



New Zealand Farming

**LANDCORP FARMING LIMITED
HALF YEAR REPORT
FOR THE SIX MONTHS
ENDED 31 DECEMBER 2014**



Landcorp Farming Limited is a State-Owned Enterprise that produces milk, meat, and fibre for global supply. Landcorp runs 1.6 million stock units over farms with a total area of 385,086 hectares. The company has extensive business relationships with meat and milk processors, farm input suppliers, other farmers and discerning international customers.

HALF YEAR REVIEW

Acting Chair and Chief Executive

Landcorp is making good progress towards achieving its purpose to transform New Zealand farming.

In the first half of 2014/15, we pursued initiatives under our five core strategies. We also met immediate challenges posed by a sharp reversal in global dairy prices and by dry weather conditions.

STRATEGIC INITIATIVES

We remain highly focused on the five core strategies established in 2013/14 to achieve Landcorp's purpose over the long-term.

VOLUME

We are on track with growth programmes in dairy and livestock farming, largely in partnership with other investors. On Wairakei Estate, in the central North Island, another four dairy units are due to begin operating from July 2015. Three of the new farm managers to join this complex have already been appointed.

Our dairying joint venture with Shanghai Pengxin has lifted production substantially on these 13 North Island farms. This is their second full year of operating with Landcorp herds and employees. Our partnerships with iwi on the Sweetwater and Pouarua complexes (in the Far North and the Hauraki Plains) are proceeding well. Landcorp's dairy conversion at Eyrewell, North Canterbury, is nearing completion with the first of four large irrigators installed during the latest half year. Our expanded Maronan complex, South Canterbury, has come into full production in 2014/15.

We are stepping up our focus on productivity gain farm-by-farm with good results. Managers and staff are identifying and sharing best practices and new ideas for productivity in dairy, sheep, beef and deer operations. The latest half year saw the beginning of regular on-farm workshops for knowledge sharing across Landcorp and, increasingly, onto other New Zealand farms. Our Moutoa dairy complex, Manawatu, is a good example of such productivity gain: production per cow is up 2% with no additional cost in the half year in a comparison with the corresponding period in 2013.

We are also putting additional resources into genetic progress in the red meat industry through our full acquisition of Focus Genetics. Landcorp, previously a 67% partner, will provide the support required for its growth as New Zealand's largest source of superior sheep, cattle and deer genetics. Focus Genetics will aim to support sustained productivity gains in Landcorp's (and other farmers') red meat production.

HALF YEAR REVIEW CONTINUED

VALUE

We are pushing ahead with opportunities for integration of existing and new Landcorp products into value chains, and for the development of new niche markets. New General Manager of Marketing Sarah Risell is driving strategic initiatives in red meat, fine wools, sheep milk, deer leather and other product areas. Ms Risell brings to Landcorp expertise in the global marketing of New Zealand products from her time as an executive at Fonterra.

In December 2014 Landcorp resumed seasonal supply of lamb into the Finest* programme of UK grocery chain Tesco. Our expertise in the large scale finishing and supply of lambs bred with superior Landcorp genetics means we are once again on track to meet the precise requirements of this customer (more than 130,000 lambs between December and early April). This supply chain relationship was developed further when Tesco representatives visited key farms during November. Landcorp is supplying a further 42,000 specific lambs in other time-critical contracts during 2014/15.

Our value chain strategy involves Landcorp working closely with research institutes, processors, international marketers and others on a range of products that potentially have high value in specific export and local markets. This includes exploratory work currently underway on developing a sheep milk business.

EFFICIENCY

We have new projects to streamline Landcorp's work processes, accelerate innovation and secure more of the advantages of being a large-scale farmer. Under this strategy, termed "Project Simple", managers and staff are being supported to identify and eliminate duplication of processes and resources, on farm and in the Wellington office utilising LEAN and Six Sigma business improvement processes. Training on two large Landcorp properties during the latest half year enabled people to identify substantial efficiency gains in how they work. We expect to roll this programme out across all farms over the next two years, driving an improvement in efficiency, permanently reducing waste and costs, and most importantly, improving staff satisfaction with their roles.

Landcorp now has a multidisciplinary group to drive innovation across the company by ensuring that ideas are shared and coordination occurs between diverse projects. Called LEAP, this group is tasked with looking at what big innovations Landcorp can make that will drive significant change in farming practices over the next 10 years. LEAP combines the Research and Development, Technology and Analytics teams with leading farm staff to share new innovations and find solutions to some of Landcorp's biggest challenges.

