



# STATEMENT OF CORPORATE INTENT

2020/21 – 2022/23



PĀMU™

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# INTRODUCTION

- This SCI has been written in the context of an unprecedented global health and economic crisis generated by the Covid-19 virus.
- While Pāmu's role as a food and fibre producer, plus the geographically isolated nature of our businesses, means the impact of the crisis on Pāmu is relatively low compared to companies in other sectors, we are mindful of the need to take a prudent approach to the next 24 months given the level of economic uncertainty that will exist over that period.
- At the same time the ever increasing need for innovation in farm systems means that Pāmu must explore ways to continue investing in its strategy, especially around land use diversification. While there are commercial requirements to manage our debt levels prudently, we must also find capacity to continue investing in the strategy, which will positively ripple through our regional communities.
- The current crisis has in many ways validated Pāmu's strategy of the last six years: improving core profitability and resilience while diversifying our sources of income. This has strengthened Pāmu's balance sheet, reduced our reliance on only a couple of sources of income, and helped our farms keep apace with ever-expanding health & safety, environmental, food safety and animal welfare regulations and public expectations. Our progress on instilling operational excellence across our business has been heartening. Further, the investment we've made in our technology platform (rural broadband connectivity, new hardware, and a range of farmer-specific software applications, such as FarmIQ and Farmstore) means we're well positioned to cope with sweeping regulatory changes such as freshwater or specific crises such as Covid-19.
- However, much work remains to be done if we are to fulfil our vision of being a world leader in farming natural resources sustainably to produce premium, high margin food and fibre products. We believe our strategy, refreshed over the last four months, aligns with our shareholder's expectation of the business. The strategy refresh is also impacted by the broader trends in the food and fibre sectors which continue to dramatically reshape our operating environment. The threat of technological disruption to Pāmu's animal protein businesses, the growing risk attached to global inaction on climate change, biosecurity incursions and virulent disease outbreaks, and shifting consumer preferences are all placing strain on the longer term outlook for Pāmu's core commodity meat and milk business.
- In addition, the hastening shift towards a low carbon, circular bioeconomy as carbon prices rise, together with increasing demand for specialty dairy segments, provide a positive outlook for Pāmu's diversification. This includes more climate resilient, lower footprint (i.e. natural capital regenerative) farming systems. Similarly, the continual advancement in data capture and analytical technologies enhances Pāmu's ability to manage risk and lift productivity in all areas of its business.

# INTRODUCTION (CONTINUED)

- This SCI outlines both where our priorities will be over the next three years in implementing our strategy, and specific steps we will be taking in the short to medium term to address the present crisis. It is aligned with the latest Letter of Expectation from the shareholder (December 2019), and breaks Pāmu's operating model into four strategic imperatives:
  - i. Drive consistent excellence in all aspects of our pastoral farming business: environmental, profitability, people, animal welfare, innovation & technology
  - ii. Create scale and financial materiality in value add dairy businesses and, leverage these learnings and expertise into other food & fibre products
  - iii. Expand forestry, fibre, cropping and horticulture business: grow ecosystem service net returns from carbon, biodiversity, wind and pollination, optimised to complement our livestock businesses
  - iv. Maximise returns and value from our subsidiaries and joint ventures
- To progress on each of these four areas we have planned a number of key initiatives. These are outlined in the pages that follow. We have been mindful that the uncertainty around the Covid-19 situation means we need to maintain operating capacity in the business to react to new developments. As such the wellbeing and performance of our people remains a key priority.
- For each of the initiatives we have set ourselves specific targets. These targets aggregate up to achievement of the objectives we've set under our Six Capitals: financial, farms and animals, expertise, people, relationships, and environment, and they represent stocks of value that are affected or transformed by Pāmu's activities. While we are mindful of the risks attached to the current environment we are operating in, we are confident our strategy continues to equip Pāmu to thrive in the years ahead. Our mission as a company, *to enrich our land, our people and the future for farming*, remains more important than ever today.
- We look forward to confronting the challenges that we'll inevitably encounter, and we are excited by our ability to help strengthen New Zealand's farming and food sector, a sector Pāmu is proud to be a part of.

# ABOUT US

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

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

The Pāmu group, as illustrated overleaf, comprises Landcorp Farming Limited and its subsidiaries: Landcorp Estates Limited, Landcorp Holdings Limited, Landcorp Pastoral Limited, Focus Genetics Management Limited and Focus Genetics Partnership Limited and its subsidiaries (the Group).

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

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



# OVERVIEW OF THE PĀMU GROUP

PARENT

SUBSIDIARIES

JOINT VENTURES

Focus Genetics Ltd  
Partnership (100% owned)



Landcorp Holdings Ltd  
(100% owned)

Landcorp Pastoral Ltd  
(100% owned)

Landcorp Estates Ltd  
(100% owned)

Spring Sheep Dairy NZ  
(50% owned)



Farm IQ Systems Ltd  
(26% owned)



Melody Dairies  
(35% owned)



PĀMU™

Landcorp Farming Limited

Pāmu Farms and Pāmu Foods



PARENT

SUBSIDIARIES

JOINT VENTURES

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

Despite the impact of Covid-19, we remain committed to the Vision and Mission. Our preferred 2030 future envisages financial resilience (higher, more stable & diverse farm-gate returns and return on assets), better use of land, natural resources used within limits and adaption to climate change (more forestry, more plant-based enterprises, more precision), an attractor and developer of top talent, digitally astute and enabled, and Pāmu held in high regard as a rapid translator of science to commercial practice and a systems innovator benefiting NZ farming and food & fibre value chains.

