FINANCIAL STATEMENTS 2021

Together stronger™

Farmlands co-operative

Directors' Report

For the year ended 30 June 2021

Farmlands Co-operative Society Limited ("the Group") is in the business of providing goods, services and advice to members while sharing the benefits of scale.

The consolidated financial statements ("the financial statements") presented here are for the reporting entity Farmlands Co-operative Society Limited, comprising Farmlands Co-operative Society Limited and its subsidiaries, Farmlands Finance Limited and Farmlands Fuel Limited. Farmlands Finance Limited ceased to carry on business on 30 June 2021.

In respect of the financial year ended 30 June 2021 the directors of Farmlands Co-operative Society Limited submit the following report:

Principal Activities of the Society

Farmlands Co-operative Society Limited is a rural supplies and services co-operative within New Zealand.
The Group offers a wide range of products and services through its retail stores, charge card partners, a national fuel distribution network, nutrition solutions, grain and seed product offerings. The Society's major purpose is to reduce farmers' costs by means of a collective buying group.

Financial Statements

The financial statements for the year ended 30 June 2021 follow this report.

Results for the year ended 30 June 2021

	2021 $000	2020 $000
Profit from operating activities	8,066	7,002
Income tax expense	(2,401)	(2,351)
Change in net assets attributable to members of the Group	**5,665**	**4,651**

State of Affairs

The Group grew its shareholder numbers by 4.1% to 75,448. The profit before tax was $8,066k compared with $7,002k for 2020.

No Bonus Rebate distribution to members has been provided for this year due to the ongoing implications of COVID-19. Covid uncertainty has driven the need to retain capital to mitigate ongoing lockdown risk and to invest in inventory across key lines seeking to minimise ongoing supply chain disruption and ensure that we continue to meet the seasonal demands of our customers.

Farmlands' ongoing commitments are fully funded within existing banking facilities. The Group has full bank support to meet its peak season requirements and continues to meet its debts as they fall due.

Farmlands Chief Executive Peter Reidie left the co-operative in March 2021, after more than 5 years in the role. Peter oversaw some significant change including delivering our leading technology platform, Braveheart.

Tanya Houghton joined Farmlands as Chief Executive in August 2021. Tanya's credentials include experience in Executive roles in both New Zealand and Australia.

Auditors

PricewaterhouseCoopers audited **Farmlands Co-operative Society Limited,** which comprises the parent Society and Farmlands Fuel Limited. Also included is Farmlands Finance Limited which ceased trading on 30 June 2021. The remuneration of the auditors was set at $267k.

On behalf of the Board

Rob Hewett
Chairman of the Board

Julie Bohnenn
Chair of the Audit and Risk Management Committee

27 September 2021

Income Statement

For the year ended 30 June 2021

	Notes	2021 $000	2020 $000
REVENUE	3	1,082,943	1,105,487
Cost of goods sold		(908,212)	(927,523)
GROSS PROFIT		174,731	177,964
Other income	3	355	288
Less finance costs		(3,565)	(4,789)
Less other operating expenses	3	(162,463)	(165,504)
Less share of loss in associates	9	(992)	(957)
PROFIT FROM OPERATING ACTIVITIES		8,066	7,002
Income tax expense	4	(2,401)	(2,351)
CHANGE IN RETAINED EARNINGS ATTRIBUTABLE TO MEMBERS		5,665	4,651

Statement of Comprehensive Income

For the year ended 30 June 2021

	Notes	2021 $000	2020 $000
Change in retained earnings attributable to members		5,665	4,651
OTHER COMPREHENSIVE INCOME			
Items that may be recycled to profit or loss:			
Movement in cash flow hedge reserve		326	(281)
Income tax effect		(91)	78
Other comprehensive income, net of tax	5	235	(203)
TOTAL COMPREHENSIVE INCOME FOR YEAR ATTRIBUTABLE TO MEMBERS		5,900	4,448

Statement of Changes in Equity and Members' Interests

For the year ended 30 June 2021

	Notes	2021 $000	(Restated) 2020 $000
BALANCE AT BEGINNING OF YEAR		130,061	130,152
Adoption of NZ IFRS 16		-	(4,530)
Change in retained earnings attributable to members		5,665	4,651
Net contributions from members – all capital types		330	(9)
Other comprehensive income	5	235	(203)
BALANCE AT END OF YEAR		136,291	130,061

Statement of Changes in Equity

For the year ended 30 June 2021

2021	Retained Earnings $000	Cash Flow Hedge Reserve $000	Total Equity $000
Balance at 30 June 2020	10,588	(173)	10,415
Change in cash flow hedge reserve net of tax	-	235	235
Change in retained earnings attributable to members	5,665	-	5,665
BALANCE AT END OF YEAR	16,253	62	16,315

2020	(Restated) Retained Earnings $000	Cash Flow Hedge Reserve $000	(Restated) Total Equity $000
Balance at 30 June 2019	10,467	30	10,497
Adoption of NZ IFRS 16	(4,530)	-	(4,530)
Change in cash flow hedge reserve net of tax	-	(203)	(203)
Change in retained earnings attributable to members	4,651	-	4,651
BALANCE AT END OF YEAR	10,588	(173)	10,415

The accompanying notes form an integral part of these financial statements.

The accompanying notes form an integral part of these financial statements.

Balance Sheet

As at 30 June 2021

	Notes	2021 $000	(Restated) 2020 $000
EQUITY AND MEMBERS' OTHER INTERESTS			
Retained earnings		16,253	10,588
Cash flow hedge reserve	5	62	(173)
Total equity		**16,315**	**10,415**
Share capital repayable on demand	6	119,976	119,646
TOTAL EQUITY AND MEMBERS' INTERESTS		**136,291**	**130,061**
Represented by:			
CURRENT ASSETS			
Cash and cash equivalents	13	1,035	876
Accounts receivable	7	244,873	245,722
Loans receivable	7	800	425
Inventories	8	108,152	98,105
Derivatives		86	-
Total current assets		**354,946**	**345,128**
NON-CURRENT ASSETS			
Equity investment	9	888	1,880
Property, plant and equipment	10	76,511	76,983
Right-of-use assets	12	59,334	68,256
Intangible assets	11	100,610	99,775
Deferred tax	4	-	290
Total non-current assets		**237,343**	**247,184**
TOTAL ASSETS		**592,289**	**592,312**
CURRENT LIABILITIES			
Bank borrowing	13	68,000	33,000
Accounts payable	14	234,831	235,173
Employee entitlements	23	7,191	7,034
Lease liabilities – current	12	18,784	19,301
Derivatives		-	240
GST payable		27,213	23,288
Total current liabilities		**356,019**	**318,036**
NON-CURRENT LIABILITIES			
Term bank loans	13	50,500	81,500
Employee entitlements	23	674	793
Lease liabilities – non-current	12	46,603	55,246
Deferred tax	4	2,202	-
GST Payable		-	6,676
Total non-current liabilities		**99,979**	**144,215**
TOTAL LIABILITIES OTHER THAN SHARE CAPITAL REPAYABLE ON DEMAND		**455,998**	**462,251**
NET ASSETS EXCLUDING MEMBERS' INTERESTS		**136,291**	**130,061**

For and on behalf of the Board

27 September 2021

Rob Hewett
Chairman of the Board

Julie Bohnenn
Chair of the Audit and Risk Management Committee

Statement of Cash Flows

For the year ended 30 June 2021

	Notes	2021 $000	2020 $000
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash was provided from:			
Cash receipts from customers		2,680,002	2,632,407
Interest received		66	54
Dividends received		4	81
		2,680,072	2,632,542
Cash was applied to:			
Cash paid to suppliers and employees		2,645,064	2,580,690
Interest paid		3,565	4,789
Income tax paid		-	11
		2,648,629	2,585,490
Net cash inflows from operating activities	**21**	**31,443**	**47,052**
CASH FLOWS USED IN INVESTING ACTIVITIES			
Cash was provided from:			
Proceeds from sale of property, plant and equipment		473	651
Proceeds from sale of investment		-	38
		473	689
Cash was applied to:			
Purchase of property, plant and equipment	10	7,445	9,936
Purchase of intangibles	11	11,034	15,053
Investment in associates	9	-	1,185
		18,479	26,174
Net cash outflows to investing activities		**(18,006)**	**(25,485)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash was provided from:			
Share capital issued	6	1,992	1,716
		1,992	1,716
Cash was applied to:			
Share capital repaid	6	1,662	1,725
Principal elements of lease payment		17,608	16,903
		19,270	18,628
Net cash outflows from financing activities		**(17,278)**	**(16,912)**
NET INCREASE/(DECREASE) IN CASH HELD		(3,841)	4,655
Net bank borrowings at beginning of year		(113,624)	(118,279)
NET BANK BORROWINGS AT END OF YEAR	13	**(117,465)**	**(113,624)**
Net bank borrowings at end of year are comprised of the following:			
Bank loans – current		(68,000)	(33,000)
Bank loans – non-current		(50,500)	(81,500)
Cash on hand		1,035	876
		(117,465)	**(113,624)**

The accompanying notes form an integral part of these financial statements.