In 2014, we completed the roll-out of the Farm Management System (FMS) to all farms. Managers are using this information reporting and analysis tool to improve the accuracy of their decision making, drive precise application of inputs on farm and provide a comprehensive record of all activities across the farm. The FMS was developed by FarmIQ and Landcorp, and having seen the difference it is making across its farms, we are keen to help drive adoption of the system more broadly among New Zealand farmers.

ENVIRONMENT

We are increasingly engaged with experts and other interested parties to improve Landcorp knowledge and practices on environmental management and sustainability. Our commitment is to integrate environmental rejuvenation with productive and profitable farming.

In the latest half year we completed a measurement of Landcorp's carbon footprint, with planning now underway on how best to achieve carbon neutrality by 2024. The period also saw Landcorp invite concerned local groups onto the Moutoa and Wairakei dairy complexes to discuss water quality issues in nearby rivers (Manawatu and Waikato, respectively). Such positive local engagement helps Landcorp respond to concerns and gain further insight for farming best practice.

We are on track for each Landcorp farm to have a Land and Environment Plan in place by July 2015. These plans detail the environmental management programme to be undertaken by that farm over the next three years, with farm staff responsible for delivering on the plan. Other projects include developing a model for analysing the environmental impact of any dairy operation, and for linking this to its productivity and profitability. We are also creating a standardised scorecard for environmental reporting on each Landcorp dairy or dry stock farm.

Our commitment is to integrate environmental rejuvenation with productive and profitable farming.

PEOPLE

We are well advanced with changes in the Landcorp management structure to strengthen leadership, innovation and commercial competency. We have also established a new People and Capability team that will support managers and staff through a business partnership model. The key focus of this new team is on growing leadership capability, implementing core best practice human resource processes and developing training and development programmes across the company.

Health and safety remain our highest priority in leading Landcorp people. The "Play it Safe" campaign rolled out in early 2014 is certainly helping change attitudes and behaviours. The latest half year saw a 219% jump in reports of near-miss and first aid incidents compared with the previous corresponding period. Our people are discussing safety and have a greater awareness of the value of reporting incidents with the learnings that follow. Landcorp is moving to adopt industry best-practice measures of workplace injury and of time lost due to injuries. These will be reported for 2014/15 and beyond.

At 31 December 2014, Landcorp had 699 permanent employees, an increase from 692 six months earlier, mainly due to growth in our dairy operations (and partially offset by reductions in the number of head office staff).

HALF YEAR REVIEW CONTINUED

HALF YEAR RESULTS

Landcorp made a net operating profit of \$1.0 million for the half year ended 31 December 2014. This was down from \$13.1 million in the previous corresponding period when milk prices to New Zealand dairy producers reached record high levels. Forecast payouts from Fonterra and other dairy companies for 2014/15 are approximately 44% down.

Landcorp increased milk and livestock production volumes during the latest half year, despite adverse weather in some regions. Spring was drier and colder than average across much of the South Island, while parts of the North Island had unseasonably high rainfall. Conditions improved in most regions during December, 2015 began with low soil moisture levels in the Waikato, eastern parts of the lower North Island, Otago and Canterbury. Drought was an emerging risk in the latter region.

We have achieved a lambing rate across Landcorp of 141.5% for 2014/15, ahead of the previous year and significantly higher than the national average in the current year. This reflects a particularly strong performance on our North Island breeding units.

Landcorp's half year revenues were down to \$115.1 million (from \$121.3 million in the previous corresponding period) due to an 18% contraction in milk revenue to \$61.5 million. Our earlier decision to opt into Fonterra's Guaranteed Milk Price (GMP) scheme for 2014/15 has reduced the revenue impact of sharply lower global dairy prices. Landcorp accepted GMP offers for a significant share of our milk production at prices above the \$4.70 per kilogram of milksolids which is Fonterra's current forecast for producers generally.

Higher beef prices and stability in lamb prices were significant positives for Landcorp's half year performance, with livestock revenues up 11% to \$44.7 million. New Zealand beef schedule prices in December 2014 were 30% up from a year earlier, reflecting global beef market shortages. The latest half year also saw a general lift in wool prices, pushing our wool revenue up 19%.

