

HALF YEAR REPORT FOR THE SIX MONTHS ENDED  
31 DECEMBER 2008

# Landcorp

LANDCORP FARMING LIMITED

## Training *our future*



LANDCORP FARMING LIMITED (Landcorp) is a State-Owned Enterprise. It is New Zealand's largest farmer, running 1.6 million stock units on 111 properties with a total land area of 372,259 hectares owned and leased.

It has four subsidiaries.

LANDCORP DEVELOPMENTS LTD, which is developing former forestry land in the central North Island for pastoral farming and LANDCORP PASTORAL LTD which is leasing that land for farming purposes;

LANDCORP ESTATES LTD, which develops and sells land (normally with joint venture partners) which is suitable for higher value use than farming; and

LANDCORP HOLDINGS LTD, which holds Landcorp property protected from sale under an agreement with the Crown.

**COVER: TRAINING AT ARATIATIA STATION**

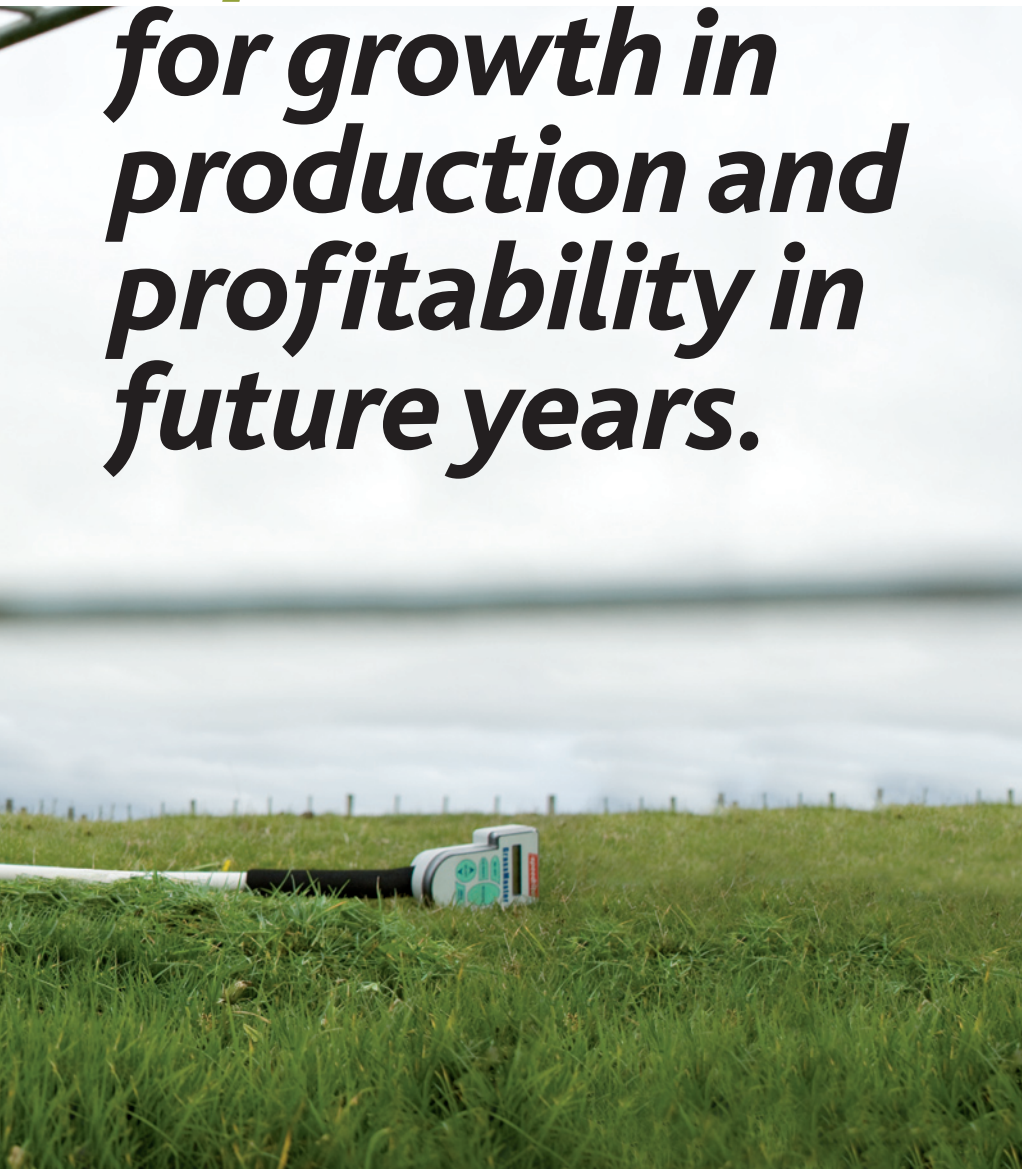
During 2008, senior shepherd Sarah Koster (left), farm trainee Zane Jensen (centre) and Future Farmer student Laura Moore listen to Farm Business Manager Mark Cunningham in the Aratiatia yards.



Zane Jensen measures pasture growth in an indicator plot on Aratiatia.

*In 2008/09,  
the focus is on  
protecting and  
maximising  
Landcorp  
capabilities*

*for growth in  
production and  
profitability in  
future years.*



# DIRECTORS' REPORT

FOR THE SIX MONTHS ENDED  
31 DECEMBER 2008

*Landcorp farming is working steadily through the tough economic times. In 2008/09, we face a sharp fall in milksolid prices, a high-cost operating environment and further negative effects from last year's drought. We are responding with moves to strengthen our dairy and other operations, take more advantage of rising sheep meat and venison prices, and reduce interest costs. Landcorp continues to farm and to invest for profitable growth beyond the current period of adversity.*

## Financial Results

Landcorp made a net operating loss before tax of \$10.3 million for the half year ended 31 December 2008, compared with a \$9.0 million profit in the corresponding period in 2007/08. The decline reflected falling milksolid prices, the continued high level of key production input prices, and reduced sheep, cattle and deer numbers after the 2007/08 drought. Landcorp also incurred expenditure earlier in the year specifically to avoid likely cost increases later (the practice of "front loading" costs). All these factors were partly offset by higher prices for sheep meats and venison, and cost saving initiatives across Landcorp.

Total revenue for the half year of \$77.6 million was similar to 2007/08 (\$76.8 million). Total operating expenses were significantly higher at \$84.2 million (2007/08: \$65.0 million), with Landcorp continuing to face high fertiliser, fuel, electricity and feed costs during the period. These higher costs in part reflect front-loading of costs as well as Landcorp resuming management of farms previously under sharemilker arrangements.

Net profit after tax (NPAT) for the half year was \$1.3 million (2007/08: \$44.5 million). The fall reflected the negative operating result, lower profits on land sales and adjustments in the values of Landcorp's interest rate risk management hedges (\$20.7 million, see Interest Costs page 3). NPAT included an increase in sheep, beef and deer values, this increase more than offsetting a decline in dairy cow values. Reported performance for the half year demonstrates the volatility in NPAT that Landcorp has long foreseen in the application of NZ IFRS to large-scale agricultural enterprises in New Zealand. As stated previously, net operating profit is a more meaningful measure of performance in each financial period.

