ANNUAL REPORT 2020

Together stronger™

Farmlands co-operative

Franz and Sandy Imlig, Lower Kaimai

Jayne Openshaw (Farmlands Technical Field Officer) and Mark Faulks, Mount Somers

Harold O'Connor, Kapuka, Invercargill

Erin Train, Waihau

Brooke Dickey, Rakaia Gorge

Ben Finney, Broomfield

Welcome/Intro

For more than half a century, shareholders have trusted our co-operative to drive competition and value. Our purpose is to *Grow Shareholder Success.* We will achieve this through our mission, which is to *Harness our co-operative spirit to be first for New Zealand food and fibre inputs.*

We have incorporated integrated reporting into this year's Annual Report. Integrated reporting allows us to explain how we provide benefits across our entire value chain, as well as providing more visibility of (and ultimately how we are performing against) our goals.

After a year unlike any other, we would like to thank our shareholders, staff, partners, suppliers and supporters of Farmlands Co-operative. **Together Stronger.**

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Your Feedback is Important

Our Annual Report aims to provide shareholders with the information they need to keep up to date with the progress of their co-operative. We would love to hear your feedback on any improvements we could make.

To let us know your views, please visit farmlands.co.nz/annualreport

Sustainability

As part of our commitment to sustainability, this Annual Report is printed on an environmentally responsible paper produced using Third Party certified 100% Post-Consumer Recycled Process Chlorine Free (PCF) pulp from Responsible Sources.

Manufactured under the strict ISO 14001 Environmental Management System, and carries the internationally recognised EU and Nordic eco-labels, as well as the Austrian Environmental Label.

CEO Report

— *Peter Reidie*

Tēnā koutou katoa. As long as people have worked the land, remaining resilient in the face of uncertainty and change has been a challenge.

At Farmlands, we seek to supply the advice and products at the best price that our shareholders require to build their resilience and financial success, whatever the challenges they face. For this reason, our Purpose is to *Grow Shareholder Success*. We aim to achieve this through the delivery of our Mission – *Harness our Co-operative Spirit to be first for New Zealand food and fibre inputs.*

Performance

COVID-19 is a storm that has inundated almost all boats. It turned the 2019/20 financial year (and will continue to affect the financial year to come) into a period of challenge and uncertainty unlike anything most of us have experienced in our lifetimes. The fact that our business remains robust provides grounds for confidence.

Our Net Profit Before Tax and Rebates of $7.0m is a credible result given the year. It is important to acknowledge this positive result is on the back of immense support from our people, shareholders, suppliers, landlords, other stakeholder partners and an $8.8m Government wage subsidy, which sustained our business through the first wave of COVID-19.

The pandemic and subsequent need to protect our people negatively impacted New Zealand's economy. The country, as one community, rallied in support of each other. Farmlands has been a grateful beneficiary of this. In particular, I want to state our appreciation to the landlords of our Farmlands sites – all of whom extended rent relief during the second half of our financial year. Without the response we initiated, including accessing the Government wage subsidy, rent relief, staff remuneration sacrifice, supplier support and other austerity measures, Farmlands would have incurred a substantial loss.

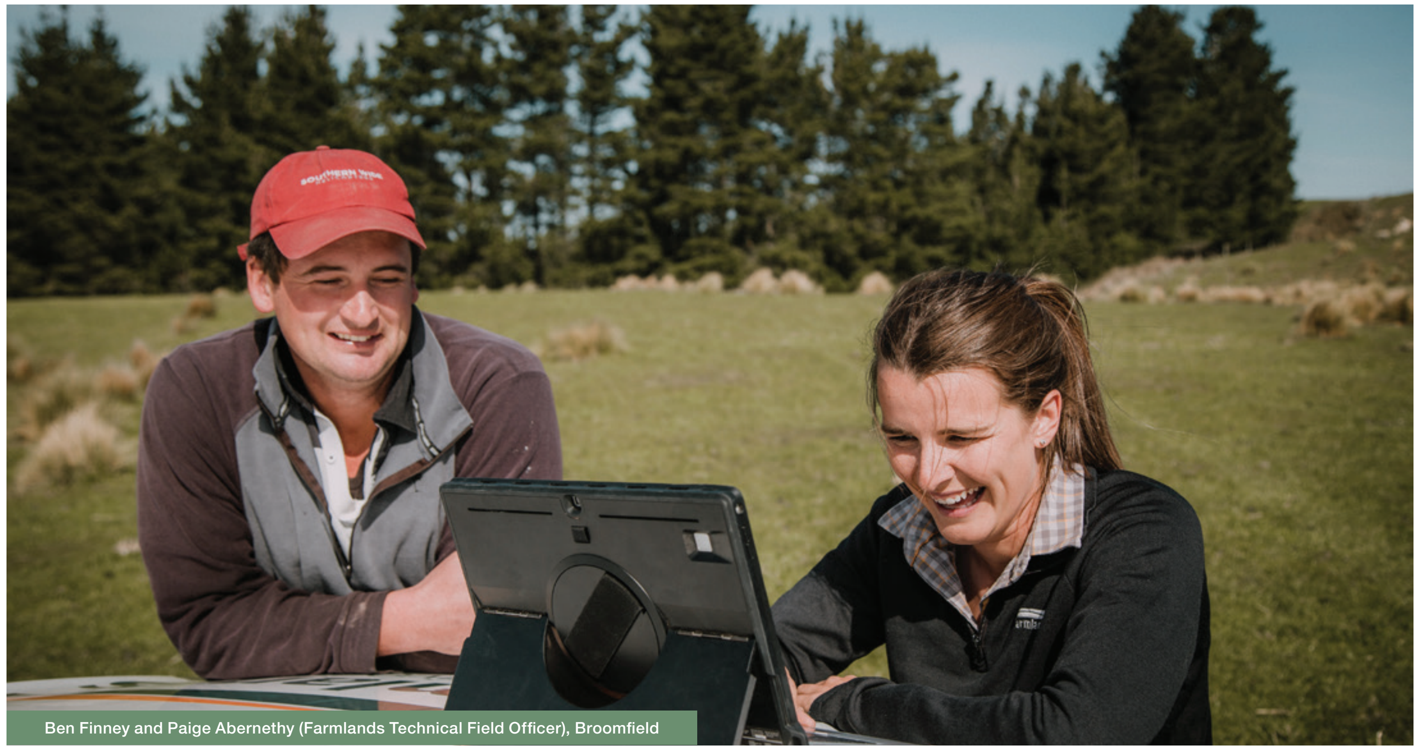
Farmlands, like businesses the length and breadth of the country, felt the impact of the virus on our operational performance over the last three months of the financial year. Through April, we experienced a drop in revenue of more than 30%. Sales in May tracked circa 15% behind the same period last year and for the year to June our sales performance was down 3.7%.

These sobering figures were experienced in spite of the core role that farming plays in our economy. Thankfully, our business was categorised as an essential service, which meant we could continue to trade while closing access to our stores through Alert Levels 3 and 4. Although COVID-19 has put us to the test, even endangered us and threatened our financial health, the resilience of our operation and business model, and the commitment of our people to support their shareholders, shone through.

Further details on our financial performance can be found in the Chairman's Report and our financial statements.

Laura and Gemma Dawkins, Marlborough

Trev Ennor and Joseph Butler (Farmlands Technical Field Officer), Waipukurau



Ben Finney and Paige Abernethy (Farmlands Technical Field Officer), Broomfield

Trading in a pandemic

The fact we were able to trade at all during Alert Levels 3 and 4 came down to the hard work and dedication of the Farmlands team. With support from our external partners, our Technology team was able to provide a functioning e-commerce platform within 4 weeks – an immense effort that made global headlines through international partners such as Microsoft and Adobe. The doors to our store network were required to be shut but our Farmlanders remained available in-store to organise orders for collection, to provide our shareholders what they needed to continue working their land. Our in-store teams responded amazingly positively to the complexity of packing every order, engaging with customers around what we could provide, answering phones and ensuring that orders could be collected at the time committed to. Many of our field staff also helped out in stores, which is also a testament to the people of Farmlands' desire to do right by our shareholders, even in the most challenging of times.

> *"The country, as one community, rallied to support each other. Farmlands has been a grateful beneficiary of this."*
>
> *— Peter Reidie, CEO, Farmlands Co-operative.*

The COVID Click and Collect online store is a success story for our organisation and is testament to the Farmlands Co-operative Spirit. Our shareholders needed us and we responded accordingly. In its first month, the Click and Collect store brought in more than ten times more revenue than the previous e-commerce site had in an entire year.

The lessons of COVID Click and Collect reflect not only what is possible. It also reflects the benefits of change accelerated by circumstance. While our e-commerce platform provided a better site and offer than the previous version, it also highlighted our shareholders' and customers' receptiveness to, and need for, digital solutions and the benefits they can provide.

While the Alert Level 4 lockdown played out, Farmlands also focused on what we can control – our cost base. Our co-operative implemented a range of measures to, wherever possible, mitigate the effects of steep revenue declines.
This included:

- Cancelling our National Conference and stopping all air travel on Farmlands business.
- Establishing a headcount freeze, with the objective of not replacing people while we remained exposed to adverse trading circumstances.
- Asking our people for voluntary uptakes of annual leave and work hour reductions.
- Seeking the voluntary removal of annual incentive entitlements for the staff entitled to them.
- Freezing wage and salary increases for the financial year.
- Reaching out to landlords to request and receive rent relief during challenging trading conditions.
- Applying for – and receiving – the Government wage subsidy.
- Instigating an "ideas register" for staff to contribute their own cost reduction ideas.
- Remaining closed for Saturday trading during higher Alert Levels – a decision that allowed us to provide staff with a well-earned rest as they worked physically harder during lockdown.

+60
Net Promoter Score

$48.8m
Returned to shareholders via Farmlands Card rebates

6.5m
Total number of Farmlands Card transactions

$4.1m
Choices loyalty rewards earned by our shareholders

Balancing the need to protect our business while ensuring the safety and wellbeing of our people was a visible marker on our year's performance. We are proud that all of our people could be supported through this time, even those who were unable to be at work due to being vulnerable or at increased risk.

The pandemic has also sharpened our focus on where we need to further improve our performance to serve our shareholders better. Farmlands has energetically assumed a leadership role in the big and sometimes confronting field of Health and Safety through such things as the introduction of SafeFarm and SafeVisit, free safety apps for shareholder on-farm use. The pandemic has yielded us a fresh (if unexpected and unwelcome) opportunity to walk the talk on this commitment. We have made the call to place support and wellbeing ahead of profit as we navigate the period of stress and uncertainty we are currently experiencing.

Braveheart and beyond

While the second half of our financial year was dominated by resilience, our first half was dominated by achievement. In November, Farmlands completed the implementation of our massive three-year business transformation programme, known as Braveheart. This programme consolidated all of our legacy IT systems into one, providing us with a holistic view of our co-operative on one system for the first time. Farmlands has been built on a series of mergers and acquisitions over close to 60 years. This resulted in multiple (and in some cases obsolete) ERP platforms operating simultaneously. The fragmentation of multiple systems running simultaneously was negatively impacting both our operations and our results.

> ***"This journey never ends and you will see our desire to consistently do better being made apparent through constantly upgrading what, and how, we offer to our shareholders."***
>
> ***— Peter Reidie, CEO, Farmlands Co-operative.***

Braveheart enables us to generate a whole-of-business view. It has been a monumental undertaking and a very significant investment. During the three-year implementation phase, every shareholder, staff member, supplier and partner has been affected by the roll-out. We now have new Point of Sale systems at all of our 82 retail stores.

It would be difficult to overstate the demands the roll-out of Braveheart has made on our people. Their commitment to getting it done has been critical to the success of the programme and I offer my warmest thanks to them for their hard work and their dedication. I also acknowledge that the system change has not been without "bumps in the road", as we have had to adjust our processes, behaviours, skills and introduce new ways of working. I thank our shareholders for their additional tolerance during this phase.

