ANNUAL REPORT 2019

Together stronger™

Farmlands co-operative




– Notice of Annual General Meeting

Notice is hereby given that the fifty-sixth Annual General Meeting of shareholders of Farmlands Co-operative will be held at 12.00pm on Thursday 21st November 2019, at the Gallagher Building, 125 Mystery Creek Road, Mystery Creek.

Business

1. To receive and adopt the Annual Report for the year ended 30 June 2019.
   Resolution: *That the Annual Report for the year ended 30 June 2019 be adopted.*
2. To appoint the auditors.
   Resolution: *That the auditors, PricewaterhouseCoopers, continue in office.*
3. To transact any other business which may be properly considered at the Annual General Meeting.

By order of the Board
C E Walker, Secretary
Christchurch, New Zealand
23 October 2019

NOTICE OF ANNUAL GENERAL MEETING

You're invited to the fifty-sixth Annual General Meeting of shareholders of Farmlands Co-operative Society Limited. Shareholders are invited to join the Directors and Executive of the Society for refreshments at the conclusion of the meeting.

WHEN: Thursday 21st November, 12.00pm

WHERE: Mystery Creek, Gallagher Building.
125 Mystery Creek Road, entrance via Gate 2.
Parking available at Gallagher Building and will be signposted.

RSVP: Please RSVP by 14th November 2019
at **www.farmlands.co.nz/agm**

WIN A WEEKEND GETAWAY TO WANAKA!

Shareholders who attend will be entered into a complimentary prize draw for a trip for two to Wanaka. Trip includes return flights, 2 nights' accommodation, 2 VIP passes to Farmlands Cup and a mystery experience.*

* Terms and Conditions apply. The prize must be redeemed for the following dates only.
Friday January 24th – Sunday January 26th 2020.

Together stronger™

Farmlands co-operative

– Contents

Annual Report 2019

– Your Feedback is Important

Our ambition is to deliver an Annual Report that provides shareholders with the information they need to keep up to date with the progress of their co-operative. We'd love to hear your feedback on any improvements we could make.

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

– Sustainability Effort

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.

– From good to great

Our purpose: To re-invent the Farmlands Co-operative Spirit, by putting our shareholders' future success at the centre of everything we do. To achieve this, we are uniting our network of shareholders, staff, suppliers and communities to work Together.

Our organising idea: Together.

The driving force behind our journey is our three Strategic Imperatives. By creating Enduring Customer Relationships, building an Impregnable Business Model and leveraging our Market Leading Knowledge and Expertise, we can strengthen an organisation that was created for the primary sector, by the primary sector.

Farmlands aims to deliver on our Strategic Imperatives by achieving our six strategies:

- Ensuring our people come first.
- Deepen our offer to all shareholders.
- Right product, in the right place, at the right time, for the right price.
- Successfully implement Braveheart.
- Identify ways to grow New Zealand agriculture.
- Ensuring success by protecting our shareholders' funds.

The only way we can realise our six strategies is through the hard work and dedication of our staff – our Farmlanders. Our people developed their own Values, to reflect what it means to be a Farmlander.

- **Unity.** We are united as one organisation surrounding and serving each other and the shareholder.
- **Trust.** Think and act like an owner.
- **Courage.** Say what you believe and do what you say.
- **Influence.** Make a positive difference.
- **Forward Thinking.** Challenge the old thinking and champion the new.
- **Integrity.** Be candid, upfront and accountable.

Our Purpose, Organising Idea, Strategic Imperatives, Strategies and Values form the framework of our journey from good to great. Like any journey, we have a long way to go – but we continue to make good progress on the path to great.

Enduring Customer Relationships
Our point of difference

Leading Agricultural Knowledge and Expertise
Solutions through all parts of our business

Impregnable Business Model
Recognising our added value

Together stronger™

1,185
SafeFarm accounts created

&

1,569
SafeVisit app downloads

SafeFarm and SafeVisit are our Health and Safety applications

NPS +65

Net Promoter Score

$53.1m

Returned to shareholders via Farmlands Card rebates

Over 50

Farmlanders, Shareholders and Whānau filmed for Farmlands TV commercials

Environmental Respect Award Winner

Farmlands' Darfield store named Country Champion and Asia-Pacific Ambassador of Respect

$1.1m

The amount we invested in training our people

454

Total Shout Outs submitted

415 from staff to staff
39 from shareholders to staff

3x New HeART of the Community murals

Taihape	Mossburn	Tauranga
Otis Frizzell	Mauricio Benega	Erika Pearce

3x

3x HR Awards

1x National, 2x International (Change, Leadership, Leadership Supporting Change)

$33.0m

Amount of money saved by shareholders at Point of Sale

– Chairman's Report

It is becoming increasingly clear that the 'social licence' to operate as a farmer and grower has changed and continues to evolve.

Our shareholders are being challenged across more fronts than ever before – political, environmental, social and economic. Maintaining strong relationships with this co-operative should reassure them that they have the support they need to turn these challenges into opportunities.

Over the latest financial year we have delivered another positive result, with net profit before tax and rebates of $8.4 million on revenue of $1.1 billion (a figure that reflects a change in our financial reporting to IFRS standards). During the year shareholders have also benefited from monthly rebates and loyalty rewards valued at $92.8 million. While this figure shows the value of choosing your co-operative, it is slightly down on last year due to restructured offers from major Card Partners and a change in product mix in our retail store network.

Farmlands has grown shareholder equity and members' interests to $130.8 million, with an equity ratio of 26.6 percent. Our debt level of $118.3m is higher due to the borrowing required to implement our business transformation programme, Braveheart, and remains well within our banking covenants. Total asset value has increased by $34.8m, primarily through Braveheart.

We are please to deliver a profit during a challenging year for others in the sector but our satisfaction is tempered by the decision of the Board of Directors to not distribute a Bonus Rebate to our shareholders. This decision has been based on the level of investment required in our Braveheart Programme and to support prudent balance sheet management.

Although Farmlands has not experienced the incremental profit growth we'd forecast for the latest financial year, a solid rather than outstanding profit performance in no way lessens my confidence that the business is in good heart and dynamically positioned in terms of future growth.

The fact that Farmlands has in place the right team of top quality people to deliver that support is key to our value proposition. The strategy we are following in our business involves a significant amount of change, which is an inevitable product of our drive for continuous improvement. It is critical for a business that operates in a highly volatile marketplace, as we do, where the only certain way to stay ahead of the curve is to be agile and adaptive. Technology is the key enabler of the agility and efficiency we require.