The accompanying notes form an integral part of these financial statements.

Notes to the Financial Statements

For the year ended 30 June 2021

Note 1: General Information

1.1 Reporting entity

The Income Statement, Statement of Comprehensive Income, Statement of Changes in Equity and Members' Interests, Statement of Changes in Equity, Balance Sheet and Statement of Cash Flows are those for Farmlands Co-operative Society Limited for the year to 30 June 2021.

Farmlands Co-operative Society Limited is a rural supplies and services co-operative within New Zealand. The Farmlands Group offers a wide range of products and services through its retail stores, charge card partners, a national fuel distribution network, nutrition solutions and grain and seed product offerings. The Group's major purpose is to reduce farmers' costs by means of a collective buying group. It is a for-profit entity for financial reporting purposes.

The financial statements presented here are for the consolidated financial statements of the Group comprising Farmlands Co-operative Society Limited and its controlled entities. Farmlands Co-operative Society Limited is a Society which is incorporated under the Industrial and Provident Societies Act 1908.

These financial statements are authorised for issue by the board of directors on 27 September 2021.

1.2 Statutory base

The financial statements have been prepared in accordance with the requirements of the Industrial and Provident Societies Act 1908 and the Financial Markets Conduct Act 2013. The Society and Group are non-exempt entities under the Financial Markets Conduct Act 2013 (FMCA). As the Group reports under the FMCA, Group only financial statements have been prepared.

Note 2: Significant Accounting Policies

2.1 Basis of preparation

These annual financial statements of the Group have been prepared in accordance with New Zealand generally accepted accounting practice (GAAP). They comply with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and other applicable Financial Reporting Standards as appropriate for for-profit entities.

These financial statements also comply with International Financial Reporting Standards (IFRS).

These financial statements are presented in New Zealand dollars ($) which is the Group's presentational currency. All financial information presented in New Zealand dollars has been rounded to the nearest thousand, ($000).

The accounting principles recognised as appropriate for the measurement and reporting of financial performance and financial position on a historical cost basis (including the revaluation of certain assets) are followed by the Group.

2.2 Basis of consolidation

All material transactions between subsidiaries or between the Group and subsidiaries are eliminated on consolidation. The results of subsidiaries acquired or disposed of during the year are included in the profit or loss from the date of acquisition or up to the date of disposal.

Subsidiaries are entities that are controlled, either directly or indirectly, by the Group. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries which form part of the Group are consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

Associates are those entities in which the Group has significant influence, but not control, over their financial and operating policies. Associates are accounted for using the equity method. The consolidated financial statements include the Group's share of the income and expenses of any such equity accounted investees. The carrying value of equity accounted investees is reviewed where any indicators of impairment are present.

2.3 Summary of significant accounting policies

a) Foreign currencies

Monetary assets denominated in foreign currencies at the balance date are translated to New Zealand dollars at the foreign exchange rate ruling at that date. Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at the balance date exchange rate of monetary assets denominated in foreign currencies are recognised in the income statement.

b) Revenue from contracts with customers

Farmlands rural supplies:
The Group operates rural supply stores nationwide selling farming supplies and equipment. Sale of rural supplies also includes feed, fertiliser, grain and seed. Revenue from the sale of rural supplies is recognised when control of the product has transferred to the customer, being when the customer picks the goods up from the store, or when the products are delivered to the customer. The monthly rebates paid to customers is a sales discount under NZ IFRS 15 and is part of the sales transaction price rather than an operating expense. Customers are entitled to monthly rebates if accounts are paid by the due date.

Farmlands Fuel:
Farmlands fuel includes a nationwide network of delivering bulk fuel, equipment, oil and lubricant sales. Revenue is also earned by the Group by receiving a net margin on fuel sales. Revenue is recognised when control of the product has transferred to the customer, being when the customer picks the goods up from a store, or when the fuel/products are delivered to the customer.

Farmlands Card:
The Group offers a transaction card that can be used at more than 7,000 Farmlands card partner locations across New Zealand as well as at Farmlands stores. Revenue is recognised from administration and other agreed fees received. The Group has negotiated discounts and rebates with card partners.

Other revenue:
Other revenue includes commission and fees received from other agency arrangements. Commission and administration fees received are deducted from the gross amounts payable to the principal of the transaction.

Choices points have been identified as a separate and future performance obligation on the Group. The Group allocates a portion of the transaction price to the loyalty program based on the standalone selling price of the vouchers or goods purchased by customers when redeeming Choices points.

c) Other income

Other income is comprised of interest earned on finance company loans, bank deposits and gains on the disposal of property, plant and equipment. The interest is recognised using the effective interest method.

d) Property, plant and equipment

Buildings, motor vehicles and plant and equipment are stated at historical cost less accumulated depreciation and any impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the assets. Land is stated at historical cost and is not depreciated.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred. Residual values and useful lives are reviewed at least annually.

An asset's carrying amount is written down to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. Gains and losses on disposals are determined by comparing proceeds with carrying amount and are included in the income statement within other income.

e) Depreciation

Depreciation is charged so as to expense the cost or valuation of the assets to their expected residual value over their estimated useful lives. Land is not depreciated. Depreciation is calculated using the following rates and methods:

Buildings	33 – 50 years	Straight Line
Plant and Equipment	2 – 33 years	Straight Line
Motor Vehicles	5 – 14 years	Straight Line

Plant and equipment includes tenant leasehold improvements. Depreciation on leasehold improvements is charged at the lower of the estimated useful life and the initial lease term. Work in progress is depreciated when the asset is available for its intended use and concurrently placed into one of the three asset categories above.

f) Accounts receivable

Accounts receivable are initially recorded at their transaction price and subsequently recorded at amortised cost. Receivables are assessed regularly for any impairment.

Trade receivables are usually due on the 20th of the month following purchase and collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. A provision for doubtful receivables is established based on both objective evidence of significant financial difficulty of the debtor or a breach of contract and the loss the Group expects to incur based on prior history and the current economic conditions. The Group exercises judgement in determining the percent of expected loss. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The movement of the provision is recognised in the Income Statement.

Supplier rebates receivable are accrued at balance date based on current period purchases and rates in accordance with supplier contracts. Most of these receivables are received soon after balance date. A proportion of these receivables relate to an annual growth rebate, which is not confirmed until after the suppliers' period- end. These are accrued based on expected growth rates and pro-rata the amount to the related Group's financial period.

g) Loans receivable

Loans receivable encompass various residual lending products such as hire purchase loans, Term loans and Livestock facilities to a shareholder-only customer base and are financial assets with fixed or determinable payments that are not quoted on an active market. They are recognised at fair value plus transaction costs and subsequently measured at amortised cost using the effective interest method, less provision for impairment, which is calculated using the expected credit loss model for financial assets. The criteria that the Group uses to determine that there is objective evidence of an impairment loss includes significant financial difficulty of the member or a breach of contract.

h) Other investments

Other investments comprise unquoted equity security investments. These investments are initially measured at the purchase price including any transaction costs and subsequently measured at fair value through profit or loss. Fair value is measured by reference to the amount the Group would expect to receive should they choose to sell their shares. This is determined by market rate with changes recognised in other gains/(losses) in the income statement as applicable.

i) Goods and services tax (GST)

The income statement and the statement of cash flows have been prepared so all components are stated exclusive of GST. Receivables and payables in the balance sheets are stated inclusive of GST.

j) Intangible assets

Goodwill arises on the acquisition of subsidiaries. Goodwill represents the excess of the cost of the acquisition over the Group's interest in the net fair value of the assets and liabilities of the acquiree. Separately recognised goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed.

