

Landcorp farming for the future



FRONT COVER IMAGE: Daniel Hall – Senior Shepherd, Mararoa Station, Te Anau.

LANDCORP FARMING LIMITED (Landcorp) is a State-Owned Enterprise. It is also the largest agricultural enterprise in New Zealand, farming 1.6 million stock units on 108 properties with a total land area of 370,738 hectares (including the 180,486 ha lease of New Zealand's largest farm – Molesworth Station). Landcorp's activities are: pastoral livestock farming of cattle, sheep, dairy cattle and deer; development and marketing of livestock genetics and systems; and the development of land for more productive and profitable agriculture.

It has three subsidiary companies, Landcorp Developments Ltd and Landcorp Pastoral Ltd, which are developing and leasing former forestry land in the central North Island, and Landcorp Estates Ltd, which develops and sells land suitable for higher value use than farming.



Hectares farmed
As at 30 June 2007

	Owned	Leased
North Island	105,379	4,062
South Island	80,020	181,277
Total	185,399	185,339

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In this report, reference to a year such as 2006 or 2007, means the financial year ended 30 June in that year.

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...and the next generation of Landcorp farmers is taking us there.

Landcorp continues a tradition of progress at the heart of New Zealand agriculture. Twenty years after incorporation, Landcorp has a record of careful land management, productivity growth and solid financial return. It's part of a 130-year tradition of progress since the first days of the Department of Lands and Survey. We take pride in our farming past – and we have quiet confidence in our farming future.

In 2007 and beyond, Landcorp will breed ever more productive livestock, constantly seek improvement in farm operations and product quality, and increasingly link production to market demands. We will manage land and other resources with sustainability top of mind. Most of all, we will continue developing people with the vision, knowledge and commitment to take the company – and New Zealand agriculture – forward. By doing these things today, we are farming for the future

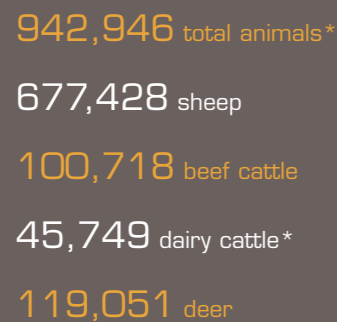
Group Highlights 2006/07

Current year's production (tonnes)



Quick Facts as at 30 June 2007

Livestock numbers



* includes sharemilker cows

Landcorp operates



Number of permanent staff 550

- Group operating profit before interest and tax of \$30.1 million, an increase from \$18.1 million in 2005/06.
- Renewal of Landcorp's 'tertiary' status following the ACC's biennial audit of the company's Work Safe policy and practices.
- Increases of 5 to 17% on 2005/06 tonnages of milk, beef, venison and sheep meat produced.
- Two new dairy farms established on the Wairakei Estate pastoral project.
- Subsidiary company Landcorp Estates Ltd earned a net profit after tax of \$11.2 million and declared a maiden dividend of \$6.0 million.
- Landcorp's terminal sire genetics programmes ranked extremely highly in a Sheep Improvement Ltd industry evaluation of rams for meat production. Landcorp rams took the top five rankings of 2,703 rams.
- A further 19 areas of bush, 8 wetlands and 6 areas of riparian land protected under covenants.
- A Landcorp farm at Te Anau received an environmental award.
- A new information technology project successfully integrated farm data, finance and budgeting on one platform.
- Initial steps taken to restructure office administration and centralise in a single office in Wellington.

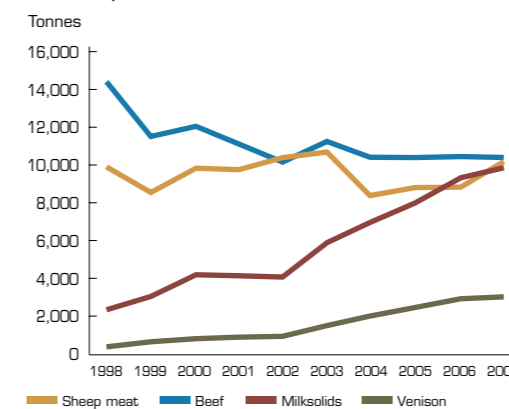
A history of continuous improvement

Landcorp's strategy of continuous improvement has delivered excellent results in livestock production.

Over the past 10 years, Landcorp has diversified its farming operations beyond sheep and beef to make dairy and deer significantly higher proportions of total production. This has spread the company's business risk across four principal income streams. Generally, diversification has been achieved on the same asset base, through the development of land, livestock and people. Progress under the continuous improvement strategy is demonstrated in the charts below, which show how Landcorp has largely maintained its sheep and beef production while lifting its output of milksolids and venison by factors of four and nine respectively.

Over 20 years, the company has trained its people and pooled its expertise in farm management, animal husbandry, agronomy and genetics to strengthen farming operations and improve productivity.

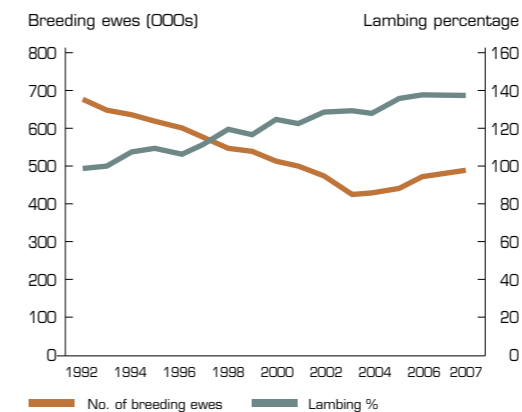
Annual production, 1998-2007



This chart shows Landcorp's changing production mix over 10 years and the benefits of the diversification strategy, which began in 2001.

Note: An El Nino drought in 1998 caused destocking of sheep and cattle, hence an unusually high tonnage of both for that year.

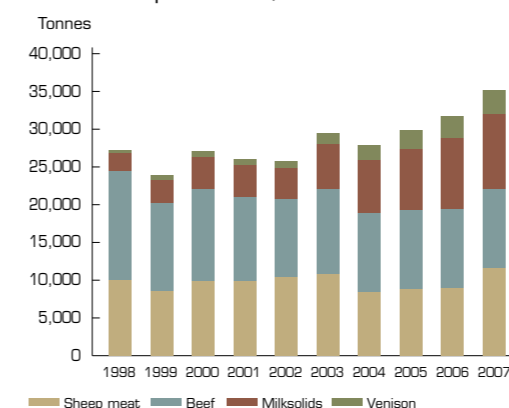
Flock size and lambing percentages



This chart reflects the improvements in Landcorp genetics when combined with the growth of farming knowledge and skills among staff. Since 1992, Landcorp's breeding ewe flock has dropped from 680,000 to 490,000, while lamb meat production has actually risen from 6,400 tonnes to 7,700 tonnes over the same 15 years. This is due to two key factors:

- Increased reproductiveness in the ewe flock. Lambing percentages have risen from 98.7% in 1992 to 137.4% in 2007 (ie every 100 ewes reared 137.4 lambs in the latest year making a total of approximately 673,000 lambs).
- Increased average carcass weights for lambs. This average has increased from 13.6kg in 1998 to 16.6kg in 2007. The increase has been achieved through use of terminal sires and improved nutrition.

Combined production, 1998-2007



This chart shows Landcorp's increase in total production. The annual combined tonnage of beef, sheep meat, venison and milksolids produced by the company has risen steadily in the past four years. This has been achieved off the same area of owned land.



Left to right: Falcon Clouston, Steven Wyn-Harris, Lex Henry, Mavis Mullins, Hon. Jim Sutton (Chairman), Marise James, Christine Williams and Warren Larsen (Deputy Chairman)

Corporate Vision

“To be the world’s best agribusiness”

Mission

“To provide the shareholders with maximum sustainable financial returns”

Our Values

“To act honestly and with integrity, be environmentally responsible, be a fair employer and champion success & excellence”

Twenty years of continuous improvement

This year marks the completion of the first two decades of Landcorp leadership in New Zealand farming. From the fledgling company incorporated in 1987, Landcorp has grown into a major agribusiness with total assets of \$1.4 billion and an average 15.4% annual return on shareholders' funds over 20 years. It now holds a unique position, providing leadership and innovation in the country's most important export industry.

Following the Government's decision in 2001 to retain State ownership over the long term, Landcorp has been better able to concentrate on the shareholders' expectations of improved operating performance and return on investment. The company has moved to longer-term strategic planning without the uncertainties inherent in the previous, more short-term outlook on its ownership. The results have been spectacular, with Landcorp achieving significantly higher average revenues, productivity and shareholder returns over the past five years.

Future performance will reflect strong commitment to further productivity improvements, a development strategy that incorporates sustainable land use, ongoing innovation in management and technology, and an overall focus on building the value of Landcorp's business.

Year in Review

Farming always involves risk and uncertainty arising from exposure to international product markets, to currency fluctuations and to climatic extremes. These all impact on financial results from year to year. Landcorp results for 2006/07 were satisfactory overall. Group operating profit before interest and tax was \$30.1 million, an increase from \$18.1 million in 2005/06. Landcorp made a net profit after tax of \$20.1 million for 2006/07, down from \$28.5 million in the previous year. This bottom line result was lower due to reduced farm sales and lower gains being achieved from these sales and 2005/06 including profits arising from sale of Fonterra shares.

When growth in the value of assets was taken into account, the overall return to shareholders was \$38.0 million, representing a 3.3% return on average shareholders' funds in the latest year. This return was lower than the company's five-year average of 16.2%, and this reflects relatively small changes in the company's land values between June 2006 and June 2007.

Landcorp's earnings from farming operations principally reflected movements in product prices, most notably a continued high level for dairy products, and appreciation in the value of the New Zealand dollar. Two subsidiary companies, Landcorp Pastoral Ltd and Landcorp Developments Ltd, were still in a major development phase and had yet to attain profitability in 2006/07. A third subsidiary, Landcorp Estates Ltd, achieved a good profit after tax of \$11.2 million (up from \$0.7 million in 2005/06) and this company was able to declare its first dividend.

Protected Land

Late in 2006/07, the Government introduced new policies on the sale of Crown land and land owned by agencies in which the Crown has an interest, including State-Owned Enterprises (SOEs). Arising from interest group pressures and some land occupations by Maori, the new policies are intended to identify sensitive land and to develop a process for considering its future.

The new policies initially created governance issues for Landcorp which, when incorporated, had paid for its land assets and must deal with these assets in terms of fiduciary obligations imposed by the SOE Act and the Companies Act. As a part of its normal operations, Landcorp must from time-to-time buy and sell land to optimise business opportunities and efficiencies.

To meet the Crown's objectives and at the same time recognise Landcorp's legal and business requirements, the two parties are in the process of finalising an agreement. Landcorp has identified the land it currently wishes to sell and the Crown has decided which properties it wishes to protect. These properties will be transferred into a new subsidiary company, where they will be owned and managed by Landcorp but accounted for separately from Landcorp's other operations. The Crown will invest additional equity in Landcorp, equivalent to the value of protected properties. Landcorp will transfer the properties to the Crown when required for public policy purposes. The Crown will benefit from any capital gain in their value.

The agreement will enable Landcorp to continue its existing business strategy and to build on its leadership role in New Zealand farming. The company's Statement of Corporate Intent for 2007/08 has been delayed pending finalisation of the Protected Land Agreement.

Development Strategy

Following the successful completion of its initial five-year development strategy commenced in 2001/02, Landcorp is now into the next phase with an emphasis on securing full value from the developments implemented thus far. Further productivity improvements are sought through the clustering and amalgamation of properties. This process enables synergies and savings to be achieved from the integration of management, business systems and other resources (e.g. the sharing of machinery).

The Government's "protected land" policies will see some capital being released to Landcorp in the near term. This will enable the company to purchase further land that will support its strategy for grouping farms into larger management units.

In order to create further efficiencies and to facilitate a collective corporate culture, Landcorp will centralise its administration in a single office in Wellington. This will result in the current Rotorua and Christchurch Business Centres being closed by 30 June 2008.

We have a strong focus on offering superior genetics to New Zealand pastoral farming and further progress is expected in this area of Landcorp strategy from now on. The strategy will also bring further expansion of services that support optimal land use by other farmers and investors. These services include management of the farming operations of third parties, and the application of Landcorp systems for quality assurance, safety, purchasing, finance, budgeting and marketing. We are also working with energy generation companies on prospects for securing additional returns through wind farming where land is suitable for this purpose.

Industry Leadership Role

We believe strongly in Landcorp's role as an industry leader in New Zealand farming. During the year the company made submissions to the Government on a number of issues affecting the future of farming. Among these was a submission to the Committee of Inquiry into Local Government Rating. Local body rates are becoming a significant financial burden for many New Zealand farmers.

Landcorp's leadership is also very evident in the work of our Genetics and Nutrition Unit. In cooperation with AgResearch and other scientific organisations, the company will continue to contribute to the development of new technology in breeding, nutrition and land management. Sustainable land use and environmental protection is another key area of leadership. There are now 118 covenants over Landcorp farms, protecting areas on these properties that have special environmental value. More areas will be protected in future. In addition, environmental best practice is being built into all Landcorp developments as typified by the judicious use of fertiliser which has become a key feature of the company's nutrient budgeting.

As a part of the communities in which Landcorp works, we provided sponsorship support to national and local organisations that benefit farming and land use; and we will continue the company's role in providing highly successful training programmes for young people who seek a future in agriculture.

Dividend

The directors recommend a final dividend of \$12.0 million in line with budget. In accordance with the proposed agreement, this dividend will be diverted back to Landcorp as issued capital, as part of the payment for properties identified as "protected land".

Board and Management

As recorded in last year's Annual Report, the Board's previous Chairman, Alison Paterson, retired on 31 July 2006 and the current Chairman, Hon. Jim Sutton, commenced on 1 August 2006. There were no other changes in the composition of the Board during the year. Directors join with the Chief Executive in acknowledging the significant contribution to Landcorp and its predecessor organisation, the Department of Lands and Survey, by Bernard Card who has recently retired as General Manager.

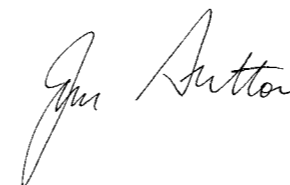
The Future

Prospects for farming over the next year look promising with product prices expected to rise, tempered somewhat by the uncertainties associated with an over-valued New Zealand dollar. At the same time, farmers are needing to respond to significant cost pressures and an array of adverse influences in relation to trade, environmental, food safety and climate change issues.

Landcorp has strategies in place to meet the challenges of evolving market conditions and all the other issues referred to above. This company is working in positive ways with the farming and scientific communities to enhance both its own performance and that of New Zealand agriculture in general.

The Board acknowledges the support it has received from the shareholders which has allowed Landcorp to plan for growth and increased shareholder value. We are looking to continue this in 2007/08 and beyond. In doing this the total land area owned by the Company will not increase beyond that held prior to the settlement of the Ngai Tahu Treaty claim in 1998.

The directors also acknowledge the significant contribution made by staff over the year and their efforts in meeting Landcorp's obligations to its many stakeholders.



Hon. Jim Sutton CNZM
Chairman
27 August 2007



Warren Larsen CNZM
Deputy Chairman



Chris Kelly
Chief Executive



Bernard Card
General Manager



John Kennedy-Good
Company Secretary



Collier Isaacs
Manager - Corporate Strategy



Richard Perry
Chief Financial Officer



Gerry Soanes
National Manager - Property

Positioned for a challenging future

During 2006/07 we continued to work on improving performance and on consolidating the gains achieved through the five-year strategic development programme completed in 2005/06. The year under review saw further land development, moves to rationalise management on-farm and in support offices, and progress with key business initiatives, most notably genetics marketing and services to other farmers and agricultural investors.

Results

High exchange rates and adverse weather both impacted on revenue for the year, although these factors were partially offset by very favourable market conditions for dairy, beef and deer products. The New Zealand dollar rose to almost US80 cents and there was a similar, though slightly less dramatic, rise in currency values against this country's other major trading partners. These movements had a depressing effect on some product prices, particularly sheep meat, in the later months of 2006/07. The payout to New Zealand dairy producers, on the other hand, remained high. Landcorp benefited from its diversification strategy of recent years which has added greater balance and variety to the company's revenue streams, including a higher share of overall income from dairying.

Climatically, 2006/07 was varied with floods and droughts creating management problems in different parts of the country. There was a serious drought on the East Coast of the North Island towards the end of the year and Hawkes Bay had its driest period since records began 120 years ago. Subsequently that region was also subject to some major flooding. The effects on Landcorp were mitigated by our spread of properties and our ability to transfer stock out of affected regions.

The Landcorp Group had revenues of \$146.4 million for 2006/07 which was 19.3% above the previous year (2005/06: \$122.7 million). Operating costs were tightly controlled in the face of general cost pressures and additional expenditure requirements to repair storm damage and to meet quality assurance requirements on some properties.

Group operating profit before interest and tax (EBIT) was \$30.1 million which was 66% above the previous year (2005/06: \$18.1 million). Profit on sales of land and shares was down by \$19.2 million compared with the previous year and this contributed to a reduced net profit after tax (NPAT) of \$20.1 million for 2006/07 (2005/06: \$28.5 million). The overall return on average shareholders' funds for the year was 3.3% (see page 38).

Landcorp maintained high levels of productivity during the year. Our lambing percentage was 137.4% (2005/06: 137.7%), with eleven properties achieving above 150% (seven in the previous year). Our beef cattle calving percentage was 91.1% (2005/06: 88.4%) and fawning was 86.4% (2005/06: 89.1%). Milk production increased again, reflecting a further expansion of the company's dairy operations, supported by production now starting to come from Landcorp Pastoral Ltd. A total of 9.9 million kilograms of milksolids was produced, up 6.5% on the previous year (9.3 million kilograms).

LANDCORP FARMING LIMITED AND SUBSIDIARIES

Financial Performance

Dollars in millions unless otherwise stated

	2007	2006
Total operating income	146.4	122.7
Operating profit before interest and tax (EBIT)	30.1	18.1
Net profit after tax (NPAT)	20.1	28.5
Net profit on equity investment (share capital and retained earnings)	11.2%	15.9%
Total return on average shareholders' funds	3.3%	32.4%

LANDCORP FARMING LIMITED AND SUBSIDIARIES

Key Efficiency Measures

For years ended 30 June	2007	2006	Average 2002-2006
Lambing percentage	137.4	137.7	131.9
Calving percentage	91.1	88.4	89.6
Fawning percentage	86.4	89.1	87.2
Kgs milksolids per hectare	833.5	869.0	702

The Landcorp Balanced Scorecard measures our progress towards financial objectives and our performance in terms of customer relations, internal business processes, and learning and growth, including our R&D expenditure. Landcorp's performance relative to scorecard targets is reported on pages 18 and 19.

Strategic Initiatives

Landcorp undertook a number of initiatives during the year in line with its strategic plan. These included –

- **Wairakei Estate Project** This pastoral development project brought three new dairy farms into production and two more will begin milking at the start of 2007/08 (see Landcorp Developments Ltd and Landcorp Pastoral Ltd in Subsidiary Companies below).
- **Farm Amalgamations** The company continues to cluster properties or amalgamate them into larger units under the control of Farm Business Managers (formerly Supervising Farm Managers). This strategy provides greater coordination of management, systems and resources to achieve efficiencies and economies of scale. Ultimately Landcorp will have fewer but larger farms.
- **Farm Purchases** Six properties were acquired during 2006/07 to support clustering and amalgamation in the Landcorp portfolio. As well as facilitating more effective management, the purchases were aimed partly at improving the balance between breeding and finishing land in the same general locality. Acquisitions during the year included a 1,900 hectare property in Hawkes Bay and five smaller areas adjoining existing Landcorp farms in the King Country, Wairarapa and Otago.
- **Farm Sales** There was one complete farm and seven parts of farms sold during the year as the company disposed of outlying farms and areas with limited future potential, as part of the overall portfolio rationalisation programme. The capital released through these sales was used to support the acquisition of more suitable properties. Sales were largely in the Taupo area, and they included parts of Wairakei and Aratiatia Stations. Other sales included the Kiroa dairy and deer units near Hamilton, a small area of Opouahi Station in Hawkes Bay, 120 hectares of Mt Hamilton Station (sale of wetland and associated riparian land to the Department of Conservation), and a surplus house in Te Anau.
- **Office Restructuring** During the year, initial steps were taken to restructure office administration and operational activities across Landcorp. The proposal is to centralise in Wellington and close the North and South Island offices, in Rotorua and Christchurch. These moves were aimed at creating further efficiencies, improving communications and developing a more integrated corporate culture. Following staff consultation, the centralisation proposal was confirmed and the Rotorua and Christchurch offices are expected to close by 30 June 2008.
- **Information Systems** The year saw the completion of project CISEL for the roll-out of new information technology and management systems, replacing nearly all of Landcorp's older software systems. The new systems cover financial management, farm trading activities, budgeting and forecasting, payroll, OSH and staff training records. The company also has an existing system for genetic breeding records. All systems are fully supported in-house. They will be further developed to accommodate individual animal records, integrated feed demand supply budgets and the comprehensive records that support our FarmPride™ quality assurance programme.
- **Genetics Marketing** The genetics marketing programme was extended during the year under the banner "Landcorp Sires of proven value™". New Zealand pastoral farming is now securing commercial benefits from the significant gains in livestock performance that have flowed from the genetics programmes of Landcorp.
- **LandSys** This is a division of Landcorp, focused on identifying opportunities for provision of the company's systems to other large scale landowners. This may include provision of quality assurance programmes, combined product marketing or asset development or management. This initiative is still at an early stage and discussions continue with a number of potential clients.

Subsidiary Companies

Landcorp had three wholly-owned subsidiary companies in 2006/07. A fourth subsidiary has been incorporated since balance date.

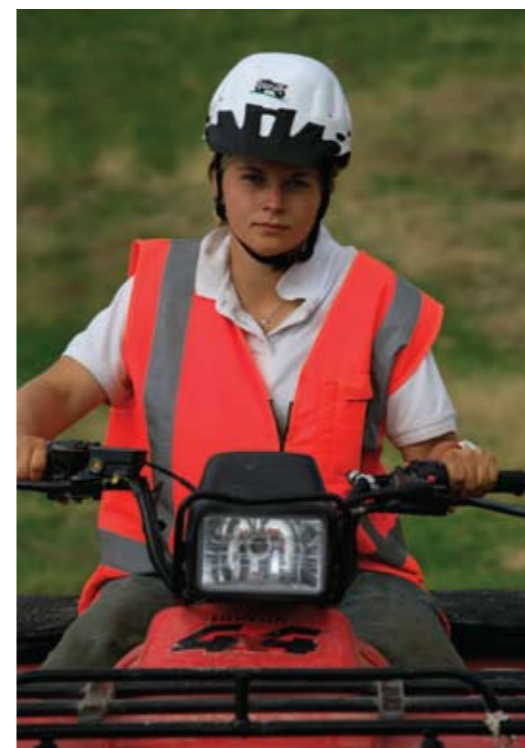
Landcorp Estates Ltd produced an excellent tax-paid profit of \$11.2 million for 2006/07. After balance date, the subsidiary's directors declared a dividend of \$6.0 million and this was paid on 31 July 2007 to Landcorp Farming Ltd, the parent company.