At the core of this is the Braveheart Programme. This is the initiative we launched in 2017 to future-proof Farmlands for the next generation and beyond. Braveheart provides the comprehensive platform we are building from as we chart our path 'from good to great'. Braveheart isn't just the implementation of Enterprise Resource Planning (ERP) and Customer Relationship Management (CRM). It is a complete business transformation programme and we are appreciative of the efforts of our staff, as well as the patience and enthusiasm of our shareholders for this new technology.

Governance

Our Board structure is undergoing major change – as it must if the governance function of Farmlands is to be fit for purpose in the context of the business' future aspirations and challenges.

To achieve this, we have sought and achieved a mandate for a new Board structure. In place of eight shareholder-elected Directors (four from each Island) and two Independent Directors (one from each Island), going forward we will have six Shareholder Directors (three from each Island) and three Independent Directors, who can come from anywhere in New Zealand.

In particular, we see it as vital to build numbers of Independent Directors, who can complement and augment the competencies of our elected Shareholder Directors. We aim to have announced the appointment of our third Independent Director by the end of 2019.

The aim is to have a comprehensive range of top-flight skills and perspectives we can possibly assemble, sitting at our Board table.

One of my priorities, as Chair of our co-operative, has been to try to match our work in strengthening our own internal governance structure with a commitment to help build the practice of governance for the rural sector as a whole.

To this end, we set up a Board Observer role – a 12-month tenured position that provides exposure to the Board for one Farmlands shareholder. This year, the second that the scheme has been running, the Observer has been Robert Kempthorne. This role has continued into the new financial year with the appointment of Kerry Worsnop.

While our Board Observers have full speaking rights, they are not able to cast a vote at the Board table. Their development is fostered through mentoring, close involvement in the discussions that shape Farmlands' direction and the opportunity to learn from more experienced Directors.

The other significant initiative we have taken to lift the quality of governance in our sector is the To the Core programme, an initiative operated in collaboration with Silver Fern Farms. It is designed to expand the talent pool of prospective Directors. It provides participants with direct access to some of the most prominent figures in rural and corporate governance in this country and it is very satisfying to see the positive way it has been received by both the participants and the broader community. The initiative was formally recognised by Cooperative Business New Zealand, who jointly awarded Farmlands and Silver Fern Farms the 2018 Cooperation Amongst Cooperatives Award for To the Core.

At a point in our history where the co-operative model seems to be under threat, Farmlands is very proudly a co-operative. We recognise that we are stronger, more effective and a better corporate citizen when we stand together. The spirit of 'Together Stronger' that united like-minded farmers in town hall and pub meetings 56 years ago still holds today.

While we move forward on the journey to being the best business we can be, our attention, as a co-operative, is focused on delivering the benefits our 70,000 shareholders expect and need from their combined buying power. Central to achieving this is recognising the need to build the skills of our people for the future. This is behind the (considerable) investment we put into staff training and development. The skills of our people are why we chose to showcase their faces alongside those of our shareholders in our successful television advertising campaign – a first for our co-operative.

As I confirmed earlier in the year, I am standing down from the Farmlands Board at the November AGM, after nearly 19 years as a Director. I am looking forward to continuing my relationship with Farmlands as a shareholder – one of more than 70,000 and growing!

I have had the privilege of watching from the inside as Farmlands has grown its national footprint. It is now a nationwide co-operative of formidable scale. Most importantly, we have created a business that has an entire value structure built on giving back to those that trust us to help them with their livelihoods.

I would like to extend my thanks to all Farmlands shareholders, right across New Zealand. Your loyalty to your co-operative anchors our success.

Chairman Acknowledgements

While my last act as Chair will be convening this year's Annual General Meeting in Hamilton, there are a number of contributors to our co-operative I would like to acknowledge.

Having already been elected to represent our shareholders on the Board of Directors, Rob Hewett has been chosen by the Board to be the new Chair of Farmlands Co-operative. Rob's governance record speaks for itself and I look forward to watching the co-operative continue to grow under his leadership. I congratulate Rob on his appointment and wish him all the best for the future.

In 2018 we farewelled three long-serving Directors: David Jensen, Joe Ferraby and Peter Wilson. David, Joe and Peter were all heavily involved in the formation of our merged co-operative and its early years. I want to thank all three for their guidance and support during their time with the Board.

Their retirements from the Board have given Farmlands the opportunity to welcome new leaders to the table. Dawn Sangster and Gray Baldwin were both elected by their peers in last year's Director Elections and I congratulate them on their success. Independent Director John Journee joined the Board in early 2019 and I thank him for his contributions so far.

Murray Donald has joined me in choosing to stand down from the Farmlands Board this year. Murray's decision has enabled a seamless transition to our new Board structure. I want to thank Murray for the leadership he has shown during his time on the Board and wish him all the best for the future.

Our second Board Observer, Robert Kempthorne finished his time with the Board earlier this year. Robert did an outstanding job in the role and we will watch with great interest as his governance career continues. We have since welcomed Kerry Worsnop to the Board Observer role and I congratulate her on her appointment.

We have welcomed two significant appointments to the Farmlands Leadership Team. John Campbell joined the team as GM – Energy and has been tasked with both leading our Fuel business and investigating the energy solutions our shareholders will need in the future. Richard Wilkinson joined Farmlands as Chief Digital Officer and will guide our business into maximising the new systems our co-operative has at its disposal. I welcome both to our organisation.

I would also like to congratulate Jess Strange, for her promotion to the role of GM — Card from her previous position as Director of Marketing.

Sadly, Farmlands lost one of its own this year with the sudden passing of Andrew Neale from our Wellsford team. Andrew was a well-liked and respected part of our co-operative and my condolences go out to his family.

The Farmlands team is one that is committed to the ongoing success of our shareholders. As a shareholder, elected to this Board by shareholders, I wish to thank each of the 70,000 New Zealanders that have entrusted us to support you and your business. I hope we all continue to adapt, grow and success together in the years to come.

– Governance and the Board of Directors

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

The new structure allows for six Shareholder Directors, elected by shareholders and three Independent Directors appointed by the Board. Shareholder Directors retire by rotation after three years.

The changes will be phased in as vacancies allow and replaces the previous structure of eight Shareholder Directors and two Independent Directors.