We responded to falling milk revenue by ensuring tight controls on spending and a continued strong focus on productivity. A small increase in total expenditure (5%) was driven by new dairy units becoming operational on the Wairakei Estate. Excluding the impact of this increase in production capacity and our partnership with iwi on the Pouarua complex, costs were only 1.3% higher across the comparable periods. In terms of core farming operations (excluding Focus Genetics which was affected by drought in the prior period) costs were virtually flat.

Farm managers have once again been proactive in addressing the potential for extended dry conditions during 2014/15, paying especially close attention to flock and herd sizes and locations, and to lamb finishing dates.

We responded to falling milk revenue by ensuring tight controls on spending and a continued strong focus on productivity.

OUTLOOK

We are moving ahead rapidly on initiatives under each of Landcorp's five core strategies. The benefits will flow progressively and over time. We expect improvements and changes in how we farm and how we supply products of the highest quality to customers and consumers locally and worldwide. We are committed to transforming New Zealand farming.

Landcorp people are embracing our purpose and rising to the challenges involved. We thank them sincerely for a huge contribution in the latest half year and for rising to the challenges posed by the weather and the sharp reversal in dairy prices.

For full year 2014/15, we expect Landcorp's net operating profit to be between \$1 million and \$6 million (as indicated in October). This will be significantly down from the previous year because of the lower milksolids payout to producers. Such commodity price volatility underscores our imperative to transform Landcorp and New Zealand farming.



A stylized black ink signature of Traci Houpapa.

Traci Houpapa MNZM JP
Acting Chair



A stylized black ink signature of Steven Carden.

Steven Carden
Chief Executive Officer

STATEMENT OF COMPREHENSIVE INCOME

for the six months ended 31 December 2014

	Note	Unaudited 6 months to 31 Dec 14 \$m	Audited 12 months to 30 Jun 14 \$m	Unaudited 6 months to 31 Dec 13 \$m
Revenue				
Livestock	4	44.7	98.7	40.3
Milk		61.5	129.0	74.8
Wool		3.2	9.1	2.7
Forestry		0.3	3.7	1.5
Other produce		0.1	1.2	0.2
		109.8	241.7	119.4
Income from equity accounted investments		-	0.4	0.1
Other gains and losses		(0.1)	(1.4)	(1.9)
Other income		5.4	6.3	3.7
		115.1	247.0	121.3
Expenses				
Farm working expenses		49.1	92.2	46.6
Personnel		30.0	56.7	29.0
Depreciation and amortisation		7.1	14.4	6.9
Maintenance		7.1	13.4	6.7
Other expenses		15.4	30.3	14.6
		108.7	207.0	103.8
Net Profit before Interest, Property Sales and Revaluations		6.4	40.0	17.5
Interest expense		(5.4)	(10.0)	(5.3)
Net Finance Costs		(5.4)	(10.0)	(5.3)
Net Operating Profit		1.0	30.0	12.2
Profit/(loss) on sale of land		-	0.1	(0.9)
Revaluation Gains and Losses				
Gain due to price changes on forests		-	0.4	-
Gain due to price changes on livestock	4	62.6	36.7	95.5
Loss/(gain) due to price changes on financial instruments		(3.9)	2.1	3.3
Gain on revaluation of property, plant and equipment		-	1.8	-
Net Profit before Tax		59.7	71.1	110.0
Tax income (expense)		3.0	(16.4)	(0.7)
Net Profit after Tax		62.7	54.7	109.3

Note	Unaudited 6 months to 31 Dec 14 \$m	Audited 12 months to 30 Jun 14 \$m	Unaudited 6 months to 31 Dec 13 \$m
Other Comprehensive Income			
Gain on revaluation of land and improvements	-	67.6	0.4
Revaluation gains transferred to and recognised in profit and loss	-	(1.8)	-
Gain/(loss) on revaluation of available-for-sale financial assets	3.6	(7.9)	(12.2)
Gain due to price changes on intangible assets	0.5	0.8	0.5
Income tax on income and expense recognised in equity	-	2.5	0.1
Total Comprehensive Income	66.8	115.9	98.1

The accompanying notes form part of these financial statements.

The Directors note that the Net Profit after Tax for the six months to 31 December 2014 as reported under NZ IFRS includes significant revaluation gains and losses on livestock and financial instruments used for interest rate hedging. These gains and losses are valued at a particular point in time and do not represent cash flows that are received in the ordinary course of business.

