PĀMU

C.27

STATEMENT OF CORPORATE INTENT

For the Period FY2024 – FY2026

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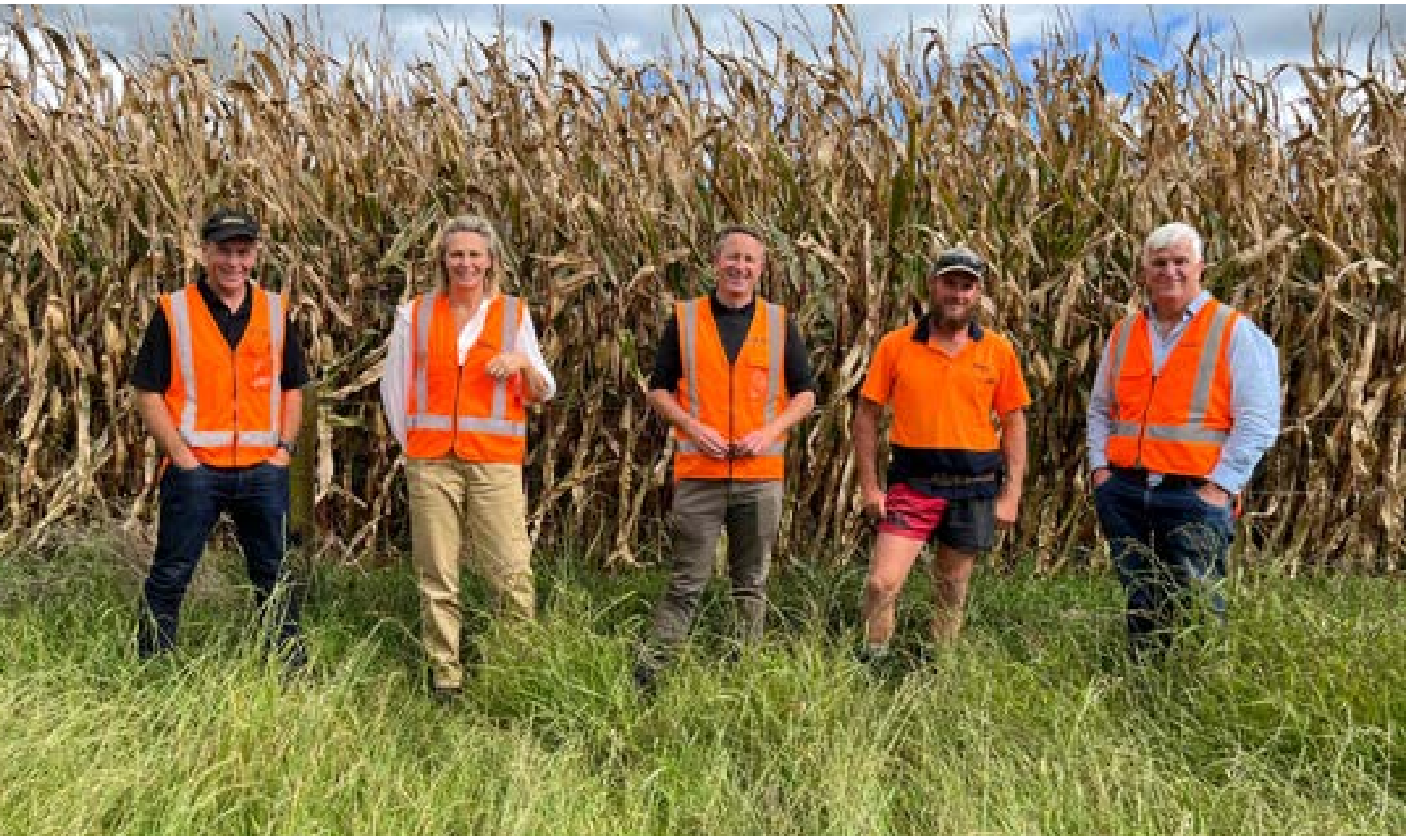
ABOUT US



Pāmu (Landcorp Farming Limited) was established under the State-Owned Enterprises Act 1986 (the Act) and is registered under the Companies Act 1993. Pāmu is the brand name for Landcorp and is used throughout this SCI.

