Landcorp

LANDCORP FARMING LIMITED

Half year results for announcement to the market
28 February 2011

Reporting Period	6 months to 31 December 2010
Previous Reporting Period	6 months to 31 December 2009

	Amount (000s) 6 months to 31 December 2010	Amount (000s) 6 months to 31 December 2009	Percentage change
Revenue from ordinary activities	$NZ 91,624	$NZ 74,615	23%
Net operating profit (loss)	$NZ 3,243[1]	($NZ 6,305)	151%
Net profit (loss) (after tax)	$NZ 41,483[2]	$NZ 20,631	101%
Total comprehensive income	$NZ 41,373	$NZ 22,326	85%

Interim Dividend	Nil	Nil	Nil

Comments

(i) a brief explanation of any of the above figures necessary to enable them to be understood	**Landcorp Farming made a net operating profit of $3.2 million for the first half of 2010/11, reflecting the strength of the company's dairy, sheep and beef operations. The half year, ended 31 December 2010, has seen increased product prices but also extreme weather events which impacted on production.** The half year's $3.2 million net operating profit (2009/10: $6.4 million net operating loss) reflected largely a 32 per cent jump in dairying income to $51.7 million as Landcorp benefited from

[1] The tax expense under NZIFRS is based on a number of assumptions (for example unrealised balance date revaluations) and is not related to the actual tax expense Landcorp pays. Therefore it is not possible to apportion the tax expense under NZ IFRS over ordinary activities.

[2] NPAT as reported under NZ IFRS 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, and are stated at a particular point in time, they do not represent cash flows that are realised in the ordinary course of livestock farming.

	higher prices and lifted its milk volume. Payouts from dairy companies for 2010/11 are forecast to be above \$7.00 per kg of milksolids (compared with \$6.10-\$6.40 for the previous year). In the half year, Landcorp carefully managed the adverse impacts on milk production of early summer dry across much of New Zealand. Revenues from the sale of all farm products, including milk, increased to \$91.7 million for the half year (2009/10: \$74.6 million) with beef, lamb and wool also contributing to the improvement. The averages of indicator prices paid to farmers for beef and lamb in the half year were up 16 per cent and 7 per cent respectively compared with the corresponding period in 2009/10. The crossbred wool indicator rose around 30 per cent over the course of the half year. Revenue gains were achieved despite the negative effect on farm returns of continued high New Zealand exchange rates, an overall reduction in sheep and cattle numbers, and the impacts of extreme weather. Storms in August and September hit new-born lambs in both North and South Islands, and set back weight gain in sheep and deer across all ages. The South Island lambing rate was down to 132 per cent (from a 2009 record of 140 per cent), while the North fell to 126 per cent. The early storms were followed by extremely low rainfall and high temperatures during October and November across the upper North Island, and western and central parts of the South. Soil moisture deficits were classed as extreme in much of these regions in November, with substantial impact on pasture growth. In dairying, Landcorp herds came into the 2010/11 season in excellent condition. As dry conditions set in, the company worked to maintain this and sustain favourable levels of production by maximising use of available grass across dairy units in different regions, and by buying supplementary feed. At mid December, Landcorp milk volume for the season was 8 per cent higher than at the corresponding point in 2009. Rainfall across much of the country late in December and January has brought some relief. Landcorp continued to manage expenditure very tightly in the half year. Operating expenses were \$80.5 million, up 12 per cent compared with the corresponding period in 2009/10, largely because of increased supplementary feed costs and other spending directly related to the extreme weather. Higher expenses were more than offset by the half year's revenue gains. The net operating profit of \$3.2 million also reflected a 16 per cent reduction in net interest costs, down to \$5.4 million as the company continued its policy of debt reduction. Bank loans at 31 December 2010 were well below budget at \$174.5 million. There were no farmland sales in the half year, although

	two farm blocks were the subject of negotiations. Landcorp recorded a total positive shareholder return of $41.4 million for the half year (2009/10: $22.3 million). This figure (also referred to as "total comprehensive income") includes a $51.9 million revaluation gain on livestock in reflection of a general rise in sheep and cattle market prices during the half year as weather events reduced seasonal peaks in numbers and raised demand for replacement animals in many regions. Landcorp does not revalue land and buildings at the half year as this is only done for full-year financial statements. This means that the shareholder return for 2010/11 might be significantly different from the $41.4 million half-year outcome.
(ii) in respect of each half-year period, commentary on the outlook for the remainder of the financial year, including whether the SOE considers it will achieve the financial performance targets in its SCI.	Continued strength in product prices, especially dairy and sheep, mean that Landcorp expects its 2010/11 full-year operating profit to be around $20 million, compared to an original budget of $3.0 million. This is be contingent on the continued strength of product prices and climatic conditions. The dividend paid for the 2010/11 year will be reviewed against the dividend target of $10.0 million at the end of financial year. The ability of Landcorp to achieve its shareholder return will require an increase in land values that may not arise.