Statement of Corporate Intent: Breaking New Ground 2015 - 2018

LANDCORP
NEW ZEALAND

INTRODUCTION

We are entering the second year of our new strategic plan. We've come a long way since last year and while there is some way to go we have made great progress.

This 2015-18 Statement of Corporate Intent is intended to build on the success of last year and provide a continued focus on our five areas of endeavour:

1. Volume – expand the quantity of livestock we are responsible for supplying, in partnership with others
2. Value – ensure we are extracting as much value from every hectare of land we farm, within and beyond the farm gate
3. Efficiency – ensure we are running a cost-effective operation at both the farm and corporate level
4. People – lead the industry in people practices
5. Environment – showcase the rejuvenation and profitability potential of environmentally savvy farming.

Each area is important, but in 2015-16 our key aim is to do more with less and we will increase our focus on people, safety and capability, animal welfare and the environment.

Steven Carden
Chief Executive Officer
Landcorp Farming Limited

OBJECTIVES, NATURE AND SCOPE

Objectives
Under the State Owned Enterprises Act 1986 (the Act), Landcorp is required to operate as a successful business and specifically to be:

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

Within this statutory context, Landcorp defines its vision and purpose:

Our vision: To become the premium supplier of meat, milk and fibre for niche markets globally

Our purpose: To transform NZ farming

Nature and Scope of business
The Landcorp group comprises Landcorp Farming Limited and its subsidiaries: Landcorp Estates Limited, Landcorp Holdings Limited, Landcorp Pastoral Limited and Focus Genetics Limited Partnership (the Group). Landcorp runs approximately 1.6 million stock units (sheep, beef deer and dairy) on 140 properties owned, leased or managed by Landcorp throughout New Zealand. The nature and scope of our business activities over the next three years are reflected in our strategy and performance targets described in more detail in the following sections of this Statement of Corporate Intent.

A SUMMARY OF OUR STRATEGY

Our aims to achieve our vision:

1. Deliver 12% total shareholder return **sustainably** over the business cycle
2. Help supply 5% of NZ's meat and fibre production, of the highest quality, to partners in **premium value chains** around the world
3. Become the **partner of choice** for Maori, external investors, and other organisations investing in the growth of NZ farming
4. **Lead the industry** in our care for, and investment in, the people we employ, the animals under our care and the environment we are entrusted to farm in

Our key strategies to achieve our aims:

What we will farm

Volume

In partnership with Maori and others, significantly expand the quantity of livestock farmed, across an integrated portfolio of farms nationwide

Value

Integrate our products into value chains focused on niche markets, driven by a deep understanding of future consumer requirements

How we will farm

Efficiency

Drive adoption of science, systems and new thinking that will boost the cost-effectiveness and efficiency of our farm operations

Environment

Lead the industry on showcasing rejuvenation and profitability potential of environmentally-savvy farming

People

Lead the industry in people practices, providing the safest, most enriching work environment for talented and motivated people.

	Volume	Value	Efficiency	Environment	People
Strategic Purpose:	Increase our value to the supply chain and spread our overhead across more farms.	Increase operating margins, reduce revenue volatility and / or secure more certainty over pricing.	Reduce corporate overheads and on-farm costs of production. Boost on-farm productivity. Rationalise portfolio.	Minimise reputational & regulatory risk. Reduce costs of production.	Develop a workforce capable of delivering all other components of strategy. Minimise reputational risks.
Strategic Initiatives:	Investment models	Customer & Markets	Project Simple	Rejuvenation	Values

Volume

In partnership with Maori and others, significantly expand the quantity of livestock farmed, across an integrated portfolio of farms nationwide

GROW VOLUME: 5% SHARE OF SUPPLY

Our strategy is to optimise productivity and increase kilograms of liveweight, milk and fibre on our existing properties in alignment with key customers. We will also invite investors including Maori land owners to take an interest in our livestock properties and dairy expansion - through sound investment vehicles.

Grow volume within existing portfolio

- Target capital investment to fencing, water, fertiliser and buildings on livestock properties
- Enhance existing and initiate new farm systems through extension programmes
- Transition new dairy conversions on Wairakei Estate and achieve production targets
- Ensure expertise in the Farm Performance Group to investigate new partnerships.

Add volume through new partnerships both on and offshore

In NZ:

- Manage farms on behalf of agricultural land investors
- Develop new business models for initiatives around traditional livestock enterprises

In markets:

- Customer driven volume expansion

Volume

In partnership with Maori and others, significantly expand the quantity of livestock farmed, across an integrated portfolio of farms nationwide

RUNNING OUR BUSINESS: VOLUME

In 2015-16 we will...
Target 142.6% lambing
Target 91.2% calving
Target 89.3% fawning
Optimise all enterprises to achieve targets of:
459,000 lambs to sale*
37,000 beef cattle to sale
42,000 deer to sale
21,375,000 kg milksolids
2,742 tonnes of wool

*In conjunction with customer engagement and development of new value add opportunities

Volume

In partnership with Maori and others, significantly expand the quantity of livestock farmed, across an integrated portfolio of farms nationwide

STRATEGIC INITIATIVE: INVESTMENT MODELS

Landcorp aims to increase its share of the NZ pastoral livestock supply from 1.5% to 5% by 2019. To achieve this we must develop partnership models that scale our production base. The final choice of investment vehicle and partners, are mission critical. Only meticulous execution will deliver on the initial promise, and open the door to further opportunities. Landcorp will continue to proactively work with Maori landowners who have decided they are ready to enter commercial agri-relationships. Greater volume contributes to increased profitability, for example; allowing us to scale fixed costs and negotiate more effective value chain partnerships.