Having consolidated all our business systems into one unified platform, we now turn to the challenge of ensuring that the structure of our organisation is also fit for purpose – that is, making the best use of the investment we have made in our systems. Our strategic plan for the next 12 months and beyond has identified where we need to improve our performance. The experience we've endured with COVID-19 has, if anything, prompted us to sharpen our focus on this next phase of re-organisation.

We have identified that our business unit structure had resulted in duplication, unnecessary complexity and made us more difficult to do business with than we needed to be. Put bluntly, we haven't been as efficient as we could be – and if that was a problem for us, it would certainly be an issue for our shareholders. We exist for them. Our purpose is to *Grow Shareholder Success.* We have already re-organised our business for the coming years to allow us to better deliver on the mission we have set ourselves – *Harness our co-operative spirit to be first for New Zealand food and fibre inputs.*

Ennor Family, Waipukurau

Braveheart is actually the beginning of the journey, not the end. We not only have to organise based on the benefits the system can give us, we have to use the system backbone to offer better solutions across the board. I am confident you will see better information provided to you from the Farmlands team, more accessible and appropriate shareholder portals, new and improving e-commerce platforms and a more efficient and effective Farmlands operation – to name a few. This journey never ends and you will see our desire to consistently do better being made apparent through constantly upgrading what, and how, we offer to our shareholders.

Sustainability

As I stated in last year's Report, Farmlands has embarked on a journey to integrate sustainability into everything we do. We view the drive for sustainability as increasingly key to the decisions farmers and growers will be making with regard to their essential inputs and farming practices.

We are providing ongoing support to a number of important sustainability initiatives, some of which we highlight later in this Annual Report. We have also undertaken an independent sustainability audit, via Toitū Envirocare, to capture our carbon footprint, identify areas for improvement and develop plans that reduce our impact on the earth. To achieve accreditation, Farmlands Co-operative has committed to reducing our carbon footprint by at least 30% by 2030.

To assist in reporting our sustainability initiatives, we are adopting an integrated reporting format. This is designed to make us more accountable and visible, tracking our performance and delivery against our strategies.

Kapuka, Invercargill

John Mathers and Malcolm Wyllie (Farmlands Technical Field Officer), Sefton

108.5m
Litres of fuel transacted via Farmlands Card

119k & **72k**
Phone calls answered by Contact Centre | Emails actioned by Contact Centre

The Pyramid, Marlborough

Putting our people first

A top priority for us is to continue to embed the positive Health and Safety culture we are building at Farmlands. We are committed to directing significant resource towards monitoring and improving the health, safety and wellbeing of our people. Our intention is to be recognised as the sector leader in this aspect of our business.

This ambition has been realised through market-leading health, safety and wellbeing initiatives. We have strengthened our existing programmes to increase engagement, while reducing harm across our business through wellbeing initiatives and an approach to safety that involves everyone.
This included:

- As an organisation, actively participating in (and promoting) Mental Health Awareness Month for the first time.
- Continuing to evolve and develop our 'critical risk' framework, whereby we create a more robust and effective means to keep our people safe during our most at-risk activities.
- Combining health, safety and wellbeing training in both our Senior Leader and Frontline Leader training courses, to build our capability.
- Once again, raising the bar on our Health and Safety reporting. This year 7,416 Safety Interactions were recorded – an increase of 29%.

Our health and safety education focus complements our commitment to knowledge and capability across our organisation. We have launched our 'Centre of Learning' – an education hub designed to provide best practice guidance on how our people can be more effective in their roles. The Centre of Learning doubles as a national and global network, opening up opportunities to learn from leading technical experts on all aspects of the primary sector and our business.

312
Shout Outs submitted recognising our hard working Farmlanders

7,421
Safety Interactions submitted
30% increase on previous year

$649k
Spent on learning and development upskilling our Farmlanders

574
New SafeFarm accounts created

&

2,916
Downloads of the SafeVisit app

Highlights

Our ambition is to drive benefit across every part of our co-operative. We are committed to providing our shareholders with quality inputs at the best possible prices. Over and above that we are seeking to be in a position where we can help them solve the challenges they are facing in an ever-changing, increasingly demanding world. During the year, we have taken steps towards this:

- Farmlands has signed Memorandums of Understanding with Manaaki Whenua - Landcare Research, AgResearch and Beef + Lamb NZ. Each agreement is a commitment to work with these organisations in the primary sector to stay at the front of innovation. Where our shareholders need to be in the future, Farmlands wants to have the roadmap to get there.
- The first part of our ambitious Beyond Plastic project has been completed. Farmlands Card is now accepted for online shopping at two Card Partners, Topmaq and Repco, with more to be added in the near future. This is an important step forward to providing our shareholders with even more value.
- Earlier this year, we announced Ford would return as our strategic vehicle partner. This has been a popular choice, with more than 200 Ford vehicles sold in the first 3 months (which included the majority of Alert Level 4).
- To increase the reach of real estate services to our shareholders, Farmlands Real Estate merged with Property Brokers. The agreement means more shareholders than ever before have direct access to real estate services via their co-operative.
- The development and implementation of a revised pricing model brings clearer, fairer, more consistent pricing to all Farmlands stores. Our 5% discount to shareholders is clear and present to all.
- Providing our Gore shareholders with new, purpose-built premises. The remainder of our store network has continued to benefit from our store layout programme, with 63 of 82 stores now featuring improved layouts that provide opportunities to stock more products.
- Close to $650,000 spent on the training and development of our people. Fostering the capability of our people is a key focus and something we have developed further through our in-house Centre of Learning hub, the Kellogg Rural Leadership Programme and partnerships with like-minded primary sector organisations.
- The completion of 2,775 online modules, delivered by our Learning Management System (LMS). This includes 1,235 successful completions of training sessions resulting from the Braveheart Programme, to prepare our people for our new systems, processes and developing their leadership and technical capabilities.
- 32 people completed internal leadership programmes, to foster our next generation of leaders.
- Delivery of $91.1m in benefits to shareholders, made up of $38.3m in rebates at Point of Sale, $48.8m in discounts and rebates from our Card Partner network and $4.1m in Choices Rewards Points earned.

Summary

In a year like no other, your co-operative is committed to continuing its significant presence in our local communities. Through perseverance and ambition, we have delivered a combination of technical expertise and support, leading products and competitive pricing to our shareholder base.

In the context of our year it is a result we can have comfort with, but we know we can do better. I am confident our shareholders will see us doing that in 2021 and beyond.

It is all possible through your ongoing support, along with our suppliers, partners, communities and of course, our people. Thank you for being part of our journey to grow shareholder success.

Kia ora rawa atu. Together Stronger.

The Pyramid, Marlborough

"We are committed to directing significant resource towards monitoring and improving the health, safety and wellbeing of our people. Our intention is to be recognised as the sector leader in this aspect of our business."

— Peter Reidie, CEO, Farmlands Co-operative.

Murray Hemi and Kingi Smiler, Masterton

Chairman's Report

— Rob Hewett

The world will always need food and fibre. Regardless of how this year has played out, there has been relentless demand for New Zealand's primary sector to supply the world's discerning consumers. Farmlands Co-operative has been there through pandemic, flood and drought, providing the supplies and services essential to support our country's producers.

COVID-19 has reminded urban consumers of the value their rural cousins provide as they sought refuge in high quality food and produce in uncertain times. The opportunity to re-frame the narrative away from an urban rural divide – towards the new value opportunities for our primary sector as the "next normal" of global urban living and consuming evolves – will become more apparent in the months and years ahead. With the stories and brand impact of movements such as Te Taiao and regenerative agriculture resonating strongly with our shareholders' customers, sector strategic thinking needs to seize this once-in-a-generation opportunity to cement and grow New Zealand's position globally as a trusted producer of high quality, safe, nutritious and ethically produced food supporting high-quality healthful urban living.

Financial result announcement

For the 2019/20 year, we have recorded a Net Profit Before Tax and Rebates of $7.0 million. This result has been built on revenue of $1.1 billion – a number impacted considerably by both COVID-19 and challenging seasonal events. Our co-operative performed well in the first half of the year and despite being affected negatively by the global pandemic in the second half of the year, we were pleased with the planning and rapid decision making of management – and the support from many of our business partners – that resulted in us strengthening the business and positioning it to weather ongoing uncertainty, while remaining nimble for the year ahead.

The unpredictable nature of our trading year forced our focus squarely onto what we could control. Working capital debt was materially decreased, reducing total debt levels. This resulted from a concerted effort to improve working capital efficiency collaborating with our stakeholders, including reducing our cost base, with the Board of Directors challenging the management team as part of this to accelerate its strategy for driving value from our investment in the Braveheart Programme. Debt reduction, working capital efficiency and strengthening our core business through Braveheart remain an ongoing focus.

Shareholder equity and members' interests currently sit at $130.7m, adjusted to reflect new IFRS 16 financial reporting guidelines. Total assets are $592.1m (up $100.8m) and our equity ratio currently sits at 22.1%.

Despite the significant financial impact of COVID-19, the co-operative continued paying monthly rebates, providing discounts to shareholders and Choices Rewards Points, with total value delivered for the year of $91.1m.

However, as COVID-19 remains a considerable source of uncertainty for the year ahead, and our result benefitted from Government wage subsidy support, the Board of Directors have decided it would not be appropriate to distribute an additional "final" or "Bonus" Rebate this year. While the Board knows this is disappointing for shareholders, I am sure we all appreciate the unique nature of the climate we have traded in for the second half of our financial year, the heightened uncertainty this presents to the company and the need accordingly to preserve cash as much as possible until the outlook improves.

Wairarapa Moana Incorporation, Masterton

Paige Abernethy (Farmlands Technical Field Officer)

John Mathers and Malcolm Wyllie (Farmlands Technical Field Officer), Sefton

Our new world – and the challenges we face

COVID-19's ramifications will be felt by New Zealand businesses for years to come. Under the lockdown in April, Farmlands was classified as an essential service by the Ministry for Primary Industries. Despite responding swiftly to continue providing supplies and services to our shareholders in a way that complied with lockdown conditions, our business still suffered significant revenue downturns during Alert Level 4.

I am proud of how the whole Farmlands team responded. The Board of Directors kept abreast of developments and decisions throughout with regular out-of-cycle Zoom meetings, with the safety and wellbeing of shareholders, staff, suppliers and communities prioritised above all else. Regular communication provided reassurance to all our stakeholders at a time when it was otherwise hard to come by.

We acknowledge that uncertainty is part of running any business and that significant events can and will fundamentally continue to challenge our ability to discover and maintain enduring competitive advantage. The primary sector particularly has been dealing with increasing uncertainty over the last 3 years from many factors, including:

- Environment-driven regulatory reform (impacting natural resource use – land, water and soil), influencing farm management practices and sector risk-reward profiles.
- Regional regimes for freshwater management that will take years to unfold and resource.
- Capital availability with tightening bank appetite, particularly for Dairy, and reduced access to offshore equity capital.
- Labour and skills shortages.
- Climate-change driven drought, flooding and the associated costs of mitigation.
- Technology-driven disruption including alternative farming systems and products, digital routes to market, precision farming, and new forms of tracking, tracing and monitoring.
- Volatility in export markets and commodity prices.

COVID-19 has introduced a whole new layer of uncertainty. It's been called 'unprecedented' and viewed universally as a previously inconceivable level of risk affecting almost all businesses. Our initial concerns were for the supply side of our business i.e., access to adequate supplies of our core product lines from suppliers affected by global supply-chain disruption. Now, more than 6 months on, while that remains a risk we have also had to turn our focus to understanding and planning for demand-side disruption, such as the impacts for farmer-grower sentiment and incomes on longer-term trend changes noted above.

While commodity prices have performed well throughout COVID with discerning global consumers increasingly seeking out New Zealand food, it remains difficult for our exporters to predict structural offshore markets impacts over the next 12 to 18 months with confidence. Being nimble and continuing to actively seek out opportunities as the environment changes, often quickly, remains pivotal to their ongoing ability to adapt and thrive. There is no doubt that lost GDP, global unemployment increases (particularly in service industries), lower incomes, evolving consumer behaviours and innovations exploiting these trends are collectively accelerating change as the world adjusts to the so-called "next normal". Our challenge is to position Farmlands effectively and quickly for both the opportunities and risks of this new environment.