## OUR VISION: WHAT DO WE ASPIRE TO BECOME

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

## OUR MISSION: WHY WE EXIST

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



# HOWEVER STRONG EXTERNAL DRIVERS CONTINUE TO SHAPE PĀMU'S STRATEGY

## FIVE IMPORTANT MEGA-TRENDS FOR PĀMU



1. **Disruption in our core dairy and meat businesses is occurring**, driven by new technologies (such as synthetic foods), shifts in consumer preferences, environmental limits (GHG emissions, water, nutrient limits), social license (animal welfare, farming practices) and operational constraints (labour).
2. **Climate change** is exacerbating weather volatility and production risks for pastoral livestock systems and public policy is progressively internalising the cost of greenhouse gas emissions.
3. **The internet and related IT technologies** are enabling Industrial 4.0 approaches such as integrated supply chains linking what happens on farm(s) to niche manufacturing capability, e-commerce and sophisticated distribution networks. Farm labour constraints are being reduced by automation and artificial intelligence for decision-support.
4. **Change in demand as consumers increase their health consciousness and environmental responsibility**. There is an increased demand for specialty dairy products and plant-based foods and natural fibres.
5. **A more volatile global environment**, as evidenced by the impact of Covid-19, political shifts away from multilateralism, and social media campaigns (e.g. animal welfare considerations changing food preferences for millennials). Price (market) and production (climate) volatility mean, other things being equal, traditional livestock returns will become less stable. The commodity cycle is becoming shorter and less predictable.
6. **A potential revaluation of assets**, due to a more volatile operating context, rationing of rural credit, new environmental limits and a venison market post Covid-19 affected by a high dependence on European and US food service markets.

# THESE TRENDS SUPPORT AN ONGOING TRANSFORMATION TO A NEW BALANCE OF LAND USES, MARKETS, AND CAPABILITIES

Drive performance through digitisation & standardisation

The increasing diversity of land uses, combined with the growing complexity of land management, requires an **increase in Pāmu's digital sophistication, talent base, partnerships, and innovation engine**. New Zealand will need and value companies able to demonstrate a pathway towards an increasingly diversified, sophisticated and specialised agriculture that enhances the future for farming. Digitisation and standardisation (including artificial intelligence), used together, will reduce complexity.



Operational excellence through a growing and changing portfolio of land management

Market shifts require a reassessment of the best uses of land and the longer term prospects for (and value of) land-based enterprises in Pāmu's land portfolio. **Better long-term prospects for, say forestry (supported by both the carbon price and demand for non-oil materials and energy) and plant-based foods, in a low emissions and increasingly bio-based economy**, suggests capital should be prudently redistributed from traditional to new parts of the business in order to increase Pāmu's financial returns and resilience over the mid- to long-term.