In 2015-2016 we will…	
Commence sheep milking through our Spring Sheep Dairy New Zealand joint venture	• Complete development of first Sheep Dairy farm • Successfully lamb and then milk up to 3000 sheep
Establish partnerships with Maori / iwi investors	• Continue to find iwi organisations that are ready to form commercial partnerships with corporate farmers to build the iwi's business base • Complete discussions and establish partnerships with Te Aupouri, Sweetwater iwi, Ngati Apa, Ngati Kahungunu Ki Wairarapa
Establish partnerships with national and international investors	• Become part of networks of investors • Work with appropriate agents to gain access to investors wanting NZ Agri exposure • Explore and develop models to attract agri investment, reconfigure our portfolio and reduce debt

Value

Integrate our products into value chains focused on niche markets, driven by a deep understanding of future consumer requirements

GROW VALUE: CUSTOMERS AND MARKETS

Reduce volatility of core meat and dairy with existing customers

- Defend margins for milk and meat e.g. fixed price contracts through volume, timing and quality value propositions
- Explore and implement alternative ways to obtain financial security e.g. futures and derivatives – prioritising milk

With partners explore new customer opportunities in premium food, fibre, fashion categories

- Integrate our products into value chains focus on discerning consumers within high-value niche markets
- Building pride and connecting our customers with our people and farms

Spring Sheep Dairy

- Commercialise sheep milk opportunity targeting niche and premium market opportunities through our joint venture, Spring Sheep Dairy NZ

Build B2B brand

- Introduce the Pāmu brand as a Business-to-Business partnership and product proposition

PĀMU
EXCELLENT BY NATURE

RUNNING OUR BUSINESS: CUSTOMERS AND MARKETS

Value

Integrate our products into value chains focused on niche markets, driven by a deep understanding of future consumer requirements

Landcorp aspires to increase the value available to participants in the value chain. We need to continue gaining a deep understanding of consumer and customer requirements, and work with others in collaboration and partnership to unlock value potential.

In 2015-2016 we will…
Commercialise our key existing beef, leather, wool and milk initiatives with strong farm connections and create new opportunities with new customers
Establish selected deep Customer Partnerships and governance to create more value through end customer aligned initiatives and volume with premium transactions
Spring Sheep Dairy JV – Deliver on farm operations and sheep milk supply & support Spring Sheep JV marketing & sales planning, engagement & NPD
Build Pāmu Brand equity - Support others to market Pāmu Excellent by Nature, brand Architecture, integration with Farmpride, collateral to be developed as required

EFFICIENCY: FARMING MODELS

Efficiency

Drive adoption of science, systems and new thinking that will boost the cost-effectiveness and efficiency of our farm operations

Our strategy is to lead the industry in developing new thinking on driving performance through tightly integrated large-scale corporate farming models. In the dairy business we will focus on improving reproductive performance and increasing pasture harvested.

Optimise our pastoral system

- Increase the commercial and financial acumen of Farm Managers.
- Ensure right tools in place and focus to harvest 10% more pasture compared to three year average.
- Partner with industry experts in driving reproductive performance, focus on increasing six week in-calf rate by 10% over three years.
- Optimise usage of Dairy Production Reporting, Milkhub, Farm Management System to unlock value in our farm systems.

Efficiency

Drive adoption of science, systems and new thinking that will boost the cost-effectiveness and efficiency of our farm operations

RUNNING OUR BUSINESS: FARMING MODELS

In 2015-2016 we will...
Continue to delegate financial budgeting function to farm
Develop the national "Grass Factory" monitoring format
Continue Farmax training to Farm Managers in conjunction with FMS
Continue financial training courses at Farm Manager level
New grass and crop management
Optimised feed planning
Manage quantity and quality pastures
Facilitate Land and Environment Plan adoption

Efficiency

Drive adoption of science, systems and new thinking that will boost the cost-effectiveness and efficiency of our farm operations

EFFICIENCY: KEEPING IT SIMPLE

Our strategy is to drive the adoption of tools, systems and new thinking that will boost the precision and efficiency of our farm and corporate operations.

Core systems

Implement:

- Re-engineering budgeting and forecast process/system (TM1)
- Farm Management System (FMS) – leverage business intelligence and integration
- On-farm technology e.g. EID tags, reading, measures

New ways of doing business

Implement:

- End to end review of Procure to Pay process
- Electronic time recording
- Strategic procurement including:
  - Contractor database
  - Alternative veterinary services delivery model
  - Wireless fuel use recording and reconciliation
- Lean Methodology across dairy and livestock operations

Efficiency

Drive adoption of science, systems and new thinking that will boost the cost-effectiveness and efficiency of our farm operations

STRATEGIC INITIATIVE: PROJECT SIMPLE

Many of our processes are manual, time-consuming and clunky, and we cannot always see how they add value to our business. Project Simple will introduce a methodology we will use to identify opportunities to stream-line our core business processes. We aim to reduce or eliminate time and cost wastage associated with administration and/or reporting, and ensure that only the process steps that add real value are retained.