STATEMENT OF MOVEMENTS IN EQUITY

for the six months ended 31 December 2014

	Unaudited 6 months to 31 Dec 14 \$m	Audited 12 months to 30 Jun 14 \$m	Unaudited 6 months to 31 Dec 13 \$m
Ordinary Shares			
Balance beginning of year	125.0	125.0	125.0
Balance end of year	125.0	125.0	125.0
Retained Earnings			
Balance beginning of year	129.5	118.2	118.2
Net profit after tax	62.8	55.1	109.3
Transfers to revenue reserves	(58.7)	(38.8)	(98.8)
Other movements	(0.5)	-	-
Dividends paid	(7.0)	(5.0)	(5.0)
Balance end of year	126.1	129.5	123.7
Revenue Reserves			
Biological assets revaluation reserve			
Balance beginning of year	127.2	90.5	90.5
Transfers from retained earnings	62.6	36.7	95.5
Balance end of year	189.8	127.2	186.0
Financial assets revaluation reserve			
Balance beginning of year	(16.1)	(18.2)	(18.2)
Transfers (to) from retained earnings	(3.9)	2.1	3.3
Balance end of year	(20.0)	(16.1)	(14.9)
Fair Value Reserve			
Balance beginning of year	12.9	20.8	20.8
Revaluation of available-for-sale financial assets	3.6	(7.9)	(12.2)
Balance end of year	16.5	12.9	8.6
Asset Revaluation Reserves			
Intangible assets			
Balance beginning of year	(1.1)	(1.9)	(1.9)
Net value change during year	0.5	0.8	0.5
Tax effect of reserve movements	-	-	(0.1)
Balance end of year	(0.6)	(1.1)	(1.5)
Freehold land and improvements			
Balance beginning of year	747.0	702.1	702.1
Transfers to other equity on sale	-	(16.6)	-
Transfers to property held for sale	-	(8.8)	(10.5)
Net value change during year	-	69.6	-
Revaluation gains recognised in profit and loss	-	(1.8)	-
Tax effect of reserve movements	-	2.5	0.2
Balance end of year	747.0	747.0	691.8

	Unaudited 6 months to 31 Dec 14 \$m	Audited 12 months to 30 Jun 14 \$m	Unaudited 6 months to 31 Dec 13 \$m
Property held for sale			
Balance beginning of year	20.5	42.1	42.1
Transfers to other equity on sale	-	(36.2)	(32.5)
Transfers from freehold land and improvements	-	16.6	10.5
Value change during year	-	(2.0)	0.4
Balance end of year	20.5	20.5	20.5
Other Equity			
Balance beginning of year	282.5	237.4	237.4
Transfers from asset revaluation reserves	-	45.0	32.5
Capital expenditure reimbursed by the Crown	0.6	1.6	0.4
Assets transferred to the Crown	-	(1.5)	-
Balance end of year	283.1	282.5	270.3
Non-Controlling Interest			
Balance beginning of year	0.9	1.3	1.3
Net loss after tax	(0.1)	(0.4)	-
Other movements	(0.8)	-	-
Balance end of year	-	0.9	1.3
Total Equity			
Balance beginning of year	1,428.3	1,317.3	1,317.3
Net profit after tax	62.7	54.7	109.3
Other comprehensive income:			
Gain on revaluation of land and improvements	-	67.6	0.4
Revaluation gains transferred to and recognised in profit and loss	-	(1.8)	-
Gain/(loss) on revaluation of available-for-sale financial assets	3.6	(7.9)	(12.2)
Gain on revaluation of intangible assets	0.5	0.8	0.5
Income tax on income and expense recognised in equity	-	2.5	0.1
Other movements	(1.3)	-	-
Dividends paid	(7.0)	(5.0)	(5.0)
Capital expenditure reimbursed by the Crown	0.6	1.6	0.4
Assets transferred to the Crown	-	(1.5)	-
Balance end of year	1,487.4	1,428.3	1,410.8

The accompanying notes form part of these financial statements.

