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PĀMU™

LANDCORP FARMING LIMITED
HALF YEAR REPORT FOR THE SIX MONTHS ENDED 31 DECEMBER 2018

BROUGHT TO YOU BY **LAND**CORP

Pāmu Farms of New Zealand is the brand name for Landcorp Farming Ltd, a State Owned Enterprise, and one of New Zealand's most innovative farmers and food businesses. It is also the name given to the quality products created by the company.

Pāmu is the Māori word 'to farm' and reflects the deep connection New Zealanders have with the land, born from respect, and a genuine desire to protect and enhance the environments in which the company works. It's a proud provenance that stands behind every product bearing the Pāmu name.

Cover image: *Firewire's 'Woolight' surfboard uses wool to replace fibreglass – a technology invented by Kiwi surfer Paul Barron. Supplying wool in partnership with NZ Merino to companies like Firewire is an example of exciting things we can bring to the business of farming.*


PĀMU
Pure Organic
NEW ZEALAND
WHOLE MILK POWDER
NET 800g


1886
PĀMU
Pure Organic
SEMI-SKIMMED MILK
NET 800mL
1886
PĀMU
Pure Organic
WHOLE MILK
NET 250mL

PĀMU™

HALF YEAR REVIEW
CHAIRMAN AND CHIEF EXECUTIVE

We have continued to make good progress on our strategy in the last six months. Across our farm network we completed the refresh of our vehicle fleet and rolled out an upgraded broadband network, launched an extensive mental well-being initiative, and continued our water monitoring and nitrate reduction programs. In Pāmu Foods we invested in a new specialty milk dryer and signed a significant deer milk distribution agreement with a leading Korean pharmaceutical company.

DR WARREN PARKER
CHAIRMAN

STEVEN CARDEN
CHIEF EXECUTIVE

Pāmu made a net profit after tax (NPAT) of $29 million for the half year ended 31 December 2018. This compares to a NPAT of $21 million for the half year ended 31 December 2017.

Pāmu uses EBITDAR (earnings before interest, tax, depreciation, amortisation and revaluations) as a key measure of performance. This excludes components of NPAT such as fair value gains on biological assets ($51 million) and financial instruments ($3 million), depreciation and amortisation expenses ($9 million) and net finance expenses ($6 million). EBITDAR for the half year was a loss of $3 million compared to a loss of $6 million in the prior period. The loss is largely due to the seasonality of Pāmu's operations particularly since the bulk of livestock revenue is earned in the second half of the year.

The $3 million improvement in EBITDAR reflects an increase in revenue of $5 million, partially offset by increased expenses of $3 million and a lower loss from equity accounted investments of $1 million. The uplift in revenue was principally due to an increase in milk revenue of $4 million and small increases in livestock and forestry.

Total operating expenses were up by $3 million overall, which included costs relating to the Rural Connect broadband roll out across all farms, along with the impact of increased fuel costs, rent on the Wairakei Estate lease and start-up costs relating to the establishment of the Pāmu Foods division in the half year. However, farm working, maintenance and personnel costs remained flat. This was despite price rises in fertiliser and increased harvesting costs as farms took advantage of good pasture growing conditions along with higher calf rearing, animal health, and breeding costs in response to the threat posed by Mycoplasma Bovis.

Below the EBITDAR line there was a fair value gain on biological assets of $51 million mainly due to firm lamb prices, partially offset by an increased tax expense of $7 million following a review of the tax treatment of Pāmu's long lived buildings. This does not have a cash impact and is an adjustment to the deferred tax liability on the balance sheet.

While farming will always be at the core of what we do, we also need to become a higher quality producer of food and natural products to secure sustained higher returns for our shareholder. That involves using our unique Pāmu brand, and the provenance that lies behind it, to create opportunities with customers in selected markets around the world.

The first half of the financial year has seen pleasing progress of a range of initiatives. These are all directed at making the company a State Owned Enterprise with a sustained, proven long-term future, achieved in a way that all New Zealanders can be proud of.

DEVELOPMENTS ON FARM

Generally, it was a mild winter in many parts of the country, but there were some adverse spring weather events which unfavorably impacted lambing and calving results. Late spring then saw drier ground conditions for early cultivation work, but by the end of December, very favourable weather events culminated in optimum soil moisture and temperature conditions to produce a surplus of grass. Excess pasture has been made into feed supplements to restock inventories depleted by last year's drought events.