In parallel there is also significant environmental law change. The recent Climate Change Response (Zero Carbon) Amendment Bill and its aim of net zero carbon emissions by 2050, including a separate target required for livestock-produced biogenic methane will force sweeping changes to on-farm and livestock management practices.

> ***"The opportunity to re-frame our narrative away from an urban rural divide – towards the new value opportunities for our primary sector … will become more apparent in the months and years ahead."***
>
> ***— Rob Hewett, Chairman, Farmlands Co-operative.***

On 3rd September, new National Environmental Standards for Freshwater (as part of the National Policy Statement for Freshwater Management) took effect. These new water quality rules are part of a raft of new regulations that will come into force over the next 4 to 5 years.

These incrementally introduced rules will impact nitrogen caps, stock holding pads, land intensification, winter grazing, irrigation, fencing and farm planning, amongst other activities.

Farmlands have a unique opportunity to work closely with shareholders and the supply chain to develop solutions enabling shareholders to navigate this new world successfully and to thrive and grow sustainably.

This is the impetus for our revised Purpose: *Grow Shareholder Success.* This is our "North Star" guiding the decisions necessary to deliver what our shareholders require to adapt and thrive in their businesses. Clarity is critical. The scale of change is large. The adaptation necessary to succeed is formidable. Time is short.

Farmlands' strategy and strategic planning process reflects this. High uncertainty has forced strategic time horizons down from the traditional 3 years to shorter spans with fewer, more targeted initiatives. The Board recently approved a 12-month strategic plan focused on aggressively targeting what we can control, mainly through strengthening our core business, while building durability around the areas we cannot. This will force us to prioritise the most pressing variables, while aligning our business to prepare for the changing requirements of our shareholders as they adjust for their evolving environments.

The Board of Directors has also approved an organisational structure change that aligns the business with delivering its strategic aims. Its main design aim is to enable the organisation to work more effectively as one, rather than as many separate business units. This allows Farmlands to better exploit the advantages of its new system through the Braveheart Programme, with the entire organisation aligned and focused on executing a compelling shareholder experience delivered through regional teams. It's a big change, but one that will enable Farmlands to be more agile, more adaptable, and to *Grow Shareholder Success.* These changes have already been implemented and while change is always challenging for people, the more collaborative approach in our future way of working has been welcomed by all.

Zespri, Te Puke

Our revised strategy also articulates a new mission – *Harness our co-operative spirit to be first for New Zealand food and fibre inputs.* This is our primary aim and reflects the collective faith of more than 72,000 farmers, growers and contractors in our ability to deliver the products and services that support their future success. And to that end, the next 12 months is about implementing and delivering the strategies that will strengthen our co-operative model, processes, key relationships and capability, particularly around data and digital.

Part of strengthening our operating model entailed a thorough review of our Card administration platform earlier in the year, and the annual fee Card holding members pay for that service. After many years of no change we increased this Membership Fee to better recover the actual cost of administering a Member Account and any associated Farmlands Cards today. This was discussed extensively by the Board following a management initiative to evaluate these costs, with the final decision based on ensuring both an appropriate recovery and that we maintain equitable treatment across all members. While our Membership Fee remains low relative to other comparable large organisations running card programmes, the change still elicited a passionate response from parts of our shareholder base. The Board strongly believes this annual fee is a small cost to access the considerable discounts and rebates available from both our own store network and the more than 7,000 outlets comprising our nationwide Card Partner network. Our average rebate per shareholder of $1,200 per Account is spread across nearly every input our shareholders need to manage their businesses. Our Card solution delivers considerable value and remains an asset to our shareholders in discounts and convenience and we are ambitious to grow these benefits further.

Greg Hart, Hawke's Bay

Community

A key part of Farmlands is taking the time to recognise and celebrate the people and communities that make our way of life so unique. We celebrate the many generations of your families that have worked your land through the Century Farm Awards. We bring big city attractions, like Super Rugby franchises, to New Zealand's heartland via the Farmlands Cup. While the volume of events this year was restricted by COVID-19, Farmlands remained a constant at the A&P Shows, community events and local functions that were able to run as scheduled.

It is difficult to categorise a year that has no peers or markers in the past century. It is important to acknowledge the achievements in the shuffle of a year of external headlines. Our co-operative has accepted the challenge of not only maintaining relevance but thriving. Thank you for your continued support of your 100 percent New Zealand owned co-operative.

He waka eke noa. We're all in this together.

Chairman acknowledgments

In my first year as Chairman of Farmlands Co-operative. I want to pay tribute to those that have contributed to our organisation's success – and those that will take it into the future.

At the end of 2019, Lachie Johnstone stood down as Chairman of Farmlands. Lachie's legacy as former Chair of Farmlands Trading Society – and inaugural Chairman of Farmlands Co-operative – cannot be understated. He was the leader of a co-operative movement that identified a national entity was the best way to derive more value for New Zealand's farmers and growers. We are indebted to Lachie for his longstanding and insightful contribution.

Lachie was joined by Murray Donald in stepping down from the Board of Directors last year. Murray's term with our co-operative was significant and his contribution to our Board table was appreciated.

At this year's Director Election, Nikki Davies-Colley retired from the Farmlands Board. Nikki joined Farmlands as a shareholder in 2004, when our co-operative moved into Northland. The last remaining Director from the 2013 merger between Farmlands Trading Society and CRT Co-operative, Nikki has been a constant to all of those that remain at the table. We are grateful for her contribution and wish her all the best.

As we farewell departing Directors, we welcome new faces and fresh thinking. Sjoerd Post joined the Farmlands Board as our third Independent Director and his experience and commercial acumen are already serving us well. On behalf of the Board, I extend a warm welcome to Sjoerd and thank him for his contribution so far.

Your co-operative has continued its focus on developing governance potential with Kerry Worsnop joining us for a year as our third Board Observer. I thank Kerry for her participation and look forward to watching her governance career develop with great interest. The process continues, with Will Clarke joining us in August as our fourth Board Observer to develop his own governance capabilities. Both Will and Kerry are graduates of our "To The Core" governance development program that we run jointly with Silver Fern Farms. It has been gratifying to see other "To The Core" graduates going on to develop their own agri-governance career. This is a clear indicator to the Board that our investment in this programme is valued by our shareholders and is seen as a way for Farmlands to give back to our communities.

The Farmlands Leadership Team has performed admirably in the face of unique challenges this year and their leadership has been commendable. I would like to thank Peter Reidie and his team for their stewardship of our co-operative during a year of considerable change.

Within the Leadership Team, I would like to officially welcome Nick Baylis to Farmlands as our new Director - Marketing. Nick's highly creative background and his track record of delivery is the perfect skill-set for our team.

I would like to thank all of our Farmlanders nationwide who have worked tirelessly through pandemic, natural disaster and considerable change to deliver services, supplies and solutions to our shareholders. All of this has been achieved while adapting to our new system – Braveheart. Their dedication and commitment is phenomenal and I applaud their efforts.

Finally, I would like to thank our shareholders, for continuing to support our mission to *Harness the Farmlands Co-operative Spirit to be first for New Zealand food and fibre inputs.* We never lose sight of who we are here for – and want to help grow your success.

— Murray Donald *— Nikki Davies-Colley* *— Kerry Worsnop*

Lachie Johnstone — *Sjoerd Post —* *Will Clarke —*

Our People

Farmlands' Board of Directors and Leadership Team come with a wide range of knowledge and experience from farming and business backgrounds.

Board of Directors *(From left to right)*

Gray Baldwin Shareholder Director
Nikki Davies-Colley Shareholder Director
Rob Hewett Chairman
Dawn Sangster Shareholder Director
Chris Dennison Shareholder Director
Sjoerd Post Independent Director
Julie Bohnenn Independent Director
John Journee Independent Director
Warren Parker Shareholder Director

To learn more about your Board of Directors please visit farmlands.co.nz/Directors

Farmlands Leadership Team *(From left to right)*

Andrew Horsbrugh Director – Growth and Innovation
Phillip Bracefield Director – Supply Chain
John Campbell General Manager – Sales and Retail
Richard Wilkinson Chief Digital Officer
Jess Strange Director – Customer Experience
Peter Reidie Chief Executive Officer
Mal Scrymgeour Director – Category
Kevin Cooney Chief Financial Officer
Nick Baylis Director – Marketing
Ruth Knewstubb Chief People Officer
Mark McHardy Director – External Relations

Governance

At the 2018 Annual General Meeting, shareholders voted unanimously to change the structure of the Farmlands Co-operative Board.

The decision allows Farmlands to adopt a new Board structure comprised of three North Island Shareholder Directors, three South Island Shareholder Directors and three Independent Directors (geographically fluid).

At the time of publishing, the results of the 2020 Director Election have not been announced. However, we will soon have made the final adjustment required to align our new Board structure.

This year's Director Election has two vacancies in the North Island. To make the final adjustment into our revised structure, the candidate that polls the highest will be elected for a 3-year term, while the candidate who receives the second highest number of votes will sit for a 2-year term.

By taking this approach, from next year each annual Director Election will consist of one North Island and one South Island Director retiring by rotation.

These changes allow for increased diversity of backgrounds and experience at our Board table. We continue to foster an increased rural governance talent pool through To The Core, held in conjunction with Silver Fern Farms. We have rescheduled this year's edition in the wake of COVID-19 but growing the skill-set of prospective Directors remains a priority for our Board. An example of this is our Board Observer programme. Now into its fourth rotation, the Board Observer programme continues to provide a front row seat to how our co-operative – and a leading New Zealand business – is governed.

Board Responsibilities

The Board has responsibility for the affairs and activities of the co-operative, while the day to day operations and administration are delegated to the Chief Executive.

The Farmlands Board follows best governance practice and the four pillars of governance, as advocated by the New Zealand Institute of Directors, establish the basis for that best practice.

The four pillars are:

- Determination of purpose
- An effective governance culture
- Holding to account
- Effective compliance

More specifically, the responsibilities include directing and supervising management in the following areas:

- Ensuring that the co-operative's goals are clearly established and strategies put in place to achieve them
- Establishing there are policies to improve performance
- Monitoring the performance of management
- Overseeing and monitoring the co-operative's financial position
- Ensuring that the co-operative adheres to appropriate values, ethics and corporate behaviour
- Ensuring that there are risk management and compliance policies in place

Board Committees

The Farmlands Board operates two multi-director committees:

- **Audit and Risk Management –** Julie Bohnenn (Chair), Sjoerd Post, Chris Dennison, Dawn Sangster, Rob Hewett
- **People and Performance –** Warren Parker (Chair), Nikki Davies-Colley, Gray Baldwin, John Journee, Rob Hewett

The Audit and Risk Management Committee assists the Board in matters relating to auditing, financial reporting and risk.

The People and Performance Committee provides guidance to the Board and the Executive team on the development of Farmlands' people and governance strategies. The Committee's functions include recommending to the Board the Chief Executive's and his direct reports' annual goals, performance evaluation and remuneration and recommending remuneration of Directors to shareholders.

Board Meetings

Farmlands Board meetings are generally held monthly, with extra meetings held if required.

Management reports from across the business are provided to Directors prior to the monthly meetings. Senior management from the co-operative are introduced to answer specific queries on those reports and to provide insight into relevant issues.

Changes to Financial Reporting

Last year, Farmlands Co-operative adopted the NZ IFRS 15 and 9 financial reporting standards.

Our adoption of these standards continues for the 2019/20 year plus adoption of the new leases standard, NZ IFRS 16.