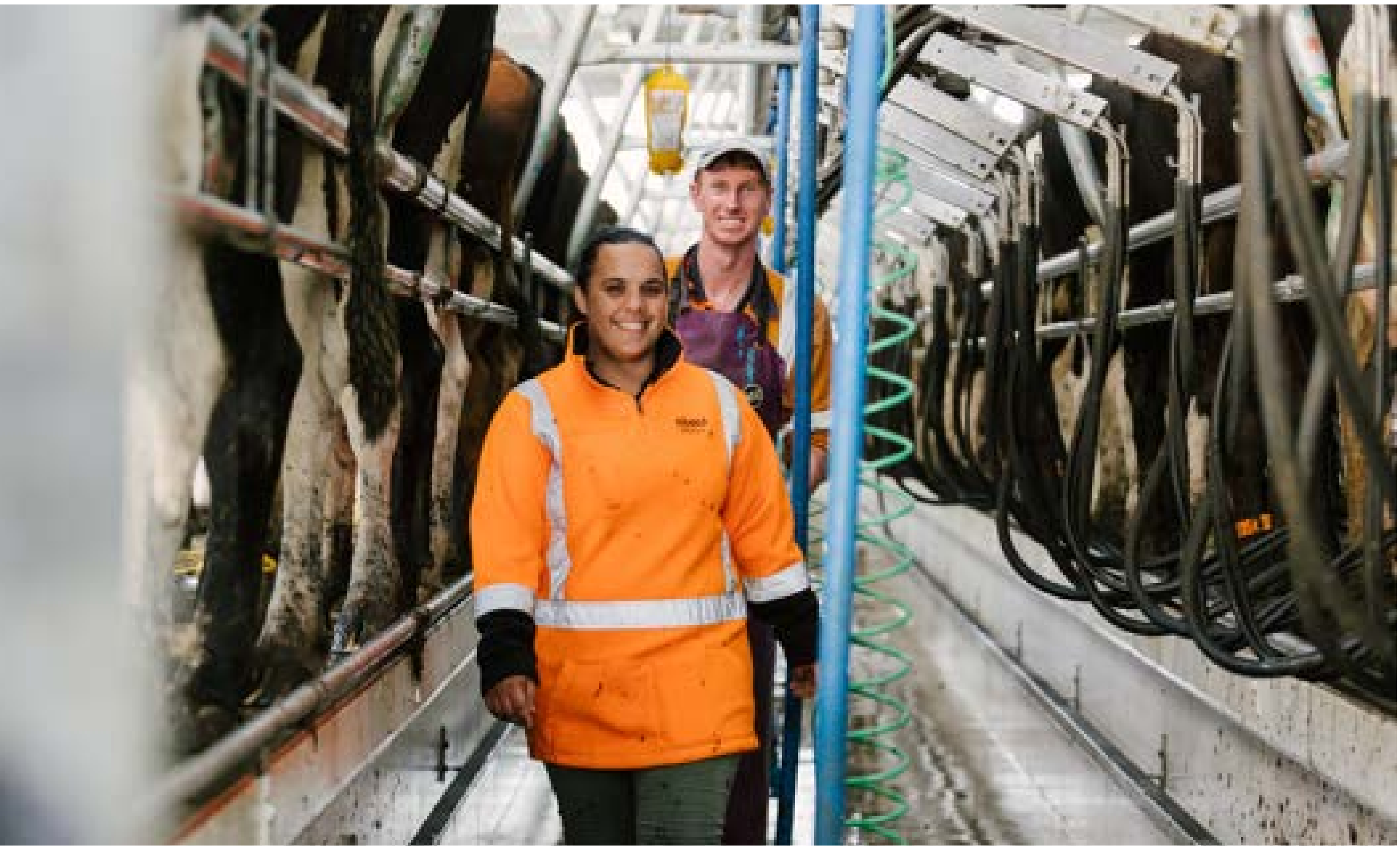
The Pāmu Group comprises Landcorp Farming Limited and its subsidiaries: Landcorp Estates Limited, Landcorp Holdings Limited, Landcorp Pastoral Limited and Focus Genetics LP (the Group).

Pāmu also has four strategic joint ventures. The Pāmu Group structure and key strategic interests are set out in Appendix 2.