In 2015-16 we will...
Fully implement LEAN on all Dairy Units
Pilot LEAN livestock on selected Livestock farms
Identify wave 2 Corporate priority improvement opportunities
Implement wave 2 Corporate priority improvements
Review Maturity model for on-farm implementation

Environment

Lead the industry on showcasing rejuvenation and profitability potential of environmentally-savvy farming

ENVIRONMENTAL REJUVENATION

Our strategy is to lead the industry on showcasing rejuvenation and the profitability potential of our environmentally-savvy farming.

Environmental stewardship

- Compliance is the minimum standard
- Close engagement with regulators
- Ongoing implementation of Land and Environment Plans
- Ongoing protection of high conservation value areas
- Optimising land use to ensure efficient livestock production systems are enabled

Industry leadership

- Move from a culture of conservation to systemic environmental rejuvenation
- Proactive nutrient and water quality management
- Transparent reporting of our environmental footprint
- Environmental considerations an integral part of business decision-making

RUNNING OUR BUSINESS: ENVIRONMENT

Environment

Lead the industry on showcasing rejuvenation and profitability potential of environmentally-savvy farming

In 2015-2016 we will…
Manage our existing forestry resource both harvest and planting
Manage existing QEII covenants, Habitat Enhancement and Land Improvement Agreements
Ongoing stakeholder engagement, including statutory authorities, industry and community organisations
Complete Nutrient Management Modules and Environment scorecards for all farms
Annual review of existing Land and Environment Plans on each farm

STRATEGIC INITIATIVE: **REJUVENATION**

Environment

Lead the industry on showcasing rejuvenation and profitability potential of environmentally-savvy farming

Our reputation as a leading New Zealand business will be built on the best possible enhancement of our environment combined with sustainable commercial returns. We will identify areas within farms and regions where we can farm more efficiently to both improve production and environmental care. This includes key areas where we can have significant impact by implementing new or improved processes, including collaboration to solve catchment and industry issues. We will prototype rejuvenation initiatives including linkages with partnerships, value, diversity, efficiency and people and capability initiatives.

In 2015-2016 we will…
Develop a broad base collaborative network with commercial organisations, CRIs, Universities and an external reference group
Develop an environmental reporting framework which is both spatial and financial
Complete an environment scorecard and nutrient management module for all farms

Environment

Lead the industry on showcasing rejuvenation and profitability potential of environmentally-savvy farming

OUR PROPERTY PORTFOLIO

Our strategy is to achieve the highest and best use for our land, including opportunities other than livestock or forestry, or in covenants. Land that has a higher potential than farming may be developed and sold via subsidiary company Landcorp Estates. We continue to hold land on behalf of the Crown for Treaty of Waitangi settlements through Landcorp Holdings. We also continue to review our portfolio to ensure our holdings and activities are consistent with our strategy. Partnerships with others are a priority rather than further land purchases.

Complementary land uses

- More than 100 separate leases / licences and legal instruments are negotiated each year
  - Grazing
  - Telco sites
  - Short term cropping
  - Mineral exploration and mining
  - Miscellaneous

Landcorp Estates

- Seven separate projects are consented, comprising a mix of lifestyle and residential property

Landcorp Holdings

- Six farms are held for potential future sales as part of the settlement process under the Treaty of Waitangi claims settlement process

Environment

Lead the industry on showcasing rejuvenation and profitability potential of environmentally-savvy farming

RUNNING OUR BUSINESS: PROPERTY PORTFOLIO

In 2015-2016 we will…
Operationalise Wellington office earthquake strengthening and refurbishment
Enter into leases, licences and easements as required
Negotiate and complete apiary agreements for all applicable Landcorp farms
Improve on line access of all property information at farm level
Continue to sell sections in Landcorp Estates
Continue to liaise with the Office of Treaty Settlements regarding Landcorp Holdings and other properties of interest for Treaty of Waitangi settlements

People

Lead the industry in people practices, providing the safest, most enriching work environment for talented and motivated people.

PEOPLE: EMPLOYER OF CHOICE

Our strategy is to lead the industry in people practices, providing the safest, most enriching work environment for talented and motivated people.

Safer Farms for our people

- Drive individual accountability
- Measurable shift in safety performance
- Play our part as an industry leader
- Increase focus on occupational health and mental wellness

Amazing stories

- Engage and connect our people with their company
- Connect meaningfully with our fenceline communities
- Tell our stories to the outside world
- Re-position Landcorp as an iconic NZ business

Outstanding leaders

- Define what "good leadership" looks like
- Invest in growing the current generation of leaders
- Make the quality of our leaders a point of difference

A home for talent

- Build a culture based on our values
- Grow the capability of our people
- Pledge allegiance to high performance

People

Lead the industry in people practices, providing the safest, most enriching work environment for talented and motivated people.

RUNNING OUR BUSINESS: SAFER FARMS

In 2015-2016 we will...
Redevelop FarmPride Quality Management System
Deliver vol. 2 of safety video
Offer a mental wellness initiative
Commence occupational health checks
Expand safety benchmarking group
Implement revised safety training curriculum
Implement a structured Co-ordinated Incident Management System (CIMS)
Deliver a leadership development programme

People

Lead the industry in people practices, providing the safest, most enriching work environment for talented and motivated people.

