carry no voting rights and are not eligible for dividends or any share of net assets on wind-up. When requested, Pāmu will transfer properties referred to in the Protected Land Agreement to the Crown. On transfer, the redeemable preference shares are redeemed at the initial value of the property.

CAPITAL MANAGEMENT

Share capital

Under the State-Owned Enterprises Act 1986, Pāmu's ordinary shares are held equally by the Minister of Finance and the Minister for State-Owned Enterprises. This prevents Pāmu from raising capital from other sources. Ordinary shares carry one vote per share and carry the right to participate in dividends. All shares are fully paid up.

Retained earnings

Retained earnings comprise Pāmu's accumulated net profits including transfers from revaluation reserves when the underlying asset has been sold less any dividends paid. Retained earnings also include any payment from the Crown for additional capital expenditure incurred on the properties defined in the Protected Land Agreement.

Share revaluation reserve

The share revaluation reserve comprises the cumulative net change in the fair value of share investments until the investment is sold.

Asset revaluation reserve

The asset revaluation reserve is used to record changes in the fair value of land and buildings and intangible assets. 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.

VALUATION OF FINANCIAL INSTRUMENTS

Pāmu is a party to financial instruments as part of its normal operations. Financial assets and liabilities carried at fair value are categorised into a fair value hierarchy based on the observability of inputs used to measure fair value as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability either directly (as prices) or indirectly (derived from prices).
- Level 3: unobservable inputs for the asset or liability that are not based on observable market data.



Landcorp Farming Limited
Statement of Corporate Intent
for the period FY23 – FY25

