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MEDIA RELEASE

Landcorp half year result shows strength in dairy, sheep and beef

Landcorp Farming made a net operating profit of \$3.2 million for the first half of 2010/11, reflecting the strength of the company's dairy, sheep and beef operations. The half year, ended 31 December 2010, has seen increased product prices but also extreme weather events which impacted on production.

Chairman Jim Sutton said Landcorp is on track for a full-year net operating profit better than the 2009/10 result of \$10.0 million, contingent on key regions not experiencing extreme weather during the second half. "We assume also that milk, lamb and beef prices will hold at current levels or improve in the coming months, and that New Zealand will not experience further unwanted exchange rate appreciation," added Mr Sutton.

Reviewing the half year, Mr Sutton said it has also seen significant progress on strategies for lifting returns to Landcorp and other farmers over the long-term through closer linkage of production to market signals. Most notably, the company has joined the Government and Silver Fern Farms in investing in Farm IQ Systems, a new joint venture in the red meat industry.

"Farm IQ is now in the early stages of an ambitious, long-term project that will draw on the expertise and resources of Landcorp and other shareholders," said Mr Sutton. "We will integrate our information services strategy with the Farm IQ development, extending the benefits of technology now being rolled out in Landcorp to other farmers throughout of New Zealand."

The half year's \$3.2 million net operating profit (2009/10: \$6.4 million net operating loss) reflected largely a 32 per cent jump in dairying income to \$51.7 million as Landcorp benefited from higher prices and lifted its milk volume. Payouts from dairy companies for 2010/11 are forecast to be above \$7.00 per kg of milksolids (compared with \$6.10-\$6.40 for the previous year). In the half year, Landcorp carefully managed the adverse impacts on milk production of early summer dry across much of New Zealand.

Revenues from the sale of all farm products, including milk, increased to \$91.7 million for the half year (2009/10: \$74.6 million) with beef, lamb and wool also contributing to the improvement. The averages of indicator prices paid to farmers for beef and lamb in the half year were up 16 per cent and 7 per cent respectively compared with the corresponding period in 2009/10. The crossbred wool indicator rose around 30 per cent over the course of the half year. Revenue gains were achieved despite the negative effect on farm returns of continued high New Zealand exchange rates, an overall reduction in sheep and cattle numbers, and the impacts of extreme weather.

Storms in August and September hit new-born lambs in both North and South Islands, and set back weight gain in sheep and deer across all ages. The South Island lambing rate was down to 132 per cent (from a 2009 record of 140 per cent), while the North fell to 126 per cent. The early storms were followed by extremely low rainfall and high temperatures during October and November across the upper North Island, and western and central parts of the South. Soil moisture deficits were classed as extreme in much of these regions in November, with substantial impact on grass growth.

In dairying, Landcorp herds came into the 2010/11 season in excellent condition. As dry conditions set in, the company worked to maintain this and sustain favourable levels of production by maximising use of available grass across dairy units in different regions, and by buying supplementary feed. At mid December, Landcorp milk volume for the season was 8 per cent higher than at the corresponding point in 2009. Rainfall across much of the country late in December and January has brought some relief.

Landcorp continued to manage expenditure very tightly in the half year. Operating expenses were \$80.5 million, up 12 per cent compared with the corresponding period in 2009/10, largely because of increased supplementary feed costs and other spending directly related to the extreme weather. Higher expenses were more than offset by the half year's revenue gains. The net operating profit of \$3.2 million also reflected a 16 per cent reduction in net interest costs, down to \$5.4 million as the company continued its policy of debt reduction. Bank loans at 31 December 2010 were well below budget at \$174.5 million. There were no farmland sales in the half year, although two farm blocks were the subject of negotiations.

Landcorp recorded a total positive shareholder return of \$41.4 million for the half year (2009/10: \$22.3 million). This figure (also referred to as "total comprehensive income") includes a \$51.9 million revaluation gain on livestock in reflection of a general rise in sheep and cattle market prices during the half year as weather events reduced seasonal peaks in numbers and raised demand for replacement animals in many regions. Landcorp does not revalue land and buildings at the half year as this is only done for full-year financial statements. This means that the shareholder return for 2010/11 might be significantly different from the \$41.4 million half-year outcome.

Mr Sutton said Landcorp continues to develop and strengthen its existing operations with recent initiatives including:

- On the Weka dairy complex, West Coast, work is underway to hump and hollow another undeveloped block for more free-draining pasture. Blairs, the fifth dairy unit on Weka, is in production for the first time during 2010/11 after completion of its development.
- In Canterbury, efficient centre pivot irrigation systems are being introduced on the Maronan and Waimakariri dairy complexes. Gains in pasture growth and milk production have been clearly evident during the half year.
- In the Te Anau area, Southland, deer operations are being enlarged through conversion of a further 800 hectares on Landcorp properties for use in deer breeding and finishing.
- In the area of livestock genetics, Landcorp has agreed, subject to due diligence, to form a joint venture with Rissington Breedline that will combine our genetics unit with the complementary business of Rissington. The new entity will offer farmers access to a wide range of genetics from established breeding programmes, while also investing in new research and in technologies that have become increasingly complex and expensive.

Mr Sutton said Landcorp's Board, management and staff have been greatly saddened by the fatal accident of dairy farm assistant Renee McNelis on the Tram Road dairy unit, West Coast, during the half year. Renee was killed while using an ATV on 8 November 2010. It is the first employee fatality on-farm since Landcorp's formation 23 years ago. The company immediately commissioned an independent injury prevention consultant to investigate the accident and his preliminary finding is that the inherent instability of ATV design was a major cause of the accident. Landcorp now awaits a Coroner's inquiry and determination into the full circumstances of Renee's death.

Mr Sutton said Landcorp is also saddened by the deaths of contractor truck driver Ian Knox in a vehicle accident on Waipori Station, Otago, in November, and of long-serving employee Tokowha Mete, in August 2010. Toko was farm manager on Te Karae Station, Northland, and he passed away after a short period of illness.

Mr Sutton said the Board thanks all Landcorp people for their hard work and commitment in this time of challenge and opportunity. "Financial results for the half year are pleasing, as is the progress made on various projects and initiatives that are, we believe, destined to strengthen future returns."

For further information, see the Landcorp Farming Half Year Report for the six months ended 31 December 2010 and/or contact Chris Kelly, Chief Executive on tel. 04 381 4050.