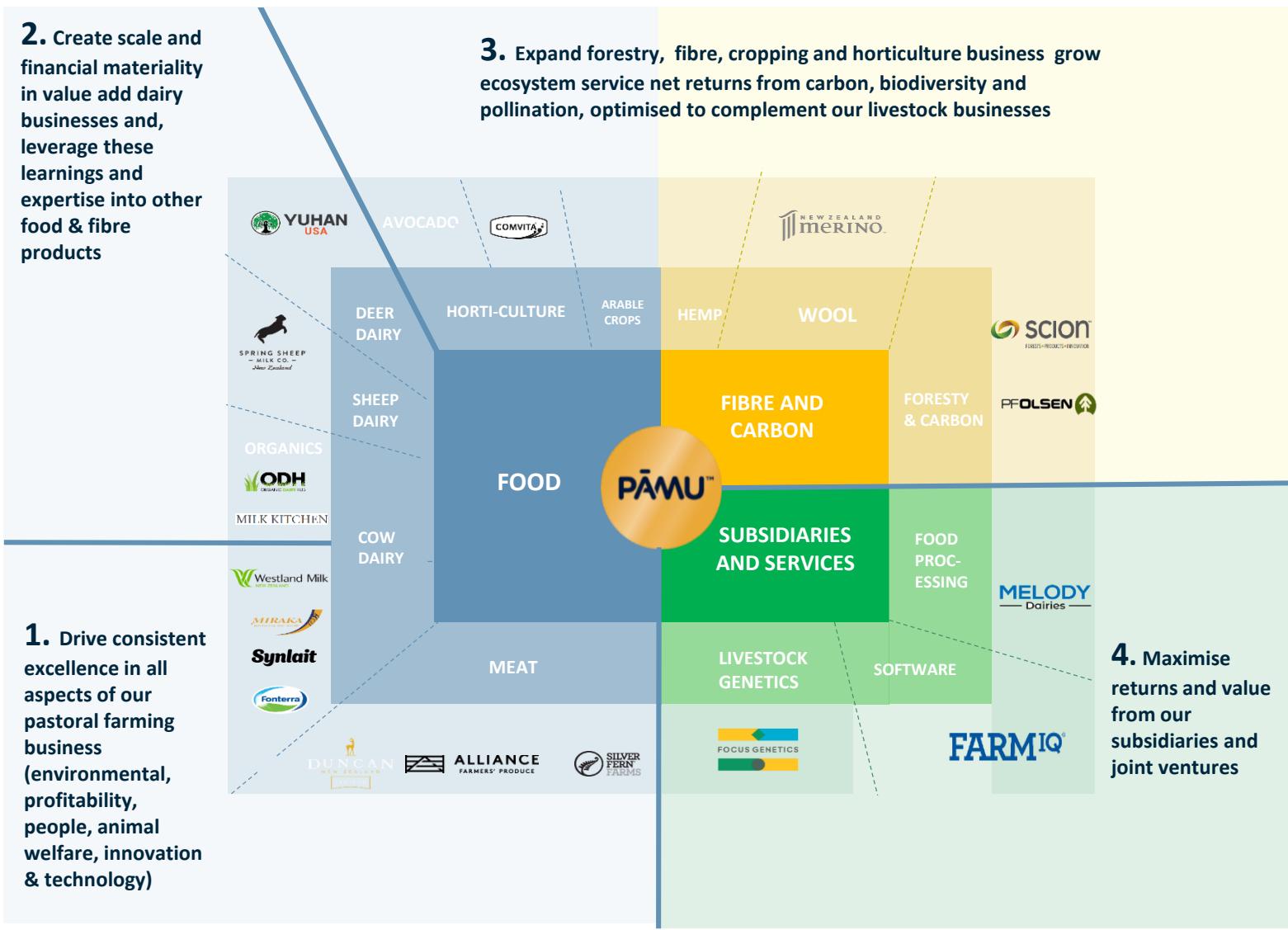


Generate and partner to access capital

However, capital tied up in land is relatively illiquid and diversification of land uses, such as into horticulture and forestry, is slow and can be costly. **Generation of working capital from ecosystem services**, particularly carbon, and in some cases partnering (such as with Spring Sheep Dairies) provide other ways to fund the transition and, for the latter, access expertise and customers. And, there is **scope to improve the overall quality of Pāmu's farms** (to enhance optionality of land use and achieve critical mass, such as through better co-location).



# AND THIS REQUIRES DIFFERENT STRATEGIC IMPERATIVES FOR EACH PART OF THE BUSINESS



# OUR STRATEGY ON A PAGE

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

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

WHAT we will do?

1. Drive consistent excellence in all aspects of our pastoral farming business
2. Create scale and financial materiality in value add dairy businesses
3. Expand forestry, fibre, cropping and horticulture business
4. Maximise returns and value from our subsidiaries and joint ventures

HOW we will do it?



Enrich the environment



Enhance the productivity of our animals and land



Digitisation and standardisation to drive performance



Develop & attract talented people and ensure their safety & wellbeing



Redistribute capital to higher earning activities



Be first choice for customers and partners

WHAT values defines us?

1. Grounded
2. Genuine
3. Bold
4. Shoulder-to-shoulder

To generate a strong financial return to the shareholder in a sustainable way

To lead and share innovation in farming practices, connected to changing consumer needs

To be a company New Zealanders are proud of and want to work for

WHY will we do this?

PĀMU™

# OPERATIONALISING THE STRATEGIC PLAN – PĀMU’S KEY INITIATIVES

Pāmu’s strategy requires a highly productive, internationally competitive and socially acceptable, diversified farming business. This section outlines the initiatives planned to deliver Pāmu’s strategic goals. In summary:

- Dairy business: Become an industry exemplar for high margin, lower intensity dairy systems that integrate best practice, have high levels of innovation, and capture increasingly valuable premiums.
- Sheep, beef cattle and deer (livestock) business: Achieve annualised productivity gains of 3-4% through genetic improvement, expert management, farm system re-design and strong links to supply chains and Pāmu’s speciality dairy beef portfolio.
- Environmental footprint: Meet new legislated and market requirements through the re-design of pastoral farming systems, new technologies, regenerative farming practices, and integrated land-use to generate ecosystem services and restore natural capital.
- Pāmu’s quality promise: Integrate Pāmu’s quality assurance framework across farms to ensure consistent standards and quality through a digital data capture platform and reporting network that provides rich real-time and predictive information on all aspects of the farming operation.
- Highest and best land use: Migrate to higher value land uses such as horticulture and cropping, and expand forestry and carbon income to diversify income streams and earn a higher return on assets.
- Pāmu Foods: Increase (and improve the stability) of farm gate returns by ensuring the farming business has consumer/market insights to meet ever-changing consumer tastes with respect to the products we can, and should produce.

# OPERATIONALISING THE STRATEGIC PLAN – PĀMU’S KEY INITIATIVES (CONTINUED)

The following tables set out Pāmu’s key initiatives under each of the four strategic imperatives.

## Strategic imperative 1: drive consistent excellence in all aspects of our pastoral farming business

- Driving on-farm performance through a focus on feed and genetics optimisation based on benchmarking insights and implementing the Pāmu Promise quality assurance framework.
- Expansion of new farm systems that meet enhance resilience and profitability over the longer term (including expanding Pāmu’s organic dairy farming footprint, beef to dairy program, all grass wintering and composting barn trials, once a day milking and consideration of the development of a deer milk farm).
- Environmental capabilities expanded across key priority areas with a particular focus on nutrient management (including the Eyrewell low intensity dairy pilot in Canterbury, ensuring operational compliance with farm environment plans and digitisation of core processes to increase precision application of nutrients).
- Developing and embedding our people competencies to deliver on our strategy including health and safety, animal welfare, environmental capabilities.
- Continue to explore options to better manage and recycle capital through treaty settlements and monetisation of our JV investments such as Spring Sheep Dairy.
- Utilising data to drive standardised operational performance on farm by leveraging our investment in FarmIQ and partnering investors and developers on E-Fencing, E-collars for cow monitoring and animal facial recognition.
- Strengthen Pāmu’s IT infrastructure and the company’s resilience.

# OPERATIONALISING THE STRATEGIC PLAN – PĀMU’S KEY INITIATIVES (CONTINUED)

The following tables set out Pāmu’s key initiatives under each of the four strategic imperatives.