STRATEGIC INITIATIVE: VALUES

Our values underpin everything we stand for and do as an organisation. We will know we are living up to our Landcorp and Pāmu brand promises when every one of our people is a role model of our values in their everyday work life.

In 2015-2016 we will…
Incorporate our values into every step of the employee life cycle
Build a guiding coalition of leaders committed to our values as a way of life
Develop a recognition scheme for heroes of our brand values
Incorporate values into vol. 2 of safety video
Incorporate values education into revised safety training curriculum

OUR FULL SCORECARD

Strategic goal	Key Performance Indicator	Target for 2015-16	Indication for 2016-17+
Financial Performance	EBIT	$0.9m	2016-17: $13.1m 2017-18: $49.4
Operating costs	Cost of Production - Livestock Cost of Production - Dairy	≥ 1.5 % improvement on FY15 p.a.	≥ 1.5 % improvement on FY15 p.a.
Capital costs	Robustness of capital management processes	Improve structure for assessment, approval, and benefit realisation review	Improved capital stewardship
Partner of choice	Number of new farm management contracts	2	2016-17: 2 2017-2018: 2
Supply niche markets	Additional niche market supply partnerships	3	2016-17: maintain market share
Extract premium prices	Premium achieved over spot market	Average 5% for meat and fibre	2015-17: grow and protect 5.5% premium
Potential new products	Business cases completed for new revenue streams	2	2016-17: 1 further 2017-2018: implement
Efficiency	Deployment of FMS	100% farms reporting 2 monthly performance	100% farms reporting 2 monthly performance
Project Simple	Process improvement and waste elimination	> 3 initiatives	> 5 further initiatives
Environmental performance	New metrics for environment are incorporated into financial and on farm forecasting and reporting	100%	New targets are being implemented and achieved at farm level
Farm environmental	New prototype innovation dairy farms established	Four farms	Demonstrated benefits being rolled out to all farms
Safer workplace	Near Miss/ Hazard and First Aid Injury reporting	NM/H+FAI reporting > 1.5 x ACC injury claims	NM/H+FAI reporting > 2x ACC injury claims
Occupational health	Farm employee health checks	70% of farms with health checks	2016-17: 100% 2017-2018: 100%
Talent retention	Voluntary turnover %	25% improvement on FY15	2016-17: 10% 2017-2018: 10%

Landcorp's forecast results for 2015/16 to 2017/18 are:

	Budget 2015/16	Budget 2016/17	Budget 2017/18
Shareholder Returns			
Total Shareholder Return after tax	1.9%	3.7%	4.8%
Dividend Yield (Ordinary)	0.0%	0.0%	0.0%
Dividend Yield (Ordinary + Special)	0.0%	0.0%	0.0%
Dividend Payout (Ordinary)	0.0%	0.0%	0.0%
Dividend Payout (Ordinary + Special)	0.0%	0.0%	0.0%
Profitability/Efficiency			
Economic Value Added	(6.8%)	(4.2%)	(2.8%)
Dividends – Group (including recommended final) ($m)	-	-	-
Leverage/Solvency			
Gearing Ratio (net)	14.5%	15.6%	14.6%
Interest Cover (Times) (EBITDA / Interest)	1.61	2.57	3.44
Capital			
Net Capital Expenditure ($m)	36.4	47.5	37.0

Financial performance measures as required by the Owner's Expectations Manual are set out in Appendix 3.

CAPITAL STRUCTURE

The issued share capital of Landcorp Farming Ltd as at 30 June 2015 is 125 million ordinary shares at $1.00 each ($125 million) and 107,661,000 redeemable preference shares of $1.00 each, giving a total share capital of $232,661,000.

Under the Protected Land Agreement, Landcorp's shareholder has purchased redeemable preference shares in Landcorp up to the agreed market value of land that has been protected from sale. This share capital has been provided by a combination of one-off capital injection ($52.2 million) with the balance ($52.347 million) being achieved by 31 October 2010 through dividend diversions.

Landcorp's target debt level is set by direct reference to ensuring Landcorp meets its banking covenants. In setting the target debt level, it is necessary to factor in a "buffer" to provide Landcorp with sufficient surplus borrowing capacity to enable it to "ride out" reasonably foreseeable adverse scenarios.

Dividends are paid subject to ensuring compliance with banking covenants and other fiduciary requirements.

Landcorp balances operating, capital, dividend cash flows producing estimated closing interest bearing debt of:

30 June 2016	$244.9M
30 June 2017	$276.3M
30 June 2018	$267.6M

Landcorp targets a capital structure and debt level based on an interest cover ratio of 3:1 with an expected range between 2.75:1 and 3.25:1. In the current environment, due to a forecast low milk pay out the interest cover ratio will fall outside this range.

The target capital structure of subsidiary companies is as follows:

Landcorp Estates	25% debt	75% equity
Landcorp Holdings	15% debt	85% equity

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

	Budget 2015/16 ($m)	Budget 2016/17 ($m)	Budget 2017/18 ($m)
Total assets	1,844	1,929	1,992
Liabilities	404	435	427
Equity	1,440	1,493	1,565
Interest bearing debt / total funding	14.5%	15.6%	14.6%
Equity to total assets	78.1%	77.4%	78.6%

Landcorp's dividend policy is to pay up to 75% of Net Operating Profit after tax.
The Board will consider the payment of special dividends where surpluses arise from non-core activities or from one-off profit realisation.