STATEMENT OF CASH FLOWS

for the six months ended 31 December 2014

Note	Unaudited 6 months to 31 Dec 14 \$m	Audited 12 months to 30 Jun 14 \$m	Unaudited 6 months to 31 Dec 13 \$m
Operating Activities			
Cash was received from:			
Receipts from customers			
Livestock	35.1	109.5	28.4
Milk	57.5	117.1	48.4
Other receipts from customers	14.9	32.0	21.2
Dividends received from equity accounted investments	-	0.5	0.2
Other dividends received	-	0.1	0.1
Income tax received	0.5	1.5	1.5
Net GST received	1.3	0.1	1.1
	109.3	260.8	100.9
Cash was applied to:			
Payments to suppliers	85.4	152.2	70.7
Payments to employees	30.7	52.2	28.7
Interest paid	5.5	10.2	5.2
	121.6	214.6	104.6
Net Cash Flows from Operating Activities	(12.3)	46.2	(3.7)
Investing Activities			
Cash was received from:			
Sale of land and improvements	1.1	57.3	55.8
Sale of other property, plant and equipment	0.3	8.5	6.4
	1.4	65.8	62.2
Cash was applied to:			
Purchase and development of land	15.3	31.0	16.2
Purchase of other property, plant and equipment	4.7	16.8	8.5
Purchase of intangible assets	0.1	0.8	0.5
Purchase of shares and advances	2.0	-	-
Purchase of livestock	1.7	1.4	1.4
	23.8	50.0	26.6
Net Cash Flows from Investing Activities	(22.4)	15.8	35.6

	Note	Unaudited 6 months to 31 Dec 14 \$m	Audited 12 months to 30 Jun 14 \$m	Unaudited 6 months to 31 Dec 13 \$m
Financing Activities				
Cash was received from:				
Net borrowing receipts		42.1	-	-
		42.1	-	-
Cash was applied to:				
Net borrowing payments		-	56.0	26.4
Dividends paid	8	7.0	5.0	5.0
		7.0	61.0	31.4
Net Cash Flows from Financing Activities		35.1	(61.0)	(31.4)
Net Change in Cash and Cash Equivalents		0.4	1.0	0.5
Cash and cash equivalents at beginning of year		0.3	(0.7)	(0.7)
Cash and Cash Equivalents at End of Year		0.7	0.3	(0.2)
Cash and cash equivalents comprises cash balances held with registered New Zealand banks -				
Cash at bank/(bank overdraft)		0.7	0.3	(0.2)
Reconciliation of Profit and Operating Cash Flow				
Net Profit after Tax		62.7	54.7	109.3
Non cash items				
Depreciation and amortisation		7.1	14.4	6.9
Revaluation gains and losses		(58.7)	(41.0)	(98.7)
Change in deferred tax liability		(2.9)	14.4	0.6
Deferred tax on revaluation of assets		-	2.5	0.1
Other non cash items		(21.2)	(10.8)	(22.9)
Movement in working capital items				
Inventories		3.6	1.0	3.2
Accounts receivable		(0.3)	5.6	(4.6)
Accounts payable and accruals		(1.4)	6.7	5.2
Employee entitlements		(2.8)	1.4	(1.9)
Items classified as investing or financing activities				
Net loss on movement of assets		(0.1)	0.1	1.6
Change in accounts receivable due to capital items		(0.3)	(5.4)	(5.6)
Change in accounts payable due to capital items		0.3	1.2	1.7
Purchase of livestock		1.7	1.4	1.4
Net Cash Flows from Operating Activities		(12.3)	46.2	(3.7)

The accompanying notes form part of these financial statements.

STATEMENT OF FINANCIAL POSITION

as at 31 December 2014

	Note	Unaudited 31 Dec 14 \$m	Audited 30 Jun 14 \$m	Unaudited 31 Dec 13 \$m
Assets				
Cash and Cash Equivalents		0.7	0.3	-
Accounts Receivable	5	33.3	33.0	43.2
Inventories		7.3	10.9	8.7
Property Held for Sale		50.5	50.7	41.7
Biological Assets				
Livestock	4	378.1	294.4	364.4
Forests		21.9	21.3	19.5
Total Biological Assets		400.0	315.7	383.9
Equity Accounted Investments		2.5	2.5	2.8
Deferred Tax Asset		-	-	9.0
Other Financial Assets	6	57.7	53.5	49.2
Intangible Assets		5.8	5.2	6.1
Property, Plant and Equipment				
Land and improvements		1,133.3	1,120.2	1,051.2
Protected land		109.7	109.3	119.8
Plant		23.0	22.8	22.8
Motor vehicles		20.3	21.9	19.2
Furniture and equipment		2.0	2.0	2.0
Computer equipment		0.3	0.5	0.5
Total Property, Plant and Equipment		1,288.6	1,276.7	1,215.5
Total Assets		1,846.4	1,748.5	1,760.1