Overview

The six Shareholder Directors are located equally between the North and South Islands, three in each, as required by the rules. The Independent Directors can reside anywhere in New Zealand.

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), Gray Baldwin, Murray Donald, Rob Hewett and Dawn Sangster
- People and Performance – Nikki Davies-Colley (Chair), Chris Dennison, Lachie Johnstone, John Journee and Warren Parker

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.

Farmlands Board of Directors, from left: Warren Parker, Gray Baldwin, Julie Bohnenn, Chris Dennison, Lachie Johnstone (Chair), Murray Donald, Kerry Worsnop (2019/20 Board Observer), Dawn Sangster, John Journee, Rob Hewett (Chair Elect). Inset: Nikki Davies-Colley.

– Director Profiles

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

Lachie Johnstone (Chairman)

Lachie is the Chairman of the Board of Directors. He has a commerce background having completed a B.Com from the University of Auckland and worked as an accountant before taking on a variety of different roles in the commercial and rural sector.

Lachie is a member of the Board's Remuneration subcommittee and is a Director of Farmlands Fuel. He is a shareholder in Waimaha Farms Ltd, which farms 570ha in the western Waikato, predominantly finishing bulls and is majority shareholder of the food logistics company Wholesale Frozen Foods Limited. Lachie is currently Chairman of Centreport Ltd, Centreport Properties Ltd, C. Alma Baker Trust (NZ) Ltd and Deputy Chair of the Board of Governors at Kings College. He is also a Director of Jenkins Group Ltd, Jenkins Freshpac Systems Ltd and J-Tech Systems Ltd.

Nikki Davies-Colley

Nikki works as a professional Director. She and her husband Peter have been farming and involved in the forestry industry in Northland for more than 35 years. They have been Farmlands shareholders since 2004, when the co-operative moved into Northland. Nikki is Chairman of Northpower Ltd, a Kellogg Scholar and holds a Masters in Business Administration. Nikki is also on the WorkSafe NZ, Tiaki Plantations and Kitchen Studio Distribution Ltd Boards.

A Chartered Fellow of the NZ Institute of Directors, Nikki is experienced in strategic analysis, project management, motivation and ensuring that agreed strategies are carried through to implementation. She is particularly interested in the people strategies of the companies she is involved with and Chairs Farmlands' People and Performance Committee.

Gray Baldwin

Gray Baldwin and his wife Marilyn winter milk 850 cows, and conduct 100 percent autumn calving on their 713ha property near Lichfield in South Waikato. The property includes substantial areas of cropping (primarily maize) and forestry land.

Having started his career in rural banking and the fertiliser industry, Gray went on to work in a variety of senior management and executive roles for BNZ Agri, Carter Holt Harvey and Summit Quinphos, where he was Chief Executive Officer. He has been a director on the board of LIC since 2012 and after nine years of service, recently retired from the board of Ballance Agri-Nutrients.

Gray has a Master of Agricultural Science (Honours) from Massey University and in 2015 attended the Summer Institute of Co-operative Leadership at the University of Missouri where they studied co-operatives from around the world.

Chris Dennison

Chris Dennison has extensive experience as a Director, including as former Deputy Chairman of Ravensdown Fertiliser, Chairman of TracMap and Chairman of Network Waitaki Ltd. He and his wife Kay run a 400 hectare arable farm, with an adjacent dairy farm milking 800 cows and producing 360,000kg of milksolids. Mr Dennison has a Bachelor of Commerce (Agriculture) from Lincoln University, is a graduate of the Rabobank Executive Development Programme and is a Chartered Member of the NZ Institute of Directors.

Murray Donald

A Kellogg Scholar, Murray has more than 20 years of experience as a Director of several organisations throughout the agricultural sector in New Zealand and much of this has been with co-operatives. Murray is a Chartered Fellow of the Institute of Directors, Councillor and member of the Audit and Risk Committee for the Southern Institute of Technology and is also a Trustee and Chairman of the Audit and Risk Committee for the Agri-Women's Development Trust. He is the current Chairman of Mount Linton Station Ltd, a 92,000 stock unit property in Western Southland and is a former Director of both Farmers Mutual Group (FMG) and Alliance Group.

Over the past 25 years, Murray and his wife Carolynn have developed and expanded their Southland lamb and beef farming operation from 220ha to the current 455ha.

Warren Parker

Warren has a 20 year career as a senior executive, including positions as Chief Executive Officer of Scion (the New Zealand Forest Research Institute), Chief Operating Officer of AgResearch and Chief Executive Officer of Landcare Research. He is Chair of Pāmu (Landcorp Farming Ltd), the Forestry Ministerial Advisory Group and the Griffith Enterprise Advisory Group (Griffith University) and a Director of Predator Free 2050, Quayside Holdings, Focus Genetics and Genomics Aotearoa.

Warren has a PhD in Animal Science and was previously a Professor of Agribusiness and Resource Management at Massey University, where he spent 18 years in various roles, including supervising the 9,000 stock unit Riverside Farm in the Wairarapa. Warren and his wife own a lifestyle block on the outskirts of Rotorua.

Julie Bohnenn (Independent Director)

Julie joined the Farmlands Board in 2017 and Chairs the Audit and Risk Management Committee. Julie is a professional Director and is Chair of the Financial Advisory and Wealth Management Services Group, Cambridge Partners and an Independent Director for J Ballantyne and Co Limited.

Julie has extensive commercial experience having spent over 30 years at an executive level across a variety of industries.

Julie is passionate about rural New Zealand, residing on a lifestyle block in rural North Canterbury. Her father was also a notable contributor to the Canterbury A&P Association for many years.

Rob Hewett

Rob is a 7th generation farmer, who has farmed in the Clutha District since 2002, running a sheep and beef operation with large forestry interests. Rob is a graduate of Lincoln with a BComAg and an M.Com (Hons) in Marketing and a Chartered Member of the NZ Institute of Directors.

Rob has been Chairman of Silver Fern Farms Limited since December 2013 and has been a member of their Board since 2008. Rob is also a Director of T&G Global, Pioneer Energy, Hilton Haulage and is a former Board member of FarmIQ.

Dawn Sangster

Central Otago-based Dawn Sangster is a Director and farmer of her family farming business Glenayr Ltd, a 2870ha enterprise which comprises of three sheep and beef properties.