NZ IFRS 16 Leases

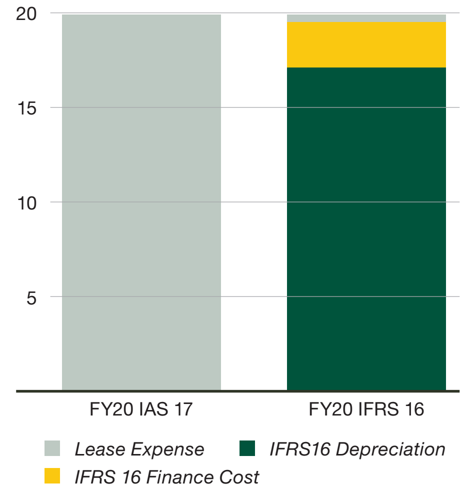
NZ IFRS 16 is a new standard that governs accounting for leases. It replaces the previous standard, NZ IAS 17 and takes effect for annual periods beginning on or after 1st January 2019. The new standard governs the recognition, measurement, presentation and disclosure of liabilities and rights to occupy in respect of operating leases.

For the 2020 financial year and onwards, operating and finance leases are now combined on financial statements whereas previously future committed operating lease liabilities were not recorded on the balance sheet. This holistic view allows anyone viewing our financial documents to assess the cumulative effect of all leases on each of our balance sheet, cash flow and income statement.

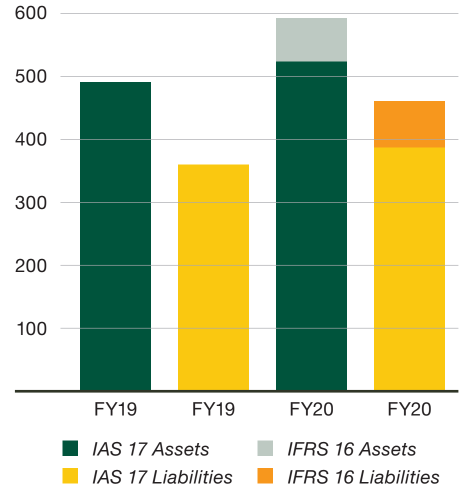
Farmlands has substantial operating leases in the form of its store network, vehicle fleet and fuel distribution assets.

To apply the new standards correctly, Farmlands has considered whether a lease contract will be extended or terminated. We have then applied the standard using the modified retrospective approach, which recognises any prior period impact as an adjustment to equity as at 1st July 2019, and further does not require any restatement of comparatives for the 2019 reporting period under its transition provisions. Accordingly, NZ IFRS 16 is wholly incorporated into this year's financial accounts.

For year end (30th June 2020), new right of use assets of $68m and associated lease liabilities of $75m have been recognised in the financial statements. The difference of $4.5m (after tax) has been reflected in retained earnings.



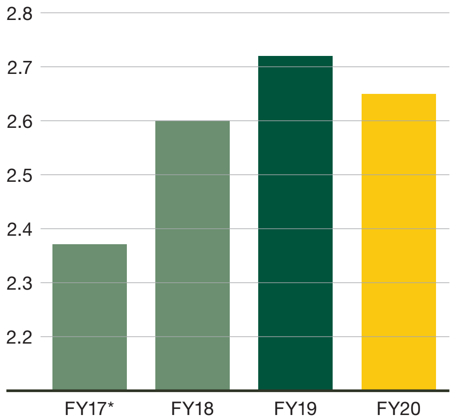
P&L Impact ($m)



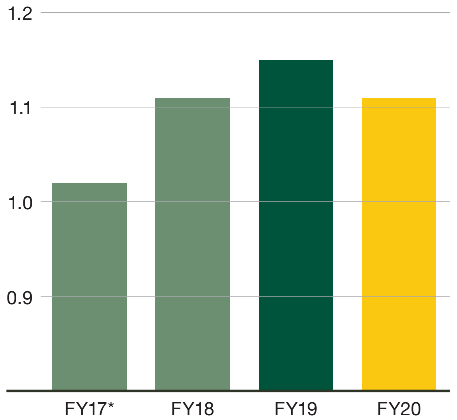
Assets & Liabilities ($m)

Financial Highlights Snapshot

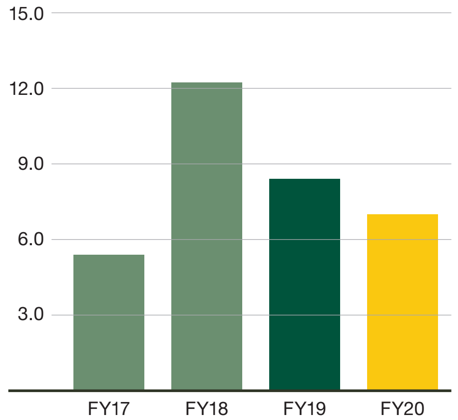
Our reported Net Profit Before Tax and Rebates of $7.0 million, built on $1.1 billion in revenue, can be considered another step forward and validation of our attempts to build resilience in our business.



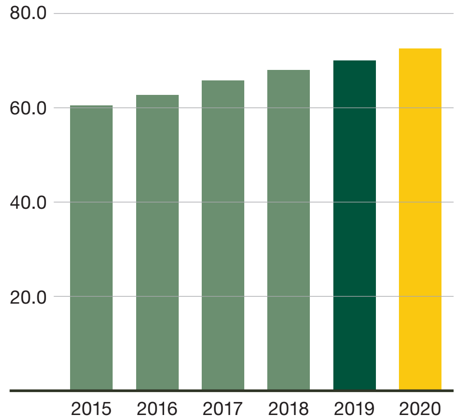
Farmlands Gross Turnover ($b)
*Unaudited



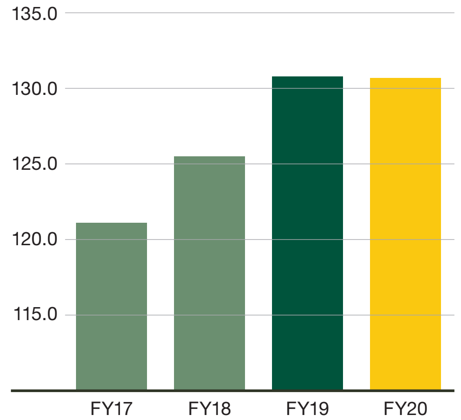
Farmlands Revenue ($b)
*Unaudited



Farmlands Net Profit Before Tax and Rebates ($m)



Farmlands Shareholders (000's)



Equity and Members' Interests ($m)

$2.6b
Farmlands Gross Turnover ($b)

$1.1b
Farmlands Revenue ($b)

$7.0m
Farmlands Net Profit Before Tax and Rebates ($m)

72.5k
Farmlands Shareholders (000's)

$130.7m
Equity and Members' Interests ($m)

Director Remuneration

Director	Value
R J Hewett, Lawrence (Chair of Board)	$108,721
L J C Johnstone (retired 21 November 2019)	$54,945
G W Baldwin, Putaruru	$65,000
J A Bohnenn, Rangiora, Independent, (Chair of the Audit & Risk Management Committee)	$71,000
N P Davies-Colley, Whangarei	$67,000
C J Dennison, Oamaru	$65,000
M W A Donald, Invercargill (retired 21 November 2019)	$25,510
J Journee, Auckland, Independent	$65,000
W J Parker, Rotorua (Chair of the People & Performance Committee)	$67,000
S Post, Auckland, Independent (appointed 21 November 2019)	$39,623
H D Sangster, Ranfurly	$65,000
	$693,799

Staff Remuneration

Remuneration and value of benefits	Number of employees	Average salary	Average other	Average total
$100,000 – $110,000	65	$92,761	$11,713	$104,474
$110,000 – $120,000	47	$100,974	$12,868	$113,842
$120,000 – $130,000	39	$112,400	$12,703	$125,102
$130,000 – $140,000	25	$121,402	$12,429	$133,832
$140,000 – $150,000	11	$133,122	$11,412	$144,534
$150,000 – $160,000	15	$141,823	$13,551	$155,374
$160,000 – $170,000	8	$153,796	$12,515	$166,312
$170,000 – $180,000	9	$159,838	$15,184	$175,022
$180,000 – $190,000	5	$172,172	$14,303	$186,476
$190,000 – $200,000	7	$178,957	$14,697	$193,654
$200,000 – $210,000	3	$190,327	$13,839	$204,167
$210,000 – $220,000	3	$203,775	$10,739	$214,514
$220,000 – $230,000	2	$209,144	$15,002	$224,146
$230,000 – $240,000	4	$221,219	$12,912	$234,131
$250,000 – $260,000	1	$244,851	$13,110	$257,961

Remuneration and value of benefits	Number of employees	Average salary	Average other	Average total
$310,000 – $320,000	2	$292,903	$21,498	$314,401
$320,000 – $330,000	1	$309,067	$14,225	$323,292
$330,000 – $340,000	1	$317,044	$13,757	$330,801
$380,000 – $390,000	2	$376,909	$11,666	$388,575
$400,000 – $410,000	1	$392,114	$15,748	$407,862
$470,000 – $480,000	1	$452,749	$20,213	$472,962
$480,000 – $490,000	1	$462,931	$18,773	$481,704
$1,020,000 – $1,030,000*	1	$963,768	$61,686	$1,025,455

CEO Remuneration

Employee Entitlements	FY19 $000	FY20 $000
Total	$83,417	$80,745

What Drives Us

Welcome to our first report on our integrated reporting journey. This report explains how Farmlands Co-operative creates value over time to achieve our purpose; *Grow Shareholder Success.*

This section sets out our business model and how we are creating and contributing to a better New Zealand. It includes an overview of the food and fibre value chain and our mission within the value chain: *Harness our co-operative spirit to be first for New Zealand food and fibre inputs.*

Our Strategy

This year we have refreshed our strategy. This entailed revisiting our purpose, mission, goals and strategies so that we can continue to evolve and do the job shareholders require of us and in turn deliver the benefits and value necessary to grow their success, regardless of location.

For Farmlands Co-operative to maintain its standing as a trusted partner of rural New Zealand, we need strong foundations. Our purpose – and our mission – exist to support shareholders, driving visible value from their business.

Together stronger™

Purpose — Our why

Grow Shareholder Success

Harness our co-operative spirit to be first for New Zealand food and fibre inputs

Our goals – Our aims

Best Customer Experience

Knowledgeable, personalised, relevant, intuitive, fast, convenient, for lower cost to serve

Be the Trusted Partner

Independent, collaborative, experts, engaged

Insight-led

Actionable insights that enable shareholders to navigate uncertainty

Safe engaged people

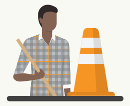
Strategies – How we achieve our goals

Strengthening and growing our core

– In our operating-model, processes, relationships and capability

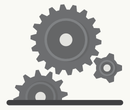
- Accelerate digital for an unbeatable customer experience
- Optimise our supply chain
- Strengthening processes
- Deepen relationships
- Be sustainable
- Be adaptive performance-led

Measure – How we make progress



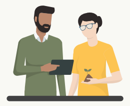
People & Safety

Business and personal KPI's and eNPS



Processes

Faster, more accurate, less friction



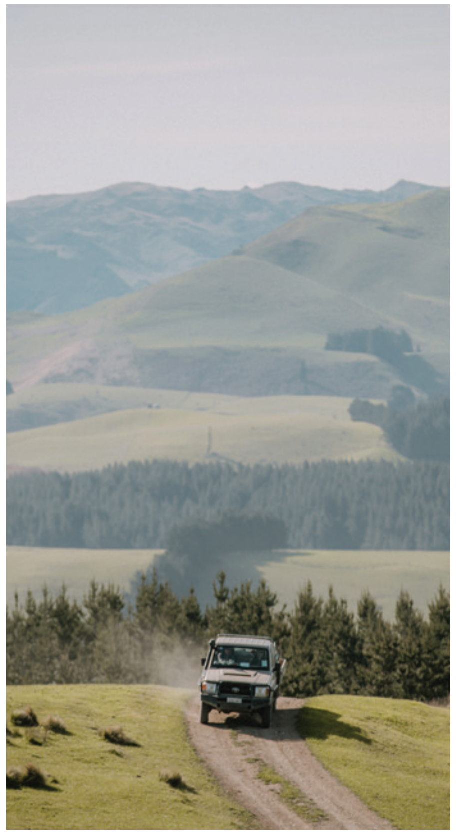
Customers

Engagement, customer experience, lifetime value

Financial

Strengthened balance sheet

Values – Our behaviours



Ben Finney and Paige Abernethy (Farmlands Technical Field Officer), Broomfield

Grow Shareholder Success

Harness our co-operative spirit to be first
for New Zealand food and fibre inputs

Together stronger™

Farmlands co-operative

How we Create Value

We seek to operate a sustainable business with regard to the interests of all our major stakeholders in terms of profitability, people and planet.