	Note	Unaudited 31 Dec 14 \$m	Audited 30 Jun 14 \$m	Unaudited 31 Dec 13 \$m
Liabilities				
Bank Overdraft		-	-	0.2
Accounts Payable and Accruals		19.8	21.2	19.8
Employee Entitlements		6.8	9.6	6.3
Deferred Tax Liability		1.9	4.8	-
Other Financial Liabilities	7	222.8	176.9	205.2
Redeemable Preference Shares		107.7	107.7	117.8
Total Liabilities		359.0	320.2	349.3
Non-Controlling Interest		-	0.9	1.3
Shareholders' Funds				
Share capital		125.0	125.0	125.0
Retained earnings		126.1	129.5	123.7
Revenue reserves		169.8	111.1	171.1
Fair value reserve		16.5	12.9	8.6
Asset revaluation reserves		766.9	766.4	710.8
Other equity		283.1	282.5	270.3
Total Shareholders' Funds		1,487.4	1,427.4	1,409.5
Total Equity		1,487.4	1,428.3	1,410.8
Total Equity and Liabilities		1,846.4	1,748.5	1,760.1

The accompanying notes form part of these financial statements.

Landcorp's Board of Directors authorised the financial statements for issue on 27 January 2015.

Signed on behalf of the Board



Traci Houpapa
Acting Chairman
27 January 2015



Pauline Lockett
Chairman of Audit Committee

NOTES TO THE FINANCIAL STATEMENTS

for the six months ended 31 December 2014

NOTE 1 - REPORTING ENTITY

Landcorp Farming Ltd ("Landcorp") is a profit-oriented company, incorporated and domiciled in New Zealand and 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").

Landcorp Farming Ltd is primarily involved in pastoral farming and provision of farm management services within New Zealand. Subsidiary companies are involved in land development, land management, farm technology 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 2014. 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 2014.

The financial information contained in this report has not been audited by Landcorp's auditors. The financial information for the 12 months to 30 June 2014 has been extracted from Landcorp's audited financial statements for the year ended 30 June 2014.

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 operating profit 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.

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- 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 2014 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 the strategic realignment of the farm portfolio. 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 2014 may not reflect the market conditions prevailing at the financial year end.

Landcorp uses various derivative financial instruments for financial risk management. These are mainly to hedge interest rate risk and foreign currency risk 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. Hence, any profit or loss from revaluation of financial instruments at 31 December 2014 may not reflect the market conditions prevailing at the financial year end.

Total Shareholder Return

Landcorp's total shareholder return is seasonal reflecting both the seasonality of operating results and the timing of land and building valuations. Landcorp revalues land and buildings as at 30 June each financial year. Therefore, the half year financial statements do not reflect any changes in market values of land and buildings from 1 July 2014 to 31 December 2014.

Balance Sheet

Landcorp's balance sheet at 31 December 2014 reflects the following seasonal factors:

- Land and buildings are based on 30 June 2014 values.
- Term debt is seasonal reflecting that 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 solid revenue is received.
- Inventories of harvested feed reflect the seasonal consumption/production cycle.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

NOTE 4 - LIVESTOCK

A - Livestock Revenue

Livestock revenue comprises the following:

	Unaudited 6 months to 31 Dec 14 \$m	Audited 12 months to 30 Jun 14 \$m	Unaudited 6 months to 31 Dec 13 \$m
Livestock sales	34.8	109.3	27.8
Birth of animals	24.5	32.5	20.9
Growth of animals	22.4	53.4	22.2
Livestock losses	(10.3)	(11.7)	(7.6)
Book value of livestock sold	(26.7)	(84.8)	(23.0)
Total Livestock Revenue	44.7	98.7	40.3

B - Value of Livestock

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

	Unaudited 31 Dec 14 \$m	Audited 30 Jun 14 \$m	Unaudited 31 Dec 13 \$m
Livestock value at start of year	294.4	245.8	245.8
Value changes caused by:			
Birth and growth of animals	46.9	85.9	43.0
Purchases	11.2	22.5	10.7
Livestock losses	(10.3)	(11.7)	(7.6)
Livestock available for sale or production	342.2	342.5	291.9
Book value of stock sold	(26.7)	(84.8)	(23.0)
Effect of price changes	62.6	36.7	95.5
Livestock Value at End of Year	378.1	294.4	364.4

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 2014.