## Strategic imperative 2: Create scale and financial materiality in value add dairy

- Continue to explore options to build a value added business for Pāmu bovine milk products leveraging a shift from conventional to organic milk. Support vertical supply chain integration to gain higher quality market intelligence with links to retail businesses and consumers
- Continue to explore options to build a commercially viable deer milking business

## Strategic imperative 3: Expand forestry, fibre, cropping and horticulture business

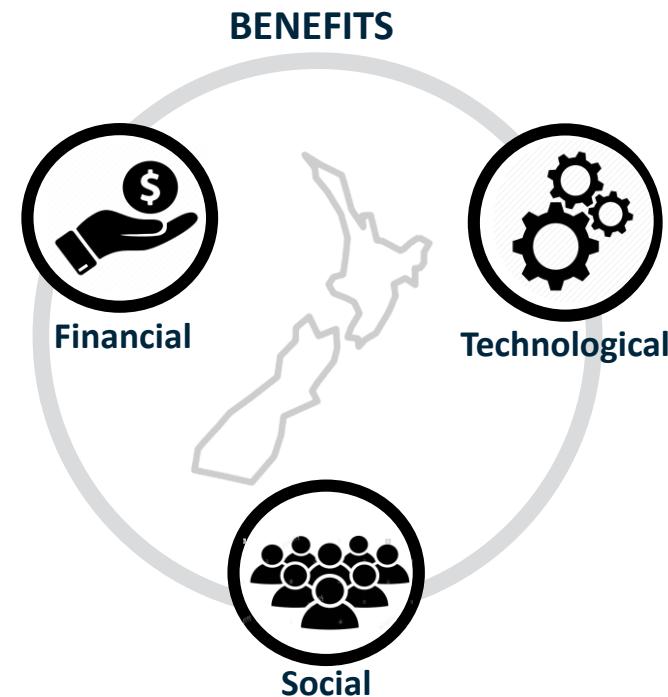
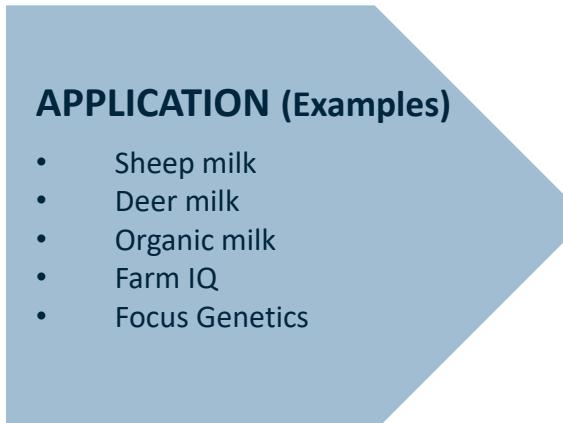
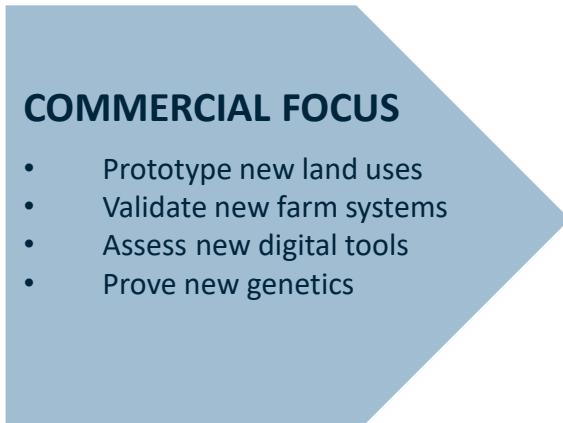
- Expand avocado plantations to reach scale
- Incorporate forestry and carbon more fully into farming operations
- Continue to explore options for alternative land uses (forestry, fibre, cropping and horticulture)

## Strategic imperative 4: Maximise returns/value from our subsidiaries/JVs

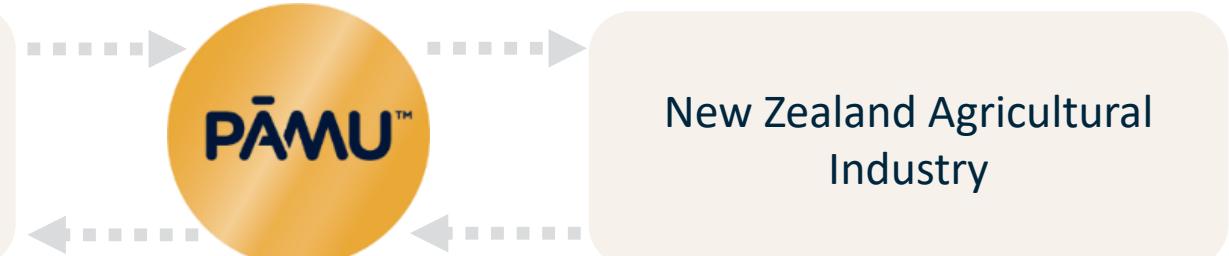
- Increase the profile of Focus Genetics and seek better alignment between its programmes and Pāmu’s including identification of superior genetics to support premiumisation and lighter footprint livestock (low methane sheep, low nitrogen urine cows and A2 milk)
- Successfully commission and operationalise Melody Dairies (dryer) at Waikato Innovation Park
- Grow and strengthen Farm IQ by proactively supporting initiatives to bring together key industry organisations together to support and use the Farm IQ platform.

# PĀMU IS UNIQUELY POSITIONED TO COLLABORATE AND LEAD

Delivering on our strategic imperatives requires us to be highly innovative, well connected to research, excellent at partnering and effective at sharing information with others. First and foremost Pāmu must be credible and perform financially, but through this strategy it can also play a valuable wider role in the NZ economy by developing and sharing social, technological and financial dividends.



**THE INTERFACE BETWEEN RESEARCH AGENCIES AND LAND OWNERS/MANAGERS GENERATES MULTIPLE FORMS OF INDUSTRY GOOD**



# PĀMU IS UNIQUELY POSITIONED TO COLLABORATE AND LEAD (CONTINUED)

The benefits of Pāmu's collaboration and leadership incur marginal costs, however:

- There is an industry good dividend as a result of leadership and collaboration. Demonstrating the addition of value to agricultural commodities, environmental stewardship, worker protection (health and safety) and animal welfare has a value to the wider industry.
- Failure to finely balance New Zealand's low cost production systems with sustainable production risks lowered demand for products, continued exposure to commodity price risk and defers the cost of compliance in a more globally connected world.
- Notwithstanding these costs Pāmu has an underlying demonstrable track record of performance. Since 2004 Pāmu has delivered total shareholder returns comparable to the returns from New Zealand farmland generally when compared to the REINZ All Farm Price Index.
- Individual farm performance is comparable to industry benchmarks. Despite exposure to poorer quality lands, Pāmu's on farm performance meets regional benchmarks. Its benchmarking program is a key tool for targeting opportunities for performance improvement.