The payment of dividends is subject to the Board complying with its legal and commercial responsibilities. Consideration of fiduciary responsibilities includes ensuring Landcorp meets all relevant legal obligations and satisfies its obligations to lenders, including compliance with banking covenants.

As a farming company, most of Landcorp's revenue flows are in the second half of each financial year. This means that in the absence of extraordinary circumstances, farming operations are not in a position to fund an interim dividend. This mismatch is disclosed in the Half Yearly Report.

Accordingly, dividends are normally paid in October following financial year end. Landcorp will disclose its performance against the dividend targets in its annual report. Any change in the milk payout, lamb schedule or exchange rates will have a significant impact on Landcorp's ability to pay a dividend.

Landcorp's financial statements are prepared in accordance with the Financial Reporting Act 2013 and generally accepted accounting practice, using a fair value basis, except for an historical cost basis for certain assets and liabilities. The financial statements also comply with the New Zealand equivalent to International Financial Reporting Standards (NZIFRS).

Landcorp's detailed accounting policies are attached as Appendix 2. The policies are consistent with the legal requirements of the Companies Act 1993 and other relevant legislation.

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

COMMERICAL VALUE OF THE CROWN'S INVESTMENT

Commercial Value

The Board's estimate of the current commercial value of the Crown's investment in the Landcorp Group as at 30 June 2015 is $1.39 billion. This is based on the estimated market value of Landcorp assets and liabilities as assessed each year. This includes external valuation of land and buildings, forests, and market prices for livestock, shares and financial instruments. The value of liabilities (excluding the redeemable preference shares issued to the Crown) is deducted from the value of the assets to determine the commercial value. This approach is considered by the Board to fairly reflect the commercial value of the Crown's investment.

Discounted Cash (DCF) Valuation

At the request of the shareholder, the Board commissioned a value analysis of the Company based on Discounted Cash Flow (DCF) methodology, over a 10 year time frame at a discount rate of 5.65%. Monte Carlo analysis was used to simulate value using ranges for foreign exchange rates, commodity prices and terminal growth rate assumptions.

An independent review found no evidence to suggest that the 30 June 2015 DCF valuation of Landcorp would be materially different if a full valuation were undertaken. Changes in assumptions relative to the 2014 assessment have resulted in an uplift of $183m to the average simulated value. This is largely due to a decrease in the midpoint WACC assumption from 6.53% to 5.65%, driven by current low Government bond rates.

The implied equity value of Landcorp using this approach is estimated to be between $650m and $1,850m, with an 80% confidence interval and an average of $1.41bn. The distribution of values and the assumptions on which these values are based are outlined in the histogram on page 30.

Appropriate Valuation Methodology

The Board notes that it is normal to observe material shortfalls in calculated DCF values relative to market prices with respect to rural land. This shortfall reflects the combination of non-pecuniary and pecuniary benefits of owning rural land that cannot be captured by a DCF approach. This conclusion was supported by an independent review of Landcorp's commercial value in 2011 /12 by PricewaterhouseCoopers. Given these limitations, the Board considers the market value of Landcorp to most appropriately represent the commercial value of the Company.

BACKGROUND INFORMATION – 2015 DCF VALUATION OF LANDCORP

Ernst & Young Transaction Advisory Services (EYTAS) note that for Landcorp, a DCF valuation will not necessarily capture all sources of potential future value even under an assumption of indefinite Crown ownership. Among other things, a conventional DCF analysis will not assign any value to any "real options" attaching to rural land, such as the ability to switch use in response to changes in relative returns to alternative forms of land use or zoning restrictions. A DCF analysis may also fail to adequately account for a rural land owner's ability to vary output levels and cost structures in response to changing price signals. Further, uncertainty surrounding future NZ dollar commodity returns is such that it will in general be possible to support a wide range of outcomes using a DCF methodology.

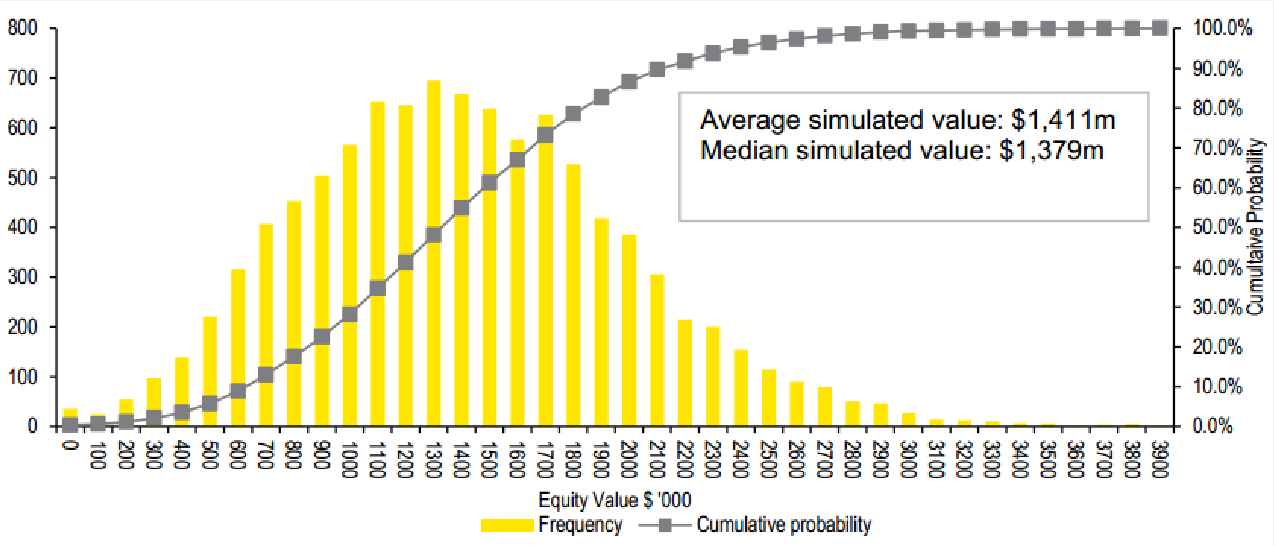
DCF Assumptions:

The DCF analysis was performed as at 30th June 2015.

- The DCF analysis was based on forecasts for the Landcorp Group (including Landcorp Holdings Limited).
- A discount rate of 5.65% was used based on the latest Business Plan.
- The DCF analysis was based on a 10-year financial model of Landcorp's business units. The 10 year financial model forecast future cash flows based on Landcorp's three year business plan, with forward projections for Years 4 to 10. In the years post the business plan, forecast future cash flows are projected to largely increase at 2%, a proxy for inflation.
- A nominal terminal growth rate falling in the range of 2% to 2. 5% is assumed with cashflows in the terminal period based on Year 10.
- Capital expenditure is assumed to be $5 million greater than depreciation in the terminal period reflecting annual land improvement capital expenditure that is not depreciated.
- 87% of Landcorp's value in the 'base case' explained by the DCF is attributed to the terminal value (cash flow beyond year 10). This is largely due to the improved performance of the business projected throughout the explicit period.
- Constant land holdings (except for known Wairakei Pastoral commitments).
- 2.4% p.a. production improvement for livestock for years 1 to 5 and 1 % for years 6 to 10.
- 2.2% p.a. production improvement for dairy for years 1 to 5 and 1 .4% for years 6 to 10.
- Product price and cost growth in line with general inflation (i.e. constant margin).

HISTOGRAM – DCF VALUATION (EQUITY VALUE) - LANDCORP

Distribution of equity value outcomes generated by Monte Carlo simulation analysis:



80% of simulations fall in the range $650 million to $1,850 million. The analysis implies an approximate 35% probability that the present value of Landcorp's future cash flows will exceed the forecast net book value of its assets as at 30 June 2015 (approximately $1.5 billion).

The Monte Carlo analysis provides a higher mean DCF value for the business than under the base case assumptions. It appears this can be attributed to commodity prices particularly dairy being below the long run equilibrium, meaning output will be skewed upwards.

A. Board Charter and Professional Development

The Charter sets out the authority, responsibilities, membership and operation of the Board of Directors in the governance of Landcorp. Specifically, it requires directors to embrace the following principles:

a) To observe high standards of ethical and moral behaviour.

b) To act in the best interests of the Shareholders.

c) To ensure that Landcorp acts as a good corporate citizen, taking into account environmental, social and economic issues.

d) To recognise the legitimate interest of all stakeholders.

e) To ensure that staff are remunerated and promoted fairly and responsibly.

The primary responsibility of the directors is to exercise their business judgement to act in what they believe to be the best interests of the Company and its Shareholders and to take appropriate steps to protect and enhance the value of the assets of the Company in the best interests of the Shareholders. They will ensure that at the heart of the organisation there is a culture of honesty, integrity, and excellent performance.

Professional development of Landcorp's Directors is encouraged through education and training. During their three year term, each director is entitled to an allowance of up to $3,000 for such purposes.

B. Subsidiaries

The terms "Share", "Shareholding Ministers" and "Subsidiary" have the same meanings as in section 2 of the SOE Act 1986.

Landcorp shall ensure at all times that:

- Control of the affairs of every subsidiary of Landcorp is exercised by a majority of the directors appointed by Landcorp; and
- A majority of the directors of every subsidiary of Landcorp are persons who are also directors or employees of Landcorp, or who have been approved by Landcorp's Board for appointment as directors of the subsidiary.

C. Consultation

Landcorp will consult with shareholding Ministers before it or any of its subsidiaries:

a) invests, by one or more related transactions, $50m or more in any activity within the nature and scope of its core business;

b) makes, by one or more related transactions, a significant investment in a business that is outside the nature and scope of its core business; and

c) sells or disposes of the whole or any substantial part of the company.

D. Compensation from the crown

If the Crown wishes or requires Landcorp to undertake activities or assume obligations which constrain Landcorp from acting in a normal, business-like manner or which will or could impact on Landcorp's profit or value, Landcorp 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 obligations.

Basis of Preparation

Statement of compliance

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

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 Landcorp is NZ$.

Changes in accounting policies

There have been no changes in accounting policies during the financial year.

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.

Significant Accounting Policies

Basis of consolidation

Subsidiaries
Subsidiaries are companies controlled by Landcorp and are included in the consolidated financial statements using the purchase method of consolidation. In the Parent, subsidiaries are valued at cost.