Goodwill is allocated to cash generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

Software assets are initially measured at cost and amortised in subsequent years over the periods of expected benefit on a straight-line basis. The amortisation periods range from 1 to 10 years. Where the periods of expected benefit or recoverable values have diminished due to technical change or market conditions, amortisation is accelerated or the carrying value is written down.

k) Impairment of non-financial assets

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Goodwill is tested annually for impairment, irrespective of changes in circumstances. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. An impairment loss is recognised for the amount by which the carrying amount exceeds its recoverable amount. Impairment losses are recognised in the income statement.

l) Income tax

The income tax expense recognised for the period comprises current and deferred tax.

Current tax is calculated by reference to the amount of income tax payable calculated using tax laws that are enacted at balance date.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements as per NZ IAS 12. The deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction, other than a business combination, that at the time of the transaction affects neither accounting nor taxable profit or loss.

Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by balance date and are expected to apply when the related deferred income tax asset is realised or deferred income tax liability is settled. Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

m) Inventories

Retail, Feed, Grain and Seed and Lubricant stocks are valued at the lower of cost (determined on weighted average or standard cost) and the expected net realisable value on a line-by-line basis. Damaged or obsolete inventory is written down to its net realisable value. The amount of any write down of inventories to net realisable value is recognised as an expense in the period the write down occurs.

n) Recognition of financial instruments

The Group classifies its financial assets in the following categories: subsequently measured at amortised cost, fair value through other comprehensive income or fair value through profit or loss and classifies its financial liabilities in the following categories: subsequently measured at amortised cost or at fair value through profit or loss. Regular purchases and sales of financial assets are recognised on the trade date. Financial instruments are generally recognised at fair value in the balance sheet and include cash and bank balances, accounts receivable, loan receivables, accounts payable and foreign exchange forward contracts. The particular recognition methods adopted are disclosed in the individual policy statements associated with each item.

o) Accounts payable

Accounts Payable represents liabilities for goods and services provided to the Group prior to the end of the financial period which are unpaid. The amounts are unsecured and are usually payable within 30 days of recognition. Accounts Payable are recognised initially at fair value plus transaction costs and subsequently measured at amortised cost using the effective interest method.

p) Employee entitlements

Liabilities for salaries and wages, annual leave and long service leave expected to be settled within 12 months of the reporting date are recognised as current liabilities in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled. Employee entitlements not expected to be settled within 12 months are measured at the present value of the estimated future out flows and are recognised as non-current liabilities.

q) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, cash in bank, and investments in money market instruments which are at call and with maturities on inception of less than three months. Bank overdrafts are included as a component of cash and cash equivalents for the purposes of the statement of cash flows.

r) Bank borrowing

Borrowings are initially recognised at fair value plus transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (plus transaction costs) and the redemption amount is recognised in the income statement over the period of the borrowings using the effective interest method. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the drawdown occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period to which it relates. Borrowing costs are expensed as incurred.

s) Bonus rebate to shareholders

Bonus rebates are recognised as an expense and as a liability at the time the entitlement to the rebate has been approved by the directors. Shareholders are entitled to a share in this rebate according to their patronage. The bonus rebates are distributed by way of share capital and/or cash at the sole discretion of the directors.

t) Share capital

Ordinary shares are classified as members' interests as opposed to equity due to the fixed value attributable to each share. There are no incremental costs directly attributable to the issue of new shares and all shares for any member are repayable on demand after confirmation of a request to withdraw from the Group.

u) **Loyalty scheme – Choices Rewards**

The Group operates a loyalty programme where points are awarded to members based on their purchases. The programme allows members to collect points and exchange them in future periods for vouchers or goods. Members have up to three years to redeem the points after they have been earned. The Group allocates a portion of the transaction price to the loyalty program based on the standalone selling price of the vouchers or goods purchased. The value attributed to reward points is deferred as a liability and recognised as revenue on redemption by members.

v) **Critical accounting estimates and judgements**

Key assumptions concerning the sources of estimation at the reporting date that may have a risk of causing an adjustment to the carrying amounts of assets and liabilities within the next financial year are described in the note or policy to which they relate. These include revenue judgement and estimates, bad debt provisioning, goodwill impairment, accrual for supplier rebates, the net realisable value of inventory and assumptions on lease arrangements. The Group bases its assumptions and estimates on historical experience and other factors such as future expectations at the time the financial statements are prepared.

w) **Leasing activities**

The Group leases various buildings, vehicles, fuel trucks and trailers, and equipment. Rental contracts are typically made for fixed periods of 6 months to 30 years but may have extension options as described below.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of fixed payments (including in-substance fixed payments), less any lease incentives receivable. Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Group, the Group's incremental borrowing rate is used, being the rate that the Group would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the Group uses the borrowing facility with its banker ASB Bank Limited as a starting point, adjusted to reflect changes in risk premium, and lease term for each lease category.

Lease payments are allocated between principal and finance cost. The finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received
- any initial direct costs, and
- restoration costs.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

Payments associated with short term leases of equipment and all leases of low value assets are recognised on a straight-line basis as an expense in the income statement. Short term leases are leases with a lease term of 12 months or less. Low value assets comprise IT equipment and small items of office furniture.

Extension and termination options are included in a number of building and vehicle leases across the Group. These are used to maximise operational flexibility in terms of managing the assets used in the Group's operations. The majority of extension and termination options held are exercisable only by the Group and not by the respective lessor. Management perform a periodic assessment of lease extensions and terminations for buildings to ensure they are in line with the Group's operating plan and strategy.

x) **Standards, interpretations and amendments to published standards**

Consideration of the IFRS Interpretations Committee ("IFRIC") agenda decision

In March 2021 (ratified by the IASB in April 2021), the IFRS Interpretation Committee ("IFRIC") released an agenda decision to clarify how configuration and customisation costs incurred in relation to a supplier's application software in a Software-as-a-Service ("SaaS") arrangement should be accounted for when applying IAS 38 - Intangible Assets. The IFRIC concluded that costs incurred in configuring or customising software in a cloud computing arrangement can be recognised as intangible assets only if the activities create an intangible asset that the entity controls and the intangible asset meets the recognition criteria. Costs that do not result in intangible assets are expensed as incurred unless they are paid to the supplier(s) (or subcontractors of the supplier) of the cloud-based software to significantly customise the cloud-based software for the Group. In the latter case, the costs paid upfront are recorded as prepayments for services and amortised over the expected terms of the cloud computing arrangements.

The Group's current accounting policy is to record these configuration and customisation costs as part of the cost of an intangible asset and amortise these costs over the useful life of the software assets. This is on the basis that the Group considered that it would benefit from those costs incurred to implement its cloud-based software over its expected useful life. Following the IFRIC agenda decision the Group has commenced a review process to revise the current accounting policy and to quantify the impact of this agenda decision on the financial statements and to determine if costs should have been expensed instead of capitalised. However, given the complexity involved, this has not been finalised as at the date of this report. The Group expects to implement the updated accounting policy retrospectively in the next financial period.

There were no other relevant new standards, interpretations or amendments to published standards.

Note 3: Revenue, Gross Turnover, Other Income and Other Operating Expenses

	2021 $000	2020 $000
Revenue from contracts with customers:		
Rural supplies	721,524	740,054
Fuel	318,911	330,450
Card	22,921	21,867
Other	19,587	13,116
Total revenue from contracts with customers	**1,082,943**	**1,105,487**
Interest earned on short-term bank deposits	54	25
Interest on finance company loans	12	29
Dividend income	4	81
Gain on disposal of property, plant and equipment	285	153
Other income	**355**	**288**

Revenue from contracts with customers, as stated above, is determined in accordance with NZ IFRS 15 'Revenue from Contracts with Customers'.