Dawn has served on the board of meat company Alliance Group since 2012, and therefore brings considerable experience from the boardroom of a farmer's co-operative. Over the course of her 30-year farming career, Dawn has been active in many governance roles including being a past trustee of the John McGlashan College Boards, and a past member of the Beef + Lamb NZ Farmer Council. She is an accredited school trustee and currently chairs the Community Trust of Maniototo.

A Lincoln University graduate, Dawn holds a Bachelor of Agricultural Commerce in Farm Management, won the 2012 Institute of Directors Otago-Southland Aspiring Director Award and is a Chartered Member of the New Zealand Institute of Directors.

John Journee (Independent Director)

John has had an extensive executive career, the majority of which has been in the retail industry. His experience includes senior executive roles across a variety of sectors; from fashion apparel to telecommunications, hospitality to FMCG. John is a past CEO of Noel Leeming Group and foodservice distributor Southern Hospitality, past Chairman of Powershop, Flux Federation and Max Fashions, and is a past Director of Ezibuy.

His 30-year career includes 15 years with The Warehouse Group, starting as a joint-venture partner in 1990 and progressing through senior roles in operations and governance to his current position as non-executive Director. He also holds a non-executive directorship with Colonial Motor Company. John is a Chartered Member of the NZ Institute of Directors and a member of the Australian Institute of Company Directors.

John and his wife own an 8ha vineyard in Marlborough, growing Sauvignon Blanc and Pinot Noir.

– CEO Report

At Farmlands we've been working hard on future-proofing our business. At the root of this effort is our intention to more fully control our own destiny.

Our shareholders look to us for support in navigating the many external factors that influence our sector so heavily. To deliver this support, we have to shift our focus from being very good at providing what our shareholders needed five years ago to being excellent at forecasting what they're going to need five or more years from now and adjusting what we do to meet those needs.

Wherever our customers are going to be in five years' time, we intend to be there first.

We have made substantial progress through our business-wide transformation programme, Braveheart. Our co-operative intends to build on that in the first year of our new 3-year strategy cycle.

As an organisation, we will be dealing with the challenges facing our shareholders, particularly around the need to embrace the inevitability of low emission agriculture and more sustainable farming practices. Farmlands is actively identifying ways we can integrate sustainability into what we do.

Sustainability

Climate change, low emission agri, and more sustainable farming practices will increasingly drive farmer-grower decision making on essential inputs and farming practices. Due to this, just like our shareholders, we must also adapt if we are to continue to deliver value.

We've embarked on a journey to integrate sustainability into everything we do. Key to this is that we understand the value we create for all our stakeholders - economically, socially and environmentally. We intend to engage with our shareholders, customers, and employees to identify the issues that are most important to them, which will tell us where we need to focus our efforts.

We will seek to measure and report our progress to our stakeholders utilising internationally recognised frameworks such as Integrated Reporting and the GRI Standards. Since we also recognise the important role of businesses in achieving the United Nations' Sustainable Development Goals, we will align our approach to sustainability with those goals, where we can have the most impact.

While the project to become a sustainable organisation represents a commitment to the long haul, already we have completed several initiatives that support sustainability outcomes. These include: removing all plastic bags from our store network; working with AgRecovery's programme of plastic recycling; investigating solar installations for our stores; investigating alternative bio-fuels in addition to our exiting fossil-fuels distribution activities; and running leadership development programmes at various levels for our people (some of which have won several awards recently). One small token of our enhanced commitment to sustainability is the decision we have taken to limit this year's Annual Report to a print run of 1,000 copies on fully recycled paper.

However, it is clear that plenty of challenges remain.

As sustainability will be core to our next three-year strategic plan, we are braced to tackle these challenges with increased energy from here on in.

Performance

Farmlands' ongoing journey from good to great has continued against the backdrop of a subdued marketplace. Farming uncertainty has dominated short-term decision-making on farms across the country. A great deal of change and disruption has been signalled at a political level and many farmers have adopted a 'wait and see' approach while they digest the news and try to work out what change means for their enterprises. This influence is wide-reaching and encompasses themes ranging from overseas ownership to climate change mitigation, from the 'social licence' to operate to the future of dairy intensification.

Farmlands has not been immune to this lowering of mood. When our sector sneezes, Farmlands catches a cold, for all our best efforts to insulate our business from external factors. Despite this, our reported net profit before tax and rebate of $8.4 million, built on $1.1 billion in revenue, represents a further step along the path of building resilience in our business. For more detail of our financial performance, please refer to the Financial Statements, which for the first time this year are included in full within the physical Annual Report.

Braveheart

In order to succeed in providing our shareholders with what they will need as landowners five years from now, we need to have a better understanding of all the factors that impact their success, the behaviours they practise on the land and the changing nature of the inputs into their businesses.

The successful implementation of the Braveheart Programme is vital for the future of our co-operative. The Farmlands organisation has been built through merger and acquisition and has functioned via multiple and in some cases obsolete ERP platforms. The result has been that we haven't been able to generate a whole of business view. Instead, diverse ways of doing things have been the norm across business units, geographies and functions.

Over the past two years, the entire Farmlands team has been intensely focused on implementing Braveheart. The commitment and the energy applied to this enormously demanding business transformation project has been relentless. Moving towards the point of 'go-live' has entailed a lot of time out for training, getting our heads around new and better processes and working with both old and new systems. In addition to the close to 40,000 hours of system development for the Braveheart Programme, 1,709 Farmlanders have received training in our new ways of working. Close to 300 face to face training courses have been developed, spread across 887 face to face training sessions nationwide, provided by Farmlanders for Farmlanders.

Now that we have pressed the 'go' button, we are poised to extract substantial value. Significant benefits are expected early in the Programme from the point of going live, while after five years we expect to be achieving annual benefits in excess of $36 million. Braveheart more than pays for itself by allowing us to better understand our business, promoting the efficiency of one way of doing things and enabling our IT team to support one solution situated on the Cloud, rather than multiple systems in boxes throughout the country.

Most importantly, it is the precursor to our fulfilling the promise to solve problems that our shareholders face not only today but years into the future. Braveheart is key to this but Farmlands also has an advantage in developing a holistic view of the challenges and opportunities ahead through the sheer number of transactions we conduct directly within our network of stores, the activity of our farm input business units, our partnership with leading suppliers and the Farmlands Card. Most of all, we have the quality of Farmlands people and the commitment we are demonstrating to uplift skills and capabilities across the business.