The subsidiary's purpose is to create and realise value from the subdivision and sale of land previously held by the parent company. It does this through either contracting directly for the development of properties or forming joint ventures with selected property developers.

Progress on current projects was as follows:

- The number of section sales at the 212-residential section development at Wharewaka Point in Taupo reached 166 by 30 June 2007, for \$49.7 million in total proceeds. Of these, 125 sales have now been settled with the remainder on deferred terms.
- The 65-residential section development at Lakeside Terraces near Rainbow Point in Taupo was completed in March 2007. At balance date, 19 sections had been sold. All titles have been issued and settlements have commenced.
- A resource consent application was made for a major 490-section subdivision at Wharewaka East, north of the Taupo airport. Submissions received following public notification are currently being evaluated.
- The Environment Court approved the final stage of the Wakelins Riverfront subdivision near Paihia in the Bay of Islands into 29 lifestyle sections.

Landcorp Developments Ltd has been established to convert to farming 25,000 hectares of privately-owned land in the central North Island after forests have been harvested. The development is planned over approximately 15 years. Some 15,000 hectares will become dairy farms, 8,000 hectares will be utilised for sheep and beef farming and the remaining 2,000 hectares will be retained as riparian strips or conservation areas. The subsidiary has been operating for three years and during this time some 4,414 hectares have been cleared, developed and grassed.



The Landcorp Future Farmer Programme

The Landcorp Future Farmer programme is a one-year course that gives young people a good grounding in farming. Up to 16 Future Farmer students work and learn on our Aratiatia Station and in the process earn themselves a Level 3 National Certificate in Farming.

Aratiatia Station is a 5,000 hectare property that performs highly as one of Landcorp's sheep and cattle breeding properties. It has a high performing ewe flock of around 23,000 with a five-year average lambing percentage of 151%. Its 2,000 beef cows have averaged 93% for the same period.

The Future Farmers learn basic farm skills in livestock husbandry, pasture management, machinery use and fencing; as well as farm safety and life skills so they can look after themselves. The syllabus is delivered through our partner, Agriculture New Zealand. At the end of the year the students are given the opportunity to apply for Farm Trainee positions with Landcorp, where they can gain experience on up to three farms over three years. Given Landcorp's scale and geographic spread, a Farm Trainee can join Landcorp and see New Zealand.

To learn a little more of what becomes of a Future Farmer, see the feature article in this report about Senior Shepherd – Daniel Hall, on page 26.

Future Farmer student
Lisa Radford.

Landcorp Pastoral Ltd was created to lease and farm the land developed by Landcorp Developments Ltd. The first three dairy units were brought into operation last year and a further two have just been commissioned. The five units in 2007/08 will milk 6,700 cows on 2,946 hectares, with another area of 1,468 hectares being farmed as a dry stock unit with 1,740 beef cattle.

Landcorp Holdings Ltd was incorporated on 13 August 2007 and will hold Landcorp properties on the "protected land" list established under the proposed agreement between the company and the Crown (see Directors' Report page 5). The agreement provides for Landcorp to retain the properties and manage them until the Crown has determined its requirements for their future use. The agreement covers payment to Landcorp and matters relating to future ownership of the properties.

Protection of the Environment

Protecting the environment remains an important aspect of Landcorp's farming and land development activities. All development programmes take into consideration soil and water values, and areas of land that have particular conservation value are retired wherever this is practicable. During 2006/07, a further 33 areas were identified as being worthy of retirement from farming, while 790 hectares were fenced and protected by 13 registered covenants and one riparian agreement. These covered 19 separate areas of vegetation, eight wetlands and six areas of riparian land.

There are now 228 areas on Landcorp farms protected by 118 covenants covering 3,570 hectares and 21.9 kilometres of riparian land. On the balance of its farm land, Landcorp has adopted a best practice methodology for development and farming. We consult with district councils, the Department of Conservation, Fish and Game New Zealand, local iwi and other interest groups before any major development work is started.

In the central North Island, Westland and other areas, where developments are of significant scale, land is fenced off and, where appropriate, planted in order to limit run-off to waterways and to preserve wetland and other landscape features. These areas become nitrogen absorbers. Further work is being done to investigate nitrogen inhibitors, seasonal grazing patterns and the possible use of feed-pads to limit the environmental effects of increased numbers of livestock on pastures. Landcorp makes a substantial effort to monitor ground water and streams for the effects of run-off, and it works closely with regional authorities in this regard. Every farm now has a nutrient budget where fertiliser inputs are measured against outputs from the same properties. This has led to savings of 10% in our annual fertiliser bill.

A recent initiative has been the building of a bio-fuel unit on one of the company's dairy farms. Effluent is being gathered from the holding yards and put through a digester to create methane which is, in turn, used to generate electricity for use on the farm.

In the energy field generally, land that is suitably located and has the appropriate topography is being investigated with electricity generating companies for potential wind generation sites. Areas in Northland and Wairarapa appear suitable for this purpose and, if developed, they would contribute towards New Zealand's energy demands and create carbon credits.

The largest property under Landcorp management is the 180,000 hectare Molesworth Station, which is leased from the Crown. Through the Molesworth Steering Committee, which includes representatives of Government as well as farming and environmental interests, almost 47,000 hectares of the lease have been identified as having natural values worthy of protection. These have now been retired from grazing. Public access has also been greatly extended on this iconic area of New Zealand high country.

Landcorp continues to provide sponsorship support to the QEII National Trust and, in conjunction with Environment Southland, the annual "Rural Pat on the Back Award".

Environmental Award During 2006/07 an industry environmental award was made to Landcorp Farm Manager Phil Denny of Stuart Farm in Te Anau for the retirement of a wetland and the riparian lands of the Ramparts Stream which flows through the farm. Revegetation work has also been undertaken as part of this project.

Landcorp places high importance on the sustainability of its farming operations (see page 16). Through the FarmPride™ quality assurance programme, our farm managers continue to take good custodianship of the land.

Staff Development

Out on the land or in business planning sessions, Landcorp people are continually in training. The company's growth and success depends largely on the knowledge, skills and commitment of its 550 staff.

Our people development programme is fundamental to making Landcorp a "learning organisation" – and to driving continuous improvement in all areas of the business. The company invested 0.9% of its revenue in staff training during 2006/07 for a total of 2,032 training days.

We have seven different in-house training courses, supporting our philosophy of staff working within high performance teams, plus an induction course to introduce staff to the "Landcorp way".

Over the past year, Landcorp put huge emphasis on training staff in the four new software applications implemented through Project CISEL. For farm staff, this meant a particular focus on the use of "PAM", our new farm information system for recording livestock movements and a raft of other on-farm physical data. During 2006/07, 321 staff attended these courses. 205 staff also attended specialist training courses outside Landcorp or participated in national animal production workshops run by the company.

Landcorp is making a strategic move from office-based to farm-based supervision of its properties. For this, we are now also training selected staff for the new role of Farm Business Manager (formerly Supervising Farm Manager). To date, 10 people have been appointed to these roles. With the amalgamation of smaller farms into large-scale units, Landcorp needs people who are strong on business management, on implementation of strategy and on leading multi-disciplinary teams. This has culminated in us rolling out a new training programme (Coaching and Mentoring – The Next Dimension Programme) in conjunction with the New Zealand Institute of Management.



Sires of proven value™

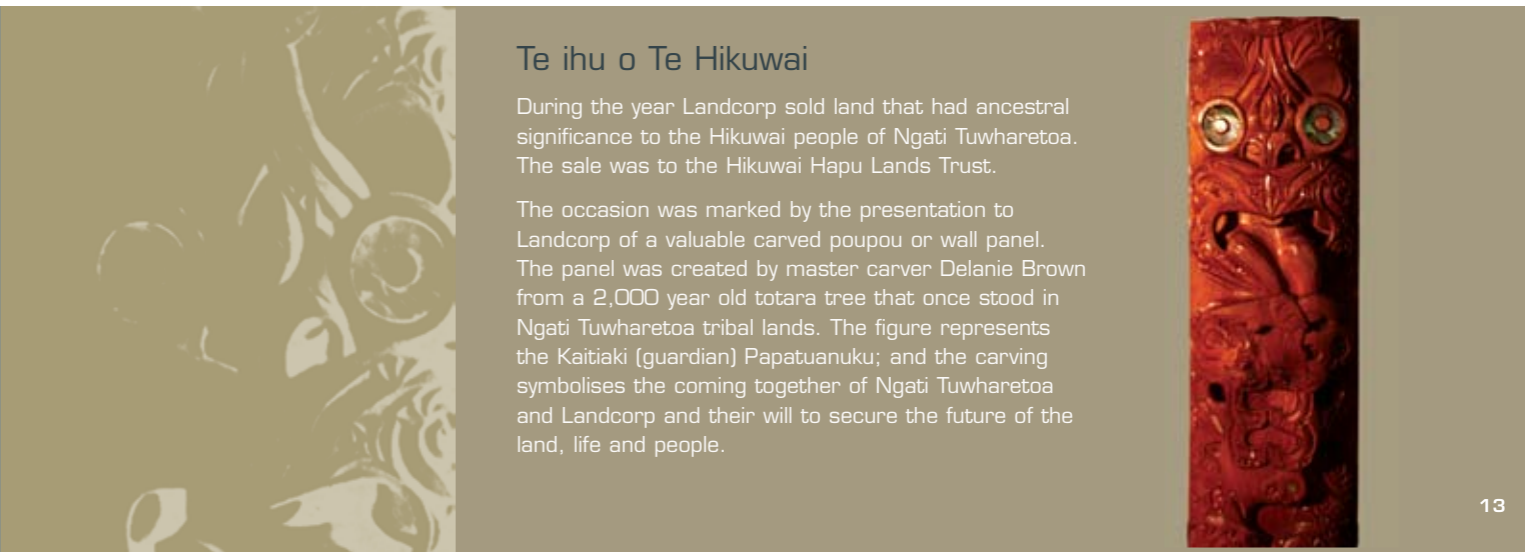
Landcorp completed a second year of marketing its genetics to the industry via Landcorp Sires of proven value™. The company believes that its scientifically based genetics programmes, which select for profitable traits, offer significant benefit to New Zealand agriculture in meeting international market requirements (see page 23).

To encourage discussion in the agricultural community about continuous improvement, Landcorp has introduced annual field days on its breeding and commercial farms. In 2007 two Sheep Fielddays and two "Insight Tours" brought industry farmers and professionals onto Landcorp farms in both the central North Island and Southland regions. The events produced wide discussion on lifting livestock performance through quality sheep, cattle and deer genetics combined with innovative farm management practices.

Farmer Graeme Watson, presents at Landcorp sheep field day.



Sires of proven value™



Te ihu o Te Hikuwai

During the year Landcorp sold land that had ancestral significance to the Hikuwai people of Ngati Tuwharetoa. The sale was to the Hikuwai Hapu Lands Trust.

The occasion was marked by the presentation to Landcorp of a valuable carved poupou or wall panel. The panel was created by master carver Delanie Brown from a 2,000 year old totara tree that once stood in Ngati Tuwharetoa tribal lands. The figure represents the Kaitiaki (guardian) Papatuanuku; and the carving symbolises the coming together of Ngati Tuwharetoa and Landcorp and their will to secure the future of the land, life and people.

The health and safety of all staff remains a strong focus. Landcorp's Work Safe policy and practices went through a biennial ACC audit and for the third consecutive time, the company achieved "tertiary" status under the Workplace Safety Management Practices Programme (the highest rating). As a result of this, Landcorp receives a 20% discount on ACC levies. The savings are invested back into its extensive Work Safe training programme.

Landcorp works closely with Agriculture ITO. We currently have 235 on-farm staff registered with active training agreements on the NZQA platform. Of these people, 170 are covered by farm safety agreements, and 188 are registered as studying for additional technical and management papers provided by Agriculture ITO. Landcorp accounts for 4.2% of the ITO's 8,481 training agreements nationwide.

Landcorp's Future Farmer Programme completed its fifth year on a strong note with 15 young people enrolled at Aratiatia Station. Future Farmer graduates are given the opportunity to gain employment as Farm Trainees with Landcorp and this year graduates from the programme accounted for 5% of the company's total farm staff.

During 2006/07, we also continued to support tertiary level education in agriculture by awarding four scholarships at Massey and Lincoln Universities, and a further six scholarships to students at Taratahi Agricultural Training Centre and Telford Rural Polytechnic.

We extend our congratulations to Rangitaiki Station Farm Business Manager Ross Shepherd who was runner-up in the New Zealand Institute of Management Young Executive of the Year 2006 for the Central Region. The award recognises leaders under the age of 35 "for their positive impact on the growth, productivity and morale of their employing enterprise." I commend and support all our staff who have participated in professional excellence awards with their industry peers.

National Farm Managers' Conference

As part of our programme for continuous improvement, Landcorp managers gathered in Wellington to mark 20 years of successful business at our first National Farm Managers' Conference. A range of speakers shared with the 270 attendees their views on changes to the environment in which Landcorp will farm, and challenges of market expectations over the next 10 years. The conference included recognition of the contribution to the company by Bernard Card, retiring General Manager.

2006 Annual Report Award

It was pleasing to note that last year's Landcorp Annual Report won the New Zealand Institute of Chartered Accountants' award for Best Annual Report by a Public Sector Commercial Organisation. The award recognises clarity and conciseness in reporting performance and strategy, plus willingness to discuss the relevant challenges for the period. We will continue to embrace these standards in reporting to our shareholders and stakeholders.

Capital Position

Landcorp's total assets increased to \$1.44 billion at 30 June 2007, a rise of 4.3% from \$1.38 billion last year. Land values rose a modest 0.7% reflecting a slowdown in the rural property market, and also recognition by our external valuers of issues around the saleability of Landcorp assets arising from Treaty

of Waitangi claims and other impediments. Forest values declined during the year as lower timber prices affected forest valuations. Establishment of new dairy farms in Landcorp Pastoral as part of the Wairakei Estate project required the purchase of more livestock, dairy cooperative shares and buildings. The lower revaluations provided a significantly smaller increase in economic value for the shareholders of Landcorp than has been the case over previous years.

Borrowing decreased from \$220.4 million at 30 June 2006 to \$205.2 million at 30 June 2007. Landcorp had a debt to debt-plus-equity ratio of approximately 17% at balance date, which is in line with similar farming enterprises. Landcorp's external advisors previously recommended a band of 18-24% for this ratio. During 2006/07, Landcorp reviewed its capital structure based on independent external advice. It will now target a debt level that is based on ensuring compliance with banking covenants rather than targeting debt as a percentage of assets. Landcorp's assets have increased in value by 97% in the last five years without a corresponding increase in the company's debt servicing ability. Given this, debt levels are considered appropriate at this stage.

LANDCORP FARMING LIMITED AND SUBSIDIARIES

Capital Structure

Dollars in millions unless otherwise stated	2007	2006
Total assets	1,435.6	1,379.6
Total debt	205.1	220.4
Shareholders' funds	1,179.3	1,144.2
Shareholders' funds as % of total assets	82.1%	82.9%

Landcorp's Treasury Management Committee continued to actively manage Landcorp's financial risks. Exposures to higher interest rates are managed through an active interest rate hedging programme with around 63% of Landcorp's debt hedged against interest rate risk in 2006/07 and 70% forecast to be hedged in 2007/08. The Committee reviewed the interest rate risk management strategy and is implementing an amended strategy aimed at achieving a higher degree of certainty around future funding costs.

A detailed analysis of long-term financial trends is set out in pages 38 and 39.

Outlook

Landcorp expects increased revenues during 2007/08. Market forecasts indicate some improvement in product prices although the benefits are expected to be partially offset by a continued high value of the New Zealand dollar. The company has completed a major development programme, upgraded its farming operations and successfully diversified its revenue streams across four main product lines (sheep meat, beef, deer and dairy). We will continue implementing this broad strategy through further development of properties, and through the clustering and amalgamation of farms into larger management units with greater operating efficiency and economies of scale.

We expect increased focus from local, national and international organisations, and from the overseas markets, on a broad array of issues. These issues range from sustainable land use, conservation of the environment, climate change, animal health, food safety, through to the settlement of relevant Treaty of Waitangi claims. Landcorp has played – and will continue to play – a leading role in addressing all of these issues. There is no doubt that New Zealand agriculture as a whole faces a more complex and challenging future. I believe Landcorp has the experience, expertise and commitment to provide leadership and support to the industry as we all face these challenges and continue creating wealth for all New Zealand.

I record my sincere appreciation to Landcorp staff for another year of hard work and dedication to our mission in agriculture. This has been willingly given in the face of some difficult times, physically, climatically and, to a degree politically. I also wish to acknowledge the support given by the Board to Landcorp's management and staff.

Landcorp's long serving General Manager, Bernard Card, retired from that position in July 2007. Bernard has been with the company and its predecessor organisation (the Department of Lands and Survey) for over 38 years. He played a leading role in the establishment of Landcorp and has made a significant contribution to its success over the last 20 years. I also wish to acknowledge the services of three long-term farm managers who have retired, Phil Denny, after 39 years, Neil Manning, after 23 years, and Andrew Beckett, after 20 years' service. Landcorp has been well served by many long-term employees.



Chris Kelly
Chief Executive

Landcorp Agricultural Communicator of the Year Award

Well-known cartoonist David Henshaw, the creator of "Jock", was the recipient of the 21st Landcorp Agricultural Communicator of the Year Award in Hamilton on 13 June 2007. The Award, administered by the New Zealand Guild of Agricultural Journalists and Communicators, recognises excellence in communicating agricultural issues, events or information, and is judged by a nationwide panel of ten independent judges. Landcorp has sponsored the Award through the Guild since 1987.

Jock has been a national identity for over 40 years, a firm favourite with the farming community. David is now semi-retired, but Jock is still hard at work, commenting on the state of farming and the entire spectrum of rural life.

David Henshaw, cartoonist.



Landcorp Sustainability Initiatives 2007

Landcorp is committed to sustainability in farming and land management. That commitment is integral to our on-farm practices everyday, to our property development programmes, and to our various initiatives for protecting and enhancing natural environments. It is also a foundation principle of Landcorp's FarmPride™ quality assurance programme which requires all company operations to be carried out in accordance with environmentally sound practices.

Enhancing soil and water quality are special areas of attention for Landcorp. These are reflected in the range of our ongoing initiatives to measure and control the use of nutrients and the run-off from farming activities. We have a particular focus on practices and technologies that can limit the environmental impacts of optimal stocking rates and intensive land use. The preservation of areas set aside to enhance biodiversity is another ongoing area of initiative: Landcorp has a growing area of land under protection for its natural values.

New Zealand's agricultural sector produces enough food for approximately 35 million people annually. Because of this New Zealand's greenhouse gas emissions from ruminant livestock are disproportionate to its relatively low population. Landcorp recognises the longer term significance of climate change and the responsibility that agriculture has in investigating and developing methods of limiting greenhouse gases, in ways that support sound farming practice. Landcorp is already playing its part. New Zealand has an increasing focus on energy efficiency and wind generation: Landcorp is active in these areas. The accompanying table outlines key initiatives that reflect our commitment to sustainability.

TYPE	LANDCORP INITIATIVE	CURRENT APPLICATION	STATUS	PARTNERS
Climate Change	Effluent Bio-digester trial	Waimakariri Dairy Unit	R & D	Natural Systems Ltd
	Contribution to Pastoral Greenhouse Gas Research Consortium	Pastoral Sector GHG Group	R & D	
	Member of the Pastoral Sector Climate Change Working Group	Industry-good	Ongoing	
	Submission to the Sustainable Land Management & Climate Change Consultation Document	Industry-good	Completed	
	eco-N (nitrification inhibitor) trials	Selected Landcorp dairy units	Completed	Lincoln University & Ravensdown
	Commercial eco-N (nitrification inhibitor) trials	Waihora + West Coast farms	Completed	
	Carbon footprint analysis	Industry-good	Assessing	AgResearch
Soil Quality	Soil Quality measurement study	Manawatu & Thames Dairy Units	R & D	Crop & Food Research
	Optimising Nutrient Management on Modified Soils study	Developed West Coast farms	R & D	Crop & Food Research & Sustainable Farming Fund
	Nutrient budgeting	All Landcorp farms	Implemented	
	Nutrient budgeting extended in 2006 to meet Code of Practice for Nutrient Management	All Landcorp farms	Ongoing	
	eco-N (nitrification inhibitor) trials	Selected Landcorp dairy units	R & D	Lincoln University & Ravensdown
	Commercial eco-N (nitrification inhibitor) trials	Waihora + West Coast farms	Completed	
	Erosion prevention forestry	All Landcorp farms (where appropriate)	Ongoing	
	"Proof of Placement" Precision fertiliser spreading using GPS technology	All Landcorp farms (where appropriate)	Ongoing	Accredited Spreadmark Approved Contractors
	Growsafe trained farm staff	All Landcorp farms	Implemented	Agriculture ITO & Agriculture NZ
Independent national fertiliser practice and use audit	Selected Landcorp farms	Ongoing		
Water Quality	Effluent management audit	All Landcorp dairy units	Implementing	
	Water quality monitoring in land developments	Wairakei Estate	Ongoing	Environment Waikato & Wairakei Pastoral Ltd
	Fenced riparian zones around waterways and wetlands	All Landcorp farms (where appropriate)	Ongoing	
	eco-N (nitrification inhibitor) trials	Selected Landcorp dairy units	R & D	Lincoln University & Ravensdown
	Commercial eco-N (nitrification inhibitor) trials	Waihora + West Coast farms	Completed	
	"Proof of Placement" Precision fertiliser spreading using GPS technology	All Landcorp farms (where appropriate)	Ongoing	Accredited Spreadmark Approved Contractors
	Assistance in the Lake Taupo Catchment Nitrification Management Programme via eco-N R & D results	Landcorp's Taupo catchment farms	Ongoing	Lincoln Ventures Ltd & Ravensdown
	Effluent Bio-digester	Waimakariri Dairy Unit	R & D	Natural Systems Ltd
	Growsafe trained farm staff	All Landcorp farms	Implemented	Agriculture ITO & Agriculture NZ
	Independent national fertiliser practice and use audit	Selected Landcorp farms	Ongoing	
Biodiversity Preservation	Conservation covenants	All Landcorp farms (where appropriate)	Ongoing	QEII Trust, DOC & Waiau Fisheries & Wildlife Habitat Enhancement Trust
	Sustainable Farming Fund – Wilding Pine control	Molesworth Station / Industry-good	Ongoing	
	Fenced riparian zones around waterways and wetlands	All Landcorp farms (where appropriate)	Ongoing	
Energy	Energy Audit	All Landcorp dairy units	Completed	
	2 wind farm investigations approved	Northland & Wairarapa	Implemented	
	4 wind farm investigations pending approval		Assessing	
	Investigation of wind generated electricity for Landcorp farms	Selected Landcorp farms	Assessing	
	Effluent Bio-digester trial	Waimakariri Dairy Unit	R & D	Natural Systems Ltd
	Carbon footprint analysis	Industry-good	Assessing	AgResearch
General	Biological Control of Weeds and Pests	Selected Landcorp farms	Ongoing	Landcare Research
	Integrated pasture pest management research	West Coast	R & D	AgResearch