All significant intercompany balances and transactions are eliminated on consolidation. Unrealised gains arising from transactions with jointly controlled entities are eliminated to the extent of Landcorp's interest in the entity.

Revenue
Revenue is measured at the fair value of consideration received or receivable.

Livestock sales
Livestock sales, and sales of other agricultural produce, are recognised upon receipt by the customer when the risks and rewards of ownership have been transferred.

Agricultural produce
Agricultural produce, including milk and wool, is recognised at the point-of-harvest at its fair value less estimated point-of-sale costs.

Accounts receivable
Accounts receivable are initially measured at fair value and are subsequently measured at amortised cost using the effective interest method, less any provision for impairment. An allowance for irrecoverable amounts is recognised in the Statement of Comprehensive Income when there is objective evidence that a receivable is impaired.

Property held for sale

Property held for sale comprises property that has been identified for sale and development land. Properties that have been identified for sale are classified as property held for sale when a sales plan has been implemented and an unconditional sales contract is expected to be signed within a year. Development land is held for sale to development joint venture entities.

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.

Changes in the value of livestock are recognised in the Statement of Comprehensive Income. Value changes that form part of Landcorp's livestock management policies, including animal growth and changes in livestock numbers, are recognised in the Statement of Comprehensive Income within revenue. Changes in value due to general livestock price movements are beyond Landcorp's control and do not form part of Landcorp's livestock management policies. These value changes are recognised in the Statement of Comprehensive Income as gain/loss due to price changes on livestock.

Other financial assets

(a) Investments in subsidiaries
Investments in subsidiaries are recorded at cost.

(b) Loans to subsidiaries and other loans and receivables
Loans to subsidiaries and other loans and receivables are recorded at amortised cost, using the effective interest method.

Other financial assets (continued)

(c) Held-for-trading instruments
Derivative financial instruments are used by Landcorp to hedge interest-rate, foreign currency and commodity risks. Landcorp's financial management policies explicitly prohibit trading in financial instruments. The Group has elected not to apply hedge accounting. This means that all derivative financial instruments must be classified as held-for-trading for the purpose of NZ IFRS.

Held-for-trading instruments are recognised in the Statement of Financial Position as either assets or liabilities at fair value on trade date, with changes in fair value reported as revaluation gains and losses in the Statement of Comprehensive Income. The cash-flows arising from interest-rate derivatives are reported as a component of net finance costs in the Statement of Comprehensive Income.

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

Available-for-sale investments are valued at fair value. Other changes in value are reported as other comprehensive income in the Statement of Comprehensive Income. On sale the revaluation component is recognised within operating profit in the Statement of Comprehensive Income.

(e) Impairment of financial assets
All financial assets are reviewed at balance date for indications of impairment. Where objective evidence of impairment exists, an investment is written down to the present value of expected cash flows, with the reduction in value being reported within operating profit in the Statement of Comprehensive Income. Subsequently, if the impairment diminishes for non-equity financial instruments, the appreciation in value is reported in the Statement of Comprehensive Income, to the extent that it reverses previous impairment losses.

Property, plant and equipment

Property, plant and equipment consists of land and improvements, protected land and improvements, plant, motor vehicles, furniture and equipment and computer equipment.

Land is measured at fair value and buildings are measured at fair value less accumulated depreciation and impairment losses. Protected land (including buildings on protected land) is valued at fair value at the time it is classified as protected land. Buildings are stated at this value less accumulated depreciation.

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

(a) Revaluations
Freehold land and improvements (including buildings) are valued annually on 30 June at fair value by independent registered valuers. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount restated to the assets revalued amount. Changes in valuation are taken to the freehold land and improvements revaluation reserve using the net revaluation method. Where an assets downwards revaluation exceeds previous positive revaluations, the amount of the revaluation is reported within profit or loss in the Statement of Comprehensive Income.

(b) Additions
An item of property, plant and equipment is initially recognised at cost plus directly attributable costs of bringing the item to working condition for its intended use.

Property, plant and equipment (continued)

(c) Disposal
Gains and losses on disposals are determined by comparing the disposal proceeds with the carrying amount of the asset. Gains or losses on disposal of land are recognised as profit or loss on sale of land and gains and losses on disposal of other items of property, plant and equipment are recognised as gain or loss on disposal of property, plant and equipment in the Statement of Comprehensive Income. When revalued areas are sold, the revaluation reserve attributable to that item is transferred from the asset revaluation reserve to other equity.

(d) Depreciation
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
Plant	3 -10 years

(e) Impairment
If the estimated recoverable amount of the asset is less than its carrying amount, the asset is written down to its estimated recoverable amount. For property, plant and equipment that are revalued annually, this difference is accounted for in the same manner as a downwards revaluation. For property, plant and equipment recorded at depreciated historical cost an impairment loss is recognised in the Statement of Comprehensive Income. Recoverable amount is the greater of fair value less costs to sell and value in use.

Other financial liabilities

(a) Bank loans
Bank loans are initially recognised at their fair value. After initial recognition, all bank loans are measured at amortised cost using the effective interest method.

(b) Financial guarantees
Financial guarantees are recognised at the higher of the initial fair value less, where appropriate, accumulated amortisation and the best estimate of expenditure required under the financial guarantee contract.