Putting our people first

Over the past two years, we have placed growing emphasis on measuring and improving the health, safety and wellbeing of our people. We are an organisation that chooses to be proactive in the area of Health and Safety. It is not enough for us to be merely compliant – we aim to lead the pack in terms of how excellent Health and Safety should be integrated into the workplace. The positive Health and Safety culture at Farmlands is something we take pride in and a feature increasingly recognised within the wider rural community.

Our effort to enhance health and welfare in the digital space has seen us put the Braveheart initiative together with our Farmlands Health and Safety programme to create some unique solutions. Last year I reported on SafeFarm, the initial app launched by the Farmlands and FarmIQ partnership. Free to Farmlands shareholders, it creates a single site for farmers to record core data such as hazards, emergency equipment locations and risk mitigations, as well as reporting incidents.

Earlier this year we launched our second safety app – SafeVisit – free not just to shareholders but to all New Zealanders. It is another step forward in the battle to get on top of this country's poor health and safety record on-farm. It is a further demonstration of Farmlands' leadership role in the farm Health and Safety space as a key aspect of the co-operative's core business.

The SafeVisit initiative also fits within our strategic goal to identify opportunities to grow New Zealand agriculture – Together. Silver Fern Farms, ASB, FMG, Iplex and Meridian are coming together as SafeVisit sponsors to help us with uptake, to market it widely to New Zealand farmers and to utilise it with their own people.

Highlights

Within the context of a good – but not great – Farmlands group performance, some of our business units produced outstanding results.

- Our co-operative launched its first-ever television advertising campaign, starring our people, our shareholders and their employees. We designed, developed and launched this campaign with a simple purpose – to introduce existing and prospective shareholders to the journey we are on. It involves all of us.
- During the financial year, three Farmlanders – Matte Kirk, Harriet Cameron and Stacey Cosnett – completed the Kellogg Rural Leadership Programme. Farmlander, Katie Vickers is undertaking the course in the second half of 2019.
- Our Tom Cranswick Memorial Award continues to support our next generation of tertiary leaders, with another five children of either shareholders or staff were recognised in 2018.
- We have continued to be recognised for how we develop our people. This year Farmlands has received international recognition for our 'Leading Farmlands Together' programme via the Brandon Hall Excellence Awards. We collected Gold for Best Advance in Leadership Development and Bronze for Best Learning Program Supporting a Change Transformation Business Strategy. Nationally, Farmlands was again a winner at the NZ HR Awards, collecting the top prize for Organisational Change and Development.
- Canterbury Sales Manager, Harriet Cameron received a scholarship to attend the International Food and Agribusiness Management conference in Hangzhou, China supported by Farmlands and Food HQ.
- Nutrition reported a 19% lift in manufactured dairy feeds, despite the competition posed by favourable pastures early in the season. Sales of non-PKE traded feed commodities such as soya bean hulls and DDGS maize lifted by 44%. Orders processed rose by 14% to 55,852.
- Horticulture registered a further consecutive year of sales growth (up 5%) to our national horticulture shareholder network. During the year we completed the formation of our hort technical expert team to support our teams and shareholders across New Zealand.
- 1,000 more shareholders transacted via Farmlands for FMG Insurance.
- Farmlands Card Partners reported further invoicing efficiencies – for example, swipe capability was introduced to Bunnings. The Card added strong new partners to our portfolio this financial year: Agpac, FarmQuip, AB Equipment, Carrfields Irrigation, Snapchill Milk Cooling and Wide Span Sheds.
- Farmlands Real Estate now offers real estate in 9 new locations – Whanganui, Huntly, Te Puna, Te Puka, Tauranga, Bell Block, Hawera, Hokitika and Westport. Our sales consultant numbers have increased from 68 to 82. During the year a record 66% of our shareholders sold with Farmlands – up from 55% the year before.
- We are now transacting more than 120 million litres per year through Z Group – an increase of 8 million litres over last year.
- 1,320 vehicles were sold through our partnership with Toyota – an increase of 4.5% on the prior year.

Annual Reports, by their nature, review the year just past. The 2018/19 financial year can be given a pass mark for progress. It is also appropriate to look to the future, against the background of our unwavering drive for constant improvement. We are serious in realising our Purpose: To re-invent the Farmlands Co-operative Spirit, putting our shareholders' future success at the centre of everything we do. Seriously tackling the journey from good to great is no more than what you have a right to expect of your co-operative – one that is worthy of your investment and loyalty.

With Braveheart set to fire, compounded by the hard work and dedication of the team right across Farmlands and high in-house morale, we have every reason for confidence moving forward.

On behalf of all of us at Farmlands, we thank you for your continued support.

– Braveheart

Our whole of business transformation programme.

We are nearing the end of our 3-year journey to revolutionise how we operate as a business.

The Braveheart Programme is a globally recognised business transformation programme that is designed to future-proof our business in an ever-changing sector.

The successful implementation of the Braveheart Programme was necessary for our co-operative to do business. Our organisation has been put together by merger and acquisition, functioning through multiple, in some cases obsolete, Enterprise Resource Planning (ERP) platforms.

The result was an inability to generate a whole of business view, with diverse ways of doing things across business units, geographies and functions.

A fully functioning Braveheart will enable us to provide the best solutions and best practice, having built a state-of-the-art information base that will add measurable value to every one of our business processes.

Braveheart is about a lot more than just technology – it's about our identity, from our uniforms right down to how we interact with shareholders on their farms, orchards and places of work.