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

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

NATURE & SCOPE OF ACTIVITIES



Pāmu manages a nationwide portfolio of over 100 farms producing milk, beef, lamb, wool, venison, crops, wood and more. In recent years, Pāmu has also started marketing premium products under a business-to-business framework to lift farmgate returns. Pāmu strives to be a leader in New Zealand agriculture, standing for best practices in sustainable and safe farming, making the best use of land under its management and carefully creating natural products of high quality.

The next section of the SCI provides an overview of:

- The context Pāmu is operating within and its strategy;
- Pāmu key initiatives; and
- Pāmu performance targets (financial and detailed performance objectives).

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

OPERATING CONTEXT

- The FY2024 SCI and business plan have been prepared in the context of ongoing heightened global uncertainty due to the Ukraine-Russian war and strained China-US relations, and inflationary and interest rate pressures largely driven by the global reaction to the Covid-19 pandemic. While these macro-factors have had a positive impact over the last two years (e.g. higher commodity prices) we are now seeing dairy and sheep prices back 30% and 25% respectively from their peak and high annual increases (15%) in farm input costs having a material impact on Net Operating Profit.

- The two major weather events in the North Island in early 2023, Cyclone Hale and Cyclone Gabrielle, caused devastation to Northland and the East Coast with Pāmu farms heavily impacted, including collapsed bridges, stock losses, and countless slips all impacting on-farm infrastructure. These events have reminded Pāmu what the future will look like with climate change and the need for adaptation through land use change and farm redesign (build back better). In addition, national policies for freshwater and biodiversity, He Waka Eke Noa and carbon pricing will require an unprecedented quantum of change on-farm over a relatively short time horizon.

- With the scale and national reach of Pāmu, we are being called on to consider opportunities to demonstrate sector leadership by accelerating on-farm emission reductions while continuing to fulfil our principal objective of operating as a successful business over the long term.

- In light of this context, over the past six months Pāmu has refreshed its strategic direction with greater emphasis on integrating Te Taiao in our stewardship of our natural assets, sharing our knowledge with communities where we live and farm, climate resilience through mitigation and adaptation, and digitalisation of our business. We have also amended our purpose to reflect the role Pāmu plays in supporting agriculture's transition to meet new consumer, societal and regulatory expectations that will require significant farm systems innovation, land use diversification, and a lower environmental footprint for Pāmu products. The purpose of Pāmu is:

  "To enrich our land, our people and the future of food and fibre for Aotearoa New Zealand."

OPERATING CONTEXT (CONTINUED)

- This SCI sets out a measured view of the period ahead, striving to find a balance between short-term financial performance and investing for the future. We believe it is imperative to implement our strategy of Operational Excellence and Growth initiatives which will provide a solid platform to build Pāmu for the future.

- Our refreshed Strategy on a Page (SOAP) and key initiatives over the FY24-26 period are set out below. The SOAP sets out our 2026 targets and strategic priorities for 2030. These priorities address our shareholder's expectation for the business to be an exemplary farmer and respond to the broader trends impacting the food and fibre sectors we operate in. While we must manage our debt levels sensibly, we must also find the capacity to continue investing in the strategy for the longer-term benefit of Pāmu and which will positively ripple through our regional communities and assist other farmers achieve sustainable production systems.

- Our strategy to achieve 'highest and best' land use – for example transitioning steep class 6 and 7 low-returning pastoral land to forestry, or class 2 land to horticulture – has long time frames in which expenditure leads to growth in income and asset value. The full effects of this land-use change and associated enterprise assets (such as shelter and tree stock for horticulture or calf rearing facilities for dairy beef) are fully realised over 4 to 25+ years. Capex, debt, near-term earnings and capacity to pay dividends are all impacted by the imperative to meet consumer, societal and regulatory expectations and thereby future-proof Pāmu. In so doing, we demonstrate to farmers how they too might adapt their businesses to regenerate their natural capital and prosper in a low-carbon future (i.e. generate material industry good).

- Pāmu is entering an exciting period - many of its investments under this strategy are now starting to materialise into significant value for the business and we are confident this will be reflected across improvements in the company's six Capitals over the next three years of this plan.