# PROGRESS WILL BE MEASURED AND MONITORED AGAINST OUR PERFORMANCE SCORECARD

 <p><b>ENVIRONMENT</b></p> <ul style="list-style-type: none"> <li>Reduce Nitrogen applied per hectare: Dairy – No greater than <b>150 KgN</b> per effective hectare in all 3 years Livestock – No greater than <b>18.5 KgN</b> per effective hectare</li> <li>GHG emissions on all farming operations: <b>2% reduction</b> YOY over 3 years</li> <li>Additional Forestry <b>FY21 2,000 Ha</b>, FY22 1,500 and FY23 1,000.</li> </ul>	 <p><b>FARMS AND ANIMALS</b></p> <ul style="list-style-type: none"> <li>Livestock product: <b>FY21 3.13m net kg</b>, FY22 21.6m, FY23 21.8m, (FY20 20.8m Kg) Sheep 44% Beef 47% Deer 9%</li> <li>Dairy Product: <b>FY21 14.7m kgMs</b>, FY22 15.0, FY23 15.3, (FY20 14.8m)</li> <li>Cost of Production: per kgLWT <b>FY21 \$2.20</b>, FY22 \$2.19, FY23 \$2.17 per kgMS <b>FY21 \$4.97</b>, FY22 \$4.93, FY23 \$4.88</li> <li>Establishment of productivity benchmarks and plans.</li> </ul>	 <p><b>EXPERTISE</b></p> <ul style="list-style-type: none"> <li>New products developed and approved to launch: <b>2</b></li> <li>Technology development, engagement, transfer and industry engagement: <ul style="list-style-type: none"> <li>Intensive Winter Cropping Pilots – Composting barns</li> <li>Phase II of the Virtual Fencing Project - Waipori</li> <li>Iris facial recognition trials – Waipori / Thornicroft</li> <li>Canterbury Lighthouse Farm - lower environmental impact</li> <li>Winter Grazing apps – available for industry.</li> </ul> </li> </ul>
 <p><b>PEOPLE</b></p> <ul style="list-style-type: none"> <li>LTIFR and LTISR: <b>10% reduction</b> YoY for 3 years (FY19 9.44 and 26.01)</li> <li>Turnover: Maintain at <b>20%</b> over 3 years (FY19 22.2%)</li> <li>Engagement: <b>FY21 63.5%, FY22 65% FY23 66.5%</b> (FY19 59%)</li> <li>Talent measure: <b>10% increase</b> in internal promotions from current baseline YoY for 3 years.</li> </ul>	 <p><b>FINANCIAL</b></p> <ul style="list-style-type: none"> <li>EBITDAR (excluding rent/lease expense): Group EBITDAR <b>FY21 \$34.7m</b>, FY22 \$51.3, FY23 \$54.5m Livestock EBITDA/ha (effective): <b>FY21 \$245</b>, FY22 \$258, FY23 \$271 Dairy EBITDAR/ha (effective): <b>FY21 \$1,496</b>; FY22 \$2,505; FY23 \$2,567</li> <li>Net debt and lease liability to EBITDAR <b>FY21 14.5x</b> FY22 9.4x, FY23 9.0x</li> <li>Pāmu Foods (deer and dairy) sales <b>FY 21 \$2.7m</b>, FY22 \$14m, FY23 \$28m.</li> </ul>	 <p><b>RELATIONSHIPS</b></p> <ul style="list-style-type: none"> <li>Pāmu Foods strategic in market relationships developed and contracts signed: <b>4</b></li> <li>Finished livestock under fixed price / GMP Contract: <b>48%</b> of supply</li> <li>Dairy farms supplying into added value customer contracts: <b>53%</b></li> </ul>

At the date of preparation the FY20 financial results are not available and therefore no comparatives are provided. For some other metrics comparatives are provided for the most recent available year, where relevant. Milk production relates to Pāmu owned farms.

# PĀMU IS RESILIENT AND HAS TOOLS TO MANAGE INCREASED RISK AND VOLATILITY

Covid-19 has introduced greater uncertainty and volatility which impact on Pāmu's performance. Pāmu is positioned to manage risk and uncertainty through:

- Its large scale and diverse core farming business. Pāmu is diversified across livestock species, dairy, forestry and carbon
- Well balanced exposure to downstream processors. Pāmu supplies multiple dairy and meat processors
- Farm practices that attract a price premium. E.g. organic, winter and A2 milk
- The development of a range of scenarios: This Board tool is dynamic and shows different commodity price outcomes with correlated expense and capex responses with options to phase and/or delay expenditure
- Financially resilience. Total gearing is modest and bank facilities have recently been extended. Forecast assumptions are within the consensus range. Hedging policies and strategies mitigate risk. Short term, on farm investment programs can be curtailed. Asset values are underpinned by low interest rates. NZ currency provides a natural hedge to commodity price risk
- Asset mix can be re-engineered in response to change. Pāmu farms have a variety of land use capabilities including organic dairy, forestry and horticulture
- Pāmu's non-farm investment is low risk and manageable. Pāmu's off-farm investment strategy represents a small proportion of total assets (1.5%). A high proportion of investment activity can be curtailed in response to changing conditions. The value add strategy will over time mitigate commodity price risk.