The effect of price changes for the six months ended 31 December 2014 was due to an increase in the market value of sheep and beef. 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 31 Dec 14 \$m	Audited 30 Jun 14 \$m	Unaudited 31 Dec 13 \$m
Trade debtors	4.5	7.6	6.2
Milk income receivable	24.8	21.4	34.3
Other receivables and prepayments	4.0	4.0	2.7
Gross Accounts Receivable	33.3	33.0	43.2
Individual impairment	-	-	-
Total Accounts Receivable	33.3	33.0	43.2

NOTE 6 - OTHER FINANCIAL ASSETS

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

	Unaudited 31 Dec 14 \$m	Audited 30 Jun 14 \$m	Unaudited 31 Dec 13 \$m
Available-for-sale financial assets			
Share investments	57.7	53.5	49.2
Total Other Financial Assets	57.7	53.5	49.2

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

NOTE 7 - OTHER FINANCIAL LIABILITIES

	Unaudited 31 Dec 14 \$m	Audited 30 Jun 14 \$m	Unaudited 31 Dec 13 \$m
Financial liabilities measured at amortised cost			
Bank loans	214.5	172.4	202.0
Loans held by subsidiaries	0.1	0.2	0.2
Held-for-trading financial liabilities			
Interest-rate derivatives	8.2	4.3	3.0
Total Other Financial Liabilities	222.8	176.9	205.2

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 2014. 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 31 Dec 14 \$m	Audited 30 Jun 14 \$m	Unaudited 31 Dec 13 \$m
Drawn	214.5	172.4	202.0
Undrawn	80.5	122.6	93.0
Total	295.0	295.0	295.0

Cash advance facilities are committed to:

	Unaudited 31 Dec 14 \$m	Audited 30 Jun 14 \$m	Unaudited 31 Dec 13 \$m
0 - 6 months	50.0	160.0	-
6 - 12 months	85.0	-	160.0
One to two years	70.0	135.0	135.0
Two to five years	90.0	-	-
Greater than five years	-	-	-
Total	295.0	295.0	295.0

NOTE 8 - DIVIDENDS

	Unaudited 31 Dec 14	Audited 30 Jun 14 Cents per share	Unaudited 31 Dec 13	Unaudited 31 Dec 14 \$m	Audited 30 Jun 14 \$m	Unaudited 31 Dec 13 \$m
Ordinary shares						
Final dividend	5.6	4.0	4.0	7.0	5.0	5.0
Total Dividends for period	5.6	4.0	4.0	7.0	5.0	5.0

A final dividend for 2014 of \$7.0 million was declared in August 2014 and paid in October 2014.

Redeemable preference shares are not eligible to participate in dividend payments.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

NOTE 9 - CONTINGENT ASSETS AND LIABILITIES

At 31 December 2014 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 2014 Landcorp held 205,129 post-1989 NZUs and 178,227 pre-1990 NZUs.

NOTE 10 - COMMITMENTS

	Unaudited 31 Dec 14 \$m	Audited 30 Jun 14 \$m	Unaudited 31 Dec 13 \$m
Contracted capital commitments	9.5	4.4	12.1

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

Operating lease commitments relate to the lease of farmland.

DIRECTORY

CORPORATE/REGISTERED OFFICE

15 Allen Street
PO Box 5349
Wellington 6145
Tel: (04) 381 4050

WEBSITE

www.landcorp.co.nz

DIRECTORS

Traci Houpapa MNZM, Acting Chair
John Brakenridge
Nikki Davies-Colley
Chris Day
Pauline Lockett
David Nelson
Tony Reilly

EXECUTIVE TEAM

Steven Carden, Chief Executive Officer
Steven McJorrow, Chief Financial Officer
Anna Cassels-Brown, GM People and Capability
Andrew MacPherson, GM Commercial Development
Sarah Risell, GM Marketing
Phil McKenzie, GM Property and Environment
Graeme Mulligan, GM Farm Operations
Mark Julian, GM Dairy Operations

AUDITOR

Graeme Edwards (under appointment
by the Controller and Auditor-General)
KPMG
Wellington

BANKERS

Westpac New Zealand Limited
ANZ Bank New Zealand Limited
ASB Bank Limited