Our inputs are the resources (or 'capitals') that we use in the process of creating value for our shareholders. These are deployed in or affect our business activities.

Outputs – ultimately the outcomes of how we create value – are what emerge from the interactions between us and our major stakeholders as part of our day-to-day business, including impact on the communities we operate in.

	Inputs		Outputs and Outcomes		
Our Relationships	We source and make essential farm inputs and services through our partnerships with our suppliers, our Card Partners and manufacturers.		We get best value for our shareholders in the form of relevant solutions, best pricing, and rebates and rewards that improve on-the-ground performance.	• *Over 7,000 suppliers* • *5,000+ Card Partners providing rebates and discounts at 7,000+ locations* • *Over 72,000 shareholders*	Our Relationships
Our Networks	We distribute products through our nationwide store and distribution network.		We support local communities and are proud to be an integral stakeholder in regional New Zealand.	• *82 stores in towns and cities around New Zealand* • *42 fuel tankers, 11 fuel stop sites*	Our Networks
Our Financial Capital	We use our Balance Sheet and buying power to consolidate procurement of products and services.		We provide both shareholders and vendors with consolidated invoicing, collection services and credit terms for their products and services.	• *$130.7m Equity and Members' Interests* • *Over 940,000 shareholder statements sent*	Our Financial Capital
Our Technology and Expertise	We have dedicated and independent experts, supported by the best technology and tools to provide advice and solutions to support shareholders navigate the changing agricultural landscape.		We provide the inputs and solutions to *Grow Shareholder Success.*	• *Over 87,000 farm visits by Technical Field Officers* • *Over 42,000 product lines covering 37 categories* • *Continue to support the development of Farm^{IQ} app*	Our Technology and Expertise
Our People	We have a passionate and engaged team of Farmlanders to support our mission to be first for NZ food and fibre inputs.		We provide a great place to work, that is safe and inclusive and affords our people opportunities to develop.	• *161 Technical Field Officers, Technical Advisors and Agronomists providing on-farm advice and support* • *Over 900 staff completed over 2,700 learning and development modules during the year*	Our People
Our Environment	We continually seek to minimise impact on our environment, including air, water, land and other natural resources that we and our stakeholders use every day.		We support NZ farmers and growers to create a sustainable agricultural future in which everyone will prosper.	• *Partnerships with research institutes and processors to develop solutions for sustainable farming* • *Toitū Envirocare Carbonreduce certification received* • *Contribution to New Zealand's $25b farm gate value production*	Our Environment

Farmlands' Sustainability Journey

In last year's Annual Report, we articulated our commitment to integrating sustainability into everything we do.

Building enduring capability in this area will be increasingly important to farmer-growers as they navigate climate change and the transition to low emission, more sustainable farming practices.

Completed the Toitū Envirocare Carbonreduce® certification

Our greenhouse gas emissions for the year to 30 June 2019 were 17,224 tCO_2e

We have committed to reducing emissions intensity by 30% by 2030

We recognise that an important part of being a sustainable organisation is understanding and communicating how (or the process by which) we create enduring value and the resources that we use aside from traditional financial and physical capital to do so. Our business model, and how that generates value, is outlined on page 24.

While our sustainability journey is independent of our transition to integrated reporting, strengthening this area of our business will allow us to create more value for our shareholders over time.

Our journey towards sustainability will involve engaging with major stakeholders to understand what matters most to them and from there where we can have the most impact. However, completing this before our Annual Report was unfortunately disrupted, as we were forced to prioritise our response to COVID-19 and focus our resources on ensuring our continued ability to support our shareholders.

A wide range of social, environmental and economic risks affect our business. With New Zealanders placing an increasingly higher value on transparency and protecting the environment, Farmlands has sought to prioritise sustainability and, as part of this, adopt an integrated thinking approach to formulating strategy. This will be presented through integrated reporting.

To that end, we have taken active steps to identify the resources and relationships we rely on and use to create value – our capitals. At this early stage of our integrated reporting journey, we seek to understand more specifically – and measure – our environmental impact, including developing targets that will enable us to contribute positively to climate change.

We are excited to have achieved Carbonreduce certification from Toitū Envirocare, which validates our greenhouse gas emissions and internal initiatives. Supporting and integrating this into our strategic thinking forms part of our framework to reduce our emissions intensity.

Understanding the views of our major stakeholder groups remains a critical plank of our approach to integrated thinking, strategy, and how we will create value in the future.

A stakeholder engagement process is a prioritised next-step initiative, which will seek their input into our current practices and impacts. This will guide us on how we can track, measure and report on these matters.

Progress made this year

- Carbonreduce certification
- Initiated a sustainability champions programme for employees

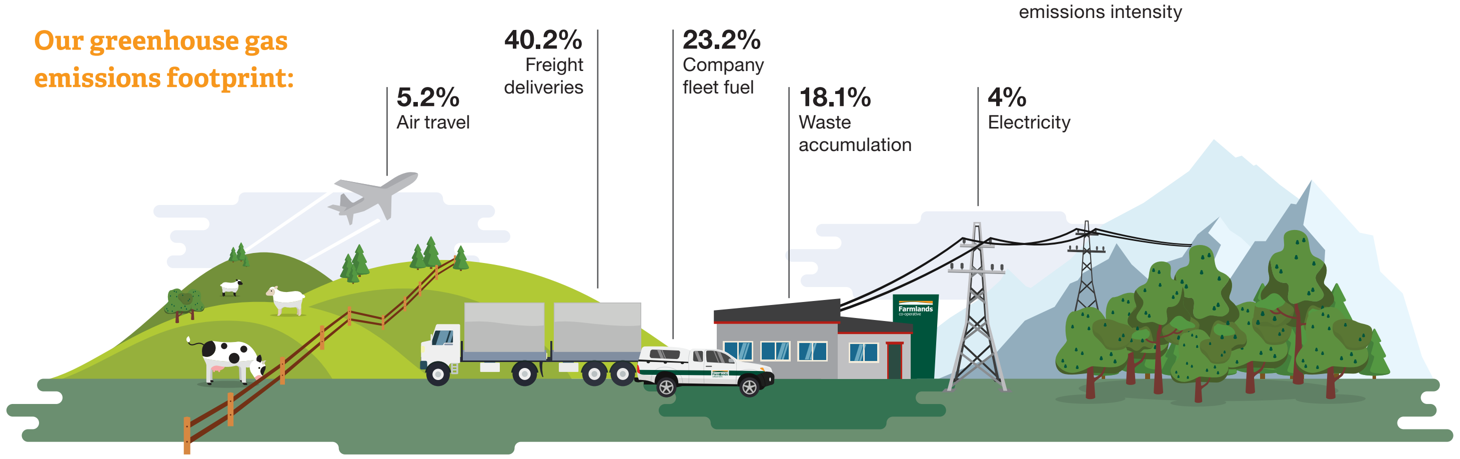
Our focus for the next year

- Initiate engagement process with stakeholders, including shareholders, employees, suppliers and partners
- Perform our materiality assessment and identify material topics of particular importance to enable us to focus our value creation towards the areas where we can make the most impact
- Establish performance measures and targets for each of the key material topics and develop processes for monitoring and reporting against these targets

Our strategies to reduce emissions

- Reduce waste and energy at retail outlets
- Reduce air travel
- Reduce fuel consumption
- Investigate opportunities to use solar power
- Roll out LED lighting systems at 15 sites
- Drive freight efficiency to reduce emissions intensity

Our greenhouse gas emissions footprint:



Directors' Report

For the year ended 30 June 2020

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, Farmlands Fuel Limited, Farmlands Real Estate Limited and Farmlands Real Estate Property Management Limited. Farmlands Real Estate Limited and Farmlands Real Estate Property Management Limited ceased to carry on business on 30 June 2020.

In respect of the financial year ended 30 June 2020 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 2020 follow this report and include the impact of the adoption of the new leases standard NZ IFRS 16, as well as any relevant considerations for COVID-19 for the financial year 30 June 2020.

Results for the year ended 30 June 2020

	2020 $000	2019 $000
Profit from Operating Activities	7,002	8,426
Add Bonus Rebate Unallocated	-	215
Profit after Distribution to Members	7,002	8,641
Income Tax Expense	(2,351)	(2,982)
Change in Net Assets attributable to members of the Group	**4,651**	**5,659**

State of Affairs

The Group grew its shareholder numbers by 3.5% to 72,466. The profit before tax and rebate was $7,002k compared with $8,426k for 2019. No bonus rebate distribution to members has been provided for this year. This is to support continued funding of our major technology & business transformation investment, completed in December 2019, delivering operational enhancements and improved business performance. Farmland's 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.

In March 2020, the World Health Organisation declared the outbreak of COVID-19 as a pandemic. As the Group's retail business was considered an essential business, retail stores remained open in a reduced capacity during the period between 25 March 2020 and 26 April 2020, with remaining staff working from home to support the business during Alert Level 4. Restrictions were lifted as New Zealand returned to Alert Level 1 on 9 June 2020.

The Group's financial performance for 2020 was significantly impacted by COVID-19, and experienced declines in revenue over the Alert Level 4 period including a decline of more than 30% over a specific 30-day period (measured against the same period for the prior year) commencing 28th of March 2020. Specific measures were initiated by the Group to alleviate the impact on trading and cash flows. Government, supplier and key partner support initiatives including wage subsidies, payment deferrals and rent assistance all contributed to these. All staff received their full salaries during this period and no redundancies were made as a result of the pandemic. Significant financial impacts of COVID-19 are covered in Note 23 - Going concern and COVID-19.

This year reflects adoption in the accounts of the new accounting standard, NZ IFRS 16 'Leases'. This results in changes in specific items in the presentation of the Income Statement and Balance Sheet.

Auditors

PricewaterhouseCoopers have indicated their willingness to continue in office.

PricewaterhouseCoopers audited **Farmlands Co-operative Society Limited,** which comprises the parent Society, Farmlands Fuel Limited, and Farmlands Finance Limited. Also included are Farmlands Real Estate Limited and Farmlands Real Estate Property Management Limited, (both ceased business on 30 June 2020). The remuneration of the auditors was set at $326k.