# FINANCIAL PERFORMANCE MEASURES

	<i>Budget</i>	<i>Business Plan</i>	<i>Business Plan</i>
	<i>FY21</i>	<i>FY22</i>	<i>FY23</i>
<b>Shareholder Returns</b>			
Total Shareholder Return* %	(0.1)%	0.1%	0.6%
Return on Equity %	(0.0)%	0.1%	0.6%
Dividend Yield %	0.0%	0.0%	0.0%
<b>Profitability &amp; Efficiency</b>			
Return on Invested Capital %	0.8%	2.4%	2.6%
Operating Margin %	16.5%	21.5%	21.2%
<b>Leverage &amp; Solvency</b>			
Gearing (Net Debt/Net debt plus equity) %	16.3%	15.3%	15.9%
Net debt and lease liability to EBITDAR (x)	14.5	9.4	9.0
Debt to EBITDA (x)	7.6	4.7	4.7
Interest Cover x (Underlying EBIT**/Net Interest)	0.7	2.3	2.7
Solvency (including current debt)	0.9	1.2	1.2
Solvency (excluding current debt)**	4.4	4.0	4.0
<b>Leverage &amp; Solvency</b>			
Revenue Growth	0.9	1.0	1.1

Definitions are set out on the following page.

\*Total Shareholder returns do not include non-equity accounted value uplift in associated entities such as Spring Sheep Dairy and Melody Dairies

\*\* Underlying EBIT is calculated according to the definition on the following page

\*\*\* The current portion of long term debt is excluded from the definition of Current Liabilities on the basis that all debt will be refinanced as it matures, and operating cash flow is positive i.e. debt is used to fund capital expenditure, not working capital.

# PERFORMANCE MEASURE DESCRIPTORS

Shareholder's return Measure	Description	Calculation
Total shareholder return	Performance from an investor perspective - dividends and investment growth	(Commercial value-end less Commercial value-beg plus dividends paid less equity injected) / Commercial value-beginning
Dividend yield	The cash return to the shareholder	Dividends paid / Average commercial value
Return on equity	How much profit a company generates with the funds the shareholder has invested in the company	Net profit after tax / Average equity
Profitability/efficiency	Description	Calculation
Return on invested capital	The efficiency and profitability of a company's capital from both debt and equity sources	EBIT less non-operating items / Average interest bearing debt plus average share capital (including RPS) plus average retained earnings plus average other equity
Operating margin	The profitability of the company per dollar of revenue	EBITDAR less non-operating items / Revenue
Leverage/solvency	Description	Calculation
Gearing ratio (net)	Measure of financial leverage - the ratio of debt (liabilities on which a company is required to pay interest) less cash, to debt less cash plus equity	Net debt / Net debt plus equity
Debt and Lease Liability to EBITDAR	Size of debt and lease liability relative to earnings	Net debt plus lease liability / EBITDAR
Debt to EBITDA	Size of debt relative to earnings	Net debt / EBITDAR less non-operating items
Interest cover	The number of times that earnings can cover interest	EBIT less non-operating items / Net bank interest
Solvency	Ability of the company to pay its debts as they fall due	Current assets / Current liabilities
Growth	Description	Calculation
Revenue growth	Measure of growth	Current year's revenue / previous year's revenue

Non-operating items include fair value adjustments and other gains/losses

# CAPITAL STRUCTURE

The issued share capital of Landcorp Farming Limited as at 30 June 2019 is 125,000,000 million ordinary shares at \$1.00 each (\$125 million) and 86,513,000m redeemable preference shares of \$1.00 each, giving a total share capital of \$211.5m.

The redeemable preference shares reflect the commercial arrangement with the Crown that saw Pāmu's shareholder purchase redeemable preference shares up to an agreed market value of designated land that has been protected from sale. This land is held by Landcorp's subsidiary, Landcorp Holdings Limited, for the purpose of future historical Treaty of Waitangi settlements by the Crown.

After balancing operating, capital, and dividend cash flows, Pāmu's estimated closing interest bearing debt for the next three years is: \$264m (30 June 2021), \$246m (30 June 2022) and \$258m (30 June 2023).

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

\$m	Budget	Business Plan	Business Plan
	FY21	FY22	FY23
Total Assets	1,977	1,955	1,970
Total Liabilities	635	612	618
<b>Total Equity</b>	<b>1,342</b>	<b>1,343</b>	<b>1,352</b>
Interest Bearing Debt / Total Funding	16.3%	15.3%	15.9%
Shareholders' Funds / Total Assets	67.9%	68.7%	68.6%

# DIVIDEND POLICY

Directors will consider dividends after achieving a target debt level consistent with the Board's risk appetite. Assuming the target debt level is achieved then Pāmu aims to pay Net Cash Flows From Operating Activities, less:

- maintenance capital expenditure; and
- contractually committed capital expenditure.

Investment in new business opportunities will be considered after discussion with the shareholder. The level of forecast dividend will be reviewed annually as part of the business planning process and at the end of each financial year. This policy ensures that Pāmu manages its capital structure prudently and allows for re-investment in accordance with its strategy, where appropriate.

As a farming company, most of Pāmu revenue flows are in the second half of each financial year and Pāmu is also significantly exposed to commodity price volatility, exchange rates and climatic conditions. This means that in the absence of extraordinary circumstances, farming operations are not in a position to fund an interim dividend. Therefore, dividends are normally paid in October following financial year end.

# REPORTING AND DISCLOSURE

## Reporting to shareholding Ministers

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

- Annual Report: within three months of the end of each financial year and including audited financial statements of the year and a report from the Chairman and Chief Executive;
- Half-Yearly Report: within two months of the end of each half year, including unaudited statement of financial position, and a qualitative report from the Chairman and Chief Executive on the company's performance; and
- Quarterly Reports: within one month of the end of each quarter and comprising a commentary and summary of financial performance.

In addition, Pāmu has regular meetings with officials and one-off meetings with shareholding Ministers on an as-needed basis.

## Continuous Disclosure

Under Pāmu's continuous disclosure policy, once Pāmu becomes aware of any "Material Information" concerning it, then Pāmu immediately releases that information to the public through its own and the Treasury's website after ensuring that shareholding Ministers are aware of that information.