Gross turnover generated is comprised as follows:	2021 $000	2020 $000
Gross turnover generated	2,679,431	2,648,145
Less turnover as agent	(1,501,935)	(1,451,332)
Less rebates to members	(89,386)	(86,978)
Less Choices points issued	(4,812)	(4,060)
Less other income	(355)	(288)
Total revenue	**1,082,943**	**1,105,487**

The Group's gross turnover represents the total value generated from the sale of goods and services (excluding GST) by the Group as Agent, as Principal in accordance with NZ GAAP and revenue from other sources. The Group has disclosed total gross turnover generated as the directors believe this provides members and other interested parties with an appreciation of the size of the Group's operations and member activity.

For sales of goods or services under an agency relationship, the recognised revenue is commission and other fees agreed.

	2021 $000	2020 $000
Other operating expenses include:		
Fees paid to Auditors		
- Annual audit of financial statements [1]	267	326
- Financial analysis [2]	-	11
- Legislative compliance [3]	7	72
- Trust accounts audit	-	6
Total fees paid to Auditor	274	415

1. Annual audit of financial statements includes audit work performed in relation to the new lease accounting standards NZ IFRS 16 in 2020, $40k.
2. This includes services for internal financial performance analysis on the rate of return on capital.
3. This relates to work performed in assessing for any areas of non-compliance regarding specific legislation.

	2021 $000	2020 $000
Amortisation of computer software	10,199	6,664
Bad debts	402	16
Bank interest	1,836	2,437
Depreciation	7,530	7,409
Directors' fees	665	694
Employee entitlements	82,013	80,745
(Decrease)/increase in provision for doubtful loans	(143)	37
(Decrease)/increase in provision for doubtful trade receivables	(658)	1,160
Lease expense – property	93	221
Lease expense – vehicles	83	171

Note 4: Income Tax

	2021 $000	2020 $000
Operating profit before income tax and bonus rebate	8,066	7,002
Permanent differences		
Expenditure not deductible for income tax	1,580	1,468
Operating profit adjusted for permanent differences	9,646	8,470
Tax expense @ 28%	2,701	2,372
Deferred tax expense relating to temporary differences	(91)	67
Over provision prior years	(209)	(88)
Income tax expense	**2,401**	**2,351**
Comprising:		
Deferred tax	2,401	2,351
	2,401	2,351

		2021 $000	2020 $000
Deferred tax			
Balance at beginning of year		290	433
Current year movement		(2,753)	(2,272)
Other comprehensive income		91	(78)
NZ IFRS 16		(67)	1,761
Prior year movement		237	446
Balance at end of year		(2,202)	290
Comprising:			
Tax effect of	- Employee entitlements	1,493	1,949
	- Other provisions	1,253	1,934
	- Property, plant and equipment differences	(16,233)	(7,953)
	- Income tax losses carried forward	9,566	2,666
	- NZ IFRS 16	1,695	1,761
	- Foreign exchange contracts	24	(67)
		(2,202)	290

These temporary differences are recognised in the statement of comprehensive income.

Note 5: Cash Flow Hedge Reserve

	2021 $000	2020 $000
Balance at beginning of year	(173)	30
Movement, net of tax	235	(203)
Balance at end of year	62	(173)

This represents the difference between the spot rate and the contract rate on committed foreign exchange purchases outstanding as at balance date.

Note 6: Share Capital Repayable on Demand

2021	Shareholders	Shares '000	Share Capital $000
Balance at 30 June 2020	72,466	119,646	119,646
Plus: new shareholders during the year	4,030	1,992	1,992
Less: shareholders withdrawing during the period	(1,048)	(1,662)	(1,662)
Balance at end of year	75,448	119,976	119,976

2020	Shareholders	Shares '000	Share Capital $000
Balance at 30 June 2019	70,041	119,655	119,655
Plus: new shareholders during the year	3,386	1,716	1,716
Less: shareholders withdrawing during the period	(961)	(1,725)	(1,725)
Balance at end of year	72,466	119,646	119,646

All shares rank equally, with one vote attached to each fully paid share. To exercise voting rights the shareholder must have purchased goods or services from the Group during the year preceding the vote.

The nominal value of each share is $1.00. Each member is required to subscribe for a minimum of 500 shares. The shareholder may elect to be charged the entire $500 on their first monthly statement; or to be charged $200 on their first monthly statement and then $100 each to their next three monthly statements. Permanent employees of Farmlands may have the option of an initial charge of $60 on their first monthly statement and then $55 each to their next eight monthly statements. No votes attach to the shares until they are fully paid up. Every application for shareholding is subject to final approval of the Group's directors, in accordance with the rules. Under the rules, the directors may distribute any surpluses resulting from members' purchasing or trading activities by way of bonus, bonus shares or otherwise.

A shareholder cannot hold more shares than the amount prescribed by the Minister of Justice by Notice in the Gazette (currently 25,000) and the directors can set the limit on the shares that can be held lower than this. In the event that the directors resolve to increase the maximum shareholding, which at 30 June 2021 is 15,000, and if a shareholder objects to the increase the shareholder may withdraw and must be repaid their share capital and any other entitlements within six months of notifying their intention to withdraw.

The general method of share disposal is to surrender the shares to the Group. There are different circumstances where shares may be surrendered. These include the shareholder requesting the surrender, or the Group may request the shareholder surrender their shares under certain circumstances. The consideration for the shares will be the lesser of the nominal value of the shares on the date of surrender; the amount paid up for the shares; or the amount agreed between the shareholder and the board. The amount of consideration is less any amount owed to the Group.

Where the Group has required the surrender of the shares, the consideration must be paid within three months. If the Group has accepted a surrender request, the consideration can either be paid in one sum or in instalments, provided that the full consideration must be paid within 5 years.

Share capital repayable on demand is classified as a liability. Note 18 provides additional information on Share capital repayable on demand.

Note 7: Receivables

	2021 $000	2020 $000
Accounts receivable		
Trade receivables	220,582	222,859
Less provision for doubtful debts	(2,123)	(2,781)
Other receivables	21,533	21,554
Prepayments	4,881	4,090
	244,873	245,722
Provision for doubtful debts		
Balance at beginning of year	2,781	1,621
(Decrease)/increase in provision	(658)	1,160
Balance at end of year	2,123	2,781
Loans receivable		
Amounts due from finance customers	900	668
Less provision for doubtful loans	(100)	(243)
	800	425
Provision for doubtful loans		
Balance at beginning of year	243	206
(Decrease)/increase in provision	(143)	37
Balance at end of year	100	243

Trade receivables ageing are as follows:

30 June 2021	Current $000	0–30 days $000	31–60 days $000	61+ days $000	Total $000
Trade receivables	213,599	4,771	630	1,582	220,582
Trade receivables provision	35	178	328	1,582	2,123
Expected loss rate	0.02%	3.73%	52.06%	100.00%	0.96%

30 June 2020	Current $000	0–30 days $000	31–60 days $000	61+ days $000	Total $000
Trade receivables	209,258	6,080	1,507	6,014	222,859
Trade receivables provision	184	39	211	2,347	2,781
Expected loss rate	0.09%	0.64%	14.00%	39.03%	1.25%

Loans receivable are either secured or unsecured Group term loans or hire purchase loans and are to Group shareholders.

Interest is charged at 0% to 14% per annum for the duration of the loan (2020 0% to 17.0%). Loans receivable are carried at amortised cost less any provision for impairment, which is calculated using the expected credit loss model for financial assets.

The loans receivable are typically short term (principally less than 12 months) and therefore the carrying amount is a reasonable approximation of fair value.

Certain loans transferred to Finance Now have been guaranteed by the Group and as such the Group holds the credit risk, consequently the Group are required to account for the asset, liability and a provision if any. At balance date, the Group has recognised $nil (2020 $284k) of loans which are guaranteed to Finance Now.