Financial

Objectives	Measures	Notes	2006/07 Target	2006/07 Actual	Average 2002-2006
Increase gross revenue	Gross revenue growth at 5% per annum	1	+ 5% per annum	3.6%	9.5%
Return on funds invested (RoFI)	RoFI \geq Weighted Average Cost of Capital (WACC) +1%	2	WACC + 1.0%	WACC - 3.6%	WACC + 10.5%
Improve productivity	Productivity increase at 4% per annum	3	4%	4.7%	-1.9%

Customer

Objectives	Measures	Notes	2006/07 Target	2006/07 Actual	Average 2002-2006
Fit for purpose supply	Average lamb prime carcass weight (kg)		16.5	16.6	16.6
	Average venison prime carcass weight (kg)		54.0	55.2	55.4
	Average cattle prime carcass weight (kg)		261.8	266.7	282.7
Quality Assured	Average FarmPride™ rating	4	8	8.5	8
Environmentally sound business practice	Nutrient budgets complete (% of all farms)		100%	100%	N/A
	Environmental covenants registered		12	14	5
Positive external perception of Landcorp	Sponsorship investment (\$)		110,000	153,510	114,917

Internal Business Process

Objectives	Measures	Notes	2006/07 Target	2006/07 Actual	Average 2002-2006
Maintain effective area	Effective area farmed (hectares)		167,001	168,098	162,043
Improve pasture production and utilisation on a sustainable basis	Closing stock units per effective hectare		9.0	9.7	9.4
Sustainably increase total stock units	Total closing stock units		1,506,336	1,623,714	1,515,631
Increase production	Milksolids production (tonnes)	5	9,478	9,856	6,847
	Sheep meat production (tonnes)	6	10,188	10,316	9,421
	Beef production (tonnes)	7	10,832	11,547	10,623
	Venison production (tonnes)	8	3,021	3,069	2,025
	Wool production (tonnes)	9	3,241	3,253	3,047
	Velvet production (tonnes)		11.2	14.7	12.6
Labour utilisation	Opening stock units per permanent employee		3,303	3,073	2,972
Improve reproductive efficiency	Lambing percentage	10	139.5%	137.4%	131.9%
	Calving percentage		90.7%	91.1%	89.6%
	Fawning percentage	11	90.2%	86.4%	87.2%

Learning and Growth

Objectives	Measures	Notes	2006/07 Target	2006/07 Actual	Average 2002-2006
Safe and healthy workplace	Average Work Safe compliance rating	12	8	8	8
	Lost workdays due to accidents	13	<0.35%	0.58%	0.40%
Appropriate labour resource through recruitment and training	Employee turnover rate	14	<20%	30.0%	25.4%
	Training days per employee		4	4	4
	Number of employees completed internal training programmes annually		160	285	150
	NZQA course enrolments		310	235	415.75
	Training investment as a percentage of total revenue		0.6%	0.9%	0.63%
Research and development (R&D)	R&D investment as a percentage of total revenue	15	0.5%	0.3%	0.36%

Notes to the Balanced Scorecard

- Revenue and return on funds invested are calculated using 2000/01 prices. This provides a constant basis for comparison.
- ROFI was below target as land values increased only 0.7% in 2006/07 compared with 25-year average of 5.6%.
- Productivity measures the efficiency of generating farm outputs against the inputs used, including expenses and capital.
- FarmPride™ rating refers to the audit outcomes of the FarmPride™ quality assurance programme. A rating of 8 out of 10 equates to satisfactory FarmPride™ compliance.
- Milksolids production has increased due to maturation of pasture on 15 dairy units converted since 2002 as part of the deer and dairy conversion programme and 3 new dairy farms on Landcorp Pastoral.
- Sheep meat production was bolstered by a good lambing percentage compared with the 5-year average, more ewes to the ram, and hence increased sale numbers still achieving budgeted carcass weight.
- Beef production exceeded target due to increased carcass weights and additional cattle sales as a result of the East Coast drought.
- Venison production has increased against the 5-year average due to the deer and dairy conversion programme which was completed in 2006.
- Wool production has increased over the 5-year average due to increased sheep numbers.
- Improved lambing is a major target of Landcorp's breeding programme. 139.5% was a stretch target which will be achievable in the short to medium term.
- Fawning percent was lower than target and 5-year average due to a low fawn survival. Management has identified specific areas to invest future research into increasing fawn survival.
- Work Safe is Landcorp's in-house safety programme. A score of 6.5 out of 10 is estimated to satisfy ACC's tertiary level safety requirements.
- Lost days due to accidents have increased this year mainly due to one accident resulting in several months of recovery time. Farm safety is extremely important to Landcorp and remains a focus for continued improvement.
- Employee turnover rate has lifted largely due to the increased dairy component, which has a high inherent turnover rate. Ways to reduce this are being developed.
- R&D investment is below target in part due to a lag in the start of some programmes and other potential programmes not being implemented.

Landcorp uses a balanced scorecard methodology to articulate and measure its strategic business planning processes. As well as measuring financial performance the methodology challenges the organisation to consider and measure customer service, internal business processes, and learning and growth perspectives.

Our Farming Future

Landcorp's progress reflects the vision, knowledge and commitment of its people. They see where the company and agriculture are heading. They have the knowledge, skills and commitment needed for success. These are the qualities that have taken Landcorp forward over two decades – and they are the foundation for our farming future.

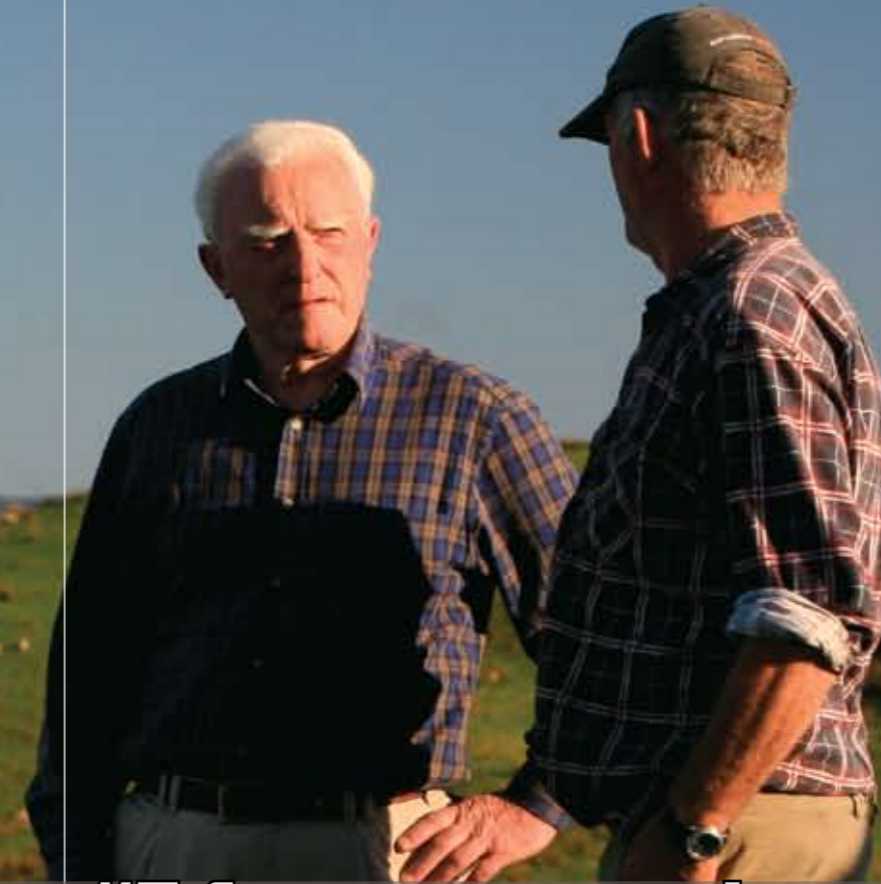
In 1987, Landcorp was a new advent in corporate farming. It occurred during a time of upheaval in New Zealand agriculture. The early years were tough but the company prospered on: the careful stewardship of land, livestock and other resources; the astute use of new technologies; and the talents and energy of its people. The concept of “continuous improvement” was put to work on Landcorp’s farms and in its offices.

In 2007, the company is at the forefront of agriculture. Landcorp has achieved increasing levels of productivity and good financial returns. We have developed animal genetics and farming systems of tremendous benefit to New Zealand. Our progress over two decades does, indeed, reflect practices of continuous improvement on- and off-farm, driven always by the vision, knowledge and commitment of Landcorp people.

The following pages introduce individuals from three generations. Each began as a Farm Cadet – each was quick to learn and grow in the environment of Landcorp and its predecessor organisation. The talents and energy of Bernard Card, Ross Shepherd, Daniel Hall and many others make Landcorp the agribusiness that it is today and will be in future.



BERNARD CARD
General Manager, with
Farm Manager Lyndsay
Thomson on Guthries
Station in Northland.



“Fifteen years down the track, the market is where we thought it would be ... lean meat is in high demand”

BERNARD CARD CAN BE REGARDED AS LANDCORP'S continuous improvement architect. He helped lead Landcorp from government department to successful corporate farmer. He retired in July after 38 years' commitment to the organisation, to continuous improvement in its business and to its role at the forefront of New Zealand agriculture.

When Bernard Card was appointed General Manager of Landcorp Farming Ltd on 1 April 1987, agriculture was going through fundamental change. Economic reforms had stripped away subsidies, international farm product prices were weak, asset markets were booming and inflation was rampant. Many farmers were encouraging their heirs to seek a future “in the city”.

New Zealand was also embracing the State-Owned Enterprise model whereby the assets and operations of government departments were being transformed into profit-oriented companies.

As a part of the establishment committee of Landcorp, Bernard headed a team which was charged with turning core parts of the Department of Lands and Survey into a large corporate agribusiness – something completely new in this country. “At the time of our incorporation there hadn't been any significant successful corporate farms. The general view was that we would fail, and that it would be proved once and for all that corporate farming didn't work ... we'd have a pretty short road to being broken up and sold,” recalls Bernard.



"We had to drive the company from a business point of view, in that it had to be profitable . . . if you haven't got profit then you haven't got a business, but it has to be sustainable profit."

Profitability

However for the year ended 30 June 1988 Landcorp produced a \$900,000 operating profit, which was a significant turnaround from performance under the previous structure. "In the years prior to incorporation, Lands and Survey's farming operation was absorbing about \$20 million of government funds annually," says Bernard. "Within 15 months we'd posted a profit, which was a major step in my mind because it proved we could do this."

The course was set for Landcorp, with the initial challenge being to develop its operational framework as a corporate farmer. "In the late 1980s, there was no template for running an agribusiness of this sort. Internationally, there's still no other mixed stock enterprise like Landcorp based on ruminants. We had a good look at how successful companies in general were run. We were fully aware that we had to drive the company from a business point of view, in that it had to be profitable. Profit in my view is the flower at the top of the stem. If you haven't got profit then you haven't got a business, but it has to be sustainable profit – you can do it year-in, year-out while maintaining the asset from both economic and environmental viewpoints."

Continuous improvement

Bernard, who was Fields Director for Lands and Survey prior to incorporation, knew the transition into a profitable SOE would require more than flicking a switch. The culture would have to change – and for this, he introduced the Japanese concept "Kaizen" which means "change for the better". The Kaizen philosophy requires all staff to play a role in improving the organisation and its systems – many small changes that bring improvement and ultimately large, compounding improvements in performance – hence the term "continuous improvement."

From the outset Bernard sought to make change only where it was necessary and to adapt ideas to fit the actual circumstances of a large farm-based enterprise in New Zealand. This approach has long included a strong emphasis on investing in staff, and on supporting them in living the vision and values of Landcorp. The company has sought a culture that champions excellence, shares knowledge and encourages people to learn in their work. "I've always been adamant that you want a workplace that's affable such that people get into good technical discussions, even debates, but never personalised arguments," says Bernard.

People

The Landcorp management team recognised early on that developing the ability of people to communicate and work together, as well as their technical skills, was key to creating the desired culture. A major HR initiative in the early 1990s introduced the Myers-Briggs personality type test for key on-farm and office staff. Bernard believes this was a significant step for Landcorp. "I think it really was one of the major things we did, because it helped us all to better understand each other and to recognise that we all view the world differently. For farming it was quite a new thing," he recalls. "And with that bedded in, one of the other significant things we did was to collaborate with the New Zealand Institute of Management to tailor-make management courses to suit our farming business and people."

Initiatives

In the past 20 years, the company has taken many business development initiatives. Among the most significant, says Bernard, have been: the international marketing of Boer goats in North America and China; the implementation of the FarmPride™ quality assurance programme; the "Big Step" programme of the mid 1990s which involved diversification into dairy and deer; Landcorp marketing its own meat; recruitment of Landcorp's own geneticists and agronomists in establishing a Genetics & Nutrition Unit; the implementation of a \$200 million land development programme to further diversify into dairying and deer from 2001–2006; the creation of Landcorp's ACC 'Tertiary' accredited

Work Safe programme; and the company's breeding programme including its Sires of proven value™ initiative to take genetics into the New Zealand livestock marketplace.

Bernard considers the excursion into meat processing and marketing one of the most valuable lessons for the organisation. "Though we had quite a successful operation in its own right, we pulled out of it because we realised we would never have the scale to make it a winner economically," he says. "We spent five years in the game and what we gained out of it was empathy for our customers and their markets; what it means to have quality supply of livestock; the value of consistent and timely flows; and what it means to have one company guaranteeing 100,000 lambs in a season. And all this corporate experience was absorbed into our FarmPride™ quality assurance programme."

Bernard believes that it is important for a company to have a sense of purpose. "A lot about being successful in business in my view is realising that you can't be everything to everybody. You have got to be very definite about where you are going and put things in place to get there."

Legacy

Bernard leaves a legacy of professionalism at all levels in Landcorp and when he reflects on where the company is 20 years after incorporation, he is certainly proud of what has been achieved. "Out there we've got some really top managers doing an excellent job. We've also got a group of people in the company that really enjoy being a part of a successful business. We're seen to be doing a good job by our peers in the farming industry and that's something we should be proud of. We should always want to do that." When asked if he thinks in 20 years whether Landcorp has "got there", Bernard quips in typical fashion "Well, you never get there fully. You've always got a lot of room for improvement and I think the company is on the cusp now of another great step forward."

Improving Livestock Genetics



Pastoral farming is dependent on the biological rhythms of the natural environment and of animals. Seasonal variances in climate cannot be controlled but the productivity of livestock can, through ongoing improvement of their genetics.

"Continuous improvement in our breeding programmes is all about planning, implementing and monitoring your results and then making the necessary changes for further improvement based on what you're observing," says Bernard. "And this is what we do year-in, year-out on farm."

"Our genetics are the powerhouse of continuous improvement for the company because the gains that are made annually are measurable as well as being permanent and cumulative. They're scientifically based programmes put in place by our geneticists that are well implemented by our breeding farm managers and the annual improvements travel out to every one of our sheep, beef and deer operations in the form of sires on four-legs," says Bernard.

Landcorp runs eight breeding

programmes – four sheep, two cattle and two deer – with approximately 13,000 nucleus breeding females. From these, all sires are sourced for the company's 566,000 commercial breeding females. All breeding farm livestock are DNA parentage tested, performance recorded and evaluated for their breeding worth through statistical analysis.

The greatest success story so far has been Landcorp's Lamb Supreme composite breed. "When we started we looked at what the market would be wanting in 10 years' time – not at what sort of livestock it was wanting next year," says Bernard. "It seemed apparent even in the early 1990s that international markets would want lean meat and that one day it would be conceivable that meat companies would pay for carcass quality and yield, not just for the carcass weight of lambs. So we devised the fast growing and lean muscled composite breed, Landcorp Lamb Supreme."

Landcorp acquired a CT scanner for two-dimensional x-raying of live ram lambs to determine the weight of muscle and the weight of intermuscular and subcutaneous fat of ram hoggets. In Bernard's eyes,

this technology promoted a paradigm shift in breeding of terminal sires for Landcorp during the 1990s.

"Fifteen years down the track and the market is now where we thought it would be. Lean meat is in high demand and we're producing lambs that the companies want for their international markets," he says. "Because we've continued to develop our staff, we now have people on-farm who are extremely competent in farm management and can realise the genetic potential of the sires."

The value of Landcorp's terminal sire programmes was demonstrated through Sheep Improvement Ltd's Advanced Central Evaluation (SILACE) of industry breeders early in 2007. SILACE ranked rams according to the carcass merit of their progeny, with high weight of meat and low weight of fat being the qualifying genotypes. In a pool of 2708 rams from 183 industry breeders, Landcorp's Texel and Lamb Supreme programmes were represented by 131 rams. Out of the 2708 rams, these Landcorp programmes produced the top five rams and 18 out of the top 20. In total Landcorp rams comprised 49% of the top 200 rams in the analysis.



**“The challenge is...
to add value and
not complication and cost”**



ROSS SHEPHERD
Farm Business Manager,
with Kevin Stewart,
Stock Manager (left),
Rangitaiki Station, Taupo.

RAISED IN AUCKLAND, ROSS SHEPHERD followed his name from the city to the country to make his mark in farm management. He entered agriculture as a Farm Cadet in 1990 and within three and a half years of joining Landcorp was appointed to his first farm management role on a property south of Rotorua.

Eleven years later, Ross became Farm Business Manager of Rangitaiki Station, Landcorp's largest owned farm and a focal point of its diversification strategy. Since 2001, \$12 million has been invested in a deer farming pasture and infrastructure development programme on the volcanic plateau property.

Ross was drawn to the prospect of Landcorp's first large-scale farm management project. He was managing a 1,000 hectare dairy conversion for Landcorp at Sweetwater, in Northland, when the management role at Rangitaiki became available. After studying its business plan and closely inspecting the property itself, Ross saw a great challenge. "I've always wanted to take over a farm that's being run well to see if it could be run better. When you take over a farm where there's plenty of inefficiencies, it's easy. You can close a few gates and you can do some big improvements. But Rangitaiki had a lot of investment already made, the livestock were in good shape, and the Stock Managers were very good."

The new Farm Business Manager arrived with a strong belief in empowering people to get on with their jobs. Reflecting on his first 18 months on the 23-staff property, he says "my focus has been spreading

that everyone knows the picture and that they're asking the right questions," he says.

That includes all staff having a hand in farm business planning. "Once every staff member knows, for example, that our goal is to produce 55,000 lambs in five years' time then we can all start to think on how to achieve this. When we set that goal, it was a bit mind-boggling, but now that we're a couple of years down the track it's getting easier," says Ross. "That's the result of 23 great minds coming up with the answers."

"We break a big goal down into five or six steps that we can tick off through the seasons. With this one, we aimed for 150% lambing and looked at how to achieve this with the guys actually at the work face. Then we asked some critical questions like: what target weights we have to wean at? what weight do we have to tup at? what's our scanning going to be? and pre-lambing, how do we set it up?"

"In year one we achieved 38,000 lambs and had been bloody busy doing it. We thought that was a big year! This year we've produced 44,000."

To Ross, a continuous improvement approach to farming is the key to future success for New Zealand agriculture, along with selective adoption of new technologies. "The challenge is sifting through all the really neat technology out there and picking the bits that are going to add value and not just complication and cost," he says. "Traditionally New Zealand has been a low cost producer . . . it's a case of building on that."

As well as investing in new technologies, Ross believes agriculture must continue investing in the knowledge and skills of its people. Landcorp has made such investment in him. In 2005 Ross completed a Diploma in Project Management with the New Zealand Institute of Management (NZIM), and last year he travelled to Australia for the



Farm Summary:	Total Numbers	Reproductive Rates (%)	Production (tonnes)
Rangitaiki Station (Year ended 30 June 2007)	Sheep 45,585	144.4	562
	Cattle 3,464	88.2	332
	Deer 20,639	86.8	415
Total Area: 9,700ha	Total 69,688	-	1,309

responsibility to all levels of the organisation and in that way the decisions get made a lot faster. Basically if people can communicate and think, then they don't have to wait for 'up-the-chain/down-the-chain' processes to make what are quite simple decisions."

The empowerment of staff is, of course, entirely consistent with Landcorp's continuous improvement philosophy – and on Rangitaiki Station, Ross sees himself mainly as a facilitator of improvement. "When I arrived here I had no experience in running deer for example, but we've got 20,000 of them and a dedicated deer team. So really, the team members have the answers, I'm really here to make sure

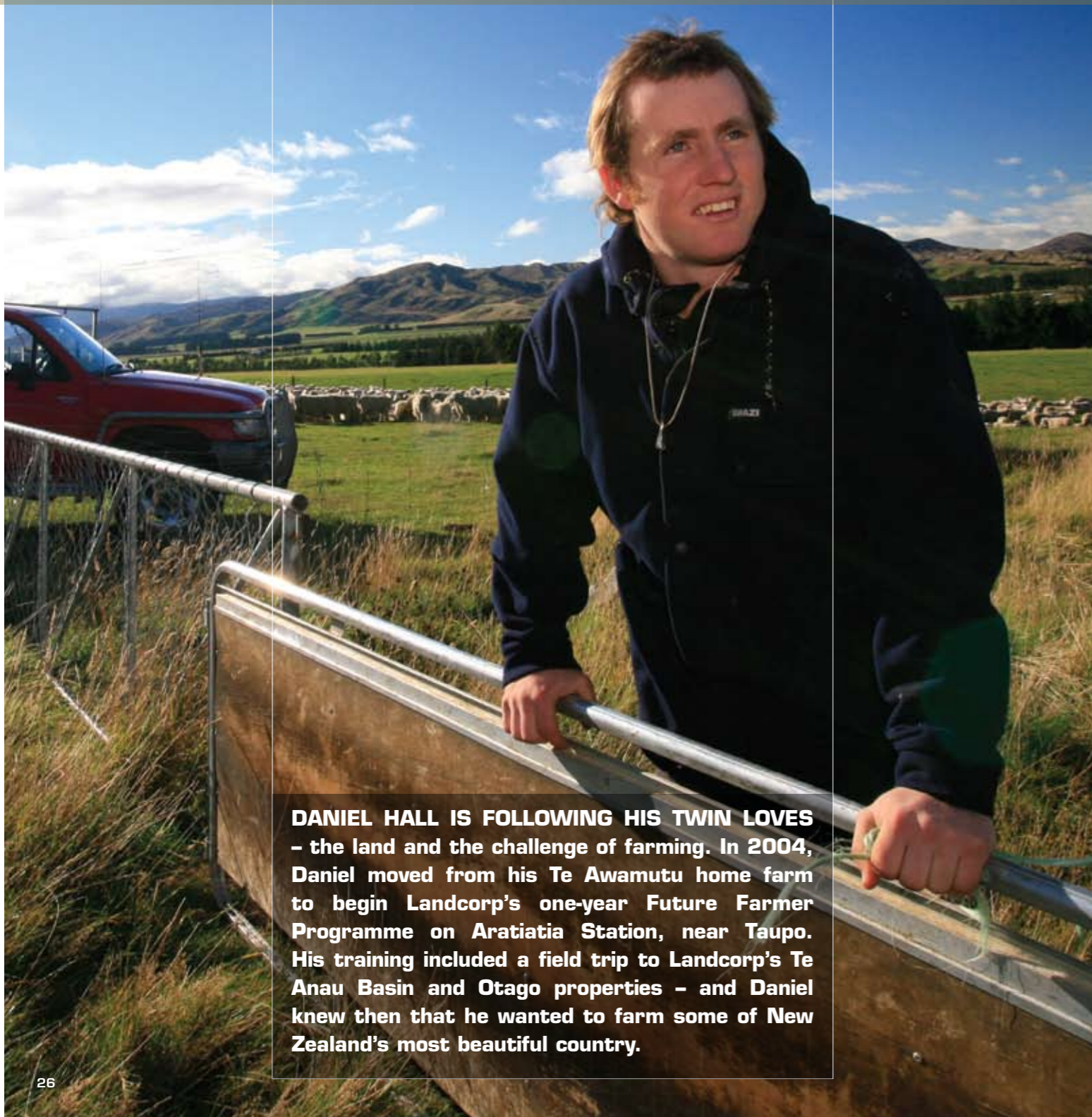
Rabobank Executive Development Programme course. He was also a runner-up in the NZIM Young Executive of the Year. In the coming year Ross will return to Australia and attend an advanced management programme at Mt Eliza University. "I just keep on improving my skills and when the next opportunity comes along, hopefully I've got the skills, the knowledge and the background to be the man for the job," he says.