187

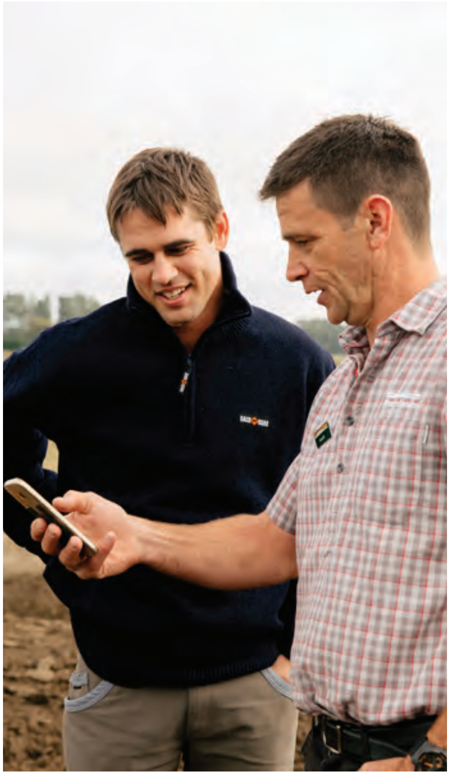
Number of Change Clan members — Delivering updates on Braveheart

185

Number of Kilts — Farmlanders training Farmlanders in our new ways of working

297

Face to face training courses developed



887

Face to face training sessions nationwide

45

Number of iterations launched

1,709 & 8,021

1,709 Farmlanders trained (and counting)

8,021 Individual training classes (for the Farmlanders)

231

Development workshops held

39

Online learning modules created

– Business Highlights

Farmlands was created to give our shareholders a better deal. We work hard every day to harness the collective power of 70,000 shareholders nationwide to provide competitive services and supplies.

Here are just some of the ways your co-operative has added value to our business – and yours.

6,988,683

Close to 7 million Farmlands Card transactions
85,900 Customers | 70,700 Unique Users

1,320

Vehicles sold through partnership with Toyota

41%

Increase in beekeeping supplies to our shareholders

127k

Phone calls answered

&

52k

Emails actioned

&

74k

Fertiliser orders placed

All by our busy Contact Centre

66%

Of Farmlands Real Estate customers were shareholders

5x

Key partners sign on to support SafeVisit

4.5%

Growth in sales from dairying shareholders
(whole of business approach)

14%

Sales growth in our Bay of Plenty Kiwifruit grower network

44%

Growth in non-PKE traded feed commodities
(Soya bean hulls & DDGS maize)

37%

Growth in NRM and McMillan Equine

$6.7m

Choices loyalty rewards earned by our shareholders

120m litres

Over 120 million litres p.a. transacted on Card through the Z group
An increase of 8 million litres on last year

2.1%

Increase in fertiliser volume

60%

Increase in Safety Interactions

– Thank you, Lachie

At the conclusion of the Annual General Meeting in November, Chairman Lachie Johnstone will step down from the Farmlands Board of Directors.

After nearly 19 years on the Board, Lachie's decision to step down from the Board means Rob Hewett will be the new Chair of Farmlands Co-operative Society Limited.

Lachie's commerce background, having completed a Bachelor of Commerce from Auckland University and working as an accountant before taking on roles in the commercial and rural sector, set him up well for governance.

> **"I watched his skill set grow extremely well. He became a confident communicator and was very good at maintaining a cohesive team. He has given good service to this co-operative over a long period of time and will continue to be a good governor for other companies in different fields."**
>
> *— Steve Wyn-Harris, former Farmlands Director.*

Joining the Board of the North Island-based Farmlands Trading Society Limited in November 2000, Lachie became chairman in November 2003. He was instrumental in the negotiation of the merger with the South Island based CRT Co-operative in 2013.

As Chairman of the newly created Farmlands Co-operative, Lachie united like-minded shareholders from both islands to harness their collective buying power and identify ways to benefits their businesses. Around the Board table, he has shown continued commitment to building value for shareholders, while looking to the future of the co-operative and fostering the next generation of co-operative leaders.

Chairing such an all-encompassing business didn't come without its difficulties. With aggressive price competition and reduced dairy purchases in 2016 Farmlands posted a loss after years of profit. Despite tough decisions having to be made, Lachie's nerve and leadership was unwavering.

Focused on evolving Farmlands into a more resilient operation, Lachie and the Board rallied the Farmlands Leadership Team and orchestrated changes to ensure the ongoing resilience of the business.

Farmlands soon returned to profit and under Lachie's leadership Farmlands joined an initiative with fellow co-operative Silver Fern Farms to host 'To the Core' in 2017. 'To the Core' is an award-winning rural governance development programme that provides training and support on areas of governance such as finance, risk management, strategy and sustainability.

The drive to take Farmlands from good to great introduced the Braveheart Programme to the co-operative. The 2013 merger added another layer to a series of mergers and acquisitions that had one co-operative operating off multiple systems. Braveheart began in 2016 and has developed into the system Farmlands staff are utilising today.

The Programme was immense but critical to building the shareholder service Farmlands prides itself on. A hugely progressive system could only succeed with support from progressive leaders, of which Lachie has been at the fore.

> **"He always had the company's best interests at heart, the most basic and important tenant of a director and chair. The owners of Farmlands have been very well served and I very much appreciated his support, encouragement and focus during some tough decisions at Farmlands."**
>
> *— David Jensen, former Farmlands Director.*

Farmlands Co-operative Society Limited was born from the desire of everyday farmers to work together to get themselves a better deal. Lachie Johnstone is just that, an everyday farmer who has gone above and beyond, always pushing for better value, better service and better prices. Without Lachie's leadership and guidance there is no doubt that Farmlands would not be enjoying the success we are today.

On behalf of over 70,000 shareholders, the Board, Farmlands Leadership Team and Farmlands staff – thank you, Lachie.

“He must have been pretty young when he started and it’s a measure of him as a person and the respect that his fellow governors at Farmlands had for him when they appointed him as Chairman at a young age.

As a governor of the business, a shareholder of Farmlands and a farmer, I think Farmlands is in a great place, ready to meet the challenges coming to the sector and our shareholders. Our farmer shareholders rely on us to continually deliver the goods — Lachie has overseen that.

Within the business, we are poised for great things through the successful implementation of Braveheart. Lachie can be justifiably proud of his time here through the merger and growing a diversified business to a national footprint, which has added — and will continue to add — great shareholder value over time.”

— Rob Hewett, Farmlands Chair-elect.

19yrs

Lachie has given nearly 19 years on the Board of Directors

190

Estimated Board Meetings attended over that time

– Changes to Financial Reporting

This year's financial statements are the first under updated International Financial Reporting Standards (IFRS).

Tier 1 and Tier 2 profit orientated companies must adopt updated or amended accounting standards to remain compliant with the latest accounting best practice. As a result, Farmlands shareholders will notice a marked difference to the presentation of some of our results to reflect these changes.

Farmlands is now reporting using two new standards – named IFRS 15 and IFRS 9. While the latter standard (which affects how financial instruments are treated) has minimal impact on our accounts, IFRS 15 involves a substantial revision of some reporting lines.