Material Information requiring disclosure includes matters that may have a material effect on the current commercial value of Pāmu, dividend declarations or a transaction representing 5% or more of Pāmu's current commercial value. Exceptions to the disclosure rules include breach of an obligation of confidentiality, trade secrets, incomplete proposals or negotiations, matters of supposition and information generated for internal management purposes.

# CONSULTATION AND COMPENSATION

## Consultation

All share, equity or asset acquisitions or disposals will reflect Pāmu's strategy. Pāmu will consult with shareholding Ministers before it or any of its subsidiaries makes a significant capital investment decision which means:

- a) investing, by one or more related transactions, \$20m or more in any activity within the nature and scope of its core business;
- b) making, by one or more related transactions, an investment that is outside the nature and scope of its core business;
- c) selling or disposing of the whole or any substantial part of the company;
- d) diversification or overseas expansion (including offshore investments).

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

## Compensation from the Crown

Section 7 of the Act allows for the Crown to enter into an agreement with Pāmu under which the Crown would pay Pāmu for undertaking a non-commercial activity.

If the Crown wishes or requires Pāmu to undertake activities or assume obligations which constrain Pāmu from acting in a normal, business-like manner or which will or could impact on Pāmu's profit or value, Pāmu will seek compensation in accordance with section 7 of the Act. This includes compensation for retaining properties normally intended for sale but which might be required by the Crown to fulfil Treaty of Waitangi settlement obligations.

# APPENDICES

# APPENDIX 1: SHAREHOLDER LETTER OF EXPECTATIONS

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

## 1. On-farm activities

- Primary objective is to be successful pastoral farmer
- Investigate ways to lift profit, productivity, minimise capex and reduce volatility
- Reduce environmental impact
- Investigate and research:
  - High value use of each block of land and migrate to higher uses
  - Lower input and less intensive farming systems
- Support the 1 billion trees programme through native and exotic tree planting

## 2. Off-farm activities

- Continue to focus on activities that will deliver proven profitability
- Need shareholder consent for pursuing new off farm activities
- Supportive of recent strategic review of Pāmu Foods, and expect similar lens on other off farm activities
- Continue to manage head office costs prudently

## 3. Transparency & engagement

- Transparency on strategy, and operational and financial performance
- Engagement with Treasury

## APPENDIX 2: INTEGRATED REPORTING – OUR SIX CAPITALS

 <h3>ENVIRONMENT</h3> <ul style="list-style-type: none"><li>Developing <b>climate resilient</b> farm systems suitable for a limits-based environment.</li><li>Encouraging thriving <b>biodiversity</b> within our farm systems that enhance natural capital.</li><li>Protecting and enhancing the <b>freshwater</b> used in our farming systems.</li></ul>	 <h3>FARMS AND ANIMALS</h3> <ul style="list-style-type: none"><li>Leadership in <b>shifting land uses</b> to higher return systems, both animal and plant-based.</li><li>To foster and enhance the <b>selected animal's</b> natural behavior, productivity, and surrounds using nature's toolbox first to have a life worth living.</li><li>Emerging leader in establishing a plantation and permanent <b>forest footprint</b> that neutralises emissions, enhances biodiversity and generates profitable tree products inter-generationally.</li></ul>	 <h3>EXPERTISE</h3> <ul style="list-style-type: none"><li>A hub that supports the trialling and development of new <b>agriculture technologies and science-based solutions</b> from NZ and international providers.</li><li>Leaders in the integration of pasture-to-plate products, including product development to supply chain management and market development.</li></ul>
 <h3>PEOPLE</h3> <ul style="list-style-type: none"><li>Creating the <b>safest</b> places to farm, fit in body and mind, that attracts and retains a talented, diverse workforce.</li><li>A leader in <b>the development</b> of people in the primary sector across a wide range of disciplines.</li><li><b>Widely known</b> and respected by New Zealanders for who we are and what we do.</li></ul>	 <h3>FINANCIAL</h3> <ul style="list-style-type: none"><li><b>Returns on capital employed</b> are comparable to appropriate industry benchmarks</li><li><b>Capital recycled</b> into higher earning equity growth, real assets and other activities where they exist.</li><li>A <b>dividend</b> stream for the shareholder based on sales &amp; margin growth, strong cost control, and a sustainable balance sheet.</li><li><b>Risk and volatility</b> managed sensibly.</li></ul>	 <h3>RELATIONSHIPS</h3> <ul style="list-style-type: none"><li>Being a <b>highly sought-after partner</b> to those in the farming sector and across our supply chains, locally and abroad.</li><li>Creating high market value <b>subsidiaries</b> that generate strong returns and build valuable know-how to support Pāmu's business.</li><li>A <b>constructive partner with iwi and Maori</b> organisations pre and post Treaty of Waitangi settlement.</li></ul>

# APPENDIX 3: COMMERCIAL VALUE OF THE CROWN'S INVESTMENT

## MARKET VALUE

The Pāmu Board considers the commercial value of the company (including subsidiaries) to be \$1.3 billion as at 30 June 2020.

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

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

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

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

# APPENDIX 4: SUMMARY OF FINANCIAL ACCOUNTING POLICIES

## STATEMENT OF COMPLIANCE

The financial statements are prepared in accordance with NZ Generally Accepted Accounting Principles (GAAP) under the Companies Act 1993 and the Financial Reporting Act 2013, using a fair value basis, except for an historical cost basis for certain assets and liabilities. The financial statements comply with New Zealand equivalents of the International Financial Reporting Standards (NZ IFRS), and other applicable financial reporting standards, as appropriate for profit-oriented entities.

NZ IFRS can significantly impact on Pāmu's reported income through the requirement to include material unrealised gains and losses within reported profits. This can substantially increase the volatility of reported income. In addition, Pāmu's forecast profits can be significantly different to actual results, depending on changes in the fair value of livestock, land and buildings, investments and income tax as calculated under NZ IFRS.