For Ross Shepherd, excellence in farm management also requires an ability to handle change – change in the demands of international markets, and where required, change in on-farm practices. "As farmers we really do need to keep abreast of market developments and constantly seek to add value to our production," he says. "At the same time, we need to optimise the use of all resources available on the property. Farming's not an exact science, things change and you have to be flexible – you have to think on your feet. When a farm is as big as Rangitaiki Station you can't have your finger on every pulse, so when people come to you with ideas you have to listen."

“It’s about everyone taking pride in their work ... I hate seeing junk lying around”

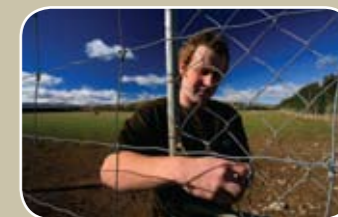


DANIEL HALL
Senior Shepherd,
Mararoa Station, Te Anau



DANIEL HALL IS FOLLOWING HIS TWIN LOVES – the land and the challenge of farming. In 2004, Daniel moved from his Te Awamutu home farm to begin Landcorp’s one-year Future Farmer Programme on Aratiatia Station, near Taupo. His training included a field trip to Landcorp’s Te Anau Basin and Otago properties – and Daniel knew then that he wanted to farm some of New Zealand’s most beautiful country.

Farm Summary:	Total Numbers	Reproductive Rates (%)	Production (tonnes)	
Mararoa Station (Year ended 30 June 2007)	Sheep	24,994	141.8	225
	Cattle	1,942	90.8	147
	Deer	5,894	85.9	108
Total Area: 5,500ha	Total	32,830	-	480



So he took on a Landcorp Farm Trainee role in 2005 on Eyre Creek Farm near Lumsden and in 2006, he moved to a full-time shepherd’s role on Mararoa Station, east of Te Anau. As Daniel continued to prove his initiative, he was quickly promoted to Senior Shepherd and is now managing the station’s deer unit.

The young farmer relishes the job of overseeing Mararoa’s deer herd from which around 2,000 fawns are finished annually. “When the role was offered, I was really keen to take it on and to give it my all,” says Daniel. In fact, he had limited exposure to deer at Aratiatia but the year on Eyre Creek gave sufficient introduction to these livestock. “I love them... everything’s a challenge with deer,” he says. “They make you think ahead. Sheep behave the same way all the time but with deer, they’re different every day. You go to shift them and some days they require pressure while on other days you’ve got to stand right back off them.”

Mararoa is a 5,500 hectare property with 10 staff running approximately 3,600 hinds, 18,000 ewes and 1,000 beef cows. Daniel’s particular interest in deer comes, in part, from the relative newness of farming these animals relative to sheep and beef. “There’s still not a lot known about deer and there is so much research going on. You pick up new things everyday you work with them,” he says.

Landcorp has been intensifying its deer operation as part of the diversification strategy since 2001. This process includes a drive to pool staff knowledge of deer through workshops and through engagement with industry experts. Daniel rates this form of staff development very highly. A recent Landcorp Venison Workshop in Te Anau was “awesome”, he says. “We covered parasites, deer nutrition, pasture covers

the animals need in order to meet weight gain targets and much more. Everyone had their own input too and we looked at what people were doing differently. I felt like I learnt in three days what would have taken two years on the job to find out.”

Daniel enjoys the work environment on Mararoa where Farm Manager Tim Smith regularly spends time with each staff member. “Every four months Tim takes each staff member aside and asks what can we improve on the farm,” he says. “He also let’s us know how we’re getting on and where we need to improve.”

As a Senior Shepherd, Daniel has clear ideas about what makes a property like Mararoa a success – excellent organisation of the work, a great team environment and effective communication. “FarmPride™ is about everyone taking pride in their work and keeping the place tidy,” he says. “You’ve just got to keep on it... I have come to hate seeing junk lying around or gates not being swung back!”

At Mararoa, all staff have opportunities to contribute to annual business planning under Tim Smith’s leadership and this helps sustain enthusiasm among the staff. “You get a good idea of what we’re aiming for, including the goals for the year like the weights and finishing numbers,” says Daniel. His major focuses are getting a good fawning percentage, followed by the finishing of high numbers of quality fawns each season. “We finish at about 90kg and we can usually get an early handful away in August–September. About 950 stag fawns are transferred out to neighbouring Lynmore Station at weights from 50–65kg. We go through all the hind fawns later on and take out about 600 replacements. The rest get killed once they get to weight.”

Daniel has enjoyed being given the run of the deer unit at Mararoa and has no doubts about the key to managing the greater responsibility that comes with that role. “Organisation is the big thing . . . you’ve got to be thinking ahead always. When you’re a Shepherd General, you tend to just listen to what everybody else says but as a Senior you’ve really got to think ahead,” he says.

Daniel believes good management is crucial to attracting young people into farming. “You’ve got to be fair, give them time off to a certain extent and not thrash them with work. Young people’s expectations are different to what they used to be and not too many would last if treated like fellows of their age were 20 years ago.”

The lifestyle of farming suits Daniel down to the ground. “The biggest things for me are the hunting, fishing and working with your mates on a regular basis. It’s good fun.” As for his own future, he has yet to apply the business planning disciplines to the same degree – but he knows farming will be his life. “I try and give it my best and try and get as much as I can out of whatever I do and keep going forward.”

1987 Old Dept goes out of existence. Maori Council initiated court injunction prevents transfer of land assets to SOEs. These are operated under licence from the Crown for the first 15 months. Conservation Act and a later amendment provide for marginal strip provisions to keep land along waterways in public ownership when it is transferred from the Crown.

1988 Treaty of Waitangi (State Enterprises) Act extends powers of Waitangi Tribunal to make binding recommendations on return of land to Maori ownership. It amends SOE Act to permit the resumption of land to satisfy a valid Treaty claim and imposes an enabling memorial on titles to all land transferred from the Crown. Court of Appeal accepts process; and former Crown assets are transferred to Landcorp at 30.6.88. Government announces an asset sales programme to repay debt. Landcorp's financial assets (leases, licences and mortgages) are on sale list.

1989 Government asks Landcorp to handle the financial asset sales. A programme to sell to existing lessees, licensees and mortgagors commences. Faced with constraints on future operations and functions, Landcorp restructures into separate farming and property subsidiaries. Farming is split into six regions and Property into four with a further 17 local property offices. The former nine-branch structure is dismantled. Dave Graham Processing Ltd and Agovine Genetics Ltd are acquired and become 2nd tier subsidiaries. Government considers further asset sales.

1991 Resource Management Act provides a consolidated basis for managing the environment. New Government continues policy of asset sales.

1990 Scoping study carried out by Government on sale of the balance of Landcorp. There are numerous Board changes, including Chairman and Deputy-Chairman. A new Chief Executive is appointed. The government changes.

1992 Further scoping study by Government on sale of Landcorp. Farming company restructures with Rotorua, Napier and Wellington regions amalgamated. Taupo, Nelson and Hokitika offices are closed. Now four regions based on Whangarei, Rotorua, Christchurch and Invercargill. Landcorp withdraws from farming farm parks and other agency farms. Property group restructures into five business units and launches new brand. Company's Work Safe Health and Safety policy initiated.

1993 New Chairman and new Chief Executive appointed. Subsidiary Landcorp Farming (Canada) Ltd incorporated to market Boer goats in North America.

1994 Board sells its property companies, Landcorp Property Ltd and Landcorp Property Holdings Ltd. Agovine Genetics Ltd amalgamates with Landcorp Farming Ltd.

1995 Another new Chief Executive is appointed. Waikato-Tainui Treaty claim is settled. Ten Landcorp properties, including four farms, in settlement package worth \$170 million. Two farms later handed back. Big step programme commences on farms, with a focus on lifting livestock performance, improving efficiencies and adding value. Association developed with Crusader Meats Ltd for slaughter and marketing of lamb and mutton for export.

1996 MMP Government introduced along with the likelihood of future coalition Governments.

1997 Purchase of a CT scanner in a joint venture with AgResearch and used in breeding programmes. New subsidiary, Landcorp Meat Ltd established in Wanganui to package and market beef.

1997 Landcorp formalises its standards in livestock production for the market with the creation of its own quality assurance programme - FarmPride™ which is implemented on all of its farms.

1998 Landcorp awarded the "Sir Arthur Ward Award" by the New Zealand Society of Animal Production for its outstanding contribution to animal production through communication and the application of science. Ngai Tahu Treaty claim settled, also for \$170 million. Four Landcorp farms (or large parts of them) and several Landcorp Investments properties included in settlement. Board makes a strategic decision to withdraw from meat marketing. High Court upholds the right of SOEs to sell land subject to title memorials which allow resumptions by the Crown if land needed to satisfy Treaty claims.

1999 Landcorp's Geneticist, Dr Geoff Nicoll, received the "McMeekan Memorial Award" from the New Zealand Society of Animal Production for his contribution to animal science in the New Zealand livestock industry. Change of Chairman and other Board directors. Organisational structure again reviewed and Landcorp Farming establishes Island Business Centres in Rotorua and Christchurch. Whangarei and Invercargill offices are closed. All remaining freehold land owned by Landcorp Investments Ltd is sold. Landcorp Farming becomes the parent company. New coalition government formed.

2000 New Zealand Livestock Registry Inc is established to register Landcorp stud stock. Landcorp Superannuation Scheme is terminated and replaced by an outside scheme. Landcorp's Work Safety programme becomes Tertiary accredited under the ACC Workplace Safety Management Programme.



Hard yards over 20 years and it's been worth the effort

In 2007 we mark 20 years of success by LANDCORP as New Zealand's leading corporate farmer.

2001 Five-year strategic plan adopted providing for increased productivity, diversification into further dairying and deer farming and a major five-year development programme aimed at growing shareholder wealth in terms of revenue, dividends and asset growth. Government adopts a long term hold policy for SOEs; and for the first time, Landcorp is given security to plan with confidence for the future. New Chief Executive appointed. New subsidiary, Landcorp Estates Ltd is incorporated to develop and sell land suitable for higher value use than farming.

2002 Landcorp abandons US dollar financial hedging policy. Company employs dairy staff directly changing from earlier policy of having only sharemilkers. A joint venture with AgNZ introduces and trains school leavers in agriculture.

2004 Moutoa dairy farms inundated after breach of Manawatu River stopbank. Properties totally redeveloped and grassed. Subsidiary company, Landcorp Investments Ltd wound up following sale of its remaining leases and mortgages. New subsidiaries, Landcorp Developments Ltd and Landcorp Pastoral Ltd incorporated to develop and lease 25,000 hectares of former forestry land owned by private interests in the central North Island.

2005 Landcorp becomes a billion dollar company with assets of \$1,027,288. With constraints on farming in the Taupo Basin, Landcorp plans to exit several Taupo properties.

2005 New lease of Molesworth signed with the Crown.

2006 New five-year strategic plan adopted with objectives to build on the changes and improvements since 2001; to expand market initiatives, particularly in genetics and the provision of services; and to streamline the organisation further. Board Chairman and Deputy-Chairman retire and new appointments made. Broadband communication is extended to all farms. Landcorp begins marketing of its genetics to the industry under Sires of proven value™.

2007 Landcorp completes its second decade. Organisation moves towards a centralised administration with farms in clusters under farm business managers. Government develops new policies for sensitive land, making farm rationalisation more difficult.

\$1,027,288.00
Total assets

Landcorp
SIREs
Sires of proven value™

“LANDCORP HAS PROGRESSED
OVER THE PAST 20 YEARS FROM
A COLLECTION OF SCATTERED
FARMS INTO A HIGHLY
PRODUCTIVE INTEGRATED
PROGRESSIVE COMPANY,
FOCUSSED ON THE
FUTURE.”



OVER THE PAST TWENTY YEARS THOUSANDS OF DEDICATED
LANDCORP STAFF HAVE MADE US WHAT WE ARE TODAY.

Our 550 Staff as at 30 June 2007

Agromony: Vincent Rietveld Stephen Belton **Ahaura:** James Silcock **Ahuriri Station:** John Gordon Ferguson Charlie Metekingi Kent Ferguson Julie Hanna Barry McClelland **Aratiatia Station:** Daniel MacCarthy Mark Cunningham Brent Campin Jarrrod Billington Aaron McCall Neil McAloon Steven Laird Tony Oliver Sue Cunningham Patrick Gilmour Aaron Billington Sarah Koster Stephen Andersen Felicity McNutt **Bassetts DU:** Dion Fox Trevor Collins Blair Climo Takhir Pashyvar **Bell Hill DU:** Peter Crouchley Michael Batchelor Rachel Dew **Burkes Creek:** John Bell Ian Archbold Riki Eagle **Cape Foulwind:** Paul Hateley Christen Menzies Bill Tait Philip Hurst Jeff Hateley Jo Triggs Cory Hema Jenny Elliott James Sawyers **Centre Hill:** Don McCord Jamie Brice Ryan Adamson Jina Jackson Troy Wilmshurst Kelvin Meek Jason Russell-Hodge James MacLean **Christchurch Office:** Teresa Gooch John Collie Ian Hercus Simon Scott Wayne Allan Stephen Penn Graeme Harvey Jillian Hughes Vaughan Griffiths Duncan McLane **Dale:** Garry Gordon Kit Till Andrew Sim John Davey **Dawson Downs:** Richard Adams Angus Spence **Duncairgen:** Neil Manning Barney Milne Matthew Canton Ian Matthews Jarron Donnelly **Eveburn:** Kevin Lee Peter Brown Ray Tibbles **Eyre Creek:** Troy Griffiths Nicholas Davison Simon De Lange **Farm Servicing:** Cyril Allen **Freestone:** Mike Kelly Kevin Ball Neil Mitchell Simon McLachlan Trevor Sparrow Chris Johns Stuart Bayliss Grant Hardie **Genetics:** Geoff Nicoll John Rendel Gill Beaver **Goudies Station:** Gary Cook Chris Smith Todd Bolton Steven Bayler Ken Collins Bruce Jones **Guthries Station:** Repiu Reihana Lyndsay Thomson Athol Rogers Robbie Maxted Brendon Shepherd **Haycocks:** Paul Ewing Anaru Harmer Ricky Ewing Adam Kershaw **Hikuraki:** Ken Cavanagh John Kennedy Stewart Aitken Robert Till **Hindon:** Martin De Seymour Dave Vaughan Chris Pont **HO Corporate:** Neil Ryan Gerry Soanes Chris Kelly Collier Isaacs John Kennedy-Good Marian Goodwin **HO Farming:** Bernard Card Graeme Mulligan Phil McKenzie Elsie Lim Sean O'Brien Chris Neill Catherine Brough Michelle Doole Tracy Read Troy Keily **HO Finance:** Brent Harris Richard Perry Caroline Slade Andrew Chambers Pauline Walsh Kirsten Murray Jessica Billimoria Trudie Ferguson Peter Mills Max Watt **HO IT:** Mark Fitzwater Bronwyn Rodgers Rachel Hunter Charlotte Shipman Andy Hall Mark Johnstone Maryanne Sutherland Luke Linnell **HO Support Services:** Paul Taylor Mike Smith Annemarie Wood **Huirimu Station:** Sam Taylor Andrew Fisher **Kapiro Station:** Jack Edwards Ken Silby Andrew Tritt Harley Barlow Andrew Kirk **Kepler:** Daniel McKay Robin Dean Dean Wilson Duncan Gardyne **Kotuku:** Shane Kelly Jeremy Madeley David Simpson Ray Taplin Ian Hawes **Lynmore:** Wayne Webb Bruce Parnham Sandy Watson Ray Frew Carl Shanks Thomas Dalley Morgan Barlow **Mahiji Station:** Robert Railton Amanda Nichols **Mangamawhitiwhiti:** William George Wells Russell Stewart **Mangamingi Station:** Michael O'Driscoll Allan Baker John Butterworth Lance Robinson Bryce Hughes **Mararua:** Tim Smith Zane Dobson Daniel Hall Ben Heslop Nigel Bartlett Daniel Durbin Matthew Clearwater Rodney Price **Maronan Pastures:** Kevin Clucas Quinten Green Patrick Rooney **Mawheraiti:** Malcolm Campbell Errol White **Meringa Station:** Graham Sinnamon Steven Kerkhof Benjamin Holmes Ken Paparahi **Molesworth:** Peter Croft James Ward Tracey Ward Max Nelson Joseph O'Sullivan **Moutoa:** Ian Alberts Phillip Nicholson Michael McCarthy Gary Sullivan **Mt Hamilton:** Jacobus Erasmus Dennis Dean Andrew Dennis **Ngapouri Station:** Andrew Brown Kevin O'Rourke Paul Halley **North Island Finance:** Lance O'Connell Wayne Douglas Lynn Everest Roger Whitmore Christina Harvey **Omamari Station:** Michael Read Reuben Cooper Malcolm Deverell Paul Kerr **Opuahi Station:** Eric Sanderson David Blair Karl Thomassen George Kiel **Otaipuhi Station:** Ian Floyd Robert Holland Jacadean Smith Joseph Fiveash Rhonda Hatton Nathan Cooper Kevin Smith **Otutira Station:** David Worthington Ford Lambert Stuart Dow **Paeroa Station:** James Greer Joanne Williamson **Panekiri Station:** Mark Boenders Gaylene Boenders Ashley Boenders Graeme McFarlane David Little Tim Boenders Brent Parnell Guy King Deon Savage Todd DeMarco **Pouarua:** Julian Stevens **Pouarua B:** Soal Savage **Pouarua C/A:** Jarrrod Vette Donna Shaw Nicholas Shaw Michael Howe **Pouarua D:** Gavin Bane **Pouarua E:** John McLaughlin **Pouarua F:** Clinton Fletcher James Haldane Jacqueline Gaosubelwe Hendrik Muller **Pouarua G:** Marcus Davenport Carl Hine Scott Hallett George King **Pouarua H:** Mark Pritchard Brian Smith Rae Fraser Hamish Bragg **Pouarua J:** Ashleigh Best Nicola Darlow Louise Hunt Russell Davenport Grant McKinnon Leonard Wilson **Puketotara Station:** Colin Rakena Andrew Rowberry Desmond Tairaoa **Raft Creek:** Steve Wright Murray Schist **Rangedale Station:** Paul Edwards Richard Whiteman George Tennent **Rangiputa Station:** Darcy Albert Lloyd Brennan Boyce Lawrence Julian Peters Nathan Cooper Leon Albert **Rangitaiki Station:** Gavin Sherman Kevin Stewart Ross Shepherd Don Johnson Barry Knowles Angus Rae Brendon Egan Russell Sherman Alan Lower Ian Lewis Stephen Sheary Stacey Fletcher Douglas McHardy Owen Maher Erimana Karaitiana Mark Harding Nathan Coothe Christopher Wroe Aaron Frazer Shelley Bell Chris Coughlan **Raurimu Station:** Philip McLean Gerry Hindriksen **Rotomahana Station:** Trevor Grimwood John Payne Colin Clarke Andrew Gibberd **Rotorua Office:** Gordon Williams Mike Gaukrodger Allan Still Ian Gibbs Andrew Hall Gary Thorne Russell McDivitt Allan MacManus Brian Underwood Sue Holst Daniel Payton Janine Clarke **Ruapapa Station:** Joseph Hati Brett Mullooly Ashley O'Connor Viv Pekin **Ruru DU:** Scott Lovelock Cezar Nicolescu Liliana Nicolescu Iulian Georoceanu Ana Georoceanu **Somervilles DU:** Patricia Paynter Roger Johnson Lorraine Johnson Rory Johmister **Souters DU:** Jason Wilson Tadros Shenouda Christian Leylander Christian Westergaard **South Island Finance:** Roy Stevens Anna Meikle Paula Painter Julie Van Meer **Stuart:** Nicholas Parkinson David Black Andrew Denley Simon Inkersell Claire Jones Daniel Thompson Thomas Haggerty **Sweetwater Dairy 1:** Lorna Mitchell Casper Meyer Ettiene Farrell Todd Rasmussen **Sweetwater Dairy 2:** Christopher Coulston Nigel Dally Phillip Oosthuizen Stephen Matthews **Sweetwater Dairy 3:** Allan Ramsay Graeme Temple William Herbert Cole Shepherd **Sweetwater Station:** Noble Graham Paul Thomassen Mark Johnson **Takakuri Station:** Daniel Lloyd Eddie Long Michael Brockbank **Takou Bay Dairy:** Ian Benton Dennis Driver Jason Gray Paul Horner **Tangimoana Station:** Max Bary John Lang Jason Bary **Taurewa Station:** Grant Rudkin Ranga Raharuhi Peter Thomson Cheryl Carr **Te Apiti Station:** George Gray Martin Grace John Speakman Nigel Hanan **Te Karae Station:** Ian Brown Michael Moody Jonathan Unuwhi **Te Raita Station:** Ratima Petera Maurice Leyland Tokowha Mete Bob Campbell **Te Wharua Station:** Bruce Marshall Wade Holmes Alan MacDonald Denise Lupton Scott Kendrick **Thompsons DU:** Brian Mellish Shane Lucas Toni Johnston Rion Rangihika **Thornicroft:** Barry Hobbs Peter Ronald Gavin Adams John Young **Titoki Station:** Ross Walden Campbell Dreadon Jordan Smith Deborah Reidt **Totara DU:** James Burnby Pierce Hazeldine Glen Hooper Carl Officer Benjamin McLaughlin Jason Thomas **Tram Road DU:** Robert Evans Michael Standen Kareena Walker Anton Donaldson **Tutamoe Station:** Peter Strawbridge Dean Batten Nigel Leef Ray-John Gray Sarah Lampitt Timothy Appleby **Waihora Station:** Ken Burt Thomas Northcott Paula Northcott Ari Burt Olivia Gibson Tim Field **Waikite Station:** Roger Bedford Travis Leslie Peter Watene Jacob Watene **Waimakariri DU:** Pat Wiseman Graeme Rhodes Cindy Eagle Phillip Garaway Olivia Gunn Michael Fursdon Aaron Galbraith **Waipori:** Peter Angland Stephen Gibb David O'Neill Thomas Brown Dave Kenny Adam Hill Christine Angland James Kenny Jack Brennan **Wairakei Station:** Dudley Petera Terry Jones Patricia Waiariki Daniel Harmer **Wairio Station:** Grant McGhie William Rooderkirk Bernard Oakly Edward Brown Robert Easton Mark Dennes **Waitangirua Station:** Wayne Harrison Donald Webster Mathew Maraki **Waitepeka DU:** Pete Gilder Wilson Parmenter Darryl Ogden Neill Casey Jeffrey Kinraid Daniel Rhodes Neville George Sarah Smart **Waitere Station:** Daniel Reardon Emmanuel Verner Riki McKenzie Aran Proud Carey Sinton Vance Sinton Robert Sharp **Water Supply:** John Hefford Peter Booth **Weka:** Warren Smith Bill Hobbs Francis Jones Ian Robertson Clarke Robertson **Wharekopae Station:** Graeme Bolton Chris Barker Daniel Henricksen Jason Harris Scott Mason **Whenuakite Station:** Alister Smith Sam Penning **Whitehills Station:** Raymond Ngere Harley Whalley John Cooper Moeke Kopa Barry Timperley **Wilanda Downs:** Neil Hassall Sean Excell Deborah Keen Paul Smith Braden Anderson **Wingpoint Dairy:** Andrew Gash Shawn Nation Jamie Denzel Justin Vincent Gyntyn Morgan **Woodstock Station:** Peter Procter Gregory Bush **Achilles Dairy:** Aaron Karaha Justin Te Ngaru **Broadlands Dairy:** Zach Haderbache Damien Watson Ted Ratu Brady Mitchell George Cumming Dion Soutar **Landcorp Pastoral:** Anna Paton Alan Bullick Alan Moulder Jan Weston **Pastoral Machinery Operations:** Scott Stewart Peter Dobson Kieran Blank Peter Gredig **Pinta Dairy:** David Morgan Alan Fitzgerald Steven Howarth Clifton Ballinger Mathew Kahura Aidan Drake Joanne Kyle Kate Bullick **Renown Dairy:** Andrew Gerritsen Paul Woodward Nikita Wright Daniel Amoamo Melanie Garaway **Resolution Dairy:** Ian Nelson Caroline Wharewera Jacob Ratu **Rolls Peak Station:** David Morrissey **Developments Machinery:** Craig Pattie Brett Leggett Graham Blank Charles Puklowski Henry Stafford **Landcorp Developments:** Peter Carson Mark Waldin Benjamin Gillespie

with thanks from the Landcorp Board of Directors

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Landcorp follows a detailed process to formulate its annual plan and budget. This includes the preparation and publication of an annual Statement of Corporate Intent (SCI)¹, which is approved by the Board for shareholder comment and tabling in Parliament.