On behalf of the Board

Rob Hewett
Chairman of the Board

Julie Bohnenn
Chair of the Audit and Risk Management Committee

23 October 2020

Income Statement

For the year ended 30 June 2020

	Notes	2020 $000	2019 $000
REVENUE	3	1,105,487	1,148,392
Cost of Goods Sold		(927,523)	(972,661)
GROSS PROFIT		177,964	175,731
Other Income	3	288	922
Less Finance Costs		(4,789)	(2,465)
Less Other Operating Expenses		(165,504)	(164,909)
Less Share of loss in Associates	9	(957)	(853)
PROFIT FROM OPERATING ACTIVITIES		7,002	8,426
LESS DISTRIBUTION TO MEMBERS			
Bonus Rebate Unallocated		-	215
PROFIT AFTER DISTRIBUTION TO MEMBERS		7,002	8,641
Income Tax Expense	4	(2,351)	(2,982)
CHANGE IN RETAINED EARNINGS ATTRIBUTABLE TO MEMBERS		4,651	5,659

Statement of Comprehensive Income

For the year ended 30 June 2020

	2020 $000	2019 $000
Change in Retained Earnings Attributable to Members	4,651	5,659
OTHER COMPREHENSIVE INCOME		
Items that may be recycled to profit or loss:		
Movement in Cash Flow Hedge Reserve	(281)	(17)
Income Tax Effect	78	5
Other Comprehensive Income, Net of Tax	(203)	(12)
TOTAL COMPREHENSIVE INCOME FOR YEAR ATTRIBUTABLE TO MEMBERS	4,448	5,647

Statement of Changes in Equity and Members' Interests

For the year ended 30 June 2020

	Notes	2020 $000	2019 $000
BALANCE AT BEGINNING OF YEAR		130,781	125,462
Adoption of NZ IFRS 16		(4,530)	-
Change in Retained Earnings Attributable to Members		4,651	5,659
Net contributions from members – all capital types		(9)	7
Other Comprehensive Income	5	(203)	(12)
Bonus Rebate to be unallocated to Share Capital		-	(335)
BALANCE AT END OF YEAR		130,690	130,781

Statement of Changes in Equity

For the year ended 30 June 2020

2020	Retained Earnings $000	Cash Flow Hedge Reserve $000	Total Equity $000
Balance at 30 June 2019	11,096	30	11,126
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	11,217	(173)	11,044

2019	Retained Earnings $000	Cash Flow Hedge Reserve $000	Total Equity $000
Balance at 30 June 2018	5,437	42	5,479
Change in Cash Flow Hedge Reserve net of tax	-	(12)	(12)
Change in Retained Earnings Attributable to Members	5,659	-	5,659
BALANCE AT END OF YEAR	11,096	30	11,126

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 2020

	Notes	2020 $000	2019 $000
EQUITY AND MEMBERS' OTHER INTERESTS			
Retained Earnings		11,217	11,096
Cash Flow Hedge Reserve	5	(173)	30
Total Equity		**11,044**	**11,126**
Share Capital Repayable on Demand	6	119,646	119,655
TOTAL EQUITY AND MEMBERS' INTERESTS		130,690	130,781
Represented by:			
CURRENT ASSETS			
Cash and Cash Equivalents	13	876	-
Accounts Receivable	7	245,722	229,330
Loans Receivable	7	425	1,542
Inventories	8	98,105	90,669
Derivatives		-	41
Income Tax Receivable		-	357
Total Current Assets		**345,128**	**321,939**
NON-CURRENT ASSETS			
Other Investments	9	-	38
Equity Investment	9	1,880	1,652
Property, Plant and Equipment	10	76,983	74,943
Right-of-use Assets	12	68,256	-
Intangible Assets	11	99,775	92,531
Deferred tax	4	45	188
Total Non-Current Assets		**246,939**	**169,352**
TOTAL ASSETS		592,067	491,291
CURRENT LIABILITIES			
Bank Borrowings	13	33,000	118,279
Accounts Payable	14	235,173	211,153
Employee Entitlements		6,160	5,675
Lease Liabilities – Current	12	19,301	-
Derivatives		240	-
GST Payable		23,288	24,805
Total Current Liabilities		**317,162**	**359,912**
NON-CURRENT LIABILITIES			
Term Bank Loans	13	81,500	-
Employee Entitlements		793	598
Lease Liabilities – Non-current	12	55,246	-
GST Payable		6,676	
Total Non-Current Liabilities		**144,215**	**598**
TOTAL LIABILITIES OTHER THAN SHARE CAPITAL REPAYABLE ON DEMAND		461,377	360,510
NET ASSETS EXCLUDING MEMBERS' INTERESTS		130,690	130,781

For and on behalf of the Board

23 October 2020

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 2020

	Notes	2020 $000	2019 $000
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash was provided from:			
Cash Receipts from Customers		2,632,407	2,625,079
Receipts from sale of Loan Book		-	965
Interest Received		54	192
Dividends Received		81	1
		2,632,542	2,626,237
Cash was applied to:			
Cash Paid to Suppliers and Employees		2,580,690	2,608,303
Interest Paid		4,789	2,465
Income Tax Paid		11	1,680
		2,585,490	2,612,448
Net cash inflows from operating activities	21	**47,052**	**13,789**
CASH FLOWS USED IN INVESTING ACTIVITIES			
Cash was provided from:			
Proceeds from Sale of Property, Plant and Equipment		651	1,751
Proceeds from Sale of Investment		38	-
		689	1,751
Cash was applied to:			
Purchase of Property, Plant and Equipment	10	9,936	12,625
Purchase of Intangibles	11	15,053	36,990
Investment in Associates	9	1,185	-
		26,174	49,615
Net cash outflows to investing activities		**(25,485)**	**(47,864)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash was provided from:			
Share Capital Issued	6	1,716	1,633
		1,716	1,633
Cash was applied to:			
Share Capital Repaid	6	1,725	1,626
Principal Elements of Lease Payment		16,903	-
Bonus Rebate Paid to Shareholders		-	3,180
		18,628	4,806
Net cash inflows / (outflows) from financing activities		**(16,912)**	**(3,173)**
NET INCREASE/(DECREASE) IN CASH HELD		4,655	(37,248)
Net Bank Borrowings at Beginning of Year		(118,279)	(81,031)
NET BANK BORROWINGS AT END OF YEAR	13	(113,624)	(118,279)
Bank borrowings at end of year are comprised of the following:			
Bank Loans – Current		(33,000)	(118,279)
Bank Loans – Non-current		(81,500)	-
Cash on Hand		876	-
		(113,624)	**(118,279)**

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 2020

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 2020.

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 23 October 2020.

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

The Group financial statements consolidate the financial statements of subsidiaries.

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.

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.

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) Adoption of New Reporting Standards

i) Adoption of NZ IFRS 16 leases

i.i The Group has applied NZ IFRS 16 for the first time for the annual reporting period commencing 1 July 2019. This note explains the impact of the adoption of NZ IFRS 16 Leases on the Group's financial statements.

i.ii The Group has adopted NZ IFRS 16 Leases retrospectively from 1 July 2019 but has not restated comparatives for the 2019 reporting period, as permitted under the specific transition provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognized in the opening balance sheet on 1 July 2019. The new accounting policies are disclosed in note 2.3.

i.iii On adoption of NZ IFRS 16, the Group recognised lease liabilities in relation to leases that had previously been classified as 'operating leases' under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate as of 1 July 2019. The Group's weighted average incremental borrowing rate applied to the lease liabilities on 1 July 2019 was 3.46%.

ii) Practical expedients applied

In applying NZ IFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

ii.i applying a single discount rate to a portfolio of leases with reasonably similar characteristics

ii.ii relying on previous assessments on whether leases are onerous as an alternative to performing an impairment review – there were no onerous contracts as at 1 July 2019

ii.iii accounting for operating leases with a remaining lease term of less than 12 months as at 1 July 2019 as short-term leases

ii.iv using hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made applying NZ IAS 17 and IFRIC Interpretation 4 *Determining whether an arrangement contains a lease.*

As a result of the COVID-19 pandemic, the Group has also applied the practical expedient to not account for all COVID-19 related concessions as lease modifications which meet the requirements for applying the expedient.

iii) Measurement of lease liabilities

	$000
Operating lease commitments disclosed at 30 June 2019	91,003
Discounted using the Group's incremental borrowing rate at date of application	81,799
Add/(Less): short-term leases not recognised as a liability	(74)
Add/(Less): adjustments resulting from different treatment of renewal options	6,824
Add/(Less): adjustments resulting from different treatment of termination options	(11,399)
Add/(Less): additional leases identified under IFRS 16	1,684
Lease liability recognised at 1 July 2019	**78,834**
Comprising:	
Current lease liability	19,155
Non-current lease liability	59,679
	78,834

iv) **Measurement of right-of-use assets**

The associated right-of-use assets for property leases were measured on a retrospective basis as if the new rules had always been applied.

v) **Lessor accounting**

The Group did not need to make any adjustments to the accounting of assets held as lessor under operating leases as a result of the adoption of NZ IFRS 16.

c) 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.

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 and real estate transactions. Commission and administration fees received are deducted from the gross amounts payable to the principal of the transaction.

Payment:
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.

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.

d) 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.

e) Government Grants

As part of its response to COVID-19, the New Zealand Government provided wage subsidies over a specific calendar period to eligible businesses to allow those businesses to retain employees when they experienced reduced trading due to COVID-19.

The Group has applied NZ IAS 20 Accounting for Government Grants and Disclosure of Government Assistance in accounting for the COVID-19 wage subsidy.

NZ IAS 20 provides the following key definitions:
Government assistance is action by Government designed to provide an economic benefit specific to an entity or range of entities qualifying under certain criteria.

Government grants are assistance by Government in the form of transfers of resources to an entity in return for past or future compliance with certain conditions relating to the operating activities of the entity.

Grants related to assets are Government grants whose primary condition is that an entity qualifying for them should purchase, construct or otherwise acquire long-term assets. Grants related to income are government grants other than those related to assets.

Based on those definitions, the wage subsidy is a government grant related to income.

Government grants are not recognised until there is reasonable assurance that;
- the entity will comply with the conditions attached to them and;
- the grants will be received.

When the recognition criteria are met, Government grants are recognised in the income statement on a systematic basis over the periods in which the entity recognises as expenses the related costs for which the grants are intended to compensate.

The purpose of the New Zealand Government wage subsidy is to assist businesses to meet salary and wage costs. The Society received $8,834k during the year ended 30 June 2020 and recognised this over the grant period as a reduction in salary and wage costs.

f) 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.

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.

g) 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.

h) 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 amount 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.

i) 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.

j) 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.

k) 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.

l) 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.

m) 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.

n) 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.

o) Inventories

Retail, Feed, Grain and Seed and Lubricant stocks are valued at the lower of cost (determined on weighted average) 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.

p) Recognition of Financial Instruments

The Group classifies its financial instruments in the following categories: loans and receivables, other investments and other financial liabilities. 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.

q) 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.

r) 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.

s) 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.

t) Bank Borrowings

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.

u) Bonus Rebates 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.

v) 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.

w) 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.

x) 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 and the net realisable value of inventory. 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.

y) Standards, Interpretations and Amendments to Published Standards

The following standards were adopted during the year ended 30 June 2020

- NZ IFRS 16: Leases (effective date: periods beginning on or after 1 January 2019)

NZ IFRS 16, 'Leases', replaces the current guidance in NZ IAS 17. Under NZ IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Under NZ IAS 17, a lessee was required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). NZ IFRS 16 now requires a lessee to recognise a lease liability reflecting future lease payments and a 'right-of-use asset' for virtually all lease contracts. Included is an optional exemption for certain short-term leases and leases of low value assets; however, this exemption can only be applied by lessees.

As explained in note 2(b) above, the Group has changed its accounting policy for leases where the Group is the lessee. The new policy is described below and the impact of the change in note 2(b).

Until 30 June 2019, leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Operating lease payments are charged to the Income Statement on a straight line basis over the period of the lease.

From 1 July 2019, the following accounting policies apply:

i) The Group's Leasing Activities and how these are accounted for

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 in (ii) 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.

Until the 2019 financial year, leases of property, plant and equipment were classified as either finance leases or operating leases. From 1 July 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group.

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:

i.i the amount of the initial measurement of lease liability

i.ii any lease payments made at or before the commencement date less any lease incentives received

i.iii any initial direct costs, and

i.iv 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.

ii) Extension and termination

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.

Note 3: Revenue, Gross Turnover and Other Operating Expenses

	2020 $000	2019 $000
Revenue from contracts with customers:		
Rural supplies	740,054	727,705
Fuel	330,450	380,841
Card	21,867	21,644
Other	13,116	18,202
Total revenue from contracts with customers	**1,105,487**	**1,148,392**
Interest earned on short-term bank deposits	25	113
Interest on Finance Company loans	29	79
Dividend income	81	1
Gain on disposal of property, plant and equipment	153	729
Other Income	288	922

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:	2020 $000	2019 $000
Gross Turnover generated	2,648,145	2,716,819
Less Turnover as Agent	(1,451,332)	(1,474,697)
Less Rebates to Members	(86,978)	(86,123)
Less Choices Points Issued	(4,060)	(6,685)
Less Other Income	(288)	(922)
Total Revenue	**1,105,487**	**1,148,392**

The Group's gross turnover represents the total value generated from the sale of goods and services (excluding GST) by the Group as Agent and as Principal in accordance with NZ GAAP, plus 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.