Product prices remain very strong for sheep, deer and cattle with markets being very firm as farmers compete for stock given the industry-wide abundance of grass and attractive red meat prices.

Coarse wool prices have remained low, but our ongoing partnership with NZ Merino to contract wool supply to discerning buyers globally continues to be financially beneficial to the company.

HALF YEAR REVIEW CONTINUED

The company's livestock operations have continued on a plan to optimize more intensive beef systems in the Far North where we rationalize land use around forestry expansion and fencing off environmentally sensitive areas from pastoral farming.

Although dairy prices have reduced from the start of the season it is pleasing to see that recent global dairy trade auctions have seen increases in prices, which gives some confidence the current forecast range will hold.

As with our livestock operations, the mild winter was followed by a dry start to spring. However conditions to the half year have been favorable with most farms receiving regular rainfall, leading to production being 5% ahead of December last year. With the settled late spring weather, submission rates were increased over previous years for mating and we hope to see improved six week in-calf rates.

Our two organic farms Earnslaw and Tasman continue to perform well this season with around eight months left before they are fully certified. We have another farm from our Moutoa complex in Horowhenua entered in the program.

MENTAL HEALTH AND WELL BEING

The company has had a specific focus on workplace mental health training and awareness in the half year under review.

With the ongoing high incidence of safety related issues on farms in New Zealand, along with the unacceptable levels of mental stress in our workplaces, Pāmu is committed to ensuring our leaders on farm have training that can help identify and mitigate mental health issues before they ruin the lives of our people and the people that love them. We have been pleased to access the courses run by our joint venture company Pāmu Academy who offer specific tailored mental health and wellbeing courses.

The company's overall health and safety performance has been positive when compared to the same period last year, however it is essential that we do not become complacent. Accordingly, health and safety remains a core focus of the company.

FORESTRY

Pāmu has committed to the planting of up to 2,500 hectares of trees on our farms in 2018 and 2019.

At the end of the planting season in October 2018, we had established 1,170ha of forestry, riparian, erosion control and shelter planting, consisting of approximately 1.3 million trees. Our planting programme has a range of environmental, financial and farming benefits, including carbon credits, future harvest returns, erosion control and protection, riparian protection, shelter and shade for livestock, potential honey production and winter feed for honey bees.

In 2019 we are looking to establish a further 1,500ha of the same mix of planting utilising approximately 1.6–1.7 million trees.

Looking out to 2020, our current projections are that a further 2,000ha of trees will be planted, which will see in excess of 2 million trees in the ground.

ENVIRONMENTAL LEADERSHIP

A highlight of the half year under review was the placement of 1,320 hectares of land on our Waipori farm in Otago under permanent covenant with the QEII National Trust.

The Mulligan Covenant (named after Graeme Mulligan, Pāmu's General Manager of Livestock Operations, who recently celebrated forty years with the company) is our second largest covenant after the Mt Hamilton covenant we made in 2017, and adds to the over seven thousand hectares of land that Pāmu has covenanted with the QEII National Trust since 1991. The covenant will ensure the protection of the native biodiversity and water catchments of the area, which has close to 100 indigenous plant species. We see this as a very tangible way that Pāmu can ensure the protection of the lands and waterways of New Zealand, by retiring land that the company has no further commercial use for.

Pāmu's Environment Reference Group (ERG) was refreshed during the half year, with clean water researcher Marnie Prickett joining the ERG and taking on the chair's role, along with Forest and Bird's Annabeth Cohen and earth systems scientist and mātauranga Māori specialist Dr Daniel Hikuroa. Thanks go to Dave Maslan and Angus Robson, who retired from the group, for their invaluable insights since the inception of the ERG and thanks also to Guy Salmon who has tirelessly chaired the group since its inception three years ago and remains on the ERG.

The ERG's job is to ensure that the company keeps our impact on the environment at the forefront of all the decisions we make on our farms. Its members have deep links with a range of stakeholders and communities across New Zealand, and we benefit enormously from their perspectives. The ERG shares our desire, along with many farmers, to farm in a way that emphasizes stewardship of the land. We don't always agree with their perspectives, but their viewpoint challenges our thinking and we value their input to our business for that reason alone.