OUR STRATEGY

OUR PURPOSE

Enriching our land, our people and the future of food and fibre for Aotearoa New Zealand

STRATEGIC PRIORITIES

GROW OUR PEOPLE
Increase performance by investing in people with an adaptable mindset and supporting the communities in which our people farm.

FARMING EXCELLENCE
Drive productivity through operational farming excellence in integrated land use.

STEWARDSHIP OF NATURAL ASSETS
Protect, restore and enhance our natural capital and build climate change resilience.

DIVERSIFICATION OF REVENUE
Utilise our resources to diversify earnings and value linked to market needs through highest and best land use.

DIGITALISATION
Accelerate investment in digitalisation, automation and innovation to drive insights, productivity and the trust sought by customers.

PARTNERSHIPS AND COMMUNITIES
Partner of choice in meeting market needs, developing new technologies, and demonstrating knowledge learned with our farming communities.

MILESTONES 2026

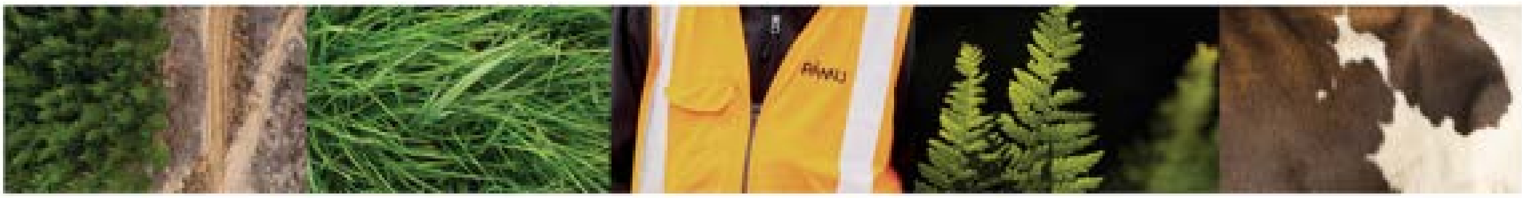
- Deliver an eNPS > 20.
- > 40% internal promotion into promotable roles.
- Continue to deliver on the three strands of Rautaki Pae Tawhiti.

- An integrated sustainable land use business addressing the needs of freshwater, biodiversity, climate change and animal welfare.
- Achieve productivity gains through improvements in key operational farming metrics.

- Partner to deliver solutions to changing customer demands.
- Group NOP $100m from FY23-FY26.
- Risk profiling driving investment in risk mitigation.

- Strategic focus on digital technology and automation.
- Support digital collaboration in the primary sector.

- Reduce our emissions aligned to SBT of 3%.
- Increased resilience to extreme climate events.
- Be a leader and partner in demonstrating knowledge gained in lower-carbon farming systems with a focus on livestock genetics.



WHAT SUCCESS LOOKS LIKE – OUR CAPITALS

- A top New Zealand employer with safety and wellness at its core.
- A highly productive, market-led food and fibre company with uncompromising care for the environment and animals.
- A leader in integrated sustainable land use protecting and restoring the natural world.
- Creating enduring value for the good of Aotearoa New Zealand.
- A sought-after innovation partner contributing to Aotearoa New Zealand's future.
- Valued by our customers, partners and the communities in which we live and farm.

GENUINE | SHOULDER-TO-SHOULDER | GROUNDED | BOLD

KEY INITIATIVES

PURPOSE: ENRICHING OUR LAND, OUR PEOPLE AND THE FUTURE OF FOOD AND FIBRE FOR AOTEAROA NEW ZEALAND

01 Grow our People

- Nature of Leadership Programme continued with deployment to 2IC Level
- Assess opportunity for a new People Management System and Farm Cadet Programme
- Continue with our Rautaki Pae Tawhiti Plan development and delivery

02 Stewardship of Natural Assets

- Develop and implement Pāmu's Sustainability Plan
- Prepare Climate Action Plan including Emissions Reduction & Adaptation Roadmap and improved climate-related reporting
- Implement Sustainable Farms Performance Programme on all farms and introduce revised Farm Environment and Integrated Farm Plans (FEPs)

03 Farming Excellence

- Delivery of a pipeline of productivity improvement activities to drive farming excellence and improved performance
- Continue Pāmu's dairy beef integration project
- Review & revise Pāmu's risk & assurance and asset management frameworks
- Complete health & safety Risk profiling for all farms