NPAT for the half year also included a \$2.6 million gain on the parent company's sale of three non-strategic areas of farmland near Taupo (see page 4).

## Operations

Like all other dairy producers, Landcorp is seeing a marked reduction in dairy revenues through 2008/09. Dairy company forecasts have been revised down in recent months. We expect annual payouts (cents per kg of milksolids) from the four dairy companies supplied by Landcorp to fall between 25-50 per cent compared with the previous year. Landcorp has responded with a rigorous review of its dairy production systems and costs. During the half year, we strengthened our focus on the resilience of grass-based systems with lower stocking rates and higher productivity per cow. Our National Dairy Business Manager is promoting consistency and best practice on dairy units nationwide.

Landcorp's total herd size has increased during the half year with the commissioning of two new dairy farms. We plan for further dairying growth in future years, most notably through large-scale pasture conversions on the South Island's West Coast. These continue and by 30 June 2009, we expect to complete a further 850-hectare development programme, including dairy support land, on properties in the Weka area near Greymouth and at Cape Foulwind, Westport.

Landcorp looks for correction in the operating cost environment for agriculture, given that key input prices are now at levels unsustainable in tough economic times. Fertiliser costs generally doubled during 2007/08. We foresee reduction in these as well as in energy and feed costs consistent with the contraction that is occurring in New Zealand farm revenues and international levels of demand. Landcorp will work with key suppliers on these issues.

Landcorp is still in recovery from the affects of severe drought across much of the North Island and the lower South during 2007/08. Capital stock numbers in sheep and beef operations are rebuilding. Drought effects are also evident this season in reduced grass growth in some regions, most notably Waikato, where pasture has yet to fully recover. In addition, some properties on the North Island East Coast, especially in Hawkes Bay, face significant summer dry again in 2008/09. Our lambing rates are down from previous years in further consequence of last year's drought and of a cold early 2008 spring in some regions.

During the half year, Landcorp made further good use of its geographic spread in properties to manage climatic and market conditions. Stock has been shifted to secure optimal gain from available feed. In the South Island, the company has been buying in store lambs to build volume in finishing operations that have plentiful feed supply. Landcorp is seeking to finish lambs at heavier weights in the current year because of positive market prices. The indicator farmgate price for lamb was up 40 per cent in December 2008 compared with a year earlier, while venison was up around 23 per cent. We are, however, unable to take full advantage of these trends because stock numbers are still down on farm capacity and on previous years.

Overall, Landcorp is managing operations in each sector and region to protect and maximise the production and profitability that can be achieved in 2009/10 and beyond.

## Interest Costs

Landcorp has responded to the global fall in interest rates through a restructuring of its hedge book for managing interest cost risks. We adopted a new framework for more flexible management in this area during 2007/08.

## Full-year Expectations

Landcorp expectation's for 2008/09 are dominated by the fall in milksolids prices, the cost environment and last year's drought affects. On the other hand, we are heartened by the trend in sheep meat and venison prices, and prospects for improvement in beef prices. Depreciation in the New Zealand Dollar is another positive development although of limited significance given the other factors.

Landcorp previously budgeted for a 2008/09 operating profit (before farm sales and revaluation gains or losses) of around \$15.0 million. Given the points noted, we now expect that the company will not achieve a result at this level. Under NZ IFRS, profit and loss reporting for the current year will include revaluation losses arising from the interest rate hedge book and from the industry-wide downturn in dairy cow values. Landcorp's full-year NPAT is likely to illustrate clearly the volatility inherent in this accounting approach.

On profit expectations, Landcorp's dividend is likely to be significantly lower than its dividend target of \$13 million. This will be to the company's detriment under dividend diversion provisions of its Protected Land Agreement with the Crown. The agreement (September 2007) established a four-year period in which all dividends would be diverted back to Landcorp in the form of new preference share capital issued to the Crown. No dividend for 2008/09 would mean the company foregoing a further increase in its share capital.

It is important to note that, notwithstanding the tough times, Landcorp has made little change to its capital expenditure budgets for 2008/09. This is consistent with our focus on Landcorp maintaining growth in productivity and profitability over the long term through ongoing investment in our assets.

## Farm Sales and Purchases

During the half year Landcorp completed the profitable sale of three parcels of land in the Taupo area including Waihora Farm, and two blocks on Aratiatia Station. These sales continued the implementation of our previously-stated intention to exit the Taupo catchment in context of the broader Landcorp strategy to cluster and amalgamate its properties in certain other areas of New Zealand.

Eight significant property sales in the Taupo area have now been completed. These are among 10 properties that were subject to sale agreements with local Hapu in January 2007. One of the latest properties to be settled on is now in the ownership of Contact Energy Limited (pursuant to pre-existing rights of first refusal held by that company). The final two Taupo property sales to the Hapu are due to be settled by 30 June 2009.

All these transactions are exempt from the Protected Land Agreement with the Crown, which put a four-year moratorium on property sale agreements after 17 September 2007 (and also established a subsidiary company to hold nine other Landcorp properties on behalf of the Crown).

## Subsidiary Companies

Property development subsidiary Landcorp Estates Limited recorded a \$0.4 million profit after tax for the half year. Economic conditions and the depressed property market are having a substantial impact on the subsidiary. Section sales and settlements are proving difficult to achieve. We expect that a substantial new development may be delayed. Meanwhile, Landcorp Estates is preparing for resource consent applications to proceed with two new lifestyle projects in the South Island once the four-year property sale moratorium expires.

Subsidiary companies Landcorp Developments and Landcorp Pastoral are awaiting next steps with regard to the Wairakei Estate pastoral conversion project, in the Central North Island (see Climate Change, below).

### Genetics

Landcorp made further progress during the half year with its animal genetics programmes. The latest sheep industry genetic ranking New Zealand-wide gave high recognition to the company's terminal sire breeding programmes, Landcorp Lamb Supreme and Landcorp Texel. The SIL-ACE (Sheep Improvement Limited – Advanced Central Evaluation) gives a ranking of sires on genetic merit for carcass meat production. Of approximately 3,300 rams bred in 190 flocks, 92 animals from the two Landcorp programmes were ranked in the top 200. Of the top 10 sires identified in the SIL-ACE, seven were Landcorp bred. Landcorp continues to engage in industry field days to broaden the availability of its genetics within the sheep industry.

### Environmental Initiatives

During the half year, Landcorp made further progress on plans and work programmes for effluent management on all dairy units. We are committed to best practice in the storage and disposal of effluent. The results of environmental monitoring and the implementation of effluent management plans are regularly reported to the Board.