Other receivables include amounts due from suppliers, including supplier rebates, sale of property, plant and equipment not for resale and interest receivable from bank deposits.

The expected loss rates are based on the payment profiles of sales over a period of 12 months before 30 June 2021 or 1 July 2020 respectively and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information and macroeconomic factors affecting the ability of the customers to settle the receivables. The Group has identified the GDP and the unemployment rate of New Zealand in which it sells its goods and services to be the most relevant factors, and accordingly adjusts the historical loss rates based on expected changes in these factors.

The Group applies the NZ IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for financial assets.

Note 8: Inventories

	2021 $000	2020 $000
Farm merchandise	107,329	96,931
Other inventory	823	1,174
	108,152	98,105

Inventories comprise retail merchandise in retail branches, grain and seed, feed, fuel and lubricants. All inventories are pledged as security to the Group's bankers. At year end the provision for inventory obsolescence is $443k (2020 $515k). During the year the amount of inventory write-down recognised as an expense during the period was $1,825k (2020 $1,827k).

At balance date, the Group had purchase commitments of $47,800k for goods for resale (2020 $9,684k). To manage price risk associated with future commitments the Group enters into back-to-back sale commitments. At balance date, the Group has no impairment of future purchase commitments.

Note 9: Investments

Other investments	2021 $000	2020 $000
Interests in business undertakings:		
Balance at beginning of year	-	38
Decrease during the year	-	(38)
	-	-

Other Investments comprised shares in the Real Estate Network Limited which was liquidated during the 2020 financial year.

Equity Investment in Farm IQ

The Society has made a 26%, $4,389k, investment in FarmIQ Systems Limited. The investment was made to enable shareholders' access to important farm information on favourable terms and assist Farmlands to provide enhanced service offerings to shareholders. The investment is accounted for on an equity accounting basis and the value in the balance sheet reflects movements in the trading position in FarmIQ. At balance date, the carrying value of the investment was $888k, (2020 $1,880k). In April 2021 a convertible loan with a maturity date of June 2022 was advanced totalling $781k.

2021 Equity Investment	Shareholding	Shares '000	Share Capital $000
Balance at 30 June 2020		4,049	1,880
Less: share of losses in associate		-	(992)
Balance at end of year	26%	4,049	888

2020 Equity Investment	Shareholding	Shares '000	Share Capital $000
Balance at 30 June 2019		3,255	1,652
Plus: new shares issued during the year		794	1,185
Less: share of losses in associate		-	(957)
Balance at end of year	26%	4,049	1,880

Note 10: Property, Plant and Equipment

2021	Freehold Land $000	Buildings $000	Motor Vehicles $000	Plant and Equipment $000	Work in Progress $000	Total $000
At 30 June 2020						
Cost	7,707	21,851	6,034	85,937	3,052	124,581
Accumulated depreciation	-	(3,004)	(3,506)	(41,088)	-	(47,598)
Net book value	7,707	18,847	2,528	44,849	3,052	76,983
Additions	-	29	93	9,967	-	10,089
Net transfers	-	-	-	-	(2,644)	(2,644)
Disposals	-	-	(210)	(177)	-	(387)
Depreciation	-	(528)	(496)	(6,506)	-	(7,530)
Closing net book value	7,707	18,348	1,915	48,133	408	76,511
At 30 June 2021						
Cost	7,707	21,880	5,327	94,201	408	129,523
Accumulated depreciation	-	(3,532)	(3,412)	(46,068)	-	(53,012)
Net book value	7,707	18,348	1,915	48,133	408	76,511

2020	Freehold Land $000	Buildings $000	Motor Vehicles $000	Plant and Equipment $000	Work in Progress $000	Total $000
At 30 June 2019						
Cost	7,684	17,069	6,290	81,765	3,582	116,390
Accumulated depreciation	-	(1,910)	(4,014)	(35,523)	-	(41,447)
Net book value	7,684	15,159	2,276	46,242	3,582	74,943

Additions	23	93	1,036	9,314	-	10,466
Net transfers	-	4,116	-	(4,116)	(530)	(530)
Disposals	-	-	(235)	(252)	-	(487)
Depreciation	-	(521)	(549)	(6,339)	-	(7,409)
Closing net book value	7,707	18,847	2,528	44,849	3,052	76,983
At 30 June 2020						
Cost	7,707	21,851	6,034	85,937	3,052	124,581
Accumulated depreciation	-	(3,004)	(3,506)	(41,088)	-	(47,598)
Net book value	7,707	18,847	2,528	44,849	3,052	76,983

Note 11: Intangible Assets

	2021 $000	2020 $000
Computer software		
Cost at beginning of year	119,821	104,941
Accumulated amortisation	(30,137)	(23,470)
Net book value	89,684	81,471
Movements in the year		
Additions	11,034	15,053
Disposals	-	(176)
Amortisation	(10,199)	(6,664)
Closing net book value	90,519	89,684
As at end of year		
Cost	130,855	119,821
Accumulated amortisation	(40,336)	(30,137)
Computer software net book value	90,519	89,684
Goodwill		
Cost at beginning of year	10,341	11,484
Accumulated impairment	(250)	(424)
Net book value at beginning of year	10,091	11,060
Movements in the year		
Disposals	-	(969)
Closing net book value	10,091	10,091
As at end of year		
Cost	10,341	10,341
Accumulated impairment	(250)	(250)
Goodwill net book value	10,091	10,091
Total intangible asset net book value	**100,610**	**99,775**

Goodwill disposal in 2020 relates to the winding up of Farmlands Real Estate Ltd.

Impairment Testing

The estimated recoverable amount of goodwill has been determined based on value-in-use calculations for each component as at 30 June 2021 for operational cash generating units relating to ongoing revenue streams. The amount allocated to each component is not significant in comparison to the Group's total amount of goodwill. These calculations use cash flow projections based on financial budgets and projections prepared by senior management covering a five-year period (cash flow projections for the year ending 30 June 2022 have been approved by the board). Cash flow projections are derived using past experience, expectations for the future and include external sources of economic and financial data where appropriate. A discount rate of 11.2% is then applied to these projections (2020 11.2%).

Based on the value-in-use calculations the recoverable amount of the cash generating units to which goodwill has been allocated exceeds its carrying value.

Note 12: Leases

This note provides information for leases where the Group is a lessee.

Right-of-use Assets

2021	Buildings $000	Vehicles $000	Total $000
Opening balance at 1 July 2020	60,119	8,137	68,256
Additions	1,374	99	1,473
Depreciation	(11,534)	(5,836)	(17,370)
Modification to lease terms	3,537	3,157	6,694
Variable lease payment adjustments	281	-	281
Closing balance 30 June 2021	53,777	5,557	59,334

2020	Buildings $000	Vehicles $000	Total $000
Opening balance at 1 July 2019	59,061	13,481	72,542
Additions	4,189	983	5,172
Depreciation	(11,097)	(6,053)	(17,150)
Modification to lease terms	1,995	(274)	1,721
Variable lease payment adjustments	177	-	177
Modification to lease terms – COVID 19	4,869	-	4,869
Variable lease payment adjustments – COVID 19	925	-	925
Closing balance 30 June 2020	60,119	8,137	68,256

Lease Liabilities

2021	Buildings $000	Vehicles $000	Total $000
Opening balance at 1 July 2020	66,226	8,321	74,547
Additions	1,373	99	1,472
Interest expense	1,565	164	1,729
Modification to lease terms	3,936	3,148	7,084
Variable lease payment adjustments	282	-	282
Leases payments	(13,633)	(6,094)	(19,727)
Closing balance 30 June 2021	59,749	5,638	65,387

2020	Buildings $000	Vehicles $000	Total $000
Opening balance at 1 July 2019	65,185	13,649	78,834
Additions	4,189	983	5,172
Interest expense	2,009	343	2,352
Modification to lease terms	1,995	(277)	1,718
Variable lease payment adjustments	177	-	177
Modification to lease terms – COVID 19	4,869	-	4,869
Variable lease payment adjustments – COVID 19	678	-	678
Leases payments	(12,876)	(6,377)	(19,253)
Closing balance 30 June 2020	66,226	8,321	74,547

(i) Amounts recognised in the income statement

	2021 $000	2020 $000
Depreciation – Right-of-use assets	17,370	17,150
Interest – Lease liabilities	1,729	2,352
Expense relating to short-term leases	176	392
Other	389	(249)

The total cash outflow for the leases in 2021 was $19,903k (2020 $19,645k).