04 Diversification of Revenue

- Continue expansion of Pāmu's horticulture operations with development of a hort-tunnel operation in Northland
- Review Pāmu Foods operations and grow Pāmu's deer milk business
- Continue the SFFF Ecosystems Services and Arable Strategy and Plant Protein SFFF Projects
- Delivery of joint venture strategic plans and budgets (Spring Sheep, Melody Dairies, Farm IQ Systems)
- Continue to explore complimentary solar and wind partnership projects

05 Digitalisation

- Develop Pāmu's Technology and Digital Strategy and Implementation Plan
- Refine our FarmIQ (Farm Management Software) engagement and operating model to ensure effective alignment and support
- Develop Information and Cyber Security work programme

06 Partnerships and Communities

- Participate in sector climate action initiatives including working with the Centre for Climate Action
- Deliver community engagement plan including fieldays and sponsorship
- Establish trial farms (to streamline current trial activity across multiple farms and ensure effectiveness)

PĀMU FY24-26 PERFORMANCE MEASURES

PURPOSE: ENRICHING OUR LAND, OUR PEOPLE AND THE FUTURE OF FOOD AND FIBRE FOR AOTEAROA NEW ZEALAND

Grow our People

- Engagement eNPS of +20 FY24
- >40% internal promotion into promotable roles
- Mental health training for 100% farm managers & 40% of farm staff by the end of FY24 and all staff FY26

01

Stewardship of Natural Assets

- FEPs in place for 40% of farms in FY24 with 100% by FY26
- 100% farms part of Sustainable Farms Performance programme
- GHG emissions reduction in line with Pāmu's ERP and complete climate impact studies for all farms FY 24 with resilience plans in place by the end of FY25
- FY24 100% of Pāmu farms Toitu certified with farm-based GHG reduction plans

02

Farming Excellence

- Delivery of $10m on-farm improvement initiatives vs. FY23 base driven through benchmarking by FY26
- Dairy Beef Strategy - 55% Dairy Calves reared in FY24 increasing to 75% by FY26
- LTIFR - 6.9 reducing to 6.0 by FY26
- H&S Risk Profiling completed FY24 and driving a 3yr risk reduction plan

03

Diversification of Revenue

- Total Group NOP of $100m for the period of FY23-26
- 5,500 ha of new Forestry (Native and Plantation)
- 14.1 m kg MS Milk Production to 14.4 by FY26 (with Co-Op Difference, Lead Pride and Te Ara Miraka farms achieving 80%+ premiums)
- FY 24 Livestock Production of 20.2 m kg maintained with 5 Farms Silver/Gold NZFAP+ Certified

04

Digitalisation

- Data strategy and implementation plan approved
- Company Performance Reporting Dashboards Implemented
- Cyber Security-Protective Security Requirements (PSR) improvement 2.5 vs. 1.9 current

05

Partnerships and Communities

- 7 Farm Fieldays delivered annually sharing Pāmu knowledge e.g. Dairy Beef, Livestock Genetics.
- Partnerships with industry on climate initiatives (e.g. low methane livestock and sheep genetics)

06

Note: all measures relate to FY24 unless otherwise noted

FINANCIAL PERFORMANCE MEASURES

	Budget FY24	Business Plan FY25	Business Plan FY26
Shareholder Returns			
Total Shareholder Return %	0.5%	-0.5%	0.3%
Return on Equity %	-0.3%	-0.9%	0.0%
Dividend Yield %	0.0%	0.0%	0.0%
Profitability & Efficiency			
Return on Invested Capital %	3.8%	1.6%	2.8%
Operating Margin %	22.2%	16.2%	19.9%
Leverage & Solvency			
Gearing (Net Debt/Net debt plus equity) %	10.5%	11.6%	12.7%
Net debt and lease liability to EBITDAR (x)	7.8x	10.8x	8.8x
Debt to EBITDAR (x)	3.3x	5.3x	4.6x
Interest Cover x (Underlying EBIT / Net Interest)	2.5x	1.0x	1.7x
Solvency (including current debt)	1.4	1.4	1.3
Solvency (excluding current debt)	3.9	4.0	3.5
Interest Cover x (as agreed with Bank)[1]	2.38x	1.75x	2.43x
Growth			
Revenue Growth (x)	1.2x	0.9x	1.1x
Capital Replacement (x)	1.4x	1.3x	1.0x
Underlying EBITDAR Growth (x)	2.6x	0.8x	1.3x
Net Operating Profit Growth (x)	0.7x	0.7x	1.8x

Note: Interest Cover calculation is based on the Owners' Expectation Manual methodology. For its reporting to lenders, Pāmu uses EBITDAR before the application of IFRS16 Leases.