INVESTMENT IN STATE OF THE ART MILK POWDER SPRAY DRYING FACILITY

Pāmu took a 35 percent stake in a specialist spray drying facility being built at the Innovation Waikato Park, in Hamilton in the half year. The industrial spray drying facility will convert liquid milk into a dried form, and has a 1.2 metric tonne per hour drying capacity.

For the last five years Pāmu has been pursuing a strategic approach aimed at future proofing the company by diversifying our earnings, and help mitigate commodity cycles.

This investment fits with this strategy, and we expect it to contribute to the growing earnings and financial resilience of Pāmu in the years ahead. The investment will also be positive for New Zealand's growing and award winning sheep milk industry and will provide capacity for drying the milk from our Spring Sheep joint venture, at a time when other drying options are limited.

We will also be able to access our share of capacity in the dryer for processing other specialist milks, such as our Pāmu Pure Organic Milk Powder, which we are about to start selling in China. Construction of the spray drying facility is now underway, and is due to be on line in early 2020.

SURFBOARDS AND COSMETICS

Two very exciting and very different developments occurred in the half year, which both demonstrate Pāmu's strategy in action.

The New Zealand launch of surfing company Firewire's Woolight surfboard, made of wool from Pāmu farms is another step towards securing wool's long term future for New Zealand's agricultural sector.

Wool has often been the 'poor cousin' of the agricultural sector in recent years, with a volatile global wool market. But innovation like the wool based surfboard, invented by Kiwi surfer Paul Barron, will help change that and demonstrates that the future for wool doesn't have to be the status quo.

HALF YEAR REVIEW CONTINUED

The woollen surfboard also demonstrates the value of the partnership with NZ Merino, combining our excellence in sheep farming with their global reach, relationships and expertise.

The company also commenced a relationship with South Korea's top pharmaceutical company Yuhan Corporation to supply Pāmu deer milk for its range of cosmetic products. This is the first time New Zealand deer milk has been sold for use in the beauty industry.

Pāmu has been working closely with Yuhan for over a year, helping them develop a number of deer milk cosmetic products, including a serum and moisturiser, which will be sold in New Origin stores throughout South Korea.

This is a very exciting partnership for Pāmu in terms of securing future opportunities for deer milk. It is important that we partner with strategic companies like Yuhan, who are committed to research and development and the commercialisation of products containing unique ingredients such as deer milk.

Pāmu deer milk contains a unique combination of properties that Yuhan sees delivering exceptional results to their customers. The products will be a key part of Yuhan's New Origin portfolio of products, targeted at sophisticated buyers.

ORGANIC MILK AND DEER MILK

The end of the half year saw the first shipment of organic milk powder, under the Pāmu name, into China. While a small start, the delivery of product into this key market for New Zealand was a key milestone for the company. The real test now will be sustained sales of our product in what is a tough market, but we are confident we have the right product and the right strategy to make this a success.

Our deer milk product has also gone from strength to strength, with repeat orders from some of New Zealand's most respected restaurants and the launch of the product in Australia. The product continues to receive good attention from food focused media in both countries and we are optimistic about the future of this premium product.

OUTLOOK

For the full year 2018/19 we expect to report EBITDAR of between $37 million and $42 million. This assumes there will be no material adverse weather events, no significant strengthening of the New Zealand dollar and no other material changes to market prices.

We have confidence in the strategic direction the company is taking to derive more value for products, reduce our exposure to commodity price volatility and are constantly looking at ways to innovate and farm more effectively.

Thanks to our dedicated and committed people, who work hard farming in a way that is both profitable and innovative, with excellence at its core.

Thanks also to board member Chris Day, who was Acting Chairman in the period under review, providing great continuity and leadership for Pāmu's board and management team.