Conservation initiatives continue and during the half year, a further eight agreements for the retirement of 31 areas of wetland, bush and riparian land were proposed by Landcorp. In total this year, 110.5 hectares have been retired, including: wetlands that range from 0.5 to 11 hectares of raised peat bog, lake margins and dune lake areas; a bush area comprising 29.2 hectares; and 245 metres of water course and riparian land containing rushes, tussock and manuka. The eight agreements bring the total number of such covenants on Landcorp properties to 171.

In September 2008, Landcorp was awarded the Corporate Conservation Award at the Southland 2008 Conservation Awards in recognition of its involvement in protecting waterways and wetlands in that region.

### Climate Change

During the half year, the new Government established a Parliamentary Select Committee to review the Emissions Trading Scheme (ETS) and related issues. Landcorp has since filed submissions with the committee. These are consistent with submissions made earlier during the passage of the Climate Change Response (Emissions Trading) Amendment Act 2008. We are concerned with the economic impact of an ETS on New Zealand agriculture and with the risk of production being lost to competitor nations where farmers face few or no emission costs. Landcorp has highlighted the need for agriculture to have sufficient time to prepare, for rigorous cost/benefit analysis around any free allocation of emission units and for few constraints on optimal land use, particularly in regard to forestry. We favour an intensity-based approach to emissions obligations that would recognise New Zealand producers' efficiency and also an option to set those obligations at the individual farm level.

Landcorp continues to actively participate in the Pastoral Sector Climate Change Consultative Group, and to work with research partners on systems for reducing and offsetting future emissions in New Zealand agriculture. Meanwhile, Landcorp is doing no further conversion of land from forestry to pasture on the 25,000-hectare Wairakei Estate. Deforestation there ceased in anticipation of the 2008 Act and the project remains under review pending any further climate change legislation.

## People

Landcorp is extending further its employee training and development activities, with an emphasis on linking these closely to the real needs of individuals and the business. During the half year, 38 per cent of on-farm staff were enrolled in study for national qualifications over and above the National Certificate in Farming Skills (Farm Safety), which is a basic requirement for 100 per cent of such staff.

Landcorp will soon implement a formal framework for setting every employee on a "training path" that supports their professional and personal development. Internal and, to an increasing extent, external training courses will incorporate Landcorp-specific case studies that share on-the-job experience and knowledge among staff, and develop practical skills for handling real issues on-farm or in the office.

A coaching and mentoring programme for current and prospective farm managers is being piloted over the next four months in Landcorp's West Coast cluster and it will be rolled out nationally by mid-2009.

Landcorp had 581 permanent employees at 31 December 2008. The closure of Rotorua and Christchurch branch offices, and consolidation of administrative functions in Wellington, has been fully completed with some loss of experienced staff and no disruption to operations. The restructuring has helped strengthen a positive culture within Landcorp.

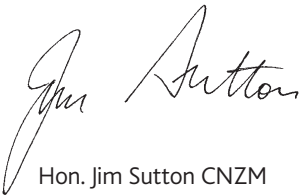
The benefits of this, and of training and development activities, were evident in reduced levels of staff turnover during the half year, especially in sheep, beef and deer farming operations. Dairy staff retention and recruitment remain priorities. Landcorp is working with government agencies and educational organisations on work experience and job placement schemes that will bring more young people into dairy farming at key times of the year. Future Farmer had another successful year during 2008 with 10 graduates of this Landcorp programme moving into permanent employment with us.

Landcorp's continued strong performance on health and safety issues saw the company retain its tertiary status in ACC's Work Place Safety Management Practices programme after an external audit during the half year. This provides a 20 per cent discount on ACC levies until 31 October 2009. The saving supports an increased level of expenditure on training and development during 2008/09, with the target set at 0.8 per cent of Landcorp's gross revenues (0.6 per cent in previous years).

## The Future

We remain confident in the future of Landcorp and of New Zealand agriculture. The company's strategic direction is sound despite tough economic times and reduced financial performance during 2008/09. Landcorp will continue to: diversify across all sectors of pastoral farming; cluster and amalgamate properties; pursue best practice in farm and environmental management; and invest in people, technologies and land development. Indeed, it is vitally important investment continues such that Landcorp can benefit once markets improve and correction occurs in the cost environment. Our fundamental assessment of the world's huge demand for food from globally efficient producers remains unchanged.

In 2008/09, the focus is on protecting and maximising Landcorp capabilities for growth in production and profitability in future years. Current pressures on dairying provide additional impetus for the company to strengthen its operations in this sector, and to ensure best practice in dairy farm and environmental management. The Board thanks all Landcorp people for their efforts and their dedication to the business through a challenging year.



Hon. Jim Sutton CNZM  
Chairman



Warren Larsen CNZM  
Deputy Chairman

# Consolidated Statement of Financial Performance

FOR THE SIX MONTHS ENDED 31 DECEMBER 2008

		Unaudited 6 months to 31 Dec 2008 \$000	Audited 12 months to 30 June 2008 \$000	Unaudited 6 months to 31 Dec 2007 \$000
	Note			
<b>Revenue</b>				
Livestock	4	41,806	73,217	35,204
Milk		33,633	71,564	39,503
Wool		2,185	7,003	2,123
Forestry	5	(184)	1,087	(852)
Other produce		128	678	772
<b>Total Revenue</b>		<b>77,568</b>	<b>153,549</b>	<b>76,750</b>
Income from equity accounted joint ventures		64	661	236
Other gains and losses	6	1,605	5,276	1,221
Other income	7	1,839	4,316	2,352
		<b>81,076</b>	<b>163,802</b>	<b>80,559</b>
<b>Expenses</b>				
Farm working expenses		39,879	58,767	25,675
Personnel		21,617	40,122	19,032
Depreciation and amortisation		6,037	11,329	5,539
Maintenance		6,159	9,973	4,975
Other expenses		10,463	18,641	9,751
		<b>84,155</b>	<b>138,832</b>	<b>64,972</b>
<b>Profit before Interest, Land Sales and Revaluations</b>				
		<b>(3,079)</b>	<b>24,970</b>	<b>15,587</b>
Interest income		54	100	430
Interest expense		(7,258)	(14,069)	(7,054)
<b>Net Finance Costs</b>		<b>(7,204)</b>	<b>(13,969)</b>	<b>(6,624)</b>
<b>Net Profit (Loss) before Land Sales and Revaluations</b>				
		<b>(10,283)</b>	<b>11,001</b>	<b>8,963</b>
Profit on sale of land		2,614	26,192	13,299
Profit on sale of forests		–	(787)	–
<b>Revaluation Gains and Losses</b>				
Gain/(loss) due to price changes on forests	5	1,904	(1,561)	–
Gain/(loss) due to price changes on livestock	4	42,224	20,447	34,171
Gain/(loss) due to price changes on financial instruments		(20,686)	(2,135)	362
Gain/(loss) on revaluation of property, plant and equipment		–	2,678	–
<b>Net Profit before Tax</b>		<b>15,773</b>	<b>55,835</b>	<b>56,795</b>
Tax expense		(14,498)	2,747	(12,337)
<b>Net Profit after Tax</b>		<b>1,275</b>	<b>58,582</b>	<b>44,458</b>

The accompanying notes form part of these financial statements.