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
Capital replacement	Measure of capital investment relative to maintenance investment levels	Asset expenditure / depreciation and amortisation less lease amortisation
Underlying EBITDAR growth	Change in EBITDAR	Current year EBITDAR less non-operating items / previous year EBITDAR less non-operating items
Net Operating Profit Growth	Change in Net Operating Profit	Current Year / Previous Year Net Operating Profit

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

CAPITAL STRUCTURE

The issued share capital of Pāmu as at 30 June 2023 is 125,000,000 ordinary shares at $1.00 each ($125 million) and 83,883,000 redeemable preference shares of $1.00 each, giving a total share capital of $208.883 million.

The redeemable preference shares holding reflects the commercial arrangement with the Crown under which shareholder for Pāmu purchased redeemable preference shares in an amount equal to the agreed market value of designated land that has been protected from sale. This land is held by Pāmu 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, the estimated closing interest-bearing debt for the next three years is: $210 million (30 June 2024), $234 million (30 June 2025) and $260 million (30 June 2026).

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

	Budget FY24	Business Plan FY25	Business Plan FY26
Total Assets	2,352.1	2,360.0	2,392.3
Total Liabilities	576.7	593.9	620.6
Total Equity	**1,775.4**	**1,766.1**	**1,771.7**
Interest Bearing Debt / Total Funding	10.5%	11.6%	12.7%
Shareholders' Funds / Total Assets1	75.5%	74.8%	74.1%

1. The ratio of shareholders' funds to total assets = Total Equity / Total Assets

DIVIDEND POLICY

The ordinary dividend policy for Pāmu is to make distributions at a dividend pay-out ratio within an average over time of 80% to 100% of Free Cash Flow, subject to the Board’s due consideration of:

1. Pāmu working capital requirements and its investment programme;
2. Asustainable financial structure for Pāmu; and
3. The risks from short and medium-term economic, market and climatic conditions and expected financial performance.

Free Cash Flow is calculated as net cash flows from operating activities less payment of lease liabilities, maintenance capital expenditure and investment required to address strategic opportunities and risks (including the company's emissions reduction plan).

REPORTING & DISCLOSURE

Reporting to shareholding Ministers
Pāmu presents the following reports in accordance with the Act and requirements of 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 the 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.
- Annual benchmarking reports: each year, Pāmu benchmarks its operational performance against appropriate regional and national results and shares the findings with Ministers.

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

Consultation
Pāmu will consult with shareholding Ministers on transactions:

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

COMMERCIAL VALUE AND COMPENSATION

Commercial value

The Pāmu Board considers the commercial value of the company (including subsidiaries) to be $1.8 billion as of 30 June 2023.

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 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.

Compensation from the Crown

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

If the Crown wishes or requires Pāmu to undertake activities or assume obligations that constrain Pāmu from acting in a normal, business-like manner or which will or could impact the company'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. As of the date of publication of this Statement of Corporate Intent, Pāmu has no, and has not sought any, section 7 agreements.

APPENDICES:

APPENDIX 1: ACCOUNTING POLICIES

Statement of compliance

The financial statements are prepared in accordance with NZ Generally Accepted Accounting Principles (NZ GAAP) under the Companies Act 1993 and the Financial Reporting Act 2013. NZ GAAP consists of New Zealand equivalents of the International Financial Reporting Standards (NZ IFRS), and other applicable financial reporting standards, as appropriate for profit-oriented entities.

NZ IFRS can significantly impact on the 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, the forecast profits for Pāmu can be significantly different to the 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 of certain assets, investments and financial instruments as disclosed below. The functional and reporting currency used to prepare the financial statements is New Zealand dollars, rounded to the nearest million dollars ($m).