Dr Warren Parker
Chairman

Steven Carden
Chief Executive

FINANCIAL STATEMENTS AND NOTES

STATEMENT OF COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 31 DECEMBER 2018

	Note	Unaudited 6 months to 31 Dec 18 $m	Audited 12 months to 30 Jun 18 $m	Unaudited 6 months to 31 Dec 17 $m
Revenue				
Farm operating	4	105	227	99
Other business activities		6	20	7
		111	247	106
Operating expenses				
Farm working and maintenance		62	101	62
Personnel		32	62	32
Other		19	33	16
		113	196	110
(Loss) from equity accounted investments		(1)	(2)	(2)
(Loss) on sale of farm and forestry land		-	(1)	-
Earnings before interest, tax, depreciation, amortisation and revaluations		**(3)**	**48**	**(6)**
Depreciation and amortisation		(9)	(16)	(8)
Net finance expenses		(6)	(12)	(6)
Fair value gain in financial instruments		3	3	2
Fair value gain in biological assets		51	25	39
Impairment on property, plant and equipment		-	(3)	-
Net profit before tax		**36**	**45**	**21**
Tax expense		(7)	(11)	-
Net profit after tax		**29**	**34**	**21**
Other comprehensive income				
Fair value (loss) on revaluation of financial assets		(5)	(3)	-
Gain due to price changes on intangible assets		3	2	2
Income tax on income and expense recognised in equity		2	(3)	–
Total comprehensive income		**29**	**30**	**23**

The accompanying notes form part of these financial statements

STATEMENT OF MOVEMENTS IN EQUITY

FOR THE SIX MONTHS ENDED 31 DECEMBER 2018

	Unaudited 6 months to 31 Dec 18 $m	Audited 12 months to 30 Jun 18 $m	Unaudited 6 months to 31 Dec 17 $m
Ordinary shares			
Balance beginning of year	125	125	125
Balance end of year	**125**	**125**	**125**
Retained earnings			
Balance beginning of year	140	135	135
Net profit after tax	29	34	21
Transfer to revenue reserves	(54)	(28)	(41)
Other movements	1	(1)	2
Dividends paid	(5)	-	-
Balance end of year	**111**	**140**	**117**
Revenue reserves			
Balance beginning of year	175	147	147
Transfer from retained earnings	54	28	41
Balance end of year	**229**	**175**	**188**
Fair value reserve			
Balance beginning of year	13	16	16
Fair value revaluation of financial assets	(5)	(3)	-
Other movements	-	-	3
Balance end of year	**8**	**13**	**19**
Asset revaluation reserves			
Balance beginning of year	736	745	745
Net value change during year	3	2	2
Tax effect of reserve movements	2	(3)	-
Transfers to other equity on sale	(16)	(8)	-
Other movements	1	-	(3)
Balance end of year	**726**	**736**	**744**
Other equity			
Balance beginning of year	307	298	298
Transfers from assets revaluation reserves	16	8	-
Capital expenditure reimbursed by the Crown	-	2	-
Assets transferred to the Crown	-	(1)	-
Balance end of year	**323**	**307**	**298**
Total equity			
Balance beginning of year	1,496	1,466	1,466
Net profit after tax	29	34	22
Other comprehensive income:			
Fair value revaluation of financial assets	(5)	(3)	-
Gain/(loss) on revaluation of intangible assets	3	2	2
Income tax on income and expense recognised in equity	2	(3)	-
Dividends paid	(5)	-	-
Capital expenditure reimbursed by the Crown	-	2	-
Assets transferred to the Crown	-	(1)	-
Other movements	2	(1)	1
Balance end of year	**1,522**	**1,496**	**1,491**

The accompanying notes form part of these financial statements

STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 31 DECEMBER 2018

	Unaudited 6 months to 31 Dec 18 $m	Audited 12 months to 30 Jun 18 $m	Unaudited 6 months to 31 Dec 17 $m
Operating activities			
Cash was received from:			
Receipts from customers			
Livestock	44	151	44
Milk	55	98	50
Other receipts from customers	10	20	13
Dividends received	-	1	-
	109	270	107
Cash was applied to:			
Payments to suppliers	85	165	96
Payments to employees	34	65	37
Interest paid	6	12	6
Net GST (received)/paid	1	-	-
	126	242	139
Net cash flows from operating activities	**(17)**	**28**	**(32)**
Investing activities			
Cash was received from:			
Sale of land and improvements	-	13	5
Sale of other property, plant and equipment	1	3	1
	1	16	6
Cash was applied to:			
Purchase and development of land	10	19	2
Purchase of other property, plant and equipment	9	19	8
Purchase of shares and advances	-	4	4
Net joint venture investment	2	1	2
	21	43	16
Net cash flows from investing activities	**(20)**	**(27)**	**(10)**
Financing activities			
Cash was received from:			
Net borrowing receipts	48	2	45
Net cash flows from financing activities	**48**	**2**	**45**
Cash was applied to:			
Dividends paid	5	-	-
	5	-	-
Net cash flows from financing activities	**43**	**2**	**45**
Net change in cash and cash equivalents	**6**	**3**	**3**
Cash and cash equivalents at beginning of year	2	(1)	(1)
Cash and cash equivalents at end of year	**8**	**2**	**2**
Cash and cash equivalents comprises cash balances held with registered New Zealand banks -			
Cash at bank	8	2	2