2007/08 is the second year of the 2006–2011 Strategic Plan. Key strategies in this plan include:

- Improve profitability by developing customer alliances and providing “fit for purpose” products that draw on Landcorp’s basic genetics, investment in biotechnology and the in-house quality assurance programme, FarmPride™.
- Disposal of non-strategic, outlying properties within Government land sale policy constraints (to be held in Landcorp Holdings Ltd). These properties will be replaced with land that enables the formation of “clusters” of farms to enable synergies and savings to be extracted from existing holdings through integration of management, business systems and resources, thereby improving returns.
- Enhance the value of core business assets and maximise the long-term return on investment primarily through sustainable productivity gains.
- Upskill Landcorp people through in-house and external training.
- Leverage Landcorp’s core competencies by marketing its services to the wider farming community. This will include managing the farming operations of third parties, and the provision of FarmPride™, Work Safe training, central purchasing services, financial and budgeting systems, animal genetics and support for product marketing.

To progress the delivery of these strategies, actions to be taken during 2007/08 include:

- Working closely with a number of large landholders and fund managers to investigate opportunities for Landcorp to provide its services and expertise to them.
- Land purchases, specifically:
 - land purchases to replace that area sold in the Taupo catchment; and
 - land purchases to replace that land held in Landcorp Holdings Ltd.
- A stronger drive to increase the efficiency of Landcorp’s farming operation through consolidation of properties, staff and equipment managed by Farm Business Managers.
- The centralisation of Landcorp’s administration in a single office in Wellington to create additional efficiencies and facilitate the further development of a corporate culture.
- Further development of the integrated company information system (CISEL). This includes on-farm database, and systems for financial and feed budgeting, and for financial and human resource management. Significant opportunities exist for automated data collection to support the business decision making process in real time.
- Working closely with customers to leverage Landcorp’s core skills in production and assurance programmes, and thereby offering products more closely tailored to the demands of final markets. There is a specific focus on lamb and venison.
- Continued upskilling of Landcorp people through training primarily in business management and technical areas.
- Increased focus on continuous sustainable productivity improvements. Key targets include improved reproductive efficiency, and production of more meat and milk per hectare, as outlined in this table:

	2006 / 07 Actual Tonnes	2007 / 08 Target Tonnes
Production		
Milksolids production	9,856	11,366
Sheep meat production	10,316	10,912
Beef production	11,547	11,210
Venison production	3,069	2,831
Wool production	3,253	3,331
Reproductive Efficiency		
Lambing	137.4%	140.4%
Calving	91.1%	90.4%
Fawning	86.4%	91.1%

¹ The 2007 Statement of Corporate Intent which establishes commercial targets for the year ahead has yet to be approved by Shareholding Ministers. This has been delayed with Ministers’ approval, pending finalisation of the agreement on protected land (refer Directors’ Report – page 5).

Impact of NZ International Financial Reporting Standards

Landcorp is concerned at the impact of New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) on its financial statements and on reporting by agricultural entities in general. The company will adopt NZ IFRS for reporting from 1 July 2007 onwards. This Annual Report is, therefore, the last to use New Zealand Financial Reporting Standards. While the adoption of IFRS in this country is considered a positive step overall, Landcorp believes there are substantial unresolved issues with the particular standard for agriculture – the New Zealand Equivalent of IAS 41 (NZ IAS 41). Indeed, the company has gone on record in 2007 to describe the impact of NZ IAS 41 on Landcorp as “a nightmare”¹.

In broad terms, NZ IAS 41 extends the practice of fair value reporting to “biological assets” of all types, with gains or losses measured in any year to be treated as income or expense in that period. The standard draws no distinction between capital assets such as breeding stock or bearer plants (kiwifruit vines, for example), and slaughter livestock or other assets intended for consumption or on-sale. Entities that do not qualify for differential reporting concessions within NZ IAS 41 – and Landcorp is the largest such entity in New Zealand – are likely to see substantial impacts on their financial statements. This becomes very apparent when Landcorp’s net profit before tax for the past five years is re-stated on the basis of NZ IAS 41 (see below).

This company has significant assets that are subject to revaluation each year. These assets include farm land and buildings, livestock and forests. Under the previous New Zealand Financial Reporting Standards, all annual asset value changes have been reported together in the Statement of Movements in Equity as movements in reserves. However, NZ IFRS requires annual changes in both livestock and forest values to be reported in the income statement, while changes in farm values (land and buildings) will continue to be reported as movements in reserves. The table shows Landcorp’s estimated NZ IFRS-accounted profit compared with the actual reported net profit before tax over the past five years.

	Group 2007 \$000	Group 2006 \$000	Group 2005 \$000	Group 2004 \$000	Group 2003 \$000
NZ GAAP Net profit before tax	20,086	28,561	10,048	15,387	24,257
IFRS adjustments					
Livestock revaluation	5,362	(7,644)	41,123	(2,789)	(22,747)
Forest value change	–	(1,510)	(2,582)	(7,348)	(311)
Value change of hedging derivatives ²	(294)	345	(1,090)	4,176	(447)
Estimated NZ IFRS net profit before tax ³	25,154	19,752	47,499	9,426	752

Reporting under NZ IFRS will potentially lead to significant, non-cash related volatility in the reported profits of Landcorp. The non-cash volatility will arise from changes in the prices of livestock and forests. Reported profit is unlikely to accurately reflect the company’s underlying farming operations or its financial performance. On this basis, the financial statements will be irrelevant to the evaluation of operating results and dividend calculations.

Livestock are capital assets and are fundamental to the farming operation, in the same manner as farm land and buildings. Value changes in any of these assets do not represent cash flows and cannot be realised in the ordinary course of livestock farming. The chart shows the extent of volatility in profit under NZ IFRS reporting over the most recent five years (and the extent of variation from net profit before tax as actually reported for that period).

Landcorp is considering the extent to which adoption of NZ IFRS provides a true and fair view of Landcorp’s annual operating performance. Additional information is likely to be necessary to re-present elements of the operating results in order to fairly present financial performance under NZ IFRS.

The company has found widespread concern at the cost and relevance of adopting NZ IAS 41 among major reporting entities in New Zealand agriculture and accounting practitioners in the sector. Landcorp is certainly not alone in questioning the usefulness of transition to NZ IFRS on the current basis. Potential solutions include: providing a total differential reporting exemption to NZ IAS 41 for qualifying entities; and/or providing for more comprehensive income statements that include consistent fair value reporting on assets with a clear delineation between the gains or losses from these sources and from cash-related sources. Landcorp believes that issues with NZ IAS 41 need to be highlighted to international accounting standards setting bodies. The company is considering its options for adding clarity to its financial statements under NZ IFRS as these are adopted in 2007/08.

¹ See “Questions persist over new standards for agriculture”, Chartered Accountants Journal, April 2007.

² Landcorp does not intend to adopt hedge accounting for interest rate derivatives under NZ IFRS even though all derivatives are held for interest rate hedging. Hedge accounting under NZ IFRS is not considered cost effective, as reported profit will show significant volatility from year to year, depending on the change in value of livestock and forests.

³ These are estimates only and do not incorporate all NZ IFRS adjustments. These estimates have not been externally audited.

Impact of NZ IFRS on net profit before tax
Dollars in millions



Landcorp Farming Limited

Landcorp is a limited liability company with shareholding owned by the Crown. It is also a State-Owned Enterprise (SOE) under the State-Owned Enterprises Act 1986 (the Act).

Governance practices are reinforced by the requirements of the Act, under which Landcorp has, as a principal objective, the requirement to operate as a successful business, which is –

- As profitable and efficient as comparable businesses not owned by the Crown;
- A good employer; and
- An organisation which exhibits a sense of social responsibility having regard to the interests of the communities in which it operates and by endeavouring to accommodate or encourage these interests when able to do so.

BOARD AND MANAGEMENT

The company’s constitution provides for the parent Board to comprise up to nine non-executive directors, including the chairman. Directors are appointed by shareholding Ministers, the Minister of Finance and the Minister for SOEs, for fixed terms not exceeding three years. Ministers may renew appointments for further terms.

During the year ended 30 June 2007, the Board’s chairman, Alison Paterson, retired and was replaced in this role by Hon. Jim Sutton.

All directors have undergone comprehensive induction training and undertake regular familiarisation tours to different areas of the company’s activities.

The respective roles of the Board and management are well documented and understood by both. There are excellent working relationships and a shared commitment to the culture and success of the business.

Board authority conferred on management is delegated through the Chief Executive, with sub-delegations immediately below Chief Executive level approved by the Board.

BOARD ROLES AND RESPONSIBILITIES

The Board is responsible for protecting and enhancing the value of the business in the interests of the company and group, and the Crown as shareholder. This includes meeting the requirements of the SOE Act and the more general management requirements of planning, reviewing and monitoring management performance and risks.

The Board conducts an evaluation each year, which examines its performance and the performance of the chairman and each director.

In its governance responsibilities, the Board continues to be guided by principles developed by the New Zealand Securities Commission to ensure best practice, effective management and the minimisation of risk. These are set out below, together with comment and a table outlining meetings of the Board, subsidiaries and committees and attendance by individual directors.

PRINCIPLE 1

Directors should observe and foster high ethical standards.

Landcorp has the following structures and procedures:

- Governance structures in place to ensure ethical and responsible conduct by directors, and staff.
- A process for measuring performance against objectives, including fair dealings with all stakeholders.
- Compliance programmes and monitoring of legal and health and safety requirements.
- Independent audit of Landcorp operations.
- Procedures and policies for dealing with conflicts of interest.
- Whistle blowing procedures.
- Included in its published annual Statement of Corporate Intent and all employment agreements, the requirement to act honestly and with integrity.

PRINCIPLE 2

There should be a balance of independence, skills, knowledge, experience and perspectives among directors so that the Board works effectively.

Appointments to the Board:

- Are made by the shareholding Ministers.
- Take into account recommendations of ministerial advisors who consult with Landcorp and organisations like the Institute of Directors.
- Take account of the skill sets necessary on the Board.
- Are followed by induction and familiarisation training and a continuing education programme within Landcorp; and
- Are subject to all directors having an annual performance evaluation.

PRINCIPLE 3

The Board should use committees where this would enhance its effectiveness in key areas while retaining Board responsibility.

Landcorp has the following structures and procedures:

- An Audit and Due Diligence Committee, comprised of non-executive directors and chaired by a chartered accountant (not the Board Chairman).
- A Remuneration Committee, comprised of non-executive directors and chaired by the Board's Deputy Chairman.
- A clear charter for each committee setting out its responsibilities and authority.
- Procedures to ensure that all directors not on these committees are provided with agendas, minutes and other committee papers and have the opportunity to attend meetings.
- A process that provides for committee decisions to be approved or confirmed by the Board.

PRINCIPLE 4

The Board should demand integrity both in financial reporting and in the timeliness and balance of disclosures on entity affairs.

Consistent with this principle, Landcorp:

- Reports annually, half-yearly and quarterly to shareholding Ministers.
- Completes statutory financial reports in terms of the Financial Reporting Act 1993 and the SOE Act 1986.
- Ensures all financial statements are currently prepared in accordance with generally accepted accounting practice and will also comply with international financial reporting standards.
- Has its financial statements audited by independent external auditors.
- Reports monthly to the Board with reports signed by the Chief Executive, and the Chief Financial Officer.
- Is subject to the disclosure requirements of legislation affecting public entities, including the Official Information Act, the Ombudsman Act and whistle blowing legislation.

PRINCIPLE 5

The remuneration of directors and executives should be transparent, fair and reasonable.

Landcorp remuneration policies provide that:

- The Board's remuneration as a whole will be fixed annually by shareholding Ministers and divided among the Board according to workloads and responsibilities.
- No retirement allowances will be paid to directors.
- Staff will have annual salaries with a proportion being on an "at risk" basis depending on performance.
- Remuneration policies for directors and staff will be overseen by the Remuneration Committee.
- There is disclosure in the Annual Report of directors' fees and staff salaries (in bands of \$10,000) covering those employees with remuneration and other benefits in excess of \$100,000 p.a.

PRINCIPLE 6

The Board should regularly verify that the entity has appropriate processes that identify and manage potential and relevant risks.

Landcorp has the following structures and procedures:

- Procedures to monitor risk and the overall risk situation.
- A regular review of risk by the internal auditors who report to the Audit and Due Diligence Committee.
- An annual Board review of risks, how these are managed and mitigated and insurance requirements.
- A Treasury Management Committee which meets on a monthly basis and oversees the treasury function, including aspects of financial risk.
- Established procedures for disclosures and an interest register covering particulars of directors' interests.

PRINCIPLE 7

The Board should ensure the quality and independence of the external audit process.

Landcorp has:

- Its external audit completed by a major accounting firm operating under appointment by the Controller and Auditor-General.
- An agreed arrangement where lead audit partners within the firm are periodically rotated.
- Direct contact between the Auditors and the Board's Audit & Due Diligence Committee, including periodic meetings between the two without management staff present.
- Procedures to ensure there are no relationships with the company or any related person, which could compromise audit independence.
- Disclosure in its Annual Report of audit fees and other fees for non-audit work identified separately.
- A requirement for any non-audit work to be specifically approved by the Board.

PRINCIPLE 8

The Board should foster constructive relationships with shareholders that encourage them to engage with the entity.

Landcorp maintains accountability through the following:

- Annual, half-yearly and quarterly reports to its shareholders plus additional briefing reports and meetings on an "as required" basis.
- A policy of "no surprises" for reporting new developments to shareholders.
- An annual business plan and Statement of Corporate Intent which are discussed with shareholders and their advisors.
- A review of performance annually by a Parliamentary Select Committee which reports its findings to Parliament.
- A website that includes a description of Landcorp's business and key governance documents.
- An independent report that is sent annually to shareholding Ministers by the external auditor.

PRINCIPLE 9

The Board should respect the interests of stakeholders within the context of the entity's ownership type and its fundamental purpose.

Landcorp operates within the following framework:

- Statements of values in its annual report and Statement of Corporate Intent covering requirements in relationships with stakeholders.
- A document covering operational procedures and guidelines including dealings with stakeholders.
- A legislative requirement to be a good employer, and employment agreements which require both business and employment matters to be dealt with honestly and with integrity.
- Policies and procedures requiring employees to be environmentally responsible and to have regard to the interests of the communities in which they operate.
- A commitment to business excellence, profitability and good governance.

BOARD AND COMMITTEE MEETINGS

Year to 30 June 2007

Director	Appointed	Retired	Landcorp Farming Ltd (13 meetings)	Audit and Due Diligence Committee (4 meetings)	Remuneration Committee (3 meetings)	Landcorp Estates Ltd (7 meetings)	Landcorp Pastoral Ltd (6 meetings)	Landcorp Developments Ltd (4 meetings)
A M Paterson	1.4.99	31.7.06	Chair 1			Chair 1	Chair 1	Chair 1
Hon. J R Sutton	1.8.06		Chair 12	4	3	Chair 6	Chair 5	Chair 3
F R S Clouston	1.5.06		12	4			6	
L B Henry	11.11.03		13	4			6	
M L James	6.4.03		13	Chair 4			6	
W A Larsen	1.5.06		11		Chair 3	7	6	4
M R Mullins	4.4.03		10	3			3	
C M Williams	1.5.06		13		3		6	
S Wyn-Harris	18.4.02		13		3		6	
C M Kelly	29.10.01					7		4
B A R Card	25.8.04							3
J C Kennedy-Good	24.3.06					6		

Twenty Years of Financial Performance

Landcorp's twenty-year financial performance has added over \$1.5 billion to the worth of all New Zealanders and has allowed respective governments to invest over \$400 million back into New Zealand. The twenty-year average annual return of over 15% represents the ongoing investment in improving the overall productive value of Landcorp's assets as well as maximizing all available profit opportunities. Landcorp's annual return of over 15% is well above the average annual increase in rural property values of around 6%.

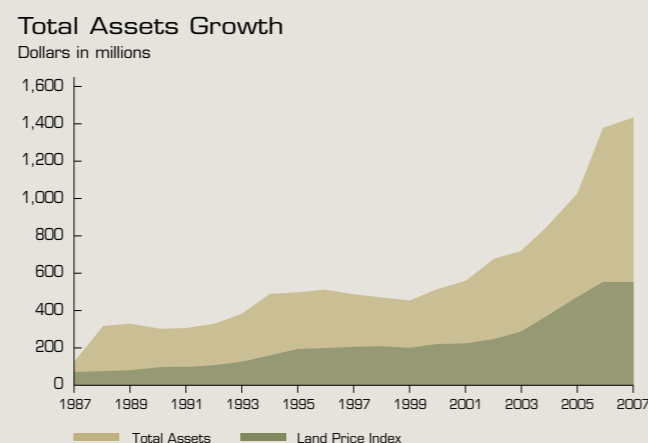
Financial Performance

Dollars in millions unless otherwise stated	20-year average	5-year average	2007 Actual
Total return on average shareholders' funds	15.4%	16.2%	3.3%
Net profit on equity investment (share capital and retained earnings)	14.5%	12.7%	11.2%
Dividends on average equity investment (share capital and retained earnings)	12.2%	8.2%	1.5%
Annual total shareholder return (\$M)	72.6	133.0	38.0
Annual total dividends paid (\$M)	19.2	12.8	3.0

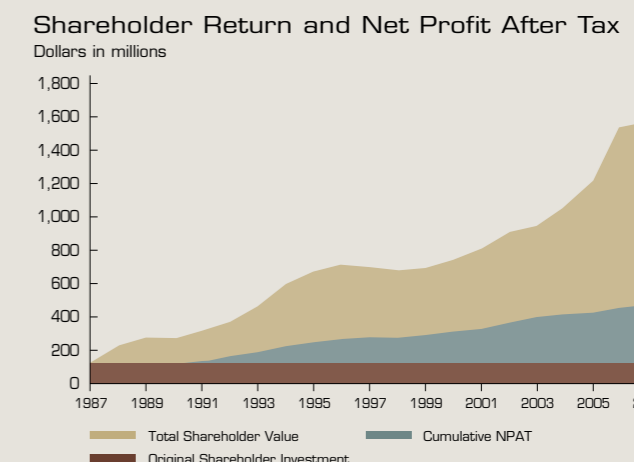
Landcorp's 2007 returns were modest in comparison with the long run average. This reflects a general flattening in rural land values over 2006/07 as well as more conservative valuation assumptions (see page 57).

Over the twenty years, assets have increased due to a combination of general farm value appreciation and added value from Landcorp's investment in farm development. Land values have increased partly due to the diversification into deer and dairy farming and partly through selling poorer performing properties and acquiring new ones. In addition, Landcorp has significantly intensified sheep and beef farming operations, resulting in increased stock carrying capacity and consequent increases in farm values.

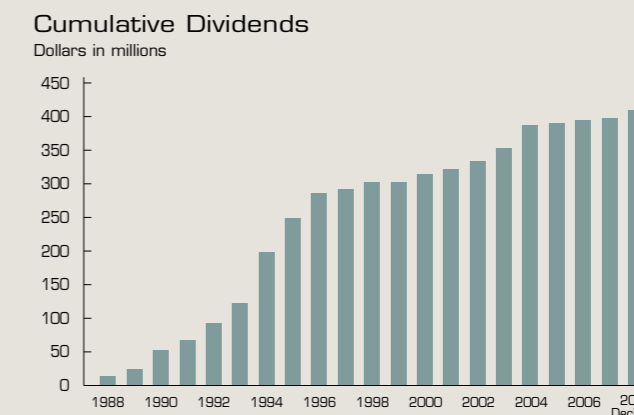
The graph (right) presents Landcorp's asset growth over the last twenty years compared with the growth in Landcorp's land that is attributable to the annual average increase in rural property values. The graph demonstrates the significant value Landcorp has added to its assets over and above the value arising from general increases in rural land values.



The return from pastoral farming investments is a mixture of cash returns and capital gain. The graph (right) presents Landcorp's returns broken down into cash profits and capital gain. Landcorp's twenty year returns are consistent with the farming sector returns of 1/3rd cash and 2/3rds capital gain.



As illustrated at right, over the last 20 years Landcorp has returned over \$410 million in cash dividends to the shareholders. These dividends have been available for the shareholders to invest back into New Zealand.



Income and Earnings

Dollars in millions unless otherwise stated	20-year average	5-year average	2007 Actual
Total operating income	105.3	118.5	146.4
Net operating profit (before interest and tax)	17.3	21.2	30.1
Asset sales (current year profit)	14.3	10.0	7.9
Net profit after tax	23.7	21.6	20.1

Landcorp has steadily grown both its operating income and profit from operations. As illustrated in the table above, Landcorp's 2006/07 operating income and operating profit is higher than historical averages.