Basis of consolidation

The consolidated financial statements use the acquisition method of consolidation for Pāmu and its subsidiaries. Associates and joint ventures are accounted for using the equity method. All material intercompany balances and transactions are eliminated on consolidation. Transactions involving jointly-controlled entities are excluded as far as the interest of Pāmu in the entity.

APPENDIX 1: ACCOUNTING POLICIES

Significant accounting policies
There have been no changes in accounting policies during the financial year. The principal accounting policies applied in the preparation of these financial statements have been consistently applied to all the periods presented. Where necessary, comparative information has been reclassified to achieve consistency with the current period's presentation.

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

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

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

Pāmu holds New Zealand Stock Exchange (“NZX”) milk futures in order to manage commodity price risk. Fair value gains or losses are reported within the Statement of Profit or Loss.

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

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

APPENDIX 1: ACCOUNTING POLICIES

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

Property held for sale
Properties are identified for sale when a sales plan has been implemented and an unconditional sales contract is expected to be signed within a year or a property is subject to a Treaty settlement sale. Properties held for sale comprise farmland and associated buildings. Properties subject to Treaty settlements may be classified as held for sale for periods greater than one year while settlement terms are negotiated. These properties are still likely to be purchased by claimants, and it is probable that their value will be recovered by way of sale rather than ongoing operations. Property held for sale is measured at the lower of the carrying value of the property when it was classified as property held for sale and fair value less sales costs.

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

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APPENDIX 1: ACCOUNTING POLICIES

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

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

EQUITY ACCOUNTED INVESTMENTS
Equity-accounted investments are initially recognised at cost and the carrying value is increased or decreased to recognise the company's share of the surplus or deficit of the investee after the date of acquisition. Cash contributions made to the investee increase the carrying amount of the investment. Distributions received from the investee reduce the carrying amount of the investment. If the share of losses exceeds its investment for Pāmu, a liability is recognised to the extent that Pāmu has incurred a constructive or legal obligation. The carrying values of investments are reviewed annually for indicators of impairment, and carrying values are adjusted accordingly if required.

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.

APPENDIX 1: ACCOUNTING POLICIES

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

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

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

APPENDIX 1: ACCOUNTING POLICIES

Property, plant and equipment continued
Revaluations are undertaken using a level 2 fair value methodology. They employ a market approach and take into account general factors that influence farmland prices as well as market evidence such as recent farm sales in the relevant regions. The valuation also considers the price effects of various legal obligations placed on land ownership for Pāmu. The impact of the Conservation Act 1987 relating to the establishment of marginal strips and conservation management plans is considered where applicable. In the North Island, deductions of 0–6% have been made for the effects of the Treaty of Waitangi (State Enterprises) Act 1988 and the memorials pertaining to section 27B of the State Owned Enterprises Act 1986, which provides for the resumption of land on the recommendation of the Waitangi Tribunal. The South Island properties include a deduction of up to 5% to reflect the effect of the Right of First Refusal memorial granted to Ngāi Tahu under the Ngāi Tahu Claims Settlement Act 1998.

Improvements on leased land are held at cost.

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

APPENDIX 1: ACCOUNTING POLICIES

Property, plant and equipment continued
Items of plant and equipment are measured at cost less accumulated depreciation and impairment losses.

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

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

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

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

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

APPENDIX 1: ACCOUNTING POLICIES

Bank loans

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

Financial guarantees

Pāmu has provided limited guarantees to the Ministry for Primary Industries in relation to primary growth partnerships with Spring Sheep Dairy Limited Partnership.

Interest rate derivatives

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

Redeemable preference shares

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

APPENDIX 1: ACCOUNTING POLICIES

CAPITAL MANAGEMENT

Share capital

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

Retained earnings

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

Share revaluation reserve

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

Asset revaluation reserve

The asset revaluation reserve is used to record changes in the fair value of land and buildings and intangible assets. Revaluations are reflected in the asset revaluation reserve and included in Other Comprehensive Income, with any revaluations below cost or recoveries to cost being recognised in the Statement of Profit or Loss.

APPENDIX 1: ACCOUNTING POLICIES

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

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

APPENDIX 2:
PĀMU GROUP STRUCTURE & KEY STRATEGIC INTERESTS