The accompanying notes form part of these financial statements

RECONCILIATION OF PROFIT AND OPERATING CASH FLOW

FOR THE SIX MONTHS ENDED 31 DECEMBER 2018

	Unaudited 6 months to 31 Dec 18 $m	Audited 12 months to 30 Jun 18 $m	Unaudited 6 months to 31 Dec 17 $m
Net profit after tax	**29**	**34**	**21**
Non cash items			
Depreciation and amortisation	9	16	8
Revaluation gains and losses	(51)	(28)	(41)
Change in deferred tax asset/(liability)	4	15	1
Deferred tax on revaluation of assets	2	(3)	-
Other non cash items	(11)	(9)	(22)
Movement in working capital items			
Inventories	2	(1)	4
Accounts receivable	(5)	(4)	(12)
Accounts payable and accruals	3	(1)	9
Employee entitlements	2	3	(3)
Items classified as investing or financing activities			
Net (loss) on movement of assets	-	1	(1)
Change in accounts receivable due to capital items	1	4	5
Change in accounts payable due to capital items	(2)	1	(1)
Net cash flows from operating activities	**(17)**	**28**	**(32)**

The accompanying notes form part of these financial statements

STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2018

	Note	Unaudited 6 months to 31 Dec 18 $m	Audited 12 months to 30 Jun 18 $m	Unaudited 6 months to 31 Dec 17 $m
Assets				
Cash and cash equivalents		8	2	2
Accounts receivable	5	44	39	46
Inventories		15	15	11
Property held for sale		27	27	69
Biological assets				
Livestock	4	404	340	377
Forests		37	36	29
Total biological assets		**441**	**376**	**406**
Equity accounted investments		5	4	4
Other financial assets	6	54	59	65
Intangible assets		22	20	12
Property, plant and equipment				
Land and improvements		1,169	1,162	1,122
Protected land		107	106	105
Plant		19	20	21
Motor vehicles		22	23	23
Furniture and equipment		2	2	2
Computer equipment		1	2	1
Total property, plant and equipment		**1,320**	**1,315**	**1,274**
Total assets		**1,936**	**1,855**	**1,889**

The accompanying notes form part of these financial statements

	Note	Unaudited 6 months to 31 Dec 18 $m	Audited 12 months to 30 Jun 18 $m	Unaudited 6 months to 31 Dec 17 $m
Liabilities				
Accounts payable and accruals		19	16	26
Employee entitlements		8	11	10
Deferred tax liability/(asset)		20	15	(1)
Other financial liabilities	7	267	219	263
Redeemable preference shares		100	100	100
Total liabilities		**414**	**361**	**398**
Shareholders' funds				
Share capital		125	125	125
Retained earnings		111	140	117
Revenue reserves		229	175	188
Fair value reserve		8	13	19
Asset revaluation reserves		726	736	744
Other equity		323	307	298
Total shareholders' funds		**1,522**	**1,496**	**1,491**
Total equity		**1,522**	**1,496**	**1,491**
Total equity and liabilities		**1,936**	**1,857**	**1,889**

Landcorp's Board of Directors authorised the financial statements for issue on 13 February 2019.