Note 13: Bank Borrowing

The overdraft and other borrowings from the ASB Bank Limited are secured by a General Security Agreement (GSA) over all assets of the Group with the exception of any and all Group Trust Accounts as well as all present and after acquired accounts receivable in which Farmlands Fuel Limited has rights. There are no registered mortgages held over the Group's properties. An all obligations guarantee by Farmlands Fuel Limited also comprises a part of the GSA. Interest rates varied from 1.64% to 2.74% per annum for the financial year. The Group entered into an amended facility agreement dated 25 March 2020 which established working capital facilities of no more than five years of $120,000k (2020 $120,000k), and a term loan of $30,000k payable over five years. The term loan is being repaid in-line with the terms of the facility and has a balance of $27,000k as at 30 June 2021. No breaches in financial bank covenants have occurred in the 2021 financial year (2020 no breaches).

At balance date, current liabilities exceed current assets by $1,073k. Current liabilities include $65,000k of the Group's bank borrowing facilities, which had a term expiring within 12 months of balance date. Subsequent to balance date on 30 August 2021, the Group and ASB Bank Limited have signed indicative terms with respect to renewal of all existing bank borrowing facilities with terms out to 5 years. The Group has full bank support to meet peak seasonal demand and continue to meet its debts as they fall due. On this basis, the Group continues to apply the going concern assumption.

	2021 $000	2020 $000
Net bank borrowing comprises:		
Bank loans – current	68,000	33,000
Bank loans – non-current	50,500	81,500
(Cash on hand)	(1,035)	(876)
	117,465	113,624

	Cash/Cash Equivalents < 1-year $000	Borrowing < 1-year $000	Borrowing > 1-year $000	Borrowing Total $000
Net borrowing as at 30 June 2020	(876)	33,000	81,500	113,624
Cash flows	(159)	35,000	(31,000)	3,841
Net borrowing as at 30 June 2021	(1,035)	68,000	50,500	117,465

Note 14: Trade Payables

	2021 $000	2020 $000
Accounts payable		
Trade payables	226,957	226,250
Deferred income	7,874	8,923
	234,831	235,173

Deferred income relates to the loyalty scheme – Choices Rewards. The value attributed to reward points is deferred as a liability and recognised on redemption by members. Members may redeem reward points at any time for a period of three years after they are awarded. Historically 75% of these are redeemed in the next reporting period, 20% over the following two reporting periods, and the remaining 5% expire.

	2021 $000	2020 $000
Movements in deferred income		
Balance at beginning of year	8,923	9,405
Choices rewards issued	4,812	4,060
Choices rewards recognised in revenue	(5,861)	(4,542)
Balance at end of year	7,874	8,923

Note 15: Contingent Assets and Liabilities

There were no contingent assets and liabilities at balance date.

Note 16: Related Party Transactions

Subsidiaries

	Equity Holding 2021	Equity Holding 2020
Farmlands Finance Limited	100%	100%
Farmlands Fuel Limited	100%	100%
Farmlands Real Estate Limited	0%	0%
Farmlands Real Estate Property Management Limited	0%	0%

All subsidiary entities have a balance date of 30 June. All subsidiary entities are incorporated in New Zealand. Farmlands Finance Limited ceased trading on 30 June 2021. Farmlands Real Estate Limited and Farmlands Real Estate Property Management Limited were liquidated on 30 June 2020.

The principal activities of the subsidiaries are:

Farmlands Finance Limited	Credit Facility
Farmlands Fuel Limited	National Fuel Distribution
Farmlands Real Estate Limited	Real Estate Services
Farmlands Real Estate Property Management Limited	Property Management Services

All transactions with related parties, including directors and key management personnel in their capacity as shareholders are made on normal commercial terms and conditions. No related party debts were forgiven or written off during the year. During the year Farmlands Finance Limited's forgiveness of debt by Farmlands Society Limited totalled $1,004k. Transactions with associate Farm IQ are disclosed in Note 9.

Compensation paid or payable to key management personnel as short-term benefits was $4,611k (2020 $4,448k).

Directors' information

The names of the directors of the Group in office during and at the end of the period:

	Remuneration $
R J Hewett, Lawrence (Chair)	136,000
G W Baldwin, Putaruru	65,000
N P Davies-Colley, Whangarei (Chair of the People & Performance Committee) (Retired 19 November 2020)	25,154
C J Dennison, Oamaru	65,000
W J Parker, Rotorua (Chair of the People & Performance Committee)	69,000
H D Sangster, Ranfurly	65,000
P J Ellis, Hastings (elected 19 November 2020)	38,346
J A Bohnenn, Rangiora, Independent (Chair of the Audit & Risk Management Committee)	71,000
S Post, Auckland, Independent	65,000
J Journee, Auckland, Independent	65,000
	664,500

All directors are ordinarily resident in New Zealand.

Directors' insurance

Farmlands Co-operative Society Limited and its subsidiaries have arranged policies of directors' liability insurance.

Directors' benefits

No director of the Group has, since the end of the previous financial year, received or become entitled to receive a benefit (other than a benefit included in the total emoluments received or due and receivable by directors shown in the Group financial statements) other than normal rebates received by them as shareholders as a result of trading with the Group in the same manner as all other shareholders.

Use of information

There were no notices from directors of the Group requesting to use Group information received in their capacity as directors which would not otherwise have been available to them.

Note 17: Commitments

Capital commitments

There is capital expenditure contracted for at balance date of:	2021 $000	2020 $000
Computer hardware	-	48
Computer software	3,112	334
Plant and equipment	575	472
	3,687	854

Note 18: Financial Risk Management

The Group's activities expose it to a variety of financial risks including market risk, credit risk and liquidity risk.

Market risk

The directors are of the opinion that the Group's exposure to market risk at balance date is defined as:

Risk factor	Description	Sensitivity
(i) Currency risk	No significant assets are denominated in overseas currencies	Immaterial
(ii) Interest rate risk	Exposure to changes in interest rates of loans receivable and bank borrowing	As below
(iii) Other price risk	No securities are bought, sold or traded	Nil

Interest rate risk

The short-term deposits are at the ruling overnight rate and mature within one month. The interest rate on the Group's deposits average 0.75% (2020 1.33%). Interest rates on current borrowing can be reviewed at the lender's discretion. Interest rates on bank borrowing is managed by maximising bank loan facilities (with lower interest rates) and minimising the use of the bank overdraft facility (which has a higher interest rate).

A 1.00% (100bps) increase or decrease in bank interest rates throughout the financial year would have reduced the profit before tax by $781k (2020 $1,254k).

Credit risk

Financial assets which potentially subject the Group to concentrations of credit risk consist principally of cash, trade receivables and loan receivables. Sales to members are a large component of the Group's credit risk. The maximum exposure to credit risk is equivalent to the carrying values in the balance sheet plus guarantees to the maximum amount that can be called.

The Group's cash and cash equivalents are only placed with registered banking institutions. Trade receivables and loan receivables are presented net of the allowance for estimated doubtful receivables. Concentration of credit risk with respect to trade receivables is limited due to the large number of customers comprising the Group's customer base and their dispersion across different industries and geographical areas. Accordingly, the directors believe the Group has no significant concentration of credit risk. The amount that represents the maximum exposure to credit risk for a single debtor at 30 June 2021 is a trade customer of $1,015k (this has subsequently been received) (2020 $2,263k). There is no collateral held relating to this trade customer.

At 30 June 2021 past due accounts receivable and loans, excluding impaired receivables, were $6,983k (2020 $13,674k) which are amounts that are overdue from the normal due date of payment by the debtor. Collateral in respect of the debts is with registered securities on the Personal Property Securities Register on the past due accounts receivable for a portion of these debts. Other collateral types include mortgages, charges over plant and equipment and livestock. Secured collateral totals $nil (2020 $210k) with the remaining balance of trade and loan receivables being unsecured. To mitigate credit risk the Group has the ability to offset any member's impaired receivable balance against the member's interest payable on demand.