The directors note that the Net Profit after Tax for the six months to 31 December 2008 as reported under NZ IFRS is significantly different to the reported profit under previous New Zealand generally accepted accounting practice. The net profit after tax includes significant gains arising from the value change in livestock over the period. As the majority of these gains arise on livestock held for breeding and/or production, rather than sale, these gains do not represent cash flows that are realised in the ordinary course of livestock farming.

# Consolidated Statement of Recognised Income and Expense

FOR THE SIX MONTHS ENDED 31 DECEMBER 2008

	Unaudited 6 months to 31 Dec 2008 \$000	Audited 12 months to 30 June 2008 \$000	Unaudited 6 months to 31 Dec 2007 \$000
Gain/(loss) on revaluation of land and improvements	–	225,397	38,618
Revaluation losses transferred to and recognised in profit and loss	–	(2,678)	–
Gain/(loss) on revaluation of available-for-sale financial assets	(6,304)	(2,064)	30
Transfer to profit or loss on disposal of available-for-sale financial instruments	–	(660)	–
Income tax on income and expense recognised in equity	2,108	(2,897)	(12)
<b>Income and Expense Recognised Directly in Equity</b>	<b>(4,196)</b>	<b>217,098</b>	<b>38,636</b>
Profit/(loss) for the period	1,275	58,582	44,458
<b>Total Recognised Income and Expense for the Period</b>	<b>(2,921)</b>	<b>275,680</b>	<b>83,094</b>

*The accompanying notes form part of these financial statements.*

# Consolidated Statement of Cash Flows

FOR THE SIX MONTHS ENDED 31 DECEMBER 2008

	Unaudited 6 months to 31 Dec 2008 \$000	Audited 12 months to 30 June 2008 \$000	Unaudited 6 months to 31 Dec 2007 \$000
<b>Operating Activities</b>			
<b>Cash was received from:</b>			
Receipts from customers	61,744	173,717	75,740
Interest received	59	1,696	441
Dividends received from equity accounted joint ventures	750	1,700	850
Other dividends received	24	58	23
	62,577	177,171	77,054
<b>Cash was applied to:</b>			
Payments to suppliers	58,252	93,357	43,339
Payments to employees	20,213	35,551	19,141
Interest paid	7,057	14,234	7,083
Income tax paid (received)	38	–	6
Net GST paid (received)	3,350	2,947	1,205
	88,910	146,089	70,774
<b>Net Cash Flows from Operating Activities</b>	<b>13</b> <b>(26,333)</b>	<b>31,082</b>	<b>6,280</b>
<b>Investing Activities</b>			
<b>Cash was received from:</b>			
Sale of land and improvements	34,930	57,856	27,590
Sale of other property, plant and equipment	1,233	1,535	571
Sale of other investments	1,225	2,039	1,865
	37,388	61,430	30,026
<b>Cash was applied to:</b>			
Purchase and development of land	20,144	75,838	48,582
Purchase of other property, plant and equipment	7,282	16,884	6,380
Purchase of breeding stock	424	16,991	2,075
Purchase of shares and advances	9	2,413	2,041
Acquisition of Lakeside Terraces	–	2,812	–
	27,859	114,938	59,078
<b>Net Cash Flows from Investing Activities</b>	<b>9,529</b>	<b>(53,508)</b>	<b>(29,052)</b>

# Consolidated Statement of Cash Flows

FOR THE SIX MONTHS ENDED 31 DECEMBER 2008

	Note	Unaudited 6 months to 31 Dec 2008 \$000	Audited 12 months to 30 June 2008 \$000	Unaudited 6 months to 31 Dec 2007 \$000
<b>Financing Activities</b>				
<b>Cash was received from:</b>				
Issue of redeemable preference shares	12	13,208	52,200	52,200
Net borrowing receipts (repayments)		3,100	(29,021)	(29,081)
		16,308	23,179	23,119
<b>Cash was applied to:</b>				
Dividends paid	15	–	–	–
		–	–	–
<b>Net Cash Flows from Financing Activities</b>		<b>16,308</b>	<b>23,179</b>	<b>23,119</b>
<b>Net Change in Cash and Cash Equivalents</b>				
	15	<b>(496)</b>	<b>753</b>	<b>347</b>
Cash and cash equivalents at beginning of period		831	78	78
<b>Cash and Cash Equivalents at End of Period</b>		<b>335</b>	<b>831</b>	<b>425</b>
Cash and cash equivalents comprises cash balances held with registered New Zealand banks:				
Cash at bank		335	831	425

The accompanying notes form part of these financial statements.

# Consolidated Statement of Financial Position

AS AT 31 DECEMBER 2008

		Unaudited 31 Dec 2008 \$000	Audited 30 June 2008 \$000	Unaudited 31 Dec 2007 \$000
<b>Assets</b>				
<b>Cash and Cash Equivalents</b>		335	831	425
<b>Accounts Receivable</b>	8	25,762	30,698	24,334
<b>Inventories</b>		9,349	9,426	2,648
<b>Property Held for Sale</b>		41,777	61,661	27,399
<b>Biological Assets</b>				
Livestock	4	261,079	201,428	222,138
Forests	5	11,412	9,805	9,641
<b>Total Biological Assets</b>		<b>272,491</b>	<b>211,233</b>	<b>231,779</b>
<b>Equity Accounted Investments</b>		3,225	3,911	4,704
<b>Other Financial Assets</b>	9	36,539	43,572	50,407
<b>Intangible Assets</b>		2,395	2,508	2,505
<b>Property, Plant and Equipment</b>				
Land and improvements		1,234,656	1,218,139	1,039,316
Protected land	12	104,063	104,067	103,310
Plant		23,846	22,105	19,639
Motor vehicles		16,070	17,110	17,148
Furniture and equipment		2,616	2,632	2,598
Computer equipment		1,014	907	874
<b>Total Property, Plant and Equipment</b>		<b>1,382,265</b>	<b>1,364,960</b>	<b>1,182,885</b>
<b>Total Assets</b>		<b>1,774,138</b>	<b>1,728,800</b>	<b>1,527,086</b>

# Consolidated Statement of Financial Position

AS AT 31 DECEMBER 2008

		Unaudited 31 Dec 2008 \$000	Audited 30 June 2008 \$000	Unaudited 31 Dec 2007 \$000
<b>Equity and Liabilities</b>				
<b>Accounts Payable and Accruals</b>	10	19,636	19,285	10,613
<b>Employee Entitlements</b>		5,547	6,241	4,640
<b>Deferred Tax Liability</b>		15,666	3,316	15,448
<b>Other Financial Liabilities</b>	11	210,144	187,100	176,100
<b>Redeemable Preference Shares</b>	12	90,408	64,200	64,200
<b>Total Liabilities</b>		<b>341,401</b>	<b>280,142</b>	<b>271,001</b>
<b>Shareholders' Funds</b>				
Share capital		125,000	125,000	125,000
Retained earnings		75,101	108,364	78,021
Revenue reserves		100,769	79,231	95,452
Fair value reserve		1,967	6,432	8,368
Asset revaluation reserves		933,918	951,428	797,681
Other equity		195,982	178,203	151,563
<b>Total Shareholders' Funds</b>		<b>1,432,737</b>	<b>1,448,658</b>	<b>1,256,085</b>
<b>Total Equity and Liabilities</b>		<b>1,774,138</b>	<b>1,728,800</b>	<b>1,527,086</b>

The accompanying notes form part of these financial statements.