Signed on behalf of the Board

Dr Warren Parker
Chairman

13 February 2019

Tony Reilly
Acting Chair of Audit Committee

13 February 2019

The accompanying notes form part of these financial statements

NOTES TO THE FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 31 DECEMBER 2018

STATEMENT OF ACCOUNTING POLICIES

NOTE 1: REPORTING ENTITY

Landcorp Farming Ltd ("Landcorp") is a profit-oriented company, incorporated and domiciled in New Zealand. Landcorp was established under the State-Owned Enterprises Act 1986 and registered under the Companies Act 1993. Landcorp's ultimate parent is the Crown, which owns 100% of Landcorp's shares, held beneficially by the Minister of Finance (50%) and the Minister for State-Owned Enterprises (50%).

Condensed consolidated interim financial statements are presented, comprising Landcorp Farming Ltd, subsidiaries and jointly-controlled entities (the "Group").

Subsidiary companies are involved in land development, land management, farm technology, the production and marketing of sheep milk products, and developing genetically superior sheep, cattle and deer breeds. All material subsidiaries, associates and jointly controlled entities are incorporated or formed and domiciled in New Zealand.

NOTE 2: STATEMENT OF COMPLIANCE

The condensed consolidated interim financial statements have been prepared in accordance with NZ IAS 34 Interim Financial Reporting for interim financial statements.

The condensed consolidated interim financial statements do not include all of the information required for full annual financial statements. Accordingly, these financial statements should be read in conjunction with the annual report for the year ended 30 June 2018. The accounting policies used in the preparation of these financial statements are consistent with those used in the annual report for the year ended 30 June 2018.

The financial information contained in this report has not been audited by Landcorp's auditors. The financial information for the year ended 30 June 2018 has been extracted from Landcorp's audited financial statements for the year ended 30 June 2018.

Certain reclassifications of prior year balances have been made to conform with current year classifications.

NOTE 3: SEASONALITY OF OPERATIONS

Landcorp's operations are seasonal and are largely a function of the annual farming cycle. The six months from July to December covered by these financial statements primarily reflect the cessation of winter and commencement of spring conditions when the majority of livestock births occur.

Operating results

The overall half year net profit before tax is seasonal and reflects the following:

- Landcorp's sheep, beef and deer operations follow a cycle where the bulk of slaughter livestock is reared in spring and conditioned for sale over the late summer and autumn period. This means that a large portion of Landcorp's livestock income is not generated until the second half of the financial year. The sale prices for the slaughter livestock will be a function of market conditions at the time of sale and will reflect the prevailing impact of international commodity prices, exchange rates and any local climatic considerations.

- Harvested feed, comprising hay, silage and baleage, is generally harvested in late summer, during the second half of the financial year, and consumed in winter and early spring, in the first half of the financial year. Consequently, the six months to 31 December 2018 reflect the cost of the seasonal consumption of this feed. The second half of the financial year will reflect the benefit of rebuilding feed stocks for consumption early in the following financial year.
- Income from equity accounted joint investments includes the profits from sales of sections through joint venture companies. The timing of these profits depends on the timing of the land sale settlement.

Profits from land sales

Landcorp's profits from land sales arise from the sale of Landcorp farms as part of obligations under the Treaty of Waitangi settlement process. The recognition of profit is seasonal and mainly depends on the timing of land sales settlement. Settlements of land sales occur irregularly throughout the financial year.

Net profit after tax

Under NZ IFRS, Landcorp revalues livestock at each balance date and includes the revaluation gain or loss within profit. The value of livestock will reflect market conditions at the time and is likely to change between balance dates. Hence, any profit or loss arising from livestock revaluations at 31 December 2018 may not reflect the market conditions prevailing at the financial year end.

Landcorp employs various derivative financial instruments for financial risk management. These are mainly to hedge interest rate risk used as part of Landcorp's comprehensive approach to financial risk management within an approved treasury management framework.

Landcorp has elected not to hedge account for its financial instruments under NZ IFRS. Consequently, financial instruments are revalued each balance date and any gain or loss is recognised within profit. The value of the financial instruments will reflect the balance date financial market conditions and this value is expected to change between balance dates. Any profit or loss from revaluation of financial instruments at 31 December 2018 may not reflect the market conditions prevailing at the financial year end.

Landcorp's results reflect both the seasonality of farming operations and the timing of land and building valuations.