	2020 $000	2019 $000
Other Operating Expenses include:		
Fees paid to Auditors		
- Annual audit of financial statements [1]	326	244
- Financial analysis [2]	11	27
- Treasury advisory services	-	12
- Legislative compliance [3]	72	-
- Corporate finance services	-	56
- Trust accounts audit	6	6
Total fees paid to Auditor	415	345

1. Annual audit of financial statements includes audit work performed in relation to the new lease accounting standards NZ IFRS 16 of $40k (2019 $8k).
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.

	2020 $000	2019 $000
Amortisation of Computer Software	6,664	4,447
Bad Debts	16	363
Bank Interest	2,437	2,465
Depreciation	7,409	7,395
Directors' Fees	694	735
Employee Entitlements	80,745	83,417
Increase/(Decrease) in Provision for Doubtful Loans	37	(20)
Increase/(Decrease) in Provision for Doubtful Trade Receivables	1,160	(64)
Lease Expense – Property	221	14,384
Lease Expense – Vehicles	171	3,007

Note 4: Income Tax

	2020 $000	2019 $000
Operating Profit Before Income Tax and Bonus Rebate	7,002	8,426
Permanent Differences		
Bonus Rebate	-	16
Expenditure not deductible for income tax	1,468	1,255
	1,468	1,271
Operating Profit adjusted for permanent differences	8,470	9,697
Tax Expense @ 28%	2,372	2,715
Deferred Tax Expense relating to temporary differences	67	-
Under/(over) provision prior years	(88)	267
Income Tax Expense	**2,351**	**2,982**
Comprising:		
Current Tax	-	1,349
Deferred Tax	2,351	1,633
	2,351	2,982
Deferred Tax		
Balance at beginning of year	188	1,804
Current year movement	(2,272)	(1,925)
Other comprehensive income	(78)	(5)
Net Impact of adoption of NZ IFRS 16	1,761	-
Prior year movement	446	314
Balance at end of year	45	188
Comprising:		
Tax effect of - Employee entitlements	1,704	1,255
- Other provisions	1,934	1,288
- Property, Plant and Equipment differences	(7,953)	(2,366)
- Income tax losses carried forward	2,666	-
- Net Impact of adoption of NZ IFRS 16	1,761	-
- Foreign exchange contracts	(67)	11
	45	188

These temporary differences are recognised in the Statement of Comprehensive Income.

Note 5: Cash Flow Hedge Reserve

	2020 $000	2019 $000
Balance at beginning of year	30	42
Movement net of tax	(203)	(12)
Balance at end of year	(173)	30

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

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

2019	Shareholders	Shares '000	Share Capital $000
Balance at 30 June 2018	67,983	116,923	116,923
Plus: New Shareholders during the year	3,337	1,633	1,633
Plus: Bonus Rebates applied to Share Capital	-	2,725	2,725
Less: Shareholders withdrawing during the period	(1,279)	(1,626)	(1,626)
Balance at end of year	70,041	119,655	119,655

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. 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 2020 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

	2020 $000	2019 $000
Accounts Receivable		
Trade Receivables	222,859	215,029
Less Provision for Doubtful Debts	(2,781)	(1,621)
Other receivables	21,554	12,238
Prepayments	4,090	3,684
	245,722	229,330
Provision for Doubtful Debts		
Balance at beginning of year	1,621	1,685
Increase in provision	1,160	(64)
Balance at end of year	2,781	1,621
Loans Receivable		
Amounts due from Finance Customers	668	1,748
Less Provision for Doubtful Loans	(243)	(206)
	425	1,542
Provision for Doubtful Loans		
Balance at beginning of year	206	226
Decrease in provision	37	(20)
Balance at end of year	243	206

Trade and other receivables and loans receivable ageing are as follows:`

30 June 2020	Current $000	0–30 days $000	31–60 days $000	61+ days $000	Total $000
Expected Loss Rate	0.09%	0.61%	12.25%	49.25%	1.23%
Trade and Other Receivables	230,738	6,767	1,867	5,041	244,413
Loans Receivable	421	102	2	143	668
Trade Receivables Provision	184	39	211	2,347	2,781
Loans Receivable Provision	16	3	18	206	243

30 June 2019	Current $000	0–30 days $000	31–60 days $000	61+ days $000	Total $000
Expected Loss Rate	0.00%	4.04%	7.33%	34.47%	0.80%
Trade and Other Receivables	213,240	8,479	2,180	3,368	227,267
Loans Receivable	1,730	5	2	11	1,748
Trade Receivables Provision	-	343	160	1,118	1,621
Loans Receivable Provision	-	-	-	206	206

Loans receivable are either secured or unsecured Group term loans, hire purchase loans, or Group livestock loans and are to Group shareholders. There have been no new loans during 2020.

Interest is charged at 0% to 17% per annum for the duration of the loan (2019 0% to 15.0%). 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 $284k (2019 $511k) 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 2020 or 1 July 2019 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. This has resulted in no change of the loss allowance for trade receivables and loan receivables on 1 July 2019.

Note 8: Inventories

	2020 $000	2019 $000
Farm Merchandise	86,277	74,546
Feed Inventory	10,654	10,616
Other Inventory	1,174	5,507
	98,105	90,669

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 $515k (2019 $515k). During the year the amount of inventory write-down recognised as an expense during the period was $1,827k (2019 $2,501k).

At balance date, the Group had purchase commitments of $9,684k for goods for resale (2019 $17,290k). 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

	2020 $000	2019 $000
Other Investments		
Interests in business undertakings:		
Balance at beginning of year	38	38
Decrease during the year	(38)	-
	-	38

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

Equity Investment in Farm IQ

During the year new capital was introduced into associate Farm IQ from a new investor. At this time a loan of $1,185k was converted to shares on equal terms with the incoming investment. As a result, the Group's ownership was diluted to 26% (2019 30%). At balance date, the carrying value of the investment was $1,880k, (2019 $1,652k).

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

2019 Equity Investment	Shareholding	Shares '000	Share Capital $000
Balance at 30 June 2018		3,255	2,505
Less: Share of Losses in Associate		-	(853)
Balance at end of year	30%	3,255	1,652

Note 10: Property, Plant and Equipment

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
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

2019	Freehold Land $000	Buildings $000	Motor Vehicles $000	Plant and Equipment $000	Work in Progress $000	Total $000
At 30 June 2018						
Cost	7,677	17,069	15,486	77,342	2,817	120,391
Accumulated Depreciation	-	(1,424)	(11,992)	(35,552)	-	(48,968)
Net Book Value	7,677	15,645	3,494	41,790	2,817	71,423
Additions	7	-	113	11,310	1,195	12,625
Disposals	-	39	(595)	(724)	(430)	(1,710)
Depreciation	-	(525)	(736)	(6,134)	-	(7,395)
Closing Net Book Value	7,684	15,159	2,276	46,242	3,582	74,943
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

Note 11: Intangible Assets

	2020 $000	2019 $000
Computer Software		
Cost at beginning of year	104,941	67,955
Accumulated Amortisation	(23,470)	(19,454)
Net Book Value	81,471	48,501
Movements in the year		
Additions	15,053	36,990
Disposals	(176)	427
Amortisation	(6,664)	(4,447)
Closing Net Book value	89,684	81,471
As at end of year		
Cost	119,821	104,941
Accumulated Amortisation	(30,137)	(23,470)
Computer Software Net Book value	89,684	81,471
Goodwill		
Cost at beginning of year	11,484	11,479
Accumulated Impairment	(424)	(419)
Net Book Value at beginning of year	11,060	11,060
Movements in the year		
Disposals	(969)	-
Closing Net Book value	10,091	11,060
As at end of year		
Cost	10,341	11,484
Accumulated Impairment	(250)	(424)
Goodwill Net Book value	10,091	11,060
Total Intangible Asset Net Book value	**99,775**	**92,531**

Goodwill disposal 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 2020 for all cash generating units, which include operations, grain, seed, feed, and fuel. 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 2020 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 (2019 11.2%).

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

Note 12: Leases

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

	Buildings $000	Vehicles $000	Total $000
Right-of-use Assets			
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 at 30 June 2020	60,119	8,137	68,256
Lease Liabilities			
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
Lease Payments	(12,876)	(6,377)	(19,253)
Closing balance at 30 June 2020	66,226	8,321	74,547

(i) Amounts recognised in the income statement

	2020 $000	2019 $000
Depreciation – Right-of-use Assets	17,150	-
Interest – Lease Liabilities	2,352	-
Expense Relating to Short-term Leases	392	-
(Gain)/loss Relating to COVID 19 Related Concessions	(249)	-

The total cash outflow for the leases in 2020 was $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 1.45% to 2.39% per annum for the financial year. The Group has entered into an amended facility agreement dated 25 March 2020 which establishes bank borrowing facilities of no more than five years of $120,000k (2019 $125,000k), and a term loan $30,000k payable over five years. There are financial bank covenants relating to assets (refer to Note 19). No breaches in financial bank covenants have occurred in the 2020 financial year (2019 no breaches).

	2020 $000	2019 $000
Bank borrowing comprises:		
Bank loans – current	33,000	118,279
Bank loans – non-current	81,500	-
(Cash on hand)	(876)	-
	113,624	118,279

	Cash/Cash Equivalents < 1-year $000	Borrowing < 1-year $000	Borrowing > 1-year $000	Borrowing Total $000
Net borrowing as at 30 June 2019	-	118,279	-	118,279
Cash flows	(876)	(85,279)	81,500	(4,655)
Net borrowing as at 30 June 2020	(876)	33,000	81,500	113,624

At balance date, net current assets were $27,905k (2019 $(37,973)k).

Note 14: Trade Payables

	2020 $000	2019 $000
Accounts Payable		
Trade Payables	226,250	201,748
Deferred Income	8,923	9,405
	235,173	211,153

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.

	2020 $000	2019 $000
Movements in Deferred Income		
Balance at beginning of year	9,405	9,407
Choices rewards issued	4,060	6,685
Choices rewards recognised in revenue	(4,542)	(6,687)
Balance at end of year	8,923	9,405

Note 15: Contingent Assets and Liabilities

There were no contingent assets and liabilities at balance date.

Note 16: Related Party Transactions

Subsidiaries

	Equity Holding 2020	2019
Farmlands Finance Limited	100%	100%
Farmlands Fuel Limited	100%	100%
Farmlands Real Estate Limited	0%	100%
Farmlands Real Estate Property Management Limited	0%	100%

All subsidiary entities have a balance date of 30 June. All subsidiary entities are incorporated in New Zealand.
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.

Compensation paid or payable to key management personnel as short-term benefits was $4,448k (2019 $4,790k).

Directors Information

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

	Remuneration $
R J Hewett, Lawrence (Chair of Board)	108,721
L J C Johnstone (retired 21 November 2019)	54,945
G W Baldwin, Putaruru	65,000
J A Bohnenn, Rangiora, Independent, (Chair of the Audit & Risk Management Committee)	71,000
N P Davies-Colley, Whangarei	67,000
C J Dennison, Oamaru	65,000
M W A Donald, Invercargill (retired 21 November 2019)	25,510
J Journee, Auckland, Independent	65,000
W J Parker, Rotorua (Chair of the People & Performance Committee)	67,000
S Post, Auckland, Independent (appointed 21 November 2019)	39,623
H D Sangster, Ranfurly	65,000
	693,799

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

Analysis of non-cancellable operating lease commitments	2020 $000	2019 $000
Payable no later than one year	-	18,353
Payable later than one, not later than five years	-	51,428
Payable later than five years	-	21,222
	-	91,003

These leases are for the Group's buildings, vehicles, fuel trucks and trailers, and equipment. The leases have varying terms, and renewal rights.

From 1 July 2019, the Group has recognised right-of-use assets and lease liabilities for these leases, except for short-term and low value leases, see note 2.3 and note 12 for further information.

Capital Commitments

There is capital expenditure contracted for at balance date of:	2020 $000	2019 $000
Land and Buildings	-	886
Computer Hardware	48	-
Computer software	334	5,038
Plant and equipment	472	-
Property	-	56
Vehicles	-	990
	854	6,970

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 trade	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 1.33% (2019 2.25%). 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 $1,254k (2019 $782k).