Trade and loan receivables that are impaired at 30 June 2021 were $2,188k (2020 $3,024k) and are impaired because the amounts are significantly overdue. The provision for doubtful debts substantially provides for potential losses on these receivables.

Liquidity risk

Liquidity risk is the risk that the Group may encounter difficulty in raising funds at short notice to meet its commitments as they fall due. Management maintains sufficient cash and marketable securities and the availability of funding through an adequate amount of committed revolving credit facilities.

The non-discounted contractual cash flows are as follows:

30 June 2021

	0–1 years $000	1–2 years $000	2–5 years $000	5+ years $000	Total $000
Group liabilities					
Accounts payable	234,831	-	-	-	234,831
Net bank borrowing	66,965	29,500	21,000	-	117,465
GST payable	27,213	-	-	-	27,213
Leases	19,056	12,853	25,385	13,391	70,685
Share capital repayable on demand	119,976	-	-	-	119,976
	468,041	42,353	46,385	13,391	570,170

30 June 2020

	0–1 years $000	1–2 years $000	2–5 years $000	5+ years $000	Total $000
Group liabilities					
Accounts payable	235,174	-	-	-	235,174
Net bank borrowing	32,124	38,000	28,500	15,000	113,624
GST Payable	23,288	6,676	-	-	29,964
Leases	19,827	14,651	27,601	19,259	81,338
Share capital repayable on demand	119,646	-	-	-	119,646
	430,059	59,327	56,101	34,259	579,746

Share capital repayable on demand includes the bonus rebate applied to share capital.

Share capital repayable on demand is at call as any member who ceases to transact business through or with the Group and applies to the board for the approval to surrender their shares in the Group is entitled to receive a return of the shares and any other entitlements within three months from the date of notifying the Group of their intention to surrender their shares. As set out in Note 6, the board has the authority to refuse to give its approval to the surrender where the payment will detrimentally affect the financial position of the Group and affect its ongoing trading position. The board has never invoked this provision, and for the foreseeable future expects that the share capital of the Group can be maintained through new shareholders and the capitalisation of bonus rebates.

Fair values

The carrying amount of all assets and liabilities approximate their fair values. The notional amounts of foreign exchange instruments outstanding at balance date are $9,372k (2020 $6,823k). These contracts are forward contracts for future purchase commitments and have a value based on the spot rates at 30 June 2021 of $9,287k (2020 $7,063k). The derivative financial instruments qualify for hedge accounting, and the movement in fair value of gain of $235k (2020 $203k loss) are accounted for through the Statement of Other Comprehensive Income.

Note 19: Management of Capital

The objectives of the Group when managing capital are to safeguard the Group's ability to continue as a going concern so it can continue to provide competition for products and services in the rural sector and to maintain a strong capital base to support the development of its business.

The Group meets its objectives through a mix of members' funds comprising share capital and retained earnings and reserves, and facilities provided by its Bank. The ability to maintain members' funds is set out on the previous page under liquidity risk in Note 18.

The facilities provided by the Bank carry certain covenants. The Group is compliant with all financial covenants. The financial covenants include; the Group's aggregate book value of trade receivables less receivables held on trust and stock, divided by the total borrowing is to be greater than 2.0 at all times; earnings before interest, tax, depreciation and amortisation divided by the net interest expense is to be greater than 2.0 times at all times. The Guaranteeing Group (Society and Fuel) must maintain 90% of the total earnings before interest, tax, depreciation and amortisation and 90% of total assets of the Group.

The reporting covenants are: monthly management accounts and signed covenant certificates are to be provided to the Bank within 60 days of the end of the month; Consolidated Group budgets for the ensuing year to be provided no later than 30 days of the commencement of the financial year; and audited annual accounts to be provided to the Bank within 120 days of balance date.

Note 20: Imputation Credit Memorandum Account

	2021 $000	2020 $000
Closing balance available for future use	8,862	8,928

The Group may attach imputation credits to dividends paid or bonus shares issued which represent the tax already paid by the Group on profits. New Zealand resident members may claim a tax credit to the value of the imputation credit attached to dividends.

Note 21: Reconciliation of Profit after Tax and Bonus Rebate to Cash Flow from Operating Activities:

	2021 $000	2020 $000
Profit after tax and bonus rebate declared	5,665	4,651
Plus/(less) non-cash / non-operating items		
Depreciation and amortisation	35,099	31,223
Gain relating to Covid-19 related concessions	-	(249)
(Gain)/loss on disposal of assets	(86)	14
Share of losses in associate	992	957
Goodwill derecognised on subsidiary wind up	-	969
Increase in deferred taxation	2,401	221
Net Impact of adoption of NZ IFRS 16 on deferred tax	-	1,761
	44,071	39,547
Plus/(less) movements in working capital items		
(Increase)/decrease in operating accounts receivable	849	(16,392)
(Increase)/decrease in loans receivable	(375)	1,117
Increase/(decrease) in operating accounts payable	(342)	24,020
Increase/(decrease) in GST payable	(2,751)	5,159
Increase in employee entitlements	38	680
Increase in tax payable	-	357
(Increase) in inventories	(10,047)	(7,436)
Net (Increase)/decrease in working capital	(12,628)	7,505
Net cash inflow from operating activities	**31,443**	**47,052**

Note 22: Categories of Financial Assets and Liabilities

	2021 $000	2020 $000
Financial assets		
Cash and cash equivalents	1,035	876
Accounts receivable	244,873	245,722
Loans receivable	800	425
Derivatives	86	-
	246,794	247,023

	2021 $000	(Restated) 2020 $000
Financial liabilities at amortised cost		
Accounts payable	234,831	235,173
Bank borrowing	118,500	114,500
Employee entitlements	7,865	7,827
GST payable	27,213	29,964
Derivatives	-	240
	388,409	387,704

Note 23: Correction of Error in Calculating Employee Entitlements

During the year an historical computational error relating to the accrual of employee entitlements was discovered resulting from incorrect period end cut-off assumptions. All employees were paid their full entitlements and were not disadvantaged in any way from the error, however this resulted in an understatement of the employee entitlements liability in the balance sheet for the 2020 and prior financial years. The correction of the error had no impact on the income statement or statement of cashflows in either the current or prior year.

	30 June 2020 $000	Increase/ (Decrease) $000	30 June 2020 (Restated) $000	30 June 2019 $000	Increase/ (Decrease) $000	30 June 2019 (Restated) $000
Net assets excl members' interests	130,690	(629)	**130,061**	130,781	(629)	130,152
Employee entitlements	(6,160)	(874)	**(7,034)**	(5,675)	(874)	(6,549)
Deferred tax asset	45	245	**290**	188	245	433
Retained earnings	(11,217)	629	**(10,588)**	(11,096)	629	(10,467)
Total equity and members' interests	130,690	(629)	**130,061**	130,781	(629)	130,152

Note 24: Events Subsequent to Balance Date

Bank Debt facility renewal

Subsequent to balance date on 30 August 2021 the Group and ASB Bank Limited have signed indicative terms with respect to renewal of all existing bank borrowing facilities. The details of this are included in Note 13 – Bank Borrowing.

Covid-19

On 18 August 2021, the New Zealand Government placed restrictions on individuals and businesses by raising its COVID-19 Alert Level to 4, which required non-essential businesses to close.

The Group was considered an essential business and remained open in a reduced capacity during the period between 19 August 2021 and 31 August 2021.

Restrictions were lifted in most areas of New Zealand on 1 September 2021, with 79 of our 82 retail branches moving to level 2 restrictions at this time.