Statement of financial position

Landcorp's Statement of Financial Position at 31 December 2018 reflects the following seasonal factors:

- Landcorp's policy is to assess the fair value of land and improvements annually. If there is any material change in fair values a full revaluation is performed. At a minimum a full revaluation of the portfolio is performed every 3 years. The last revaluation of the portfolio took place in June 2016. A full revaluation exercise is now underway to assess the fair value of assets at June 2019. Early indications are that the value of some dairy properties may decrease but these decreases are likely to be offset by increases in the value of livestock properties. Therefore, the half year financial statements do not reflect any changes in market values of land and improvements from 1 July 2018 to 31 December 2018.
- Term debt is seasonal as much of Landcorp's revenue is not received in cash until the second half of the financial year. This reflects both the timing of livestock sales and the date at which milk solids revenue is received.
- Inventories of harvested feed reflect the seasonal consumption/production cycle.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 31 DECEMBER 2018

NOTE 4: FARM OPERATING REVENUE

A - Nature of activities

Landcorp is primarily a pastoral farming company, with a growing focus on exploring alternative uses for land in its portfolio including additional forestry and horticulture. It also has a developing foods business marketing premium milk and meat products under the Pāmu brand name around the world. Sheep, deer and beef cattle are mainly grown to produce meat. These animals may also provide ancillary income from various agricultural produce such as wool and velvet. Dairy cattle are predominantly held to produce milk. Landcorp also derives income from forestry on land unsuitable for farming.

	Unaudited 6 months to 31 Dec 18 $m	Audited 12 months to 30 Jun 18 $m	Unaudited 6 months to 31 Dec 17 $m
Revenue			
Livestock	45	125	44
Milk	58	95	54
Wool	1	5	1
Forestry	1	2	-
Total revenue	**105**	**227**	**99**

B - Livestock revenue

Landcorp's livestock revenue by species/composition was:

	Unaudited 6 months to 31 Dec 18 $m	Audited 12 months to 30 Jun 18 $m	Unaudited 6 months to 31 Dec 17 $m
Sheep	19	53	20
Beef	21	52	19
Deer	5	20	5
Total livestock revenue	**45**	**125**	**44**
Livestock sales	43	150	41
Birth of animals	25	40	26
Growth of animals	19	67	19
Livestock losses	(5)	(13)	(5)
Book value of livestock sold	(37)	(119)	(37)
Total livestock revenue	**45**	**125**	**44**

Livestock revenue includes the recognition of net profit or loss arising from changes in livestock numbers due to the birth, growth, death and sale of livestock. The value change arising from the change in livestock numbers and growth is calculated by assigning an internally assessed annual value for each livestock class.

C - Value of livestock

The change in the value of livestock owned by Landcorp during the period was due to:

	Unaudited 6 months to 31 Dec 18 $m	Audited 12 months to 30 Jun 18 $m	Unaudited 6 months to 31 Dec 17 $m
Livestock value at start of year	340	319	319
Value changes caused by:			
Birth and growth of animals	44	106	45
Purchases	11	25	16
Livestock losses	(5)	(13)	(5)
Livestock available for sale or production	**390**	**437**	**375**
Book value of livestock sold	(37)	(119)	(37)
Effect of price changes	51	22	39
Closing livestock value	**404**	**340**	**377**

Livestock is valued using a level 2 fair value measurement in accordance with the fair value hierarchy. There were no transfers between levels during the six months to 31 December 2018.

The effect of price changes for the six months ended 31 December 2018 was due to an increase in the market value of sheep, beef and deer. These price changes do not represent cash flows and Landcorp is unable to realise these changes in market values in the ordinary course of ongoing livestock farming.

NOTE 5: ACCOUNTS RECEIVABLE

	Unaudited 6 months to 31 Dec 18 $m	Audited 12 months to 30 Jun 18 $m	Unaudited 6 months to 31 Dec 17 $m
Trade debtors	7	8	6
Milk income receivable	25	18	27
Other receivables and prepayments	12	13	13
Total accounts receivable	**44**	**39**	**46**

NOTES TO THE FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 31 DECEMBER 2018

NOTE 6: OTHER FINANCIAL ASSETS

Landcorp's financial assets consists of shares and other investments in various co-operative and processing companies. 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.