Landcorp's Board of Directors authorised the financial statements for issue on 23 February 2009.

Signed on behalf of the Board



Hon. Jim Sutton CNZM  
Chairman

23 February 2009



Marise James  
Chairman of Audit and Due Diligence Committee

# Notes to the Consolidated Financial Statements

## Note 1 – Reporting Entity

Landcorp Farming Ltd (“Landcorp”) is a profit-oriented company, incorporated in New Zealand and established under the State-Owned Enterprises Act 1986 and registered under the Companies Act 1993.

The ultimate parent of Landcorp is the Crown, which owns 100% of Landcorp’s shares, held beneficially by the Minister of Finance (50%) and the Minister for State-Owned Enterprises (50%).

Condensed consolidated interim financial statements are presented, comprising Landcorp Farming Ltd, subsidiaries and jointly-controlled entities (the “Group”).

Landcorp Farming Ltd is primarily involved in pastoral farming within New Zealand. Subsidiary companies are involved in pastoral farming and land development.

## Note 2 – Statement of Compliance

The condensed consolidated interim financial statements have been prepared in accordance with NZ IAS 34 *Interim Financial Reporting* for interim financial statements.

The condensed consolidated interim financial statements do not include all of the information required for full annual financial statements. Accordingly, these financial statements should be read in conjunction with the annual report for the year ended 30 June 2008. The accounting policies used in the preparation of these financial statements are consistent with those used in the annual report for the year ended 30 June 2008.

The financial information contained in this report has not been audited by Landcorp’s auditors. The financial information for the 12 months to 30 June 2008 has been extracted from Landcorp’s audited financial statements for the year ended 30 June 2008.

## Note 3 – Seasonality of Operations

Landcorp’s operations are seasonal and are largely a function of the annual farming cycle. The six months from July to December covered by these financial statements primarily reflect the cessation of winter and commencement of spring conditions when the majority of livestock births occur.

### *Operating Results*

The overall half year operating profit is seasonal and reflects the following:

- Landcorp’s sheep, beef and deer operations follow a cycle where the bulk of slaughter livestock is reared in spring and conditioned for sale over the late summer and autumn period. This means that a large portion of Landcorp’s livestock income is not generated until the second half of the financial year. The sale prices for the slaughter livestock will be a function of market conditions at the time of sale and will reflect the prevailing impact of international commodity prices, exchange rates and any local climatic considerations.
- Income from equity accounted joint ventures reflects the profits from sales of sections through joint venture companies. The timing of these profits depends on the timing of the land sale settlement.
- Operating expenses are usually incurred more evenly throughout the financial year. However, for the six months ended 31 December 2009, Landcorp undertook a deliberate strategy of ‘front-loading’ fertiliser purchases. This means the bulk of Landcorp’s full-year fertiliser expense has been recognised in the first six months of the 2008/09 financial year.

### *Profits from Land Sales*

Landcorp’s profits from land sales arise from the sale of Landcorp farms as part of the strategic realignment of the farm portfolio. The recognition of profit is seasonal and mainly depends on the timing of land sales settlement. Settlements of land sales occur irregularly throughout the financial year.

### ***Net Profit after Tax***

Under NZ IFRS, Landcorp revalues livestock at each balance date and includes the revaluation gain or loss within profit. The value of livestock will reflect market conditions at the time and is likely to change between balance dates. Hence, any profit or loss arising from livestock revaluations at 31 December 2008 may not reflect the market conditions prevailing at the financial year end.

Landcorp uses various derivative financial instruments for financial risk management. These are mainly to hedge interest rate risk and foreign currency risk as part of Landcorp's comprehensive approach to financial risk management within an approved treasury management framework. Landcorp has elected not to hedge account for its financial instruments under NZ IFRS. Consequently, financial instruments are revalued each balance date and any gain or loss is recognised within profit. The value of the financial instruments will reflect the balance date financial market conditions and this value is expected to change between balance dates. Hence, any profit or loss from revaluation of financial instruments at 31 December 2008 may not reflect the market conditions prevailing at financial year-end.

### ***Total Shareholder Return***

Landcorp's total shareholder return is seasonal reflecting both the seasonality of operating results and the timing of land and building valuations. Landcorp revalues land and buildings as at 30 June each financial year. Therefore, the half year financial statements do not reflect any changes in market values of land and buildings from 1 July 2008 to 31 December 2008.

### ***Balance Sheet***

Landcorp's balance sheet at 31 December 2008 reflects the following seasonal factors:

Land and buildings are based on 30 June 2008 values.

Term debt is seasonal reflecting that much of Landcorp's revenue is not received in cash until the second half of the financial year. This reflects both the timing of livestock sales and the date at which milksolid revenue is received.

**Note 4 – Livestock****A – LIVESTOCK REVENUE**

Livestock revenue comprises the following:

	Unaudited 6 months to 31 Dec 08 \$000	Audited 12 months to 30 Jun 08 \$000	Unaudited 6 months to 31 Dec 07 \$000
Livestock sales	27,312	83,770	23,855
Birth of animals	17,714	24,158	17,702
Growth of animals	18,942	43,698	16,098
Livestock losses	(4,972)	(9,793)	(4,404)
Book value of livestock sold	(17,190)	(68,616)	(18,047)
<b>Total Livestock Revenue</b>	<b>41,806</b>	<b>73,217</b>	<b>35,204</b>

**B – VALUE OF LIVESTOCK**

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

	Unaudited 31 Dec 08 \$000	Audited 30 Jun 08 \$000	Unaudited 31 Dec 07 \$000
<b>Livestock value at start of period</b>	<b>201,428</b>	<b>174,651</b>	<b>174,651</b>
Value changes caused by:			
Birth and growth of animals	36,656	67,856	33,800
Purchases	2,933	16,883	1,967
Livestock losses	(4,972)	(9,793)	(4,404)
Livestock available for sale or production	236,045	249,597	206,014
Book value of livestock sold	(17,190)	(68,616)	(18,047)
Effect of price changes	42,224	20,447	34,171
<b>Livestock Value at End of Period</b>	<b>261,079</b>	<b>201,428</b>	<b>222,138</b>

The effect of price changes for the six months ended 31 December 2008 was mainly due to the increase in the market values of sheep, beef and deer. These were partially offset by a decrease in the value of dairy cattle. These price changes do not represent cash flows and Landcorp is unable to realise these changes in market values in the ordinary course of ongoing livestock farming.