Society Particulars

REGISTERED OFFICE IN NEW ZEALAND
535 Wairakei Road, Burnside, Christchurch
Telephone 0800 200 600

SHARE AND LOAN SECURITY REGISTERS
535 Wairakei Road, Burnside, Christchurch
Telephone 0800 200 600

AUDITORS
PricewaterhouseCoopers
Level 4, 60 Cashel Street, Christchurch

BANKERS
ASB Bank
12 Jellicoe Street, Auckland

SOCIETY SECRETARY
J B Bradley
Farmlands, Christchurch

SOLICITORS
Anderson Lloyd
Anderson Lloyd House, 70 Gloucester Street, Christchurch

SUBSIDIARY – Farmlands Fuel Limited
Director:
K R Cooney, executive

SUBSIDIARY – Farmlands Finance Limited
Director:
K R Cooney, executive

SUBSIDIARY – CRT Limited (Non-Trading)
Director:
K R Cooney, executive

DIRECTORS

R J Hewett, Lawrence (Chair)

G W Baldwin, Putaruru

N P Davies-Colley, Whangarei (Chair of the People & Performance Committee

(Retired 19 November 2020)

C J Dennison, Oamaru

W J Parker, Rotorua (Chair of the People & Performance Committee)

H D Sangster, Ranfurly

P J Ellis, Hastings (elected 19 November 2020)

J A Bohnenn, Rangiora, Independent (Chair of the Audit & Risk Management Committee)

S Post, Auckland, Independent

J Journee, Auckland, Independent

EXECUTIVES

Chief Executive Officer (acting)	K R Cooney
Chief Executive Officer	P R R Reidie (resigned March 2021)
Chief Financial Officer (acting)	J E M Stockton
Chief Digital Officer	R T Wilkinson
Chief People Officer	R E Knewstubb
Director – Category	N M Scrymgeour
Director – Customer Experience	J M Strange
Director – External Relations	M A McHardy
Director – Growth and Innovation	A K Horsbrugh (resigned September 2021)
Director – Marketing	N S Baylis
Director – Supply Chain	P A Bracefield
General Manager - Sales and Retail	J W Campbell

Independent Auditor's Report

To the members of Farmlands Co-operative Society Limited

Our opinion

In our opinion, the accompanying financial statements of Farmlands Co-operative Society Limited (the Society), including its subsidiaries (the Group), present fairly, in all material respects, the financial position of the Group as at 30 June 2021, its financial performance and its cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and International Financial Reporting Standards (IFRS).

What we have audited

The Group's financial statements comprise:

- the balance sheet as at 30 June 2021;
- the income statement for the year then ended;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity and members' interests for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) (ISAs (NZ)) and International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with Professional and Ethical Standard 1 *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)* (PES 1) issued by the New Zealand Auditing and Assurance Standards Board and the *International Code of Ethics for Professional Accountants (including International Independence Standards)* issued by the International Ethics Standards Board for Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Our firm carries out other services for the Group in the areas of assistance with legislative compliance. The provision of these other services has not impaired our independence as auditor of the Group.

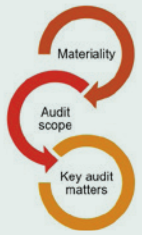
Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current year. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Description of the key audit matter	How our audit addressed the key audit matter
Revenue recognition The Group's revenue primarily consists of the sale of goods and services to the members of the Co-operative. Total revenue is $1,083 million as outlined in Note 3 of the financial statements. As described in Note 2.3 b) of the financial statements the Group applies NZ IFRS 15 Revenue from Contracts with Customers in determining their revenue recognition accounting policy. Management exercises judgment in determining whether the Group is an agent or a principal for certain sales arrangements. After considering the various contractual terms with the members and the suppliers of Farmlands Card purchases (Card Revenue) management has concluded that: • for the goods or services purchased by a member of the Group on their Farmlands Card, where the Group does not obtain control of the goods or services, in accordance with NZ IFRS 15, the Group is acting as an agent. • for goods and services sold by the Group where the Group obtains control of those goods or services before control transfers to the member, in accordance with NZ IFRS 15, the Group is acting as a principal for these sales. We have given significant audit focus and attention to the recognition of revenue in the light of the judgements in applying NZ IFRS 15.	Our audit procedures included: • updating our understanding of management's assessment for agency vs principal considerations; • examining, on a sample basis, contractual terms with suppliers and Co-operative members to determine that management's conclusion in relation to the transfer of control was appropriate; • testing the accuracy of revenue recognition for sale of goods and services where the Group is acting as an agent, as well as for sale of goods and services where the Group is acting as a principal on a sample basis; • performed substantive transactional testing to validate the existence of a sample of revenue transactions; • obtained external confirmations and tested the operational effectiveness of information technology general controls to allow us perform substantive analytical procedures over the revenue earned from agency revenue relationships; • assessing the adequacy of disclosures in the financial statements to ensure that they are compliant with the requirements of NZ IFRS 15. Based on the results of our procedures we have nothing to report.
Inventory existence and valuation As at 30 June 2021, the Group held net inventories of $108.2m. Inventory existence and valuation was an area of audit focus due to the material size of the inventory balance, number of locations that the inventory was held at and the judgement applied in the valuation of inventory on hand. As described in note 2.3 m) of the financial statements, inventories are carried at the lower of cost and net realisable value. The Group has systems and processes, including a barcode inventory management system, to accurately record inventory movements. Management performs full stocktakes close to period end at each of their feed and seed locations. Retail counts are performed multiple times per year at all store locations.	Our audit procedures included: • attending the year end stocktake for a selection of feed and seed locations and performed our own test counts on a sample basis; • attending a selection of retail counts at store locations and performed our own test counts on a sample basis. Additionally, we inspected supporting documentation for a further sample of counts performed across various stores to ensure accurate recording of count results; • evaluating the assumptions made by management in developing the obsolescence provision through an analysis of inventory items by category and age; • assessing the accuracy of management's inventory obsolescence provision estimate by reviewing the level of inventory write downs during the period and assessing the margin at which inventory items were sold during the period; • testing that inventory on hand at the end of the period was recorded at the lower of cost and net realisable value by testing a sample of inventory items to the most recent sales price. Based on the results of our procedures we have nothing to report.

Our audit approach

Overview



Overall group materiality: $5.4 million, which represents approximately 0.5% of total revenues.

We chose total revenues as the benchmark because, in our view, it is the benchmark against which the performance of the Group is most commonly measured by users, and is a generally accepted benchmark.

We performed a full scope audit over the consolidated financial information of the Group.

As reported above, we have two key audit matters, being:

- Revenue recognition
- Inventory existence and valuation

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance about whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Group materiality for the financial statements as a whole as set out above. These, together with qualitative considerations, helped us to determine the scope of our audit, the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate, on the financial statements as a whole.

How we tailored our audit scope

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industries in which the Group operates.

Other information

The Directors are responsible for the other information. The other information comprises the information included in the Directors' Report, Society Particulars and Annual Report (but does not include the consolidated financial statements and our auditor's report thereon). The other information we obtained prior to the date of this auditor's report comprised the Directors' Report and Society Particulars. The remaining other information is expected to be made available to us after that date.

Our opinion on the consolidated financial statements does not cover the other information and we do not and will not express any form of audit opinion or assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the other information not yet received, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the Directors and use our professional judgement to determine the appropriate action to take.

Responsibilities of the Directors for the financial statements

The Directors are responsible, on behalf of the Society, for the preparation and fair presentation of the financial statements in accordance with NZ IFRS and IFRS, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements, as a whole, are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (NZ) and ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located at the External Reporting Board's website at: https://www.xrb.govt.nz/assurance-standards/auditors-responsibilities/audit-report-1/

This description forms part of our auditor's report.

Who we report to

This report is made solely to the Society's members, as a body. Our audit work has been undertaken so that we might state those matters which we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Society and the Society's members, as a body, for our audit work, for this report or for the opinions we have formed.

The engagement partner on the audit resulting in this independent auditor's report is Nathan Wylie.

For and on behalf of:

PricewaterhouseCoopers

Chartered Accountants
27 September 2021
Christchurch

PricewaterhouseCoopers, PwC Centre, Level 4, 60 Cashel Street, PO Box 13-244, Christchurch 8141, New Zealand
T: +64 3 374 3000, www.pwc.co.nz