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 2020 is a trade customer of $2,263k (this has subsequently been received) (2019 $1,754k). There is no collateral held relating to this trade customer.

At 30 June 2020 past due accounts receivable and loans, excluding impaired receivables, were $13,674k (2019 $12,218k) 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 $210k (2019 $305k) 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 2020 were $3,024k (2019 $1,827k) 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 2020

	0–1 years $000	1–2 years $000	2–5 years $000	5+ years $000	Total $000
Group Liabilities					
Accounts Payable	235,173	-	-	-	235,173
Bank Borrowing	32,124	38,000	28,500	15,000	113,624
GST Payable	23,288	6,676	-	-	29,964
Leases	19,301	14,250	27,744	13,252	74,547
Share Capital Repayable on Demand	119,646	-	-	-	119,646
	429,532	58,296	56,244	28,252	572,954

30 June 2019

	0–1 years $000	1–2 years $000	2–5 years $000	5+ years $000	Total $000
Group Liabilities					
Accounts payable	211,153	-	-	-	211,153
Bank borrowing	118,279	-	-	-	118,279
GST payable	24,805	-	-	-	24,805
Share capital repayable on demand	119,655	-	-	-	119,655
	473,892	-	-	-	473,892

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 $6,823k (2019 $5,394k). These contracts are forward contracts for future purchase commitments and have a value based on the spot rates at 30 June 2020 of $7,063k (2019 $5,435k). The derivative financial instruments qualify for hedge accounting, and the movement in fair value of loss of $203k before tax (2019 $12k 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

	2020 $000	2019 $000
Closing Balance available for future use	8,928	8,917

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:

	2020 $000	2019 $000
Profit after tax and bonus rebate declared	4,651	5,659
Plus/(Less) Non-Cash / Non-Operating Items		
Depreciation and Amortisation	31,223	11,842
(Gain)/Loss relating to COVID-19 related concessions	(249)	-
(Gain)/loss on Disposal of Assets	14	(462)
Share of Losses in Associate	957	853
Goodwill Derecognised on Subsidiary Wind Up	969	-
Increase in Deferred Taxation	221	1,616
Net Impact of adoption of NZ IFRS 16 on Deferred Tax	1,761	-
Bonus Rebate Unallocated	-	(215)
	39,547	19,293
Plus/(Less) movements in Working Capital Items		
(Increase) in Operating Accounts Receivable	(16,392)	(4,856)
Decrease in Loans Receivable	1,117	321
Increase/(Decrease) in Operating Accounts Payable	24,020	(1,885)
Increase in GST Payable	5,159	1,082
Increase/(Decrease) in Employee Entitlements	680	(1,632)
Increase/(Decrease) in Tax Payable	357	(319)
(Increase)/Decrease in Inventories	(7,436)	1,785
Net (Increase)/Decrease in Working Capital	7,505	(5,504)
Net cash inflow from Operating Activities	47,052	13,789

Note 22: Categories of Financial Assets and Liabilities

	2020 $000	2019 $000
Financial Assets		
Cash and Cash Equivalents	876	-
Accounts Receivable	245,722	229,330
Loans Receivable	425	1,542
Derivatives	-	41
Other Investments	-	38
Equity Investment	1,880	1,652
	248,903	232,603

	2020 $000	2019 $000
Financial Liabilities at Amortised Cost		
Accounts Payable	235,173	211,153
Bank Borrowing	114,500	118,279
Employee Entitlements	6,953	6,273
GST Payable	29,964	24,805
Derivatives	240	-
	386,830	360,510

Note 23: Going concern and COVID-19

In March 2020, the World Health Organisation declared the outbreak of COVID-19 as a pandemic. On 25 March, 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's retail business was considered an essential business and retail stores remained open in a reduced capacity during the period between 25 March 2020 and 26 April 2020, with the remaining staff working from home to support the business during Alert Level 4.

Restrictions were lifted as New Zealand returned to Alert Level 1 on 9 June 2020.

Below are some of the impacts the COVID-19 pandemic has had on Farmlands Co-operative Society Limited to 30 June 2020. Taking these impacts into account, the directors have concluded that it is appropriate that these financial statements are prepared on a going concern basis.

Team members	Retail staff members considered essential workers worked through level 4 and 3 restrictions at Farmlands stores. The remaining staff worked remotely during these restrictions. All staff were paid their full salaries and encouraged to take annual leave.
COVID-19 wage subsidy (Note 2)	The Group received $8,834k from the COVID-19 wage subsidy scheme, this was recognised in wage and salary expenses.
COVID-19 GST deferral (Note 18)	The Group entered into an instalment arrangement with the IRD to defer payment of GST related to COVID-19 impacted periods, totalling $10,158k. This deferral is shown in the balance sheet.
Trade receivables (Note 7)	The Group has increased the provision for doubtful receivables to reflect the expected change in customer circumstances such as business closures or financial difficulties.
Inventory (Note 8)	No adjustments to inventory due to COVID-19 were required.
Goodwill (Note 11)	The Group has considered the impacts of COVID-19 in the assumptions used in the assessment of goodwill impairment and has concluded that no impairment is required.
Right of use assets/leases (Note 12)	Partial rent relief of $1,269k was granted for 85 sites over the lockdown period, in return some of these sites have extended their lease terms from six months up to two years.
Bank borrowing (Note 13)	The Group negotiated deferral of the $750k repayment required under the new facility for the quarter ended 30 June 2020 until repayment of the loan balance.

Note 24: Business restructuring

On 30 June 2020, a restructure of the Society was announced. The restructure was not a direct result of COVID-19 but was to enable visibility and better accountability across the Group's business. A provision is included in the trading results for the year ended 30 June 2020. Executive staff designations have changed as a result of this restructure.

Note 25: Events Subsequent to Balance Date

There are no significant events subsequent to balance date.

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
Catherine Walker (resigned 10 August 2020)
Jeff Bradley (appointed 10 August 2020)
Farmlands, Christchurch

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

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

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

SUBSIDIARY – CRT Limited (non-trading)
Directors:
K R Cooney, executive

DIRECTORS

R J Hewett, Lawrence (Chairman)

L J C Johnstone, Pukekohe (retired 21 November 2019)

G W Baldwin, Putaruru

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

N P Davies-Colley, Whangarei

C J Dennison, Oamaru

M W A Donald, Invercargill (retired 21 November 2019)

J W Journee, Auckland, Independent

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

S Post, Auckland, Independent (appointed 21 November 2019)

H D Sangster, Ranfurly

EXECUTIVES

Chief Executive Officer	Peter Reidie
Chief Financial Officer	Kevin Cooney
Chief Digital Officer	Richard Wilkinson
Chief People Officer	Ruth Knewstubb
Director – Category	Malcolm Scrymgeour
Director – Customer Experience	Jess Strange
Director – External Relations	Mark McHardy
Director – Growth and Innovation	Andrew Horsbrugh
Director – Marketing	Nick Baylis
Director – Supply Chain	Phillip Bracefield
General Manager - Sales and Retail	John Campbell

Independent Auditor's Report

To the members of Farmlands Co-operative Society Limited

We have audited the financial statements which comprise:

- the balance sheet as at 30 June 2020;
- the income statement for the year then ended;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of changes in equity and members interests for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the accompanying financial statements of Farmlands Co-operative Society Limited (the Company), including its subsidiaries (the Group), present fairly, in all material respects, the financial position of the Group as at 30 June 2020, 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).

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.

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 trust accounts audit services, assistance with legislative compliance, and corporate finance services for internal financial performance analysis on the rate of return on capital. 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

Capitalisation of information technology system costs

In 2016 the Group commenced a business transformation project to implement a new cloud based enterprise wide resource planning system (ERP). The final development milestone was achieved in mid-November 2019.

As disclosed in note 11, during the year $12.2 million (2019: $37 million) of capital expenditure was incurred in relation to the new system. Management have maintained a budget and policy outlining the criteria for capitalising or expensing costs incurred in relation to the project. The entirety of the capitalised expenditure for the new system was transferred to

How our audit addressed the key audit matter

To ensure the costs capitalised during the year are appropriate we have obtained an understanding of the internal time capture system, processes and controls and:

- Tested a sample of external costs to supporting documentation to ensure they were specifically related to the implementation of the new system;
- Evaluated managements internal capitalisation policy and ensured it complied with the requirements of NZ IAS 38;
- Confirmed the application of management's internal capitalisation policy was consistently applied with previous periods;

Description of the key audit matter (continued)

the software register (and therefore commenced amortisation) when it was ready for its intended use by management.

Determining whether an internally generated intangible asset qualifies for recognition requires judgement and was therefore considered to be a key focus area for our audit.

How our audit addressed the key audit matter (continued)

- Reviewed the monthly time capitalisation schedule, including the appropriateness of the capitalisation rates used and the nature of the activity the personnel undertook; and
- Considered the timing of cost capitalisation against project milestones and any relevant impact on amortisation start date;

We have no matters to report.

Adoption of NZ IFRS 16 leases

The adoption of NZ IFRS 16 Leases as at 1 July 2019 resulted in the recognition of right-of-use assets of $86m and lease liabilities of $93m.

The adoption of NZ IFRS 16 is a key audit matter due to the significant size of the right-of-use assets and lease liabilities, and the high level of management judgement required to:

- determine the lease term, including whether any rights of renewal are reasonably certain to be exercised; and
- assess the discount rate applicable to each lease.

The Group has adopted the simplified transition approach and has not restated comparative amounts for the period prior to first adoption. The Group's leases were recognised in accordance with the 'cumulative catch-up' transition method, with the cumulative effect of initially applying NZ IFRS 16 recognised at the date of initial application.

The Group has implemented a lease management and accounting system to maintain lease data and calculate accounting entries in accordance with NZ IFRS 16.

We obtained an understanding and evaluated the Group's processes and controls relating to the adoption of NZ IFRS 16.

Our audit procedures in relation to the adoption of NZ IFRS 16 included:

- verifying the accuracy of the underlying lease data in the lease system by agreeing a sample of leases to original contract or other supporting documentation;
- assessing the appropriateness of the discount rates applied in determining lease liabilities, and the mathematical accuracy of lease liability calculations, by developing an independent range of expected lease liabilities using a discount rate developed by our internal valuation expert;
- assessing the rights of renewal that are reasonably certain to be taken to determine the lease term for each lease sampled by considering key operating locations, historical renewal options taken and the Group forward looking strategic plan;
- considering completeness of lease liabilities by testing a sample of operating lease commitments as at 30 June 2019 to leases recognised at adoption of NZ IFRS 16, testing a sample of recurring operating expenses to identify additional leases, and considering the nature of other service contracts;
- on a sample basis, assessing the appropriate treatment of rent abatements received from landlords; and
- assessing the appropriateness of disclosures against the requirements of NZ IFRS 16.

Based on the above procedures there were no matters to report.

Our audit approach

Overview

An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement.

Overall Group materiality: $5.5 million, which represents 0.5% of revenue.

We chose revenue 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.

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

- Capitalisation of information technology system costs
- Adoption of NZ IFRS 16 leases.

Materiality

The scope of our audit was influenced by our application of materiality.

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.

Audit scope

We designed our audit by assessing the risks of material misstatement in the financial statements and our application of materiality. 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.

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 industry in which the Group operates.

Information other than the financial statements and auditor's report

The Directors are responsible for the annual report. Our opinion on the financial statements does not cover the other information included in the annual report and we do not and will not express any form of assurance conclusion on the other information.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the 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.

Responsibilities of the Directors for the consolidated financial statements

The Directors are responsible, on behalf of the Company, 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 consolidated 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/standards-for-assurance-practitioners/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 Company'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 Company and the Company'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 Robert Harris.

For and on behalf of:

Chartered Accountants
23 October 2019
Christchurch

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T: +64 3 374 3000, F: +64 3 374 3001, pwc.co.nz

Julian Raine, Nelson

John Mathers, Sefton

Technical Field Officer visit on-farm, Broomfield

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Together stronger™

Farmlands co-operative

Erin Train, Waihau