## Note 5 – Forests

Landcorp's exotic forests are managed as an ancillary activity to farming. Land is designated as forest land when it is better suited to forestry than for pastoral farming. Factors included in this decision include the viability of pastoral farming and land development activity, soil types, local climate and erosion control.

### A – FOREST REVENUE

Forest revenue comprises:

	Unaudited 6 months to 31 Dec 08 \$000	Audited 12 months to 30 Jun 08 \$000	Unaudited 6 months to 31 Dec 07 \$000
Forestry sale proceeds	436	995	851
Book value of forestry sold/harvested	(620)	(955)	(1,703)
Profit (loss) from forestry sales	(184)	40	(852)
Forest growth	–	1,047	–
<b>Total Forestry Revenue</b>	<b>(184)</b>	<b>1,087</b>	<b>(852)</b>

### B – VALUE OF FORESTS

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

	Unaudited 31 Dec 08 \$000	Audited 30 Jun 08 \$000	Unaudited 31 Dec 07 \$000
Forest value at beginning of period	9,805	10,973	10,973
Costs capitalised to the forest crop	323	1,300	371
Value change due to:			
Growth	–	1,047	–
Effect of price changes	1,904	(1,561)	–
Book value of forestry sold/harvested	(620)	(1,954)	(1,703)
<b>Forest Value at End of Period</b>	<b>11,412</b>	<b>9,805</b>	<b>9,641</b>

**Note 6 – Other Gains and Losses**

	Unaudited 6 months to 31 Dec 08 \$000	Audited 12 months to 30 Jun 08 \$000	Unaudited 6 months to 31 Dec 07 \$000
Gain on sale of development land	1,147	3,883	3,829
Gain on disposal of property, plant and equipment	282	315	228
Impairment loss on property, plant and equipment:			
Total impairment loss	–	(1,032)	–
Recoverable from third-parties	–	516	–
Gain on disposal of available-for-sale financial instruments:			
Profit on sale over carrying value	–	(744)	–
Revaluation gains/losses previously recognised in equity	–	660	–
Insurance recoveries	–	35	–
Gain on disposal of held-for-trading financial instruments	–	45	45
Change in harvested feeds on hand	165	1,323	(2,881)
Other gains	11	275	–
<b>Total Other Revenue</b>	<b>1,605</b>	<b>5,276</b>	<b>1,221</b>

The gain on sale of development land reflects profits from the sale of land through Landcorp Estates Ltd.

Harvested feeds comprises hay, silage and baleage. This feed is made for internal Landcorp use and is not usually sold. The reported income from change in harvested feeds on hand represents the change in the total value of produce on hand from the beginning to the end of the period. Landcorp does not have systems to record and value total feed production throughout the year and considers it impracticable to do so.

**Note 7 – Other Income**

	Unaudited 6 months to 31 Dec 08 \$000	Audited 12 months to 30 Jun 08 \$000	Unaudited 6 months to 31 Dec 07 \$000
Dividends received	37	30	30
Rent received	307	455	257
Cropping and horticulture	65	125	57
Sundry income	1,430	3,706	2,008
<b>Total Other Income</b>	<b>1,839</b>	<b>4,316</b>	<b>2,352</b>

## Note 8 – Accounts Receivable

	Unaudited 31 Dec 08 \$000	Audited 30 Jun 08 \$000	Unaudited 31 Dec 07 \$000
Trade debtors	2,731	12,737	2,390
Amounts owing from associates	–	–	1,676
Milk income receivable	11,713	11,232	19,489
Land purchases deposits paid	365	2,105	–
Other receivables and prepayments	10,953	4,624	779
<b>Total Accounts Receivable</b>	<b>25,762</b>	<b>30,698</b>	<b>24,334</b>

The decreased milk income receivable reflects a lower forecast milk price this season, partially offset by higher production levels and Landcorp managing dairy farms that were previously under sharemilker arrangements.

## Note 9 – Other Financial Assets

Landcorp does not enter into derivative financial instruments for trading purposes. All derivative financial instruments held by Landcorp are used to hedge interest rate or foreign currency risk. Under NZ IFRS all derivative instruments are required to be classified as 'held-for-trading' unless they are designated as hedges. As Landcorp elects to not use hedge accounting, these derivatives are required to be classified as held-for-trading.

	Unaudited 31 Dec 08 \$000	Audited 30 Jun 08 \$000	Unaudited 31 Dec 07 \$000
<b>Loans and receivables</b>			
Short-term advances	–	–	473
<b>Available-for-sale financial assets</b>			
Share investments	36,539	42,824	46,615
<b>Held-for-trading financial assets</b>			
Interest-rate derivatives	–	748	3,239
Foreign exchange derivatives	–	–	80
<b>Total Other Financial Assets</b>	<b>36,539</b>	<b>43,572</b>	<b>50,407</b>

## Notes to the Consolidated Financial Statements continued

### Note 10 – Accounts Payable

	Unaudited 31 Dec 08 \$000	Audited 30 Jun 08 \$000	Unaudited 31 Dec 07 \$000
Trade creditors	6,884	9,593	623
Land sales deposits held as stakeholder	2,238	863	3,572
Other land sales deposits received	4,427	3,280	2,282
Other payables and accruals	6,087	5,549	4,136
<b>Total Accounts Payable and Accruals</b>	<b>19,636</b>	<b>19,285</b>	<b>10,613</b>

### Note 11 – Other Financial Liabilities

	Unaudited 31 Dec 08 \$000	Audited 30 Jun 08 \$000	Unaudited 31 Dec 07 \$000
Bank loans	190,200	187,100	176,100
<b>Held-for-trading financial liabilities</b>			
Interest-rate derivatives	19,944	–	–
<b>Total Other Financial Liabilities</b>	<b>210,144</b>	<b>187,100</b>	<b>176,100</b>

Bank loans are the drawn components of bank cash advance facilities. The facilities may be borrowed against, or repaid, at any time by Landcorp. The facilities are subject to a negative pledge agreement which means that Landcorp may not grant a security interest over its assets without the consent of its lenders. All facilities are on a daily floating interest rate. Landcorp manages its overall interest rate risk using interest rate derivatives under a comprehensive treasury management framework.