Income has been sensitive to movements in exchange rates and commodity prices and has naturally fluctuated over time. The income volatility inherent in farming is reflected in the fluctuations in net profit before tax. However, the benefits of Landcorp's diversification and expansion of operations into deer and dairy farming are contributing to a more stable and increasing income stream.

Statement of Corporate Intent

Landcorp prepares an annual Statement of Corporate Intent (SCI) under the State-Owned Enterprises Act 1986. The S.C.I. sets out Landcorp's intentions and key objectives for the following three years. The table below summarises Landcorp's financial performance against financial targets in the SCI. The primary reasons for variances against SCI targets are explained throughout the annual report and only brief comments are made below. The main factor that has impacted on Landcorp achieving its SCI targets was the large unbudgeted increase in Landcorp's 2005/06 closing asset values. The impact of this large increase in assets and shareholders' funds was not forecast in the 2006/07 SCI targets.

Dollars in millions unless otherwise stated	SCI Target	2007 Actual	Comments
Total assets	1,211	1,435.6	Assets were significantly higher than expected due to the higher than expected 2005/06 land revaluations.
Liabilities	226	256.3	Lower term borrowings reflect more prudent debt management given uncertainties around the receipt of land sale proceeds. Other liabilities have increased due to contracted land purchases and early receipt of land sales deposits.
Shareholders' funds	984	1,179.3	The growth in shareholder's funds reflects the asset value increases in 2005/06.
Earnings before interest and tax/average total assets	2.9%	2.1%	Slightly decreased earnings before interest and tax plus higher than expected asset values decreased the ratio.
Net Profit on Equity Investment (Share capital and retained earnings)	15.2%	11.2%	Slightly lower than budget net profit largely due to the unbudgeted loss on forest revaluation reserve.
Net profit after tax/average shareholders' equity	2.5%	1.7%	This ratio was lower due to the unbudgeted increased shareholders equity following asset increases in 2005/06.
Asset value increase/average shareholders' equity	9.0%	1.6%	Asset values increased only modestly in the year reflecting a flattening in the growth of rural land values and a conservative valuation assumption (see Note 18 on page 57). This combined with the unbudgeted increase in opening shareholders' funds.
Total shareholder return (NPAT plus revaluations)/average shareholders' equity	11.5%	3.3%	Total shareholder return was due to lower than budgeted asset revaluations and higher average shareholder's equity as discussed.
Dividends – Group (including recommended final)	12	12	Dividend of \$12 million was declared by the Board on the condition that the Agreement Concerning Landcorp Land Protected From Sale is executed with the shareholders (see Note 12 on page 53).

Statement of Financial Performance

FOR THE YEAR ENDED 30 JUNE 2007

Note	Group 2007 \$000	Group 2006 \$000	Parent 2007 \$000	Parent 2006 \$000	
Operating Income					
Livestock	3	78,684	71,774	78,310	71,563
Milk	4	39,473	32,138	36,168	32,138
Wool		7,292	7,970	7,292	7,970
Forestry	5	(617)	2,758	(617)	2,758
Other produce		527	481	527	481
Other operating income	6	21,012	7,587	5,389	5,676
Total Operating Income		146,371	122,708	127,069	120,586
Operating Expenses					
Farm working expenses		47,203	43,489	44,725	43,192
Personnel		34,943	30,597	32,876	30,063
Maintenance and depreciation	7	18,575	15,493	16,516	14,710
Other operating expenses	8	15,598	14,996	13,395	13,585
Total Operating Expenses		116,319	104,575	107,512	101,550
Net Operating Profit before Interest and Tax					
		30,052	18,133	19,557	19,036
Net finance charges	9	(14,189)	(12,906)	(12,876)	(12,947)
Profit on sale of land and shares	10	7,856	27,091	7,856	26,915
Forests revaluation write-off	24	(3,633)	(3,757)	(3,633)	(3,757)
Net Profit before Tax		20,086	28,561	10,904	29,247
Income tax	11	-	(81)	1,914	-
Net Profit after Tax		20,086	28,480	12,818	29,247

Statement of Movements in Equity

FOR THE YEAR ENDED 30 JUNE 2007

Note	Group 2007 \$000	Group 2006 \$000	Parent 2007 \$000	Parent 2006 \$000
Shareholders' Funds at Beginning of Year				
	1,144,249	829,272	1,146,012	830,063
Net profit after tax	20,086	28,480	12,818	29,247
Total increases in assets revaluation reserves	24	17,952	291,497	291,702
Total Recognised Revenues and Expenses for Year	38,038	319,977	30,486	320,949
Dividends to shareholders	12	(3,000)	(5,000)	(5,000)
Shareholders' Funds at End of Year	1,179,287	1,144,249	1,173,498	1,146,012

The accompanying notes form part of the financial statements.

Statement of Financial Position

AS AT 30 JUNE 2007

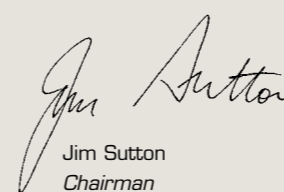
	Note	Group 2007 \$000	Group 2006 \$000	Parent 2007 \$000	Parent 2006 \$000
Assets					
Cash Balances		78	1,486	90	-
Accounts Receivable	14	27,368	35,724	14,974	25,089
Inventories		2,068	2,038	2,066	2,034
Property Intended for Sale		30,547	35,899	25,467	30,977
Forests	15	10,973	15,906	10,973	15,906
Livestock	16	177,419	164,517	167,302	162,043
Deferred Tax Asset	11	6,738	6,992	8,449	6,789
Investments	17	41,175	35,709	70,839	59,814
Property, Plant and Equipment	18				
Land and improvements		1,098,984	1,045,171	1,089,092	1,041,339
Plant		17,845	15,756	14,051	13,593
Motor vehicles		16,734	15,696	12,803	13,045
Furniture and equipment		2,180	2,084	2,032	2,052
Computer equipment		3,451	2,627	3,261	2,480
Total Property, Plant and Equipment		1,139,194	1,081,334	1,121,239	1,072,509
Total Assets		1,435,560	1,379,605	1,421,399	1,375,161

	Note	Group 2007 \$000	Group 2006 \$000	Parent 2007 \$000	Parent 2006 \$000
Liabilities					
Bank Overdraft		-	-	-	62
Accounts Payable and Accruals	19	45,349	10,520	39,416	8,143
Current Employee Entitlements		5,277	3,959	5,024	3,959
Non-Current Employee Entitlements		466	485	461	485
Term Borrowing	21	205,181	220,392	203,000	216,500
Total Liabilities		256,273	235,356	247,901	229,149
Shareholders' Funds					
Share capital	22	125,000	125,000	125,000	125,000
Retained earnings	23	70,803	53,717	138,918	129,100
Asset revaluation reserves	24	841,948	836,290	837,413	832,039
Other equity	25	141,536	129,242	72,167	59,873
Total Shareholders' Funds		1,179,287	1,144,249	1,173,498	1,146,012
Total Equity and Liabilities		1,435,560	1,379,605	1,421,399	1,375,161

The accompanying notes form part of these financial statements.

Landcorp's Board of Directors authorised the financial statements for issue on 27 August 2007.

Signed on behalf of the Board



Jim Sutton
Chairman
27 August 2007



Marise James
Chairman of Audit and Due Diligence Committee

Statement of Cash Flows

FOR THE YEAR ENDED 30 JUNE 2007

Note	Group 2007 \$000	Group 2006 \$000	Parent 2007 \$000	Parent 2006 \$000
Operating Activities				
Cash was received from:				
Receipts from customers	141,020	116,381	125,503	116,321
Interest received	168	26	2,053	449
Dividends received	37	81	37	81
Income tax received	32	21	32	21
Net GST paid	2,531	1,258	2,990	(2,264)
	143,788	117,767	130,615	114,608
Cash was applied to:				
Payments to suppliers	72,498	67,148	68,892	69,459
Payments to employees	30,096	29,712	28,457	26,438
Interest paid	15,042	13,745	14,808	13,553
	117,636	110,605	112,157	109,450
Net Cash Flows from Operating Activities	13	26,152	7,162	18,458
Investing Activities				
Cash was received from:				
Sale of land and improvements	37,229	29,237	39,163	30,820
Sale of other fixed assets	3,135	2,110	2,657	2,110
Sale of other investments	5,256	1,340	43,050	2,540
	45,620	32,687	84,870	35,470
Cash was applied to:				
Purchase and development of land	33,590	43,700	29,069	39,921
Purchase of other fixed assets	12,024	13,530	8,249	10,128
Purchase of breeding stock	8,488	9,684	2,455	7,487
Purchase of shares and advances	867	1,720	46,903	11,490
	54,969	68,634	86,676	69,026
Net Cash Flows from Investing Activities	(9,349)	(35,947)	(1,806)	(33,556)
Financing Activities				
Cash was applied to:				
Net borrowing repayments (receipts)	15,211	(35,402)	13,500	(33,600)
Dividends paid	3,000	5,000	3,000	5,000
	18,211	(30,402)	16,500	(28,600)
Net Cash Flows from Financing Activities	(18,211)	30,402	(16,500)	28,600
Net Change in Cash	(1,408)	1,617	152	202
Cash at beginning of year	1,486	(131)	(62)	(264)
Cash at End of Year	78	1,486	90	(62)
Cash position comprises cash balances held with registered New Zealand banks –				
Cash at bank	78	1,486	90	(62)

The accompanying notes form part of these financial statements.

Notes to the Financial Statements

1. Statement of Accounting Policies

Accounting entity

Landcorp Farming Ltd ("Landcorp") is a company established under the State-Owned Enterprises Act 1986 and registered under the Companies Act 1993. Financial statements for Landcorp Farming Ltd (the "Parent") and consolidated financial statements (the "Group") are presented. The consolidated financial statements comprise Landcorp, subsidiaries and associates (outlined in note 17).

General accounting policies

The financial statements have been prepared using a fair value basis for livestock, freehold land and buildings and forests. Historical cost basis is used for investments, plant and equipment and other property. The financial statements have been prepared in accordance with generally accepted accounting practice under the Companies Act 1993 and the Financial Reporting Act 1993.

Currency of presentation

The reporting currency used in the preparation of these financial statements is New Zealand dollars.

Particular accounting policies

The particular accounting policies that materially affect the measurement of financial performance and position are:

Basis of consolidation

Subsidiary companies are included in the consolidated financial statements using the purchase method of consolidation. All significant intercompany balances and transactions are eliminated on consolidation. Associate companies are included in the financial statements using the equity method.

Accounting for goods and services tax (GST)

All items in the Statement of Financial Position are stated exclusive of GST, with the exception of receivables and payables, which include GST, where applicable. All items in the Statement of Financial Performance and Statement of Cash Flows are stated exclusive of GST.

Revenue recognition

- Profit on asset sales is recognised at the point of formal unconditional contract for sale and when the significant risks and rewards of ownership have been transferred.
- The movement in value of livestock and forests attributable to changes in numbers and growth is recognised in the Statement of Financial Performance.
- Other movements attributable to valuation changes of livestock, forests, and land and improvements at balance date are taken directly to Assets Revaluation Reserves.

Statement of cash flows

Cash includes cash at bank, including bank overdrafts, and cash on hand.

Operating activities include all transactions and other events that are not investing or financing activities.

Investing activities are those activities relating to the acquisition and disposal of current and non-current investments, purchases of livestock and any other non-current assets.

Financing activities are those activities relating to changes in the equity and debt capital structure of the Parent and Group and those activities relating to the cost of servicing the Parent's and Group's equity capital.

Cash flows from financing activities are presented net where this is considered to provide a fairer presentation of Landcorp's activities.

Foreign currencies

Transactions in foreign currencies are converted to New Zealand dollars at the rate of exchange applying at transaction date. Assets and liabilities denominated in foreign currencies, other than those resulting from short-term transactions covered by forward exchange contracts, are translated to New Zealand dollars at the rate of exchange applying at balance date. All exchange differences are taken to the Statement of Financial Performance. For transactions covered by short-term forward exchange contracts, the rates specified in those contracts are used as the basis for measuring and reporting the transactions.

Notes to the Financial Statements continued

Receivables

Receivables are recognised in the financial statements at their net realisable value, after taking account of bad and doubtful debts.

Accounting for taxation

Income tax expense charged against net profit for the year is the estimated liability in respect of that profit after allowance for permanent differences.

Tax effect accounting is applied on a comprehensive basis to all timing differences calculated using the liability method. Deferred tax benefits attributable to timing differences or taxation losses carried forward are recognised in the financial statements only where there is virtual certainty of realisation.

Operating leases

Operating lease rentals are recognised evenly over the expected period of benefit to the Parent and Group.

Inventory

Agricultural produce is valued at estimated net current market value. Other inventory items are valued at lower of cost or net realisable value.

Property intended for sale

Property intended for sale comprises whole farms that have been identified for sale and development land. Farms are classified as property intended for sale where a sales plan has been implemented and an unconditional sales contract is expected to be signed within a year. Development land is land held by Landcorp Estates Ltd for development and sale. No development margins are recognised.

Property intended for sale is carried at the lower of the fair value of the property when it was classified as property intended for sale and net realisable value.

Forests

Forested areas are recorded at estimated net current value on an annual basis, based on the Standpak forestry model from the Forest Research Institute using harvest timing and yield and a discount rate of 12% per annum. An annual calculation of income arising from forest growth is recognised in the Statement of Financial Performance. Other changes in valuation of forests are recognised in the forests revaluation reserve. Any resulting overall debit balance in the forest revaluation reserve is expensed in the Statement of Financial Performance.

Livestock

Livestock are valued at fair value. Balance date changes in valuation of livestock are recognised in the livestock revaluation reserve.

Income due to changes in livestock numbers and growth is accrued based on assessed intra-year values and is recognised in the Statement of Financial Performance. Differences between actual selling price and accrued value are recognised in the Statement of Financial Performance.

Investments

Investments are recorded at the lower of cost and estimated realisable value. Movements in the valuation of investments are recognised in the Statement of Financial Performance.

Property, plant and equipment

(a) Initial Recognition

The initial cost of property, plant and equipment is the initial purchase price, plus directly attributable costs of bringing the item to working condition for its intended use.

(b) Subsequent Recognition

Freehold land and improvements (including buildings) are valued annually on 30 June at fair value by registered valuers. Changes in valuation are taken to the freehold land and improvements revaluation reserve. All other items of property, plant and equipment, including buildings on leased land, are recorded at depreciated historical cost.

(c) Depreciation

Depreciation is calculated on a straight line basis on all items of property, plant and equipment, except for land, to allocate the cost or revalued amount of an asset less any residual value, over its useful life. The estimated useful lives of property, plant and equipment are as follows:

	Period
Buildings on freehold land	40 years
Buildings on leased land	40 years
Plant	3 – 10 years
Motor vehicles	4 – 10 years
Furniture and equipment	7 years
Computer software	5 years
Computer equipment	3 years

(d) 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 and an impairment loss is recognised in the Statement of Financial Performance.

(e) Disposal

When an item of property, plant and equipment is disposed, the difference between the net disposal proceeds received and the carrying amount of the item is recognised in the Statement of Financial Performance. Any gain or loss on disposal of land is recognised as profit on sale of land. 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. For items that have been revalued, the revaluation reserve attributable to that item is transferred from the asset revaluation reserve to other equity.

Financial instruments

Landcorp uses various financial instruments for risk management. These instruments include derivatives such as interest rate and foreign currency swaps, options, and forward rate agreements. While these financial instruments are subject to the risk that the market rates may change subsequent to acquisition, such changes would generally be offset by opposite effects on items being hedged. Interest rate swaps, options, and forward rate agreements are entered into for the management of interest rate exposure and are accrued on the same basis as the underlying term borrowing being hedged.

Financial guarantees

Where a Group company enters into a financial guarantee contract to guarantee the indebtedness or performance of other Group companies, the company considers these to be insurance arrangements. The guarantee is treated as a contingent liability until such time as it becomes probable that the company will be required to make a payment under the guarantee.

Research and development

Research costs are expensed as incurred. Development costs are capitalised when it is probable that the project will generate future economic benefits.

Employee entitlements

Employee benefits include salaries, wages, annual leave and long service leave. A provision for employee entitlements is recognised for benefits attributable to employees. The provision is the estimated net present value of benefits expected to be paid.

Provision for dividends

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

Comparative amounts

To ensure consistency with the current year, comparative figures have been reclassified where appropriate.

Changes in accounting policies

There have been no changes in accounting policies during the year under review and those policies have been applied consistently throughout the Group.

2. Conversion to New Zealand International Financial Reporting Standards

Landcorp will adopt the New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) from 1 July 2007. An implementation plan to manage the conversion has been developed and was approved by Landcorp's Audit and Due Diligence Committee of the Board (ADDC) in October 2004. An update of progress against the plan is provided to each meeting of the ADDC.

Landcorp has an ongoing communication programme to inform key stakeholders of NZ IFRS issues and effects impacting Landcorp.

Conversion to NZ IFRS required an opening NZ IFRS compliant balance sheet as at 1 July 2006. This was completed during the year and the material differences between current standards and NZ IFRS are discussed below.

The impact of NZ IFRS on Landcorp has not been precisely quantified and the actual impact of adopting NZ IFRS may vary from the information presented below. However, indicative NZ IFRS financial statements have been prepared for prior periods and these indicate that the financial statements are likely to be significantly different under NZ IFRS than current New Zealand generally accepted accounting practice. The major changes expected from the conversion to NZ IFRS are:

NZ IAS 41 Agriculture requires the change in fair value (market value) of all livestock and biological assets, including forests, to be reported in the Statement of Financial Performance. Landcorp's livestock held at 30 June are largely breeding livestock and livestock held for production (e.g. dairy cows held for milk production) and previously all livestock were valued on this basis. NZ IAS 41 requires that Landcorp distinguishes between consumable and bearer biological assets and values these separately. The requirement to distinguish between consumable and bearer biological assets increased the value of the Group and Parent's livestock herd by \$5.4 million at 30 June 2006. Changes in the market value of livestock recognised in the Statement of Financial Performance do not represent cash flows and changes due to price movements in bearer livestock cannot be realised in the ordinary course of livestock farming.

NZ IAS 12 Income Tax will require a tax charge and liability to be recognised for all revaluations on livestock, investments and some land revaluations. This may result in reported tax expense being different from the current treatment. At 30 June 2006, the Group's \$7.0 million deferred tax asset under current standards, became a \$40.5 million liability under NZ IFRS (Parent \$6.8 million asset became \$40.3 million liability). This reduced retained earnings by \$22.6 million and assets revaluation reserves by \$24.9 million (Parent \$22.3 million and \$24.8 million respectively). This tax liability is unlikely to be fully incurred in the ordinary course of business.

NZ IAS 39 Financial Instruments will require Landcorp's financial assets, including share investments and derivative hedging instruments, to be valued at fair value with changes in value being reported in either the Statement of Financial Performance or in the Statement of Movements in Equity. The requirement to value these instruments at fair value increased the Group and Parent's investments by \$14.9 million at 30 June 2006. This increased the financial instruments revaluation reserve by \$3.2 million and retained earnings by \$11.7 million. Landcorp's investments are largely held to facilitate farming operations (e.g. dairy cooperative company shares) and as such are not freely tradable. Fair value changes recognised in the Statement of Financial Performance do not represent cash flows and cannot be realised in the ordinary course of livestock farming.

NZ IAS 16 Property, Plant and Equipment requires asset revaluation reserves to be determined on an individual asset basis rather than the current class basis. This has the effect that value decreases that result in an individual asset revaluation reserve falling below zero are taken to the Statement of Financial Performance, whereas under current practice these are first offset against other reserves within that class of asset. This change increased the 30 June 2006 assets revaluation reserves balance for Group and Parent by \$6.2 million and decreased retained earnings by the same amount.

In summary, NZ IFRS financial statements are likely to be significantly different than the current financial statements. In addition to NZ IFRS financial statements, further information will be required to present a complete view of the financial results from Landcorp's operations of livestock farming.

3. Livestock Income

	Group 2007 \$000	Group 2006 \$000	Parent 2007 \$000	Parent 2006 \$000
Sheep	30,679	28,660	30,679	28,660
Beef	33,846	30,969	33,472	30,758
Deer	14,155	12,139	14,155	12,139
Other	4	6	4	6
Total Livestock Income	78,684	71,774	78,310	71,563

Increased sheep income is largely due to selling higher numbers of lambs in the 2006/07 year. Increased beef and deer income is largely due to improved sales prices received in 2006/07.

4. Milk Income

	Group 2007 \$000	Group 2006 \$000	Parent 2007 \$000	Parent 2006 \$000
Total value of milk produced	44,303	38,620	40,998	38,620
Sharemilker share of milk production	(4,830)	(6,482)	(4,830)	(6,482)
Milk income due to Landcorp	39,473	32,138	36,168	32,138

The increase in the total value of milk produced is largely due to higher milk prices over 2006/07. Group results also include the first year of milk production in Landcorp Pastoral as part of the Wairakei Estate project. Buying-out some of Landcorp's 50/50 sharemilkers also increased milk production due to Landcorp.

5. Forestry Income

	Group 2007 \$000	Group 2006 \$000	Parent 2007 \$000	Parent 2006 \$000
Forestry sale proceeds	1,594	986	1,594	986
Book value of forestry sold/harvested	(1,855)	(818)	(1,855)	(818)
Profit (loss) from forestry sales	(261)	168	(261)	168
Uneconomic forest areas written-off	(592)	-	(592)	-
Forest growth	236	2,590	236	2,590
Total Forestry Income	(617)	2,758	(617)	2,758

During 2006/07 a number of forest stands were identified as being uneconomic to harvest, and were written off (see Note 15).

6. Other Operating Income

Note	Group 2007 \$000	Group 2006 \$000	Parent 2007 \$000	Parent 2006 \$000
Dividends received	56	81	56	81
Rent received	521	464	495	439
Cropping and horticulture	290	176	290	176
Equity accounted earnings of associates	17	502	-	-
Gain on sale of development land	5,697	-	-	-
Gain on disposal of property, plant and equipment	2,210	3,511	2,210	3,511
Gain on disposal of shares	1,677	-	1,677	-
Sundry income	3,221	2,853	661	1,469
Total Other Operating Income	21,012	7,587	5,389	5,676

The increase in other operating income largely reflects profits from section sales in equity accounted associate companies (see Note 17) and sale of land through Landcorp Estates Ltd.

The gain on disposal of shares arises from the annual rebalancing of dairy cooperative shares and the sale of other miscellaneous shareholdings.

7. Maintenance and Depreciation

	Group 2007 \$000	Group 2006 \$000	Parent 2007 \$000	Parent 2006 \$000
Depreciation on buildings – freehold land	2,285	2,013	2,285	2,014
– leased land	130	15	–	–
Depreciation on plant	2,706	2,354	2,359	2,256
Depreciation on motor vehicles	3,513	2,934	2,944	2,749
Depreciation on furniture and equipment	593	521	581	520
Depreciation on computer equipment	601	509	541	502
Total Depreciation	9,828	8,346	8,710	8,041
Maintenance on land improvements	2,777	2,237	2,670	2,232
Maintenance on buildings	1,658	1,251	1,635	1,251
Maintenance on plant	1,481	1,344	1,095	1,022
Maintenance on motor vehicles	2,742	2,241	2,318	2,091
Maintenance on furniture and equipment	34	22	34	22
Maintenance on computer equipment	55	52	54	51
Total Maintenance	8,747	7,147	7,806	6,669
Total Maintenance and Depreciation	18,575	15,493	16,516	14,710

The increase in maintenance and depreciation mainly reflect a larger machinery fleet arising from the Landcorp Developments and Wairakei Estate project and increased maintenance from storm damage in 2006/07.