	Unaudited 6 months to 31 Dec 18 $m	Audited 12 months to 30 Jun 18 $m	Unaudited 6 months to 31 Dec 17 $m
Share investments	54	59	65
Total other financial assets	**54**	**59**	**65**

NOTE 7: OTHER FINANCIAL LIABILITIES

	Unaudited 6 months to 31 Dec 18 $m	Audited 12 months to 30 Jun 18 $m	Unaudited 6 months to 31 Dec 17 $m
Financial liabilities measured at amortised cost			
Bank loans	257	209	252
Held-for-trading financial liabilities			
Interest-rate derivatives	10	10	11
Total other financial liabilities	**267**	**219**	**263**

Bank loans are the drawn components of bank cash advance facilities. The facilities may be borrowed against, or repaid, at any time by Landcorp. The facilities are subject to a negative pledge agreement which means that Landcorp 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 short-term fixed rate and therefore carrying value represents fair value. Landcorp manages its overall interest rate risk using interest rate derivatives under a comprehensive treasury management framework.

Interest-rate derivatives held by Landcorp are solely used to hedge interest rate risk. Landcorp does not enter into derivative financial instruments for trading purposes. Landcorp has elected not to use hedge accounting, which, under NZ IFRS, requires all derivative financial instruments to be classified as held-for-trading. Interest rate derivatives are valued using a level 2 fair value hierarchy. There were no transfers between levels during the six months to 31 December 2018. Interest rate derivatives are valued on an 'exit price' basis. Accrued interest is calculated based on the market 90 day rate and is removed from the revaluation provided by each swap provider.

Cash advance facilities have been drawn as follows:

	Unaudited 6 months to 31 Dec 18 $m	Audited 12 months to 30 Jun 18 $m	Unaudited 6 months to 31 Dec 17 $m
Drawn	257	209	252
Undrawn	58	106	63
Total	**315**	**315**	**315**

Cash advance facilities are committed to:

	Unaudited 6 months to 31 Dec 18 $m	Audited 12 months to 30 Jun 18 $m	Unaudited 6 months to 31 Dec 17 $m
0-6 months	-	85	30
6-12 months	90	-	85
One to two years	110	90	90
Two to five years	115	140	110
Total	**315**	**315**	**315**

NOTE 8: DIVIDENDS

A final dividend for 2017/18 year of $5.0m was declared in August 2018 and paid in October 2018.

NOTE 9: CONTINGENT ASSETS AND LIABILITIES

At 31 December 2018 Landcorp had no contingent assets and the following contingent liabilities:

As a forester, Landcorp has gained emission credits (“New Zealand Units”” or “NZU”) and will incur liabilities through the Emissions Trading Scheme (ETS). Landcorp has applied for and received credits on pre-1990 forestry plantations. In the event that pre-1990 forests are deforested, a deforestation liability would be incurred. Landcorp has also claimed and received credits on its post-1989 forest carbon sequestration. Should these plantations be harvested and/or deforested, a liability would be incurred up to a maximum of the credits received. At 31 December 2018 Landcorp held 651,280 post-1989 NZUs and 143,460 pre-1990 NZUs.

NOTE 10: COMMITMENTS

	Unaudited 6 months to 31 Dec 18 $m	Audited 12 months to 30 Jun 18 $m	Unaudited 6 months to 31 Dec 17 $m
Contracted capital commitments	12	2	2

Capital commitments mainly arise from land development, building construction contracts, vehicle and livestock purchases.

DIRECTORY

CORPORATE AND REGISTERED OFFICE

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WEBSITES

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David Nelson

Tony Reilly

Belinda Storey

Chris Day

LEADERSHIP TEAM

Steven Carden
Chief Executive Officer

Rob Ford
GM Innovation, Technology & Environment

Mark Julian
GM Dairy Operations

Steven McJorrow
Chief Financial Officer

Alistair McMechan
General Counsel

Graeme Mulligan
GM Livestock Operations

Sarah Risell
GM Pāmu Foods

Peter Simone
GM People, Safety & Quality

Andrew Sliper
GM Commercial & Strategy

AUDITOR

Sonia Isaac, KPMG

Under appointment by the Auditor-General

BANKERS

Westpac New Zealand Limited

ANZ Bank New Zealand Limited

ASB Bank Limited

FURTHER INFORMATION

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