Cash advance facilities have been drawn as follows:

	Unaudited 31 Dec 08 \$000	Audited 30 Jun 08 \$000	Unaudited 31 Dec 07 \$000
Drawn	190,200	187,100	176,100
Undrawn	59,800	82,900	93,900
<b>Total</b>	<b>250,000</b>	<b>270,000</b>	<b>270,000</b>

Cash advance facilities are committed to:

	Unaudited 31 Dec 08 \$000	Audited 30 Jun 08 \$000	Unaudited 31 Dec 07 \$000
0–6 months	–	170,000	–
6–12 months	125,000	–	170,000
One to two years	50,000	50,000	50,000
Two to five years	75,000	50,000	50,000
Greater than five years	–	–	–
<b>Total</b>	<b>250,000</b>	<b>270,000</b>	<b>270,000</b>

Landcorp does not enter into derivative financial instruments for trading purposes. All derivative financial instruments held by Landcorp are used to hedge interest rate or foreign currency risk. Under NZ IFRS all derivative instruments are required to be classified as 'held-for-trading' unless they are designated as hedges. As Landcorp elects to not use hedge accounting, these derivatives are required to be classified as held-for-trading.

## Note 12 – Redeemable Preference Shares

In September 2007, Landcorp signed the Protected Land Agreement (the “Agreement”) with its shareholder concerning the protection of certain Landcorp land. Under the Agreement, Landcorp identified properties it wished to sell and the shareholder decided which properties it wished to protect from sale. The protected properties were transferred into a new subsidiary company (Landcorp Holdings Ltd), where they are owned and managed by Landcorp but accounted for separately from Landcorp’s other operations. The shareholder will invest additional capital of \$104.5 million in Landcorp, equivalent to the value of the protected properties (\$103.4 million of land and improvements and forests of \$1.1 million). Landcorp will transfer the properties to the shareholder when required under the terms of the Agreement, with an equivalent value of Redeemable Preference Shares being redeemed.

The capital investment of \$104.5 million by the shareholder comprises:

- a one-off capital injection equal to half the value of the protected land. Landcorp received this capital injection of \$52.2 million in October 2007 and issued Redeemable Preference Shares equal to the injection.
- The balance of \$52.3 million is by way of diverting future dividends from Landcorp for up to four years and issuing Redeemable Preference Shares equal to the dividend amounts. In October 2008, Landcorp diverted its 2007/08 annual dividend of \$13 million and issued Redeemable Preference Shares equal to the diverted dividend. Diversion of dividends are non-cash transactions as payments of dividend are offset against the payment for the purchase of the Redeemable Preference Shares with no cash being paid or received. The dividend diversion transactions are not recognised in the Statement of Cash Flows. To date, \$25 million of dividends have been diverted to issue Redeemable Preference Shares.

As part of the Agreement, Landcorp will not sell any farms for four years other than those that were under contract or that were identified for sale and deemed not to be protected at the time the Agreement was signed, or when the shareholders agree to a sale.

Redeemable Preference Shares issued under the Agreement are redeemable on demand by the share owner.

In the six months to 31 December 2008, Taurewa Station was incorporated into the Agreement. The shareholder provided a \$13.2 million cash injection in return for an equivalent value of Redeemable Preference Shares. Taurewa Station will be transferred from Landcorp Farming Ltd to Landcorp Holdings Ltd once any encumbrances under section 40 of the Public Works Act 1981 are resolved (see Note 16).

Redeemable Preference Shares carry no voting rights and are not eligible for dividends or any share of net assets on wind-up.

Under NZ IFRS, these Redeemable Preference Shares are required to be reported as a liability.

	Unaudited 31 Dec 08 \$000	Audited 30 Jun 08 \$000	Unaudited 31 Dec 07 \$000
Value at start of period	64,200	–	–
Issued during period	26,208	64,200	64,200
<b>Value at End of Period</b>	<b>90,408</b>	<b>64,200</b>	<b>64,200</b>

## Note 13 – Reconciliation of Profit and Operating Cash Flow

	Unaudited 6 months to 31 Dec 08 \$000	Audited 12 months to 30 Jun 08 \$000	Unaudited 6 months to 31 Dec 07 \$000
<b>Net profit after tax</b>	<b>1,275</b>	<b>58,582</b>	<b>44,458</b>
<b>Non cash items</b>			
Depreciation and amortisation	6,037	11,329	5,539
Non-cash livestock income	(17,426)	(6,329)	(13,316)
Forest growth	–	(1,047)	–
Non-cash movement in equity accounted investments	(64)	(661)	(236)
Less dividends received from equity accounted joint ventures	750	1,700	850
(Gain)/loss due to price changes on livestock	(42,224)	(20,447)	(34,171)
(Gain)/loss due to price changes on forests	(1,904)	1,561	–
(Gain)/loss due to price changes on financial instruments	20,686	2,135	(362)
(Gain)/loss on revaluation of property, plant and equipment	–	(2,678)	–
Change in deferred tax liability	12,350	217	12,349
Deferred tax on revaluation of assets	2,108	(2,897)	(12)
Change in deferred tax liability due to other capital transactions	–	(67)	–
<b>Movement in working capital items</b>			
Inventories	77	(3,792)	2,986
Accounts receivable	4,936	(3,212)	3,152
Accounts payable and accruals	351	(26,064)	(34,736)
Provision for employee entitlements	(694)	322	(1,279)
<b>Items classified as Investing or Financing activities</b>			
Net loss/(gain) on movement of assets	(2,284)	(28,404)	(11,235)
Purchase of breeding stock	2,933	16,884	1,967
Change in accounts receivable due to capital items	(11,935)	7,291	(56)
Change in accounts payable due to capital items	(1,305)	26,659	30,382
<b>Net Cash Flows from Operating Activities</b>	<b>(26,333)</b>	<b>31,082</b>	<b>6,280</b>

## Note 14 – Dividends

	Unaudited 31 Dec 08	Audited 30 Jun 08	Unaudited 31 Dec 07	Unaudited 31 Dec 08 \$000	Audited 30 Jun 08 \$000	Unaudited 31 Dec 07 \$000
	Cents per share					
Ordinary shares						
Final dividend	10.4	9.6	9.6	13,000	12,000	12,000
<b>Total Dividends for Period</b>	<b>10.4</b>	<b>2.4</b>	<b>9.6</b>	<b>13,000</b>	<b>12,000</b>	<b>12,000</b>

A final dividend for 2008 of \$13.0 million was declared in September 2008. Under the Agreement Concerning Landcorp Land Protected From Sale this dividend was reinvested in Landcorp as Redeemable Preference Shares, with the proceeds being invested in a subsidiary company that is holding land that is protected from sale (see Note 12).

Redeemable Preference Shares are not eligible to participate in dividend payments.

## Note 15 – Non-cash Transactions

Under the Agreement Concerning Landcorp Land Protected from Sale ("Protected Land Agreement"), Landcorp's dividend payments are diverted to pay for the Crown's purchase of Redeemable Preference Shares (see Note 12). During 2008/09 Landcorp declared (from 2007/08 profits) a dividend of \$13 million. The cash payment for this dividend was offset against the payment from the Crown for the purchase of 13 million \$1 Redeemable Preference Shares. As no cash flows occurred, this transaction has not been recognised in the Statement of Cash Flows.