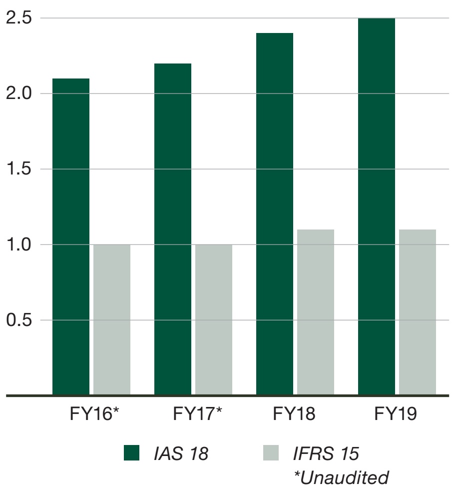
IFRS 15 requires us to restate how we report revenue from the Farmlands Card business and how we treat shareholder rebates and the Choices Rewards programme for accounting purposes. This results in cosmetically dramatic changes for our 'revenue' and 'gross profit' figures in our accounts.

From a Farmlands shareholder perspective, nothing really changes. Our top-line turnover reflects the Farmlands buying power that flows through to shareholder discounts, while our bottom-line profits remain the same under IFRS 15. Additionally, there is no impact on our cash flows.

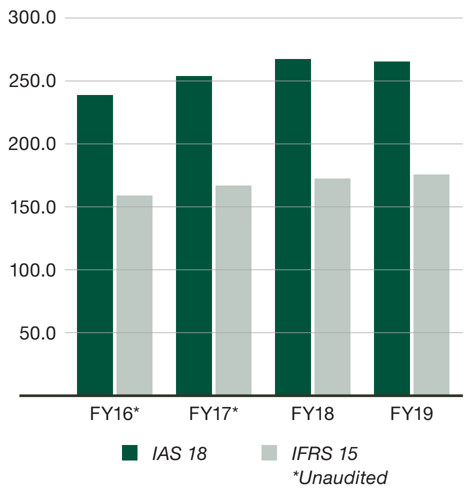
Integrated Reporting

Value over time. It's a concept that is the backbone of our co-operative and will now become a feature of our Annual Report.

As we enter the first year of our new three-year strategy cycle, we want to provide our shareholders with a clearer view of the direction of our co-operative. It includes our journey on sustainability how we intend to improve our performance into the future and how we will make better decisions for the betterment of all shareholders. You will see our approach to integrated reporting develop in future annual reports.



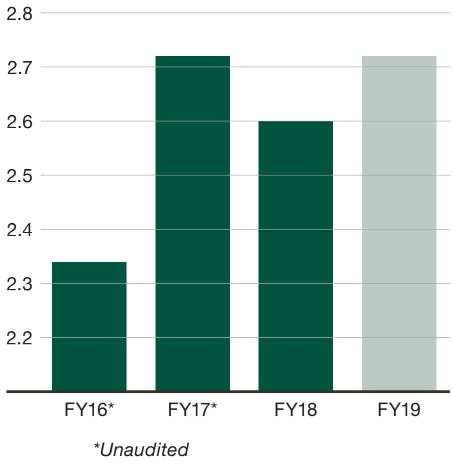
Revenue ($b)

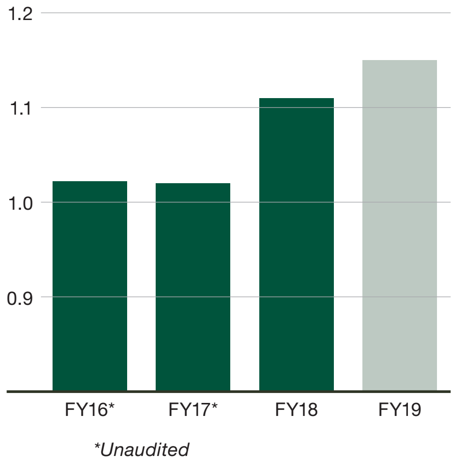


Gross Profit ($m)

– Financial Highlights Snapshot

Our reported net profit before tax and rebate of $8.4 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.





$2.7b

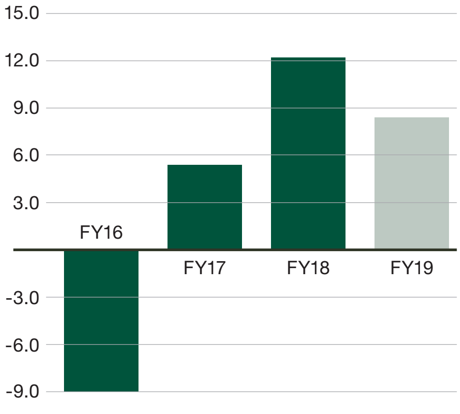
Farmlands Gross Turnover ($b)

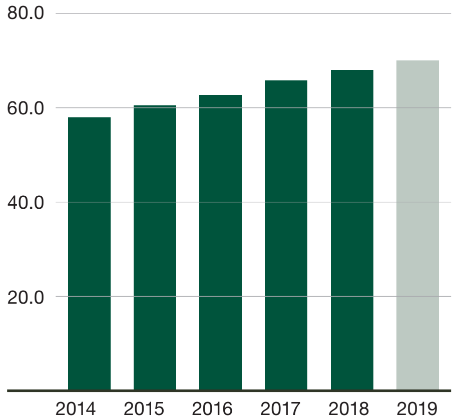
$1.1b

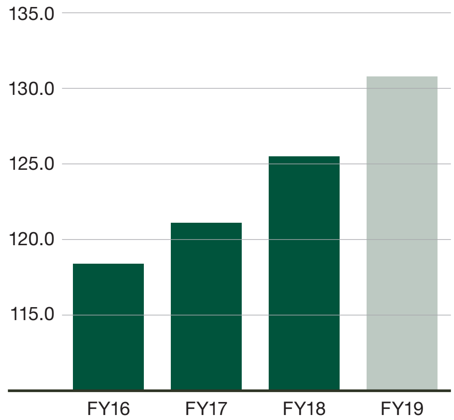
Farmlands Revenue ($b)