8. Other Operating Expenses

	Group 2007 \$000	Group 2006 \$000	Parent 2007 \$000	Parent 2006 \$000
Fees to auditors				
– statutory audit	148	150	125	128
– other services	33	14	33	14
Loss on revaluation of shares held	–	36	–	36
Loss on disposal of property, plant and equipment	363	1,219	363	1,219
Doubtful debts written off	–	–	–	–
Directors' remuneration	302	227	302	227
Donations and scholarships	154	134	154	134
Rent	1,662	1,069	1,235	1,069
Research	256	325	256	325
Fuel	2,262	1,759	1,832	1,511
Electricity	1,639	1,354	1,523	1,350
Rates	2,601	2,466	2,574	2,466
Other	6,178	6,243	4,998	5,106
Total Other Operating Expenses	15,598	14,996	13,395	13,585

During the year, Landcorp's auditors provided assurance services related to the adoption of NZ IFRS and the preparation of the NZ IFRS opening balance sheet, as at 1 July 2006.

Increases in fuel and electricity costs largely reflect increased prices incurred during 2006/07.

The increased Group rent expense is due to rent paid by Landcorp Pastoral as part of the Wairakei Estate project.

9. Net Finance Charges

	Group 2007 \$000	Group 2006 \$000	Parent 2007 \$000	Parent 2006 \$000
Interest received	1,073	838	2,156	605
Interest paid	(15,262)	(13,744)	(15,032)	(13,552)
Net Finance Charges	(14,189)	(12,906)	(12,876)	(12,947)

Higher finance charges reflect both an increase in interest rates and higher average debt over the year, largely arising from investment in Landcorp Pastoral as part of the Wairakei Estate project.

10. Profit on Sale of Land and Shares

	Group 2007 \$000	Group 2006 \$000	Parent 2007 \$000	Parent 2006 \$000
Profit on sale of land	7,856	15,318	7,856	15,142
Profit on sale of shares	–	11,773	–	11,773
	7,856	27,091	7,856	26,915

(a) Profit on sale of land

The Group profit on sale of land has arisen as Landcorp strategically restructures the farm portfolio. The strategic intent of these farm sales is to sell properties that are outliers from the main clusters of Landcorp's farms, or where the location and value of the land is such that farming is no longer the preferred option. Farms are purchased to replace those sold, with purchased properties being close to existing properties and where the value of the land reflects its use for farming. The sale and purchase of land additionally facilitates the strategy of clustering Landcorp's properties into large units.

(b) Profit on sale of shares

The 2006 Group profit on sale of shares largely arises from the decision to transfer the supply of around 1.8 million kilograms of milk solids from Fonterra supply to Open Country Cheese. This allowed the redemption of 1.8 million Fonterra shares and this capital was used to finance the significant dairy production growth occurring on the Wairakei Estate pastoral project.

Additional shares were sold in other companies where the shareholding was no longer required for business purposes.

11. Taxation

	Group 2007 \$000	Group 2006 \$000	Parent 2007 \$000	Parent 2006 \$000
Net Profit before Tax	20,086	28,561	10,904	29,247
Tax on net profit at 33%	6,628	9,425	3,598	9,652
Tax effect of permanent differences	(11,614)	(21,224)	(9,056)	(21,239)
Adjustments to prior year provisions	(1,750)	-	(1,750)	-
Tax losses not recognised	6,736	11,880	5,294	11,587
Total Income Tax Expense / (Income)	-	81	(1,914)	-
Income tax expense / (income) comprises:				
Current tax	1,711	-	-	-
Deferred tax (movement)	(1,711)	81	(1,914)	-
	-	81	(1,914)	-
Deferred tax (benefit) liability				
Balance at beginning of year	(6,992)	(5,598)	(6,789)	(5,314)
Movement through income tax expense	(1,711)	81	(1,914)	-
Group offset of current tax provision	1,711	-	-	-
Movement through assets revaluation reserves	254	(1,475)	254	(1,475)
Balance at end of year	(6,738)	(6,992)	(8,449)	(6,789)

The Group has tax losses of \$133.7 million (2006 \$124.1 million) available to be carried forward to be offset against taxable income in future periods. The exact value of these losses will depend on the tax rate applying in the year these losses are utilised. The majority of these losses have arisen due to the decision to change the income tax method of valuing livestock from the Herd Scheme to the National Standard Cost Scheme. The availability of these losses is subject to the requirements of the income tax legislation being met. These losses have only been recognised to the extent that it is virtually certain that the asset will be offset against future income tax.

	Parent 2007 \$000	Parent 2006 \$000
Imputation credits		
Available to shareholders of parent company at 30 June		
Parent company balance at beginning of year	13	90
Advance to IRD recovered	(161)	(140)
Credits attached to dividends received	204	63
Credits attached to dividends paid	-	-
Parent company balance at end of year	56	13
Available through indirect interests in subsidiaries	2,788	-
	2,844	13

In March 2004, an advance was made to the IRD to clear a negative balance in the imputation credit account. This advance is repaid by the IRD, upon receipt of imputation credits attached to dividend receipts.

12. Dividends

	Parent 2007 Cents per share	Parent 2006 Cents per share	Parent 2007 \$000	Parent 2006 \$000
Ordinary shares				
Final dividend	2	4	3,000	5,000
Total Dividends for Year	2	4	3,000	5,000

A final dividend for 2007 of \$12.0 million was proposed by the Board on 30 July 2007, on condition that the Agreement Concerning Landcorp Land Protected From Sale (the "Agreement") is executed with the shareholders. Under the Agreement, 2007 dividends are to be reinvested in a subsidiary company that is holding land that is protected from sale (see Note 31). In accordance with Landcorp's accounting policies, this dividend has not been provided for in the Statement of Financial Position as at 30 June 2007.

13. Reconciliation of Profit and Operating Cash Flow

	Group 2007 \$000	Group 2006 \$000	Parent 2007 \$000	Parent 2006 \$000
Net profit after tax	20,086	28,480	12,818	29,247
Non cash items				
Depreciation	9,828	8,346	8,710	8,041
Non-cash movement in equity accounted associates	(4,940)	(502)	-	-
Non-cash livestock income	(7,544)	(10,347)	(180)	(7,936)
Forest growth	(236)	(2,590)	(236)	(2,590)
Write-off forests revaluation reserve	3,633	3,757	3,633	3,757
Change in deferred tax asset	254	(1,394)	(1,660)	(1,475)
Deferred tax on revaluation of assets	(254)	1,475	(254)	1,475
Movement in working capital items				
Inventories	(30)	168	(32)	171
Accounts receivable	8,356	(27,663)	10,115	(17,546)
Accounts payable and accruals	34,829	229	31,273	(2,283)
Provision for employee entitlements	1,299	1,840	1,041	1,840
Items classified as Investing or Financing activities				
Net loss/(gain) on movement of assets	(8,932)	(28,614)	(9,296)	(28,438)
Purchase of breeding stock	8,460	9,808	2,428	7,611
Change in accounts receivable due to capital items	(4,611)	25,545	(9,520)	13,910
Change in accounts payable due to capital items	(34,046)	(1,376)	(30,382)	(626)
Net Cash Flows from Operating Activities	26,152	7,162	18,458	5,158

14. Accounts Receivable

	Group 2007 \$000	Group 2006 \$000	Parent 2007 \$000	Parent 2006 \$000
Trade debtors	7,187	9,226	5,263	8,811
Less provision for doubtful debts	(131)	(131)	(131)	(131)
	7,056	9,095	5,132	8,680
Other receivables and prepayments	9,737	12,391	9,842	16,409
Amounts owing from associates	10,575	14,238	-	-
Total Accounts Receivable	27,368	35,724	14,974	25,089

Notes to the Financial Statements continued

15. Forests

Landcorp's exotic forests are at varying stages of maturity and are managed as an ancillary activity to farming. Forest valuations at 30 June 2007 were provided by Forest & Woodlot Consultants (NZ) Ltd. Forests are considered economically viable, and valued, where the forest stand is at least two hectares in size.

	Group 2007 \$000	Group 2006 \$000	Parent 2007 \$000	Parent 2006 \$000
Forest value at beginning of year	15,906	19,320	15,906	19,320
Costs capitalised to the forest crop	911	521	911	521
Value change due to:				
Growth	236	2,590	236	2,590
Valuation change	(3,633)	(5,267)	(3,633)	(5,267)
Book value of forest felled/sold	(2,447)	(1,258)	(2,447)	(1,258)
Forest Value at End of Year	10,973	15,906	10,973	15,906
Hectares	2,335	2,546	2,335	2,546

The overall value of forests declined during the year. As the forest revaluation reserve had been written-off in 2005/06 (refer note 24), this decline in value was recognised as a loss in the Statement of Financial Performance.

16. Livestock

	Group 2007 \$000	Group 2006 \$000	Parent 2007 \$000	Parent 2006 \$000
Sheep	44,362	50,305	44,362	50,305
Beef	64,241	64,932	62,973	64,688
Dairy	39,494	29,538	30,645	27,308
Deer	29,281	19,705	29,281	19,705
Other	41	37	41	37
Total Value of Livestock	177,419	164,517	167,302	162,043

The fair value of livestock is based on the Inland Revenue Department's national average market values (NAMV). The value of Parent livestock increased during 2006/07 largely due to an increase in value of the deer herd and an increased number of dairy animals. This was partly offset by declines in the value of sheep. The increase in dairy animals is due to the Parent replacing sharemilkers with managers on two dairy farms. Other Group increases are primarily due to livestock purchases in Landcorp Pastoral as this company increases its dairy herd numbers as part of the Wairakei Estate project.

Landcorp's mature livestock are primarily breeding livestock and livestock held for production (e.g. dairy cows held for milk production). Immature livestock held at 30 June, are either replacement breeding livestock or livestock that take more than one farming season to grow to intended marketable size. Livestock numbers owned by Landcorp at 30 June are shown below. Livestock numbers do not include livestock owned by sharemilkers.

16. Livestock (continued)

	Group 2007 head	Group 2006 head	Parent 2007 head	Parent 2006 head
Sheep				
Mature	493,937	476,676	493,937	476,676
Immature	183,491	203,999	183,491	203,999
Total Sheep	677,428	680,675	677,428	680,675
Beef				
Mature	47,496	49,028	47,496	49,026
Immature	53,222	52,744	51,481	52,405
Total Beef Cattle	100,718	101,772	98,977	101,431
Dairy				
Mature	39,790	30,499	31,393	28,305
Immature	519	165	519	165
Total Dairy Cattle	40,309	30,664	31,912	28,470
Deer				
Mature	84,046	89,116	84,046	89,116
Immature	35,005	39,876	35,005	39,876
Total Deer	119,051	128,992	119,051	128,992
Other				
Mature	268	201	268	201
Immature	52	86	52	86
Total Other Livestock	320	287	320	287
Total Livestock	937,826	942,390	927,688	939,855
	Group 2007 \$000	Group 2006 \$000	Parent 2007 \$000	Parent 2006 \$000
Livestock value at start of year	164,517	161,814	162,043	161,547
Value changes caused by:				
Birth and growth of animals	62,527	60,851	61,500	60,627
Purchases	8,459	10,218	2,428	7,611
Livestock losses	(7,515)	(7,208)	(7,331)	(7,190)
Livestock available for sale or production	227,988	225,675	218,640	222,595
Book value of stock sold	(55,931)	(53,514)	(56,416)	(53,112)
Effect of price changes	5,362	(7,644)	5,078	(7,440)
Livestock value at end of year	177,419	164,517	167,302	162,043

17. Investments

	Group 2007 \$000	Group 2006 \$000	Parent 2007 \$000	Parent 2006 \$000
Associate Companies				
Investment in associates	5,318	378	-	-
Investments				
Term advances	1,203	1,995	1,203	1,995
Shares	34,654	33,336	26,935	28,005
Subsidiary Companies				
Shares in subsidiaries	-	-	32,070	17,570
Loans to subsidiaries	-	-	10,631	12,244
Total Investments	41,175	35,709	70,839	59,814

(a) Associate companies

Associates	Principal activity	Balance date	Percentage held	
			2007	2006
Lakeside Terraces Ltd	Property development	31 March	50%	50%
Wharewaka (2003) Ltd	Property development	31 March	50%	50%
Wharewaka East Ltd	Property development	31 March	50%	50%

Investment in associates comprises:

	Group 2007 \$000	Group 2006 \$000
Investment at beginning of year	378	(124)
Equity accounted earnings of associates	7,340	502
Less dividends received from associates	(2,400)	-
Investment at End of Year	5,318	378

Equity accounted earnings of associates comprises:

	Group 2007 \$000	Group 2006 \$000
Surplus before tax	10,957	688
Income tax	(3,617)	(186)
Net surplus	7,340	502
Other gains and losses	-	-
Total Recognised Revenues and Expenses	7,340	502

The increased surplus in associate companies is largely due to profits on section sales from a large residential subdivision project.

The results of associates to 30 June are included in the Group Statement of Financial Performance.

(b) Investments

The Group and Parent are required to hold shares and investments in various cooperative companies to facilitate farming operations. The estimated replacement cost of these shares at balance date for the Group is \$46.6 million (2006 \$45.1 million), and for the Parent \$38.7 million (2006 \$39.8 million), based on the current cost to purchase additional shares.

(c) Subsidiary companies

Subsidiaries	Principal activity	Balance date	Percentage held	
			2007	2006
Landcorp Estates Ltd	Property development	30 June	100%	100%
Landcorp Developments Ltd	Land conversion and development	30 June	100%	100%
Landcorp Pastoral Ltd	Pastoral farming	30 June	100%	100%

A new subsidiary company, Landcorp Holdings Limited, was incorporated after balance date (see Note 31).

Loans to subsidiaries are payable on demand and subject to normal market interest rates.

18. Property, Plant and Equipment

	Group 2007 \$000	Group 2006 \$000	Parent 2007 \$000	Parent 2006 \$000
Land	994,096	953,786	993,834	953,708
Buildings on freehold land	95,258	87,631	95,258	87,631
	1,089,354	1,041,417	1,089,092	1,041,339
Buildings on leased land – cost	9,775	3,769	-	-
Less accumulated depreciation	(145)	(15)	-	-
Book value of land and improvements	1,098,984	1,045,171	1,089,092	1,041,339
Plant – cost	32,404	28,419	28,159	26,184
Less accumulated depreciation	(14,559)	(12,663)	(14,108)	(12,591)
Book value of plant	17,845	15,756	14,051	13,593
Motor vehicles – cost	31,705	29,159	27,009	26,337
Less accumulated depreciation	(14,971)	(13,463)	(14,206)	(13,292)
Book value of motor vehicles	16,734	15,696	12,803	13,045
Furniture and equipment – cost	5,104	4,452	4,943	4,420
Less accumulated depreciation	(2,924)	(2,368)	(2,911)	(2,368)
Book value of furniture and equipment	2,180	2,084	2,032	2,052
Computer equipment – cost	6,675	5,253	6,417	5,106
Less accumulated depreciation	(3,224)	(2,626)	(3,156)	(2,626)
Book value of computer equipment	3,451	2,627	3,261	2,480

Valuations of land and buildings at 30 June 2007 were provided by Quotable Value NZ Ltd. The valuations take into account the following factors:

- The effects of the Conservation Act 1987 relating to the establishment of marginal strips and conservation management plans where applicable.
- 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 recommendation of the Waitangi Tribunal. In the North Island many section 27B memorials are in place and their effect has been considered resulting in deductions from current market value of 0–6%.
- No reduction has been made for the Right of First Refusal memorial to Ngai Tahu registered on the title of many South Island properties.
- A deduction of 5% from current market value (\$4.8 million) has been made for specific properties identified as having an implied threat of occupation, which would delay or prevent sale in the normal active market.

All freehold land purchased from the Crown on commencement (1 April 1987) had a memorial placed on the title through the Treaty of Waitangi (State Enterprises) Act 1988. That Act provides for full compensation to the owner of any such land that is the subject of a successful land claim. Certain land not required for Treaty settlement has since had that memorial replaced with a statutory right of first refusal (in favour of Maori) on future sale by Landcorp or another Crown body.

19. Accounts Payable and Accruals

	Group 2007 \$000	Group 2006 \$000	Parent 2007 \$000	Parent 2006 \$000
Trade creditors	8,672	6,224	6,014	5,106
Land sales deposits held as stakeholder	11,116	-	11,116	-
Other land sales deposits received	3,760	-	3,760	-
Payable for land purchases	16,171	-	16,171	-
Other payables and accruals	5,630	4,296	2,355	3,037
Total Accounts Payable and Accruals	45,349	10,520	39,416	8,143

At 30 June 2007 Landcorp was holding proceeds for several conditional land sales as stakeholder. Deposits had also been received for other land sales contracts. These sales were not recognised during 2006/07 as the risks and rewards of ownership were not considered to have been transferred to the intended purchasers.

20. Risk Management and Financial Instruments

The Group is exposed to various financial risks arising in the ordinary course of business. The Board of Directors authorises the use of financial instruments under approved policy guidelines to manage financial risks. A Treasury Management Committee comprising the executive management team and an independent treasury advisor meet on a monthly basis to co-ordinate and oversee the operation of the treasury function. Details of these risks and risk management policies are explained below:

(a) Interest Rate Risk

Interest rate risk is the risk of loss arising from changes in interest rates. Landcorp is exposed to interest rate risk on borrowings used to fund investment and ongoing operations. Landcorp has an interest rate risk management policy designed to identify and manage interest rate risk to ensure funding is obtained in a cost effective manner, to minimise the cost of borrowing and to provide greater certainty of funding costs. Management monitors the level of interest rates on an ongoing basis, and from time-to-time, will fix the rates of interest payable using derivative financial instruments. Forward rate agreements, interest rate swaps and interest rate options may be used for risk management purposes. Assets and liabilities will mature or reprice within the periods shown in the table below. Parent numbers are not presented as they are not materially different from Group, except for shares in subsidiaries, which are not interest rate sensitive, and loans to subsidiaries, which are at daily floating interest rates (refer note 17).

Repricing Analysis	Effective interest rate	2007 Total \$000	Non-interest sensitive \$000	0 – 6 months \$000	6 – 12 months \$000	One to two years \$000	Two to five years \$000	Greater than five years \$000
Group 2007								
Assets								
Current assets	7.75%	29,514	29,436	78	-	-	-	-
Property intended for sale	-	30,547	30,547	-	-	-	-	-
Forests	-	10,973	10,973	-	-	-	-	-
Livestock	-	177,419	177,419	-	-	-	-	-
Deferred tax asset	-	6,738	6,738	-	-	-	-	-
Investments	10.01%	41,175	40,496	679	-	-	-	-
Property, plant and equipment	-	1,139,194	1,139,194	-	-	-	-	-
Liabilities								
Current liabilities	-	(50,626)	(50,626)	-	-	-	-	-
Non-current employee entitlements	8.40%	(466)	-	(466)	-	-	-	-
Term borrowing	8.16%	(205,181)	-	(205,181)	-	-	-	-
Equity	-	(1,179,287)	(1,179,287)	-	-	-	-	-
Off Balance Sheet								
Interest rate derivatives	-	-	-	164,300	(139,300)	(25,000)	-	-
Repricing Profile	-	-	204,890	(40,590)	(139,300)	(25,000)	-	-

The interest rate on term borrowing as amended by off balance sheet financial instruments was 7.31%.

20. Risk Management and Financial Instruments (continued)

Repricing Analysis	Effective interest rate	2006 Total \$000	Non-interest sensitive \$000	0 – 6 months \$000	6 – 12 months \$000	One to two years \$000	Two to five years \$000	Greater than five years \$000
Group 2006								
Assets								
Current assets	6.75%	39,248	37,762	1,486	-	-	-	-
Property intended for sale	-	35,899	35,899	-	-	-	-	-
Forests	-	15,906	15,906	-	-	-	-	-
Livestock	-	164,517	164,517	-	-	-	-	-
Deferred tax asset	-	6,992	6,992	-	-	-	-	-
Investments	10.01%	35,709	34,257	789	-	663	-	-
Property, plant and equipment	-	1,081,334	1,081,334	-	-	-	-	-
Liabilities								
Current liabilities	-	(14,479)	(14,479)	-	-	-	-	-
Non-current employee entitlements	7.40%	(485)	-	(485)	-	-	-	-
Term borrowing	7.41%	(220,392)	-	(220,392)	-	-	-	-
Equity	-	(1,144,249)	(1,144,249)	-	-	-	-	-
Off Balance Sheet								
Interest rate derivatives	-	-	-	114,300	(95,000)	80,700	(100,000)	-
Repricing Profile	-	-	217,939	(104,302)	(95,000)	81,363	(100,000)	-

The interest rate on term borrowing as amended by off balance sheet financial instruments was 6.44%.

(b) Foreign Currency Risk

Foreign currency risk is the risk that Landcorp's sales revenue will be impacted by fluctuations in foreign exchange rates. Landcorp is exposed to indirect foreign currency risk through the sale of products to overseas markets. Landcorp has a foreign currency policy designed to limit the negative impact of exchange rate movements on revenue. Foreign currency risk is quantified and managed and the policy is to fix, either directly or indirectly, a minimum of 20 percent of sales revenue to mitigate the level of foreign currency risk. Sales revenue is fixed indirectly through the hedging activities of processing companies (such as milk processors) and sales contracts fixed in New Zealand dollars. Sales revenue is fixed directly with foreign currency derivatives, such as forward foreign exchange contracts and foreign currency options. At 30 June 2007, approximately 32% of 2007/08 revenue (2006 30%) was estimated to be fixed indirectly through the hedging activities of processing companies.

(c) Credit Risk

Credit risk is the risk of loss arising from a counterparty to a contract failing to discharge its obligations. In the normal course of its business, Landcorp incurs credit risk from trade receivables and transactions with financial institutions. Landcorp has a credit policy, which is used to manage this exposure to credit risk. As part of this policy, credit evaluations are performed on all customers requiring credit over a certain amount. Limits on exposures are set and monitored on a regular basis. As at 30 June 2007 Landcorp did not have any significant concentrations of credit risk. Maximum credit exposure comprises accounts receivable, cash at bank and the fair value of hedging instruments (shown in section f). Landcorp does not expect the non-performance of any obligations at balance date beyond those provided for as doubtful debts.

(d) Liquidity Risk

Liquidity risk is the risk that an entity will encounter difficulty in raising funds at short notice to meet financial commitments. Landcorp has a liquidity management policy designed to ensure liquidity is monitored and maintained at prudent levels to meet operational and investing obligations. The Group has liquidity headroom available through term borrowing arrangements and specific funding for seasonal fluctuations (see Note 21).

(e) Commodity Risk

Commodity risk is the risk that the Group's sales revenue will be impacted by fluctuations in world commodity prices. The Group is exposed to commodity price risk through its farming and forestry business. The Group does not normally use financial instruments to hedge its exposure to commodity risk.

(f) Fair Values

With the exception of the items detailed in the table below, all financial assets and liabilities are recorded in the financial statements at their fair value.