## MEASUREMENT BASE

The financial statements have been prepared using a historic cost basis, modified by the revaluation to fair value of certain assets and liabilities as disclosed below.

## FUNCTIONAL AND PRESENTATION CURRENCY

The financial statements are presented in New Zealand dollars (NZ\$) and all values are rounded to the nearest million dollars (\$m). The functional currency of Pāmu is NZ\$.

## BASIS OF CONSOLIDATION

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

# APPENDIX 4: SUMMARY OF FINANCIAL ACCOUNTING POLICIES

## CHANGES IN ACCOUNTING POLICIES

The Group has adopted NZ IFRS 16 Leases from 1 July 2019, using the modified retrospective approach under which comparative information has not been restated. NZ IFRS 16 requires Pāmu to capitalise leased assets and liabilities in the Statement of Financial Position by measuring the present value of remaining lease payments, discounted using Pāmu's incremental borrowing rate. In the Statement of Profit or Loss, operating lease costs have been replaced with a depreciation charge on leased assets and an interest expense in respect of lease liabilities.

On transition to NZ IFRS 16 Landcorp recognised leased assets and liabilities of \$250m at Pāmu's incremental borrowing rate of 4.77%. These largely related to land leased at Wairakei Estate for dairy farming. This lease was entered into in 2004 with land being handed over progressively during the lease term which ceases in 2049. Other leases held by the Group relate to farm land and office buildings. These leases vary in length. Some leases include options to renew the lease for an additional period after the end of the contract term.

It should be noted that the underlying commercial arrangements and cashflows relating to leases are not affected by the adoption of NZ IFRS 16.

## COMPARATIVE INFORMATION

When presentation or classification of items in the financial statements is amended or accounting policies are changed, comparative figures are restated to ensure consistency with the current period unless it is impracticable to do so.

# APPENDIX 4: SUMMARY OF FINANCIAL ACCOUNTING POLICIES

## REVENUE

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

Livestock revenue is recognised following the delivery of stock. Various forms of livestock sales contracts are held with meat processors. These contracts will generally fix prices for future sales while setting guaranteed minimum or spot prices.

Milk revenue is recognised following delivery to the milk processor using the processor's most recent forecast price and dividend information. Differences between forecast and actual revenue for the current year are accounted for in the following financial year.

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

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

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

## ACCOUNTS RECEIVABLE

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

# APPENDIX 4: SUMMARY OF FINANCIAL ACCOUNTING POLICIES

## INVENTORIES

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

## PROPERTY HELD FOR SALE

Properties are identified for sale when a sales plan has been implemented and an unconditional sales contract is expected to be signed within a year and comprise farm land and associated buildings. Property held for sale is measured at the lower of the carrying value of the property when it was classified as property held for sale and fair value less sales costs.

## LIVESTOCK BIOLOGICAL ASSETS

Livestock are recorded at fair value less estimated point-of-sale costs. Value changes that form part of Pāmu's livestock management policies, including animal growth and changes in livestock numbers, are recognised within revenue in the Statement of Profit or Loss. Changes in value due to general livestock price movements are beyond Pāmu's control and so do not form part of Pāmu's livestock management policies. These value changes are recognised in the Statement of Profit or Loss within fair value movement in biological assets.

## FORESTRY BIOLOGICAL ASSETS

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

# APPENDIX 4: SUMMARY OF FINANCIAL ACCOUNTING POLICIES

## EQUITY ACCOUNTED INVESTMENTS

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

## SHARE INVESTMENTS

The Group is required to hold certain shares and investments in cooperative companies to facilitate farming operations. Shares are held as a consequence of business operations and 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.

## INTANGIBLES

### (a) Genetic royalties

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

# APPENDIX 4: SUMMARY OF FINANCIAL ACCOUNTING POLICIES

## INTANGIBLES (CONTINUED)

### (b) Carbon credits

As a forester, Pāmu is allocated emission credits (NZUs) and will incur liabilities through the ETS. Pāmu had applied for and received credits on pre-1990 forestry plantations. In the event that pre-1990 forests are deforested, a deforestation liability would be incurred. Pāmu has also claimed and received credits on its post-1989 forest carbon sequestration. When credits are received, they are recognised as revenue at the market determined price. Should these plantations be harvested and/or deforested, a liability would be incurred up to a maximum of the credits received.

### (c) Software

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

## PROPERTY, PLANT AND EQUIPMENT

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

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

# APPENDIX 4: SUMMARY OF FINANCIAL ACCOUNTING POLICIES

## PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

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

Depreciation is provided on a straight-line basis on all property, plant and equipment other than land and land improvements. Depreciation rates are used to allocate the cost or revalued amount of the assets to their estimated residual values over their useful lives. The useful lives of major classes of property, plant and equipment have been estimated as follows:

Buildings	30 - 60 years
Leasehold improvements	lease term
Plant	3 -10 years

## BANK LOANS

Bank loans are valued at amortised cost and are the drawn components of bank cash advance facilities. The facilities may be borrowed against, or repaid, at any time by Pāmu. The facilities are subject to a negative pledge agreement which means that Pāmu may not grant a security interest over its assets without the consent of its lenders. Facilities are either on a daily floating interest rate or a short-term fixed rate and therefore carrying value approximates fair value.

### *Financial guarantees*

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

# APPENDIX 4: SUMMARY OF FINANCIAL ACCOUNTING POLICIES

## INTEREST RATE DERIVATIVES

Interest rate derivatives are valued at fair value ('exit price' basis). Accrued interest is calculated based on the market 90 day rate (30 June 2019 1.7%) and is removed from the revaluation provided by each swap provider. Any fair value gains or losses on these financial instruments are reported in the Statement of Profit or Loss.

## TAX

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

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

## PROVISION FOR DIVIDENDS

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