– Director Remuneration

Director	Value
L J C Johnstone (Chairman)	$140,000
G W Baldwin (elected 23 November 2018)	$39,445
N P Davies-Colley, Whangarei (Chair of the People & Performance Committee)	$69,000
C J Dennison, Oamaru	$65,000
M W A Donald, Invercargill (appointed 7 November 2017)	$65,000
D S Ferraby, Seddon (retired 23 November 2018)	$25,866
R J Hewett, Lawrence	$65,000
D P Jensen, Tauranga (retired 23 November 2018)	$25,866
J Journee (appointed 23 November 2018)	$39,445
W J Parker, Rotorua (appointed 7 November 2017)	$65,000
H D Sangster (elected 23 November 2018)	$39,445
P Wilson, Otaki, Independent (retired 23 November 2018)	$28,254
J A Bohnenn, Rangiora, Independent, (Chair of the Audit & Risk Management Committee) (appointed 1 August 2017)	$68,000
	$735,321







$8.4m

Farmlands Net Profit Before Tax and Rebates ($m)

70.0k

Farmlands Shareholders (000's)

$130.8m

Equity and Member Interests ($m)

– Staff Remuneration

Remuneration and value of benefits	Number of employees	Average salary	Average other	Average total
$100,000 – $110,000	69	$93,208	$11,974	$105,182
$110,000 – $120,000	30	$104,323	$11,365	$115,688
$120,000 – $130,000	34	$113,963	$11,572	$125,534
$130,000 – $140,000	23	$121,582	$12,954	$134,537
$140,000 – $150,000	15	$132,116	$11,807	$143,923
$150,000 – $160,000	12	$139,356	$15,971	$155,327
$160,000 – $170,000	7	$148,149	$15,570	$163,720
$170,000 – $180,000	6	$164,113	$11,913	$176,026
$180,000 – $190,000	9	$168,949	$16,517	$185,466
$190,000 – $200,000	4	$179,988	$15,718	$195,706
$200,000 – $210,000	2	$190,631	$12,485	$203,116
$210,000 – $220,000	3	$202,066	$15,253	$217,320

Remuneration and value of benefits	Number of employees	Average salary	Average other	Average total
$220,000 – $230,000	3	$205,420	$17,359	$222,779
$230,000 – $240,000	3	$216,116	$17,702	$233,817
$240,000 – $250,000	1	$237,075	$7,365	$244,440
$300,000 – $310,000	2	$272,384	$31,319	$303,703
$310,000 – $320,000	2	$289,165	$26,287	$315,452
$320,000 – $330,000	2	$290,763	$31,247	$322,009
$330,000 – $340,000	1	$330,572	$8,973	$339,545
$390,000 – $400,000	1	$363,057	$35,699	$398,756
$400,000 – $410,000	1	$382,625	$24,304	$406,928
$460,000 – $470,000	1	$426,638	$39,669	$466,307
$1,040,000 – $1,050,000	1	$899,508	$149,750	$1,049,258
**CEO Remuneration*				

Directors’ Report

For the year ended 30 June 2019

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

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.

In respect of the financial year ended 30 June 2019 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 Farmlands 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 and real estate services. 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 2019 follow this report, and include the impact of the adoption of new revenue standard NZ IFRS 15 for financial year 30 June 2019 onwards with prior year results restated in line with the new standard. The new financial instruments standard NZ IFRS 9, has also been adopted with no restatement required.

Results for the year ended 30 June 2019

	2019 $000	2018 $000
Profit from Operating Activities	8,426	12,241
Less Distribution to Members – bonus rebate unallocated	215	(6,120)
Profit after Distribution to Members	8,641	6,121
Income Tax Expense	(2,982)	(1,510)
Change in Net Assets attributable to members of the Society	**5,659**	**4,611**

State of Affairs

Farmlands grew its shareholder numbers by 3% to 70,000. The profit before tax and rebate was $8,426k compared with $12,241k for 2018. 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 that will deliver operational enhancements and improved business performance. This transformation project is planned for completion in late calendar 2019. Farmlands' ongoing commitments are fully funded within existing banking facilities. The Group has full bank support to meet its peak season requirements and continue to meet its debts as they fall due.

This year reflects adoption in the accounts of two new accounting standards, NZ IFRS 9 'Financial Instruments' & NZ IFRS 15 'Revenue from Contracts with Customers'. These result in adjustments in the presentation of the Income Statement, but do not impact net Profit before tax and rebate, or cash. They reduce Revenue, and one or other or both of Cost of Goods Sold, or Operating Expenses. Accordingly, the Income Statement shows a reduction in both Revenue and Gross Profit, offset with a reduction in Operating Expenses. Further detail (including a restated Income Statement for the 30 June 2018 numbers) is shown in Note 2(iii). NZ IFRS 16 'Leases' takes effect in the next financial year, and an explanation as to the likely impact on the Financial Statements is detailed in Note 2(iv)

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, Farmlands Real Estate Limited, Farmlands Real Estate Property Management Limited and Farmlands Finance Limited. The remuneration of the Auditors was set at $244k.

Events Subsequent to Balance Date

There were no events subsequent to balance date.

On behalf of the Board

Lachie Johnstone
Chairman of the Board

Julie Bohnenn
Chairman of the Audit and Risk Management Committee

23 October 2019

Income Statement

For the year ended 30 June 2019

	Notes	2019 $000	2018 $000 *(Restated)*
REVENUE	3	1,148,392	1,113,108
Cost of Goods Sold		(972,661)	(940,411)
GROSS PROFIT		175,731	172,697
Other Income	3	922	2,313
Less Finance Costs		(2,465)	(1,805)
Less Other Operating Expenses	3	(164,909)	(160,265)
Less Share of loss in Associates	10	(853)	(699)
PROFIT FROM OPERATING ACTIVITIES		**8,426**	**12,241**
LESS DISTRIBUTION TO MEMBERS			
Bonus Rebate		215	(6,120)
PROFIT AFTER DISTRIBUTION TO MEMBERS		8,641	6,121
Income Tax Expense	4	(2,982)	(1,510)
CHANGE IN RETAINED EARNINGS ATTRIBUTABLE TO MEMBERS		**5,659**	**4,611**

Statement of Comprehensive Income

For the year ended 30 June 2019

	Notes	2019 $000	2018 $000
Change in Retained Earnings Attributable to Members		5,659	4,611
OTHER COMPREHENSIVE INCOME			
Items that may be recycled to profit or loss:			
Movement in Cash Flow Hedge Reserve	5	(12)	48
Income Tax Effect		-	-
Other Comprehensive Income, Net of Tax		(12)	48
TOTAL COMPREHENSIVE INCOME