20. Risk Management and Financial Instruments (continued)

GROUP	Notional Principal 2007 \$000	Carrying Value 2007 \$000	Fair Value 2007 \$000	Notional Principal 2006 \$000	Carrying Value 2006 \$000	Fair Value 2006 \$000
On Balance Sheet						
Assets						
Investments		41,175	53,086		35,709	47,677
Off Balance Sheet						
Interest rate swaps	239,000	-	2,877	309,000	-	2,985
Forward rate agreements	-	-	-	250,000	-	186
PARENT						
On Balance Sheet						
Assets						
Investments		70,839	82,584		59,814	71,562
Off Balance Sheet						
Interest rate swaps	239,000	-	2,877	309,000	-	2,985
Forward rate agreements	-	-	-	250,000	-	186

Fair values are calculated in the following manner:

- (i) Investments in unlisted shares are based on the current cost to purchase additional shares. Investments in listed shares are based on market value at balance date.
- (ii) Interest rate swaps and forward rate agreements are based on estimated market values at balance date.

21. Term Borrowing

The Group has \$270 million (2006 \$250 million) committed cash advance facilities, of which \$67.0 million was undrawn at 30 June 2007 (2006 \$33.5 million). The commitment structure of these facilities is shown below but may be repaid by Landcorp at any time. These facilities are subject to a negative pledge agreement which means that Landcorp may not grant a security interest over its assets without the consent of its lenders. Other Group funding is provided by a third party for the purchase of specialised machinery, as part of a land conversion programme.

	Group 2007 \$000	Group 2006 \$000	Parent 2007 \$000	Parent 2006 \$000
Cash advance facilities are committed to:				
0 - 6 months	110,000	30,000	110,000	30,000
6 - 12 months	-	-	-	-
One to two years	60,000	60,000	60,000	60,000
Two to five years	100,000	160,000	100,000	160,000
Greater than five years	-	-	-	-
Total	270,000	250,000	270,000	250,000
	Group 2007 \$000	Group 2006 \$000	Parent 2007 \$000	Parent 2006 \$000
Principal	205,181	220,392	203,000	216,500
Carrying Value	205,181	220,392	203,000	216,500

22. Share Capital

The Parent's shareholding is held equally by the Minister of Finance and the Minister for State-Owned Enterprises in terms of the State-Owned Enterprises Act 1986.

	Parent 2007 \$000	Parent 2006 \$000
Issued and paid up capital comprises –		
Ordinary shares 125,000,000	125,000	125,000

23. Retained Earnings

Note	Group 2007 \$000	Group 2006 \$000	Parent 2007 \$000	Parent 2006 \$000
Retained earnings beginning of year	53,717	30,237	129,100	104,853
Net profit after tax	20,086	28,480	12,818	29,247
Dividends	12 (3,000)	(5,000)	(3,000)	(5,000)
Retained earnings for year	17,086	23,480	9,818	24,247
Retained Earnings at End of Year	70,803	53,717	138,918	129,100

24. Assets Revaluation Reserves

Note	Group 2007 \$000	Group 2006 \$000	Parent 2007 \$000	Parent 2006 \$000
Freehold land and improvements				
Balance beginning of year	751,161	477,553	751,161	477,552
Transfer to property intended for sale	(16,904)	(25,320)	(16,904)	(25,320)
Transfer from property intended for sale	9,591	-	9,591	-
Transfers to other equity on sale	25 (2,807)	(279)	(2,807)	(279)
Value change during year	12,844	299,615	12,844	299,616
Tax effect of reserve movements	(254)	(408)	(254)	(408)
Balance end of year	753,631	751,161	753,631	751,161
Property intended for sale				
Balance beginning of year	29,681	34,796	25,320	15,333
Transfer from freehold land and improvements	16,904	25,320	16,904	25,320
Transfer to freehold land and improvements	(9,591)	-	(9,591)	-
Transfers to other equity on sale	25 (9,487)	(30,435)	(9,487)	(15,333)
Value change during year	-	-	-	-
Balance end of year	27,507	29,681	23,146	25,320
Forests				
Balance beginning of year	-	66	-	66
Forest felled/sold during year	-	(439)	-	(439)
Value change during year	-	(5,267)	-	(5,267)
Tax effect of reserve movements	-	1,883	-	1,883
Negative balance written off	-	3,757	-	3,757
Balance end of year	-	-	-	-

24. Assets Revaluation Reserves (continued)

Note	Group 2007 \$000	Group 2006 \$000	Parent 2007 \$000	Parent 2006 \$000
Livestock				
Balance beginning of year	55,448	63,092	55,558	62,998
Value change during year	5,362	(7,644)	5,078	(7,440)
Balance end of year	60,810	55,448	60,636	55,558
Total Assets Revaluation Reserves				
Balance beginning of year	836,290	575,507	832,039	555,949
Transfers to other equity on sale	(12,294)	(30,714)	(12,294)	(15,612)
Total increases in assets revaluation reserves	17,952	291,497	17,668	291,702
Balance end of year	841,948	836,290	837,413	832,039

The Group value change in forests during 2005/06 resulted in a negative balance in the forests revaluation reserve. This negative balance was recognised as a loss in the Statement of Financial Performance (refer Note 15).

25. Other Equity

Note	Group 2007 \$000	Group 2006 \$000	Parent 2007 \$000	Parent 2006 \$000
Other equity beginning of year	129,242	98,528	59,873	44,261
Transfers from assets revaluation reserves	24 12,294	30,714	12,294	15,612
Other Equity at End of Year	141,536	129,242	72,167	59,873

Other equity represents transfers from assets revaluation reserves of asset revaluations, when the associated asset is sold. Given that most of Landcorp's property sales reflect changes in the composition of land holdings, rather than reductions, these transfers are not usually realised on a portfolio basis. Hence, other equity is not a cashflow realised for distribution and can be considered a form of asset revaluation reserve.

26. Contingent Assets

At 30 June 2007, the Group had one contingent asset, tax losses of \$138.9 million (2006 \$124.1 million) with a tax effect of \$45.9 million (2006 \$40.9 million). These losses are available to be carried forward to be offset against taxable income in future periods, subject to the requirements of the income tax legislation being met.

27. Contingent Liabilities

Landcorp had the following contingent liabilities at 30 June 2007.

	Group 2007 \$000	Group 2006 \$000	Parent 2007 \$000	Parent 2006 \$000
(a) Guarantee of Landcorp Group bank balance offset facility (limit)	-	-	25,000	25,000

(b) The parent company has provided a guarantee of performance of two subsidiary companies to a third party as part of a land development and lease arrangement.

(c) Taurewa station (in the central plateau) was purchased from the Crown in 1987, with clear legal title. During 2006/07, when Landcorp tried to sell the property, it was discovered that this title is probably encumbered under section 40 of the Public Works Act, and may be required to be offered back to the descendants of the original owners. Legal advice indicates that the land may need to be offered back at its value in 1983, which is significantly less than its current value. If the offer back is made and accepted, three sales contracts will require termination, with possible claims for damages against Landcorp. The total potential liability for Landcorp is uncertain. However, Landcorp has a potential claim against the Crown for losses incurred.

(d) The Government will soon release details of its proposed cap and trade system for greenhouse gas emissions. Until the details of the system are known, Landcorp is unable to quantify any net asset or liability arising from the system.

28. Commitments

	Group 2007 \$000	Group 2006 \$000	Parent 2007 \$000	Parent 2006 \$000
Capital commitments –				
Contracted	1,620	3,037	142	862
	1,620	3,037	142	862
Operating lease commitments –				
Commitments under non-cancellable operating leases –				
Within one year	2,434	1,508	1,210	1,256
One to two years	2,733	2,676	677	1,023
Two to five years	8,265	6,525	905	922
Later than five years	115,554	82,181	1,075	916

Parent operating lease commitments relate to the lease of farmland and office space. Other Group operating lease commitments relate to the long-term lease of farmland by Landcorp Pastoral Ltd that is currently undergoing pastoral conversion and farming. Under the terms of the land conversion and lease agreement, land parcels will be added to the lease each year and the lease commitment will increase over time.

29. Transactions with Related Parties

The ultimate shareholder of the Group is the Crown. The Group undertakes many transactions with other Crown owned entities which are carried out on an arms length basis and in the normal course of business, as are all transactions within the Landcorp Group.

As part of its operations Landcorp Farming Ltd holds shares in a number of cooperative suppliers and customers. These shareholdings are required to enable the Group to transact business with them. All transactions with these entities are on an arms length basis.

During the year Landcorp Farming Ltd provided management and support services to its subsidiaries at a cost of \$0.1 million (2006 \$0.5 million).

All inter-Group transactions are undertaken at market value. During the year Landcorp Farming Ltd sold livestock, property, plant and equipment to subsidiaries at market value. During 2005/06 Landcorp Farming entered into an agreement to sell a property to a subsidiary at market value. This agreement remained conditional at 30 June 2007.

Loans to subsidiaries at 30 June 2007 are mainly for working capital and the purchase of capital assets.

The balance of loans at 30 June 2007 was \$10.6 million (2006 \$12.2 million) and is subject to interest charged at market rates. Total interest paid by subsidiaries to Landcorp Farming Ltd during the year amounted to \$2.0 million (2006 \$0.4 million).

During the year the Parent purchased shares in subsidiary companies totalling \$20.8 million, as part of a capital restructuring of a subsidiary. Another subsidiary repurchased shares from the Parent totalling \$6.3 million.

No related party debts were written off during the year, and other than loans to subsidiaries, amounts owing at balance date were not material to the Group.

Interest income of \$0.9 million was earned on a debt owing for land sold to an associate company in a previous year. The amount of the debt at 30 June 2007 was \$10.6 million.

Land sales to associate companies are recognised as they become unconditional and when significant risks and rewards of ownership have been transferred. During 2005/06 land was transferred to associate companies for development purposes. At 30 June, \$10.6 million (2006 \$14.2 million) was waiting final settlement. During the year land sales of \$10.3 million (2006 \$2.0 million) to associate companies were recognised.

Transactions between the Group and entities in which Directors were associated, were undertaken at arms length. A list of entities in which the Directors have an interest are listed in the section entitled "Disclosures in Terms of the Companies Act 1993" in the Annual Report (see pages 66–68).

30. Segment Information

Landcorp currently operates two business segments, pastoral farming and land development.

Pastoral farming is undertaken by Landcorp Farming Ltd, on owned land, and by Landcorp Pastoral Ltd, on leased land.

Land development is undertaken by Landcorp Estates Ltd, to develop and dispose of owned land with a higher alternative use value than farming, and by Landcorp Developments Ltd, to undertake land development for third parties on a contract basis.

All activities are undertaken in New Zealand.

	Group 2007 \$000	Pastoral Farming 2007 \$000	Land Development 2007 \$000	Inter-company 2007 \$000
Total operating income	146,371	130,989	15,753	(371)
Net operating profit (before interest and tax)	30,052	21,066	12,246	(3,260)
Profit on asset sales	7,856	7,856	-	-
Net profit after tax	20,086	10,031	10,335	(280)
Total assets	1,435,560	1,455,659	29,128	(49,227)
Shareholders' funds	1,179,287	1,190,537	20,827	(32,077)

	Group 2006 \$000	Pastoral Farming 2006 \$000	Land Development 2006 \$000	Inter-company 2006 \$000
Total operating income	122,708	120,974	2,625	(891)
Net operating profit (before interest and tax)	18,133	18,707	(199)	(375)
Profit on asset sales	27,091	26,915	176	-
Net profit after tax	28,480	28,432	(376)	424
Total assets	1,379,605	1,383,924	25,594	(29,913)
Shareholders' funds	1,144,249	1,145,838	15,757	(17,346)

31. Events After Balance Date

After balance date, Landcorp was finalising an agreement with the shareholder concerning Landcorp land protected from sale. Under the current terms of the agreement, Landcorp identified all land that it wishes to sell over the next five years and of these the Government has identified those properties it wishes to protect from sale, with the balance being available for sale by Landcorp in the open market. Landcorp will agree not to sell any other land for four years.

The properties the Government wishes to retain as "protected land" will be transferred to a new subsidiary company, Landcorp Holdings Limited, where they will be managed by Landcorp but accounted for separately. Over time, the ownership of the properties will pass to the Crown, through equity injections, including diversion of future dividends from Landcorp Farming to the new subsidiary.

Prior to balance date, Landcorp released a proposal to restructure office administration across Landcorp. This restructuring proposed to relocate all office functions to Head Office in Wellington and the closure of the Island Business Centres in Rotorua and Christchurch. On 6 August 2007 this proposal was confirmed and the Island Business Centres will close by 30 June 2008.

TO THE READERS OF LANDCORP FARMING LIMITED AND GROUP'S FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

The Auditor-General is the auditor of Landcorp Farming Limited (the company) and group. The Auditor-General has appointed me, Ian C Marshall, using the staff and resources of Deloitte, to carry out the audit of the financial statements of the company and group, on his behalf, for the year ended 30 June 2007.

Unqualified Opinion

In our opinion:

- The financial statements of the company and group on pages 41 to 64
 - comply with generally accepted accounting practice in New Zealand; and
 - give a true and fair view of:
 - the company and group's financial position as at 30 June 2007; and
 - the results of their operations and cash flows for the year ended on that date.
- Based on our examination the company and group kept proper accounting records.

The audit was completed on 27 August 2007, and is the date at which our opinion is expressed.

The basis of the opinion is explained below. In addition, we outline the responsibilities of the Board of Directors and the Auditor, and explain our independence.

Basis of Opinion

We carried out the audit in accordance with the Auditor-General's Auditing Standards, which incorporate the New Zealand Auditing Standards.

We planned and performed the audit to obtain all the information and explanations we considered necessary in order to obtain reasonable assurance that the financial statements did not have material misstatements, whether caused by fraud or error.

Material misstatements are differences or omissions of amounts and disclosures that would affect a reader's overall understanding of the financial statements. If we had found material misstatements that were not corrected, we would have referred to them in the opinion.

The audit involved performing procedures to test the information presented in the financial statements. We assessed the results of those procedures in forming our opinion.

Audit procedures generally include:

- determining whether significant financial and management controls are working and can be relied on to produce complete and accurate data;
- verifying samples of transactions and account balances;
- performing analyses to identify anomalies in the reported data;
- reviewing significant estimates and judgements made by the Board of Directors;
- confirming year-end balances;
- determining whether accounting policies are appropriate and consistently applied; and
- determining whether all financial statement disclosures are adequate.

We did not examine every transaction, nor do we guarantee complete accuracy of the financial statements.

We evaluated the overall adequacy of the presentation of information in the financial statements. We obtained all the information and explanations we required to support our opinion above.

Responsibilities of the Board of Directors and the Auditor

The Board of Directors is responsible for preparing financial statements in accordance with generally accepted accounting practice in New Zealand. Those financial statements must give a true and fair view of the financial position of the company and group as at 30 June 2007. They must also give a true and fair view of the results of their operations and cash flows for the year ended on that date. The Board of Directors' responsibilities arise from the State-Owned Enterprises Act 1986 and the Financial Reporting Act 1993.

We are responsible for expressing an independent opinion on the financial statements and reporting that opinion to you. This responsibility arises from section 15 of the Public Audit Act 2001 and section 19(1) of the State-Owned Enterprises Act 1986.

Independence

When carrying out the audit we followed the independence requirements of the Auditor-General, which incorporate the independence requirements of the Institute of Chartered Accountants of New Zealand.

Other than the audit, and the provision of related advice on the adoption of the New Zealand Equivalents to International Financial Reporting Standards, we have no relationship with or interests in the company or any of its subsidiaries.

Ian C Marshall
DELOITTE
On behalf of the Auditor-General
Wellington, New Zealand

Matters Relating to the Electronic Presentation of the Audited Financial Statements

This audit report relates to the financial statements of Landcorp Farming Limited (the company) and group for the year ended 30 June 2007 included on the company's website. The Board of Directors is responsible for the maintenance and integrity of the company's web site. We have not been engaged to report on the integrity of the company's website. We accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.

The audit report refers only to the financial statements named above. It does not provide an opinion on any other information which may have been hyperlinked to/from these financial statements. If readers of this report are concerned with the inherent risks arising from electronic data communication they should refer to the published hard copy of the audited financial statements and related audit report dated 28 August 2007 to confirm the information included in the audited financial statements presented on this web site.

Legislation in New Zealand governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Disclosures in Terms of the Companies Act 1993

Interests register (Section 211(1)(e))

Entries made in the interests register during the year covered particulars of directors' interests, directors' remuneration and directors' and officers' liability insurance. Details are recorded under the separate headings below.

Directors' interests (Section 140)

The following are particulars of general notices of disclosure of interest given by Landcorp directors during the year –

Director	Organisation	Position
Hon. J R Sutton CNZM	Auckland International Airport	Shareholder
	New Zealand Wool Services	Shareholder
	Contact Energy	Shareholder
	Capital Properties	Shareholder
	PPCS	Shareholder
	Stone Hut Forest Investments Ltd	Director and Shareholder
W A Larsen CNZM	Air New Zealand Ltd	Director and Shareholder
	Centreport Ltd	Director
	Massey University Foundation	Chairman
	Jenkin Timber Ltd	Director
	Consortium Ltd	Chairman
	Larsen Consulting Ltd	Principal
F R S Clouston	Foundation for Research, Science and Technology	Director
	Abacus Biotech Ltd	Director and Shareholder
	Palliser Estate Wines of Martinborough Ltd	Director and Shareholder
	Perpetual Funds Management Ltd	Director
	NZX Disciplinary Board	Member
	ICANZ Appeals Council	Member
L B Henry	New Zealand Red Cross Foundation	Trustee
	OnTrack (NZ Railways Corporation)	Deputy Chairman and Non-Executive Director
	Cranleigh Strategic Ltd	Chairman
	Christchurch Arts Festival Trust	Trustee
	Asia New Zealand Foundation	Trustee
	Asia Society	International Councillor
M L James	Minter Ellison Rudd Watts	Special Counsel
	Bryndmar Farms Ltd	Director and Shareholder
	Farmers Mutual Group Ltd	Director
	Ikan Property Ltd	Director and Shareholder
	Farmers Mutual Finance Ltd	Director
	Nuffield Farming Scholarship Trust	Trustee
M R Mullins MNZM	Victoria University FCA Advisory Board	Member
	Massey University Council	Council Member
	Paewai Mullins Systems Ltd	Director
	P M Shearing Ltd	Director
	Farmpak Holdings Ltd	Director
	Te Huarahi Tika Trust	Chairman
	Aohanga Incorporation	Chairman
	New Zealand Landcare Trust	Trustee
	Poutama Maori Business Trust	Trustee
	Hautaki Ltd	Director
C M Williams	Red Bus Ltd	Director
	Lincoln University Council	Council Member
	Windflow Technology Ltd	Shareholder
	Canterbury Aoraki Conservation Board	Member

Director	Organisation	Position
S Wyn-Harris	Farmlands Trading Society Ltd	Director and Shareholder
	Ravensdown Corporation Ltd	Shareholder
	Lorax Trust	Trustee
	Taupo Motorsport Park Ltd	Shareholder
	Contact Energy Ltd	Shareholder

Use of company information (Section 145)

No requests were received from directors to use company information which they obtained in their capacity as directors and which would not otherwise have been available to them.

Share dealings (Section 148)

No director owned, acquired or disposed of equity securities in Landcorp Farming Ltd or its subsidiaries, Landcorp Pastoral Ltd, Landcorp Developments Ltd and Landcorp Estates Ltd, during the year.

Directors' remuneration and other benefits (Sections 161 and 211(1)(f))

Directors of Landcorp Farming Ltd, Landcorp Pastoral Ltd and Landcorp Estates Ltd received remuneration as recorded below. No remuneration or other benefits were paid to the directors of Landcorp Developments Ltd.

Dollars in thousands	2007	2006
Landcorp Farming Ltd and Landcorp Pastoral Ltd		
Hon. J R Sutton (Chairman)	59	–
A M Paterson (Chairman retired July 2006)	5	58
W A Larsen (Deputy Chairman)	36	6
R W Davison (Deputy Chairman retired April 2006)	–	27
F R S Clouston	32	5
L B Henry	32	29
M L James	36	33
M R Mullins	32	29
C M Williams	32	5
S Wyn-Harris	32	29
Landcorp Estates Ltd		
W A Larsen	7	1
R W Davison (retired April 2006)	–	5

The only other benefit received by directors during the year was the provision of an insurance cover for directors' and officers' liability.

Employees' remuneration and other benefits (Section 211(1)(g))

Set out below are the numbers of employees and former employees whose total remuneration (including non-cash benefits and fringe benefit tax) was within the specified bands –

Dollars in thousands	Group 2007	Group 2006
100 – 109	10	11
110 – 119	3	3
120 – 129	6	4
130 – 139	1	1
140 – 149	1	1
150 – 159	1	1
160 – 169	2	1
170 – 179	–	1
180 – 189	1	2
190 – 199	3	1
200 – 209	1	–
220 – 229	–	1
230 – 239	1	–
260 – 269	1	1
400 – 409	–	1
430 – 439	1	–

Redundancy and leave payments are excluded from these figures.

Indemnity and insurance (Sections 162 and 211(1)(f))

During the year the Board resolved to continue with an insurance cover of \$20 million to provide indemnity for directors' and officers' liability with the premium costs being met by Landcorp.

Directory

Board of Directors

Hon. Jim Sutton CNZM
Chairman

Warren Larsen CNZM
Deputy Chairman

Falcon Clouston
Lex Henry
Marise James
Mavis Mullins MNZM
Christine Williams
Steven Wyn-Harris

Auditor

Ian C Marshall
(under appointment by the
Controller and Auditor-General)
Deloitte
Wellington

Solicitors

Buddle Findlay
Wellington
Rickit Law
Wellington

Bankers

Westpac Banking Corporation
ANZ National Bank Ltd

**Corporate and
Registered Office**

Lumley House
3–11 Hunter Street
PO Box 5349
Wellington
Tel: (04) 471 0400
Fax: (04) 473 4966

Chief Executive:
Chris Kelly

General Manager:
Bernard Card
(retired 31 July 2007)

Chief Financial Officer:
Richard Perry

Company Secretary:
John Kennedy-Good

Manager – Corporate Strategy:
Collier Isaacs

National Manager – Property:
Gerry Soanes

*Company Manager –
Landcorp Estates:*
Neil Prichard

Business Centres

Rotorua
Tower Building,
Cnr Haupapa and
Tutanekai Streets,
PO Box 44, Rotorua
Tel: (07) 348 3100
Fax: (07) 347 1603

North Island Manager:
Allan Still

*Head of Genetics and
Nutrition Unit:*
Geoff Nicoll

Christchurch
Tower Three,
11 Deans Avenue,
PO Box 4251
Christchurch
Tel: (03) 343 5014
Fax: (03) 343 5012

South Island Manager:
Ian Hercus

Landcorp Sires

Landcorp Sires of proven value™
Genetics Marketing Manager:
Chris Neill

sires@landcorp.co.nz
0508 LANDCORP
(0508 526 326)

LandSys

LandSys Manager:
Chris Neill
Tel: (04) 471 0400

Thanks for leaving the place better than you found it . . .



Photography: Landcorp also acknowledges the photography contributed by the following: Country-Wide Publications (page 14), Agriculture New Zealand (page 11).



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