## Note 16 – Contingent Assets and Liabilities

At 31 December 2008 Landcorp had the following contingent assets and liabilities:

- (a) 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 may be encumbered under section 40 of the Public Works Act, and may be required to be offered back to the to the descendents of the original owners. Legal advice indicates that the land may need to be offered back at its value in 1994, which is significantly less than its current value. Nevertheless the Crown agreed in April 2008 to purchase Taurewa for \$13,208,000 as provided in the Protected Land Agreement (see Note 12). Two sales contracts have been terminated with a possible claim for damages against Landcorp. A third contract with the Department of Conservation has been terminated. The total potential liability for Landcorp is uncertain.
- (b) The Government introduced a trading scheme for greenhouse gas emissions in late 2008. This legislation is now subject to select committee review which is expected to be completed late 2009.

As a pastoral farmer and forester, Landcorp will gain emission credits and incur liabilities through the scheme. As the legislation currently stands, Landcorp would receive credits for the pre-1990 forestry plantations. Should these plantations be deforested, a significant liability would be incurred. Landcorp could claim credits on the post-1990 forest carbon sequestration, though an equal liability on a volume basis would be incurred on harvest. For pastoral farming emissions, Landcorp will receive credits in 2013 for approximately 90% of its 2005 pastoral emissions. This will result in a potential liability for the remaining 10% of 2005 emissions and any increase in emissions since 2005.

Until the review is completed and details of the implementation of the scheme are finalised Landcorp is unable to quantify any net asset or liability arising from the scheme.

## Note 17 – Commitments

	Unaudited 31 Dec 08 \$000	Audited 30 Jun 08 \$000	Unaudited 31 Dec 07 \$000
Contracted capital commitments	2,516	1,620	3,991

Capital commitments mainly arise from land development and building construction contracts.

Operating lease commitments primarily relate to the long-term lease of farmland that is currently undergoing pastoral conversion and farming and have not changed significantly since 30 June 2008. 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.

# Directory

## Board of Directors

Hon. Jim Sutton CNZM

*Chairman*

Warren Larsen CNZM

*Deputy Chairman*

Falcon Clouston

Lex Henry

Marise James

Basil Morrison CNZM

Mavis Mullins MNZM

Christine Williams

## Auditor

Trevor Deed

(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

Commonwealth Bank of Australia

## Corporate and Registered Office

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*Chief Executive:*

Chris Kelly

*Chief Financial Officer:*

Richard Perry

*Company Secretary:*

John Kennedy-Good

*National Manager – Services and Strategy:*

Collier Isaacs

*National Manager – Property:*

Gerry Soanes

*National Business Managers:*

Graeme Mulligan

Allan Still

*National Manager Marketing and Procurement:*

Phil McKenzie

*Head of Genetics and Nutrition Unit:*

Geoff Nicoll

*Company Manager – Landcorp Estates Ltd:*

Neil Prichard

*Company Manager – Landcorp Developments Ltd:*

Bernard Card

## Landcorp Sires

Landcorp Sires of proven value™

*Genetics Marketing Manager:*

Chris Neill

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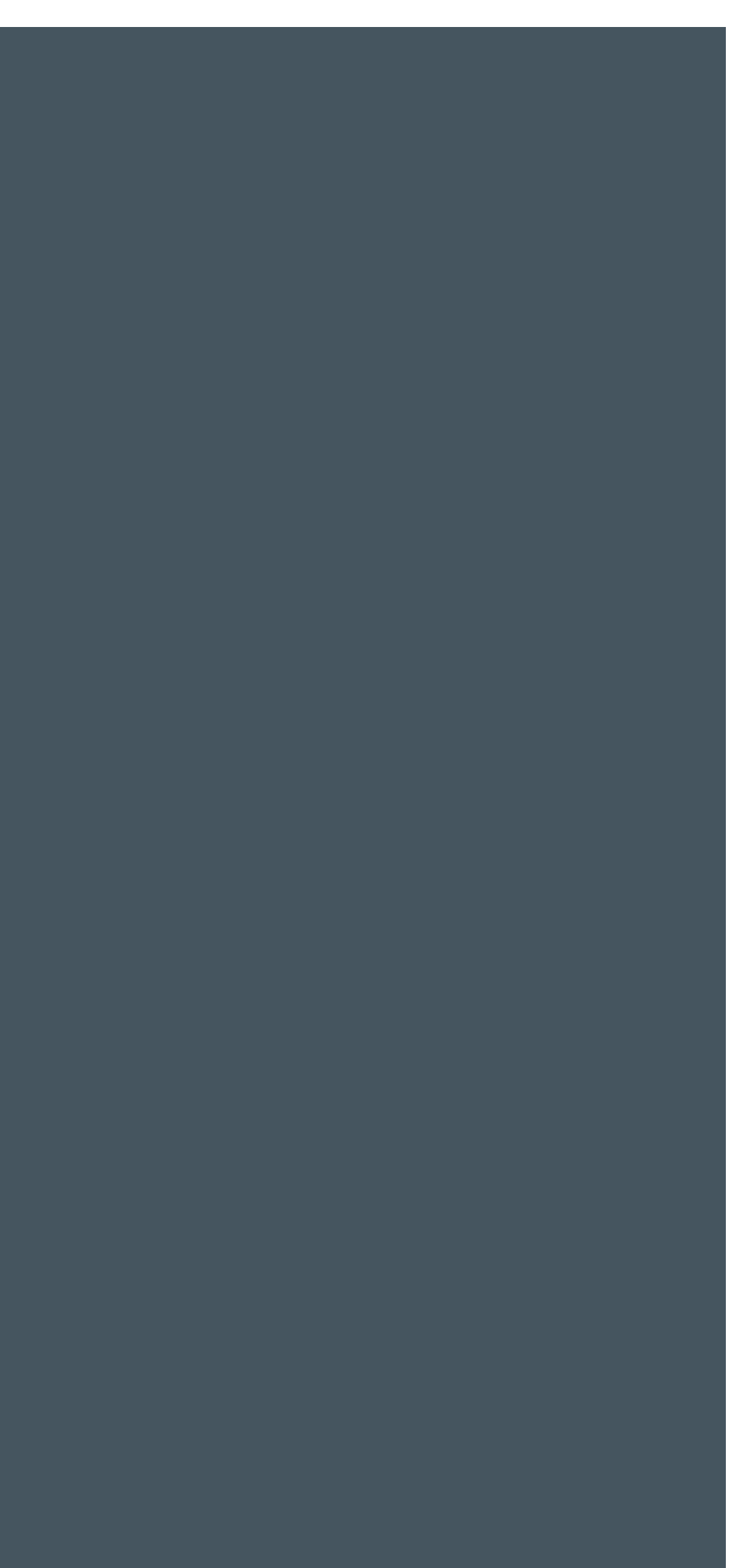
(0508 526 326)

## LandSys

*LandSys Manager:*

Chris Neill

Tel: (04) 381 4050



# Landcorp

LANDCORP FARMING LIMITED



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