Income tax

Income tax reported comprises current and deferred tax. Income tax is recognised in the Statement of Comprehensive Income, except where it relates to an item recognised directly in equity, where the income tax is recognised directly in equity.

Current tax is the tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustments to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet method, providing for temporary differences between the carrying values of assets and liabilities for financial reporting purposes and the tax base of those assets and liabilities. The amount of deferred tax provided is based on the difference between the tax base and the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised to the extent it is probable that future taxable benefits will be available against which the asset can be utilised. Deferred tax assets and liabilities are offset when there is a legal right to offset tax liabilities with tax assets and when the Group intends to settle on a net basis.

Provision for dividends

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

FINANCIAL PERFORMANCE MEASURES

This appendix sets out financial performance measures based on standards reporting and definitions requested by the Shareholder for all SOEs in the Owners Expectation Manual.

	Budget 2015/16	Budget 2016/17	Budget 2017/18
Shareholder Returns			
Total Shareholder Return [1]	1.9%	3.7%	4.8%
Dividend Yield (Ordinary) [2]	0.0%	0.0%	0.0%
Dividend Yield (Ordinary + Special) [2]	0.0%	0.0%	0.0%
Dividend Payout (Ordinary) [2]	0.0%	0.0%	0.0%
Dividend Payout (Ordinary + Special) [2]	0.0%	0.0%	0.0%
Return on Equity	(0.7%)	2.6%	4.7%
Return on Equity adjusted for IFRS fair value	(0.7%)	0.1%	2.0%
Profitability/Efficiency			
Return on capital employed	0.1%	0.7%	2.7%
Operating Margin	7.8%	12.4%	23.6%
Leverage/Solvency			
Gearing Ratio (net)	14.5%	15.6%	14.6%
Interest Cover (Times) (EBITDA / Interest)	1.61	2.57	3.44
Solvency	1.97	2.00	2.00

1. Under this approach, Shareholder returns is calculated by using the movement in commercial value (as estimated in the SCI) plus dividends. Landcorp's approach is to use actual audited change in Shareholders equity (Total Comprehensive Income) divided by average Shareholder Equity. Landcorp considers Total Comprehensive Income to more accurately reflect the actual return to the Shareholder.
2. Under this approach, Dividend Yield and Dividend Pay-out is calculated by using actual dividends paid within the financial year. Landcorp pays dividends in October, from profit generated in the previous financial year. Therefore the Landcorp method more accurately reflects the dividend to the appropriate financial year.

DESCRIPTION OF CALCULATION OF FINANCIAL PERFORMANCE MEASURES FOR SOE PORTFOLIO

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
Dividend payout	Proportion of an SOEs net operating cash flows less allowance for capital maintenance paid out as a dividend to the shareholder	Dividends paid/Net cash flow from operating activities less depreciation expense
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
Return on equity adjusted for IFRS fair value Movements & asset revaluations	Return on equity after removing the impact of IFRS fair value movements and asset revaluations	Net profit after tax adjusted for IFRS fair value movements (net of tax)/Average of share capital plus retained earnings
Profitability/efficiency		
Measure	Description	Calculation
Return on capital employed	The efficiency and profitability of a company's capital from both debt and equity sources	EBIT adjusted for IFRS fair value movements/Average capital employed
Operating margin	The profitability of the company per dollar of revenue	EBITDAF/Revenue
Leverage/solvency		
Measure	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
Interest cover	The number of times that earnings can cover interest	EBITDAF/Interest paid
Solvency	Ability of the company to pay its debts as they fall due	Current assets/current liabilities

Definitions of key terms used in calculations	
Term	Definition
Capital employed	Interest-bearing debt plus share capital plus retained earnings
Capital expenditure	Payments for the purchase of property, plant and equipment items taken from the cash flow statement
Commercial value	This is the board's estimate of the current commercial value of the Crown's investment in the Group as per the company's SCI
Depreciation expense	Depreciation expense per the profit and loss account
Dividends paid	Dividends paid to the shareholder during the financial year per the cash flow statement
EBIT	Earnings before interest and taxation
EBITDA	Earnings before interest and taxation, depreciation and amortisation
EBITDAF	Earnings before interest and taxation, depreciation and amortisation and fair value adjustments
Equity	Total shareholder's equity taken from the balance sheet
Fair value adjustments	Includes unrealised fair value gains/losses on derivatives or all fair value gains/losses on derivatives where the entity does not separately identify unrealised items. Also includes changes in the fair value of biological assets and investment properties
Interest paid	Interest paid for the financial year on interest-bearing debt per the company's cash flow statement
Net cash flow from operating activities	Taken directly from the cash flow statement - this is cash flows from operating activities less cash flows to operating activities. Ensure that interest paid is included in operating activities
Net debt	Interest-bearing debt such as loans, bonds and commercial paper plus interest-bearing finance leases less cash
Retained earnings	Profits retained in the business (ie, after dividends to the shareholder)
Revaluation reserve	When an asset is re-valued to fair market value for accounting purposes the increase in the value of the asset is reflected in a revaluation reserve within equity
Revenue	Revenue from the operations of the business. Interest revenue should be excluded
Share capital	The amount of capital originally invested by the shareholder and any subsequent equity injections
Tax on fair value adjustments	This is the tax effect relating to the changes in the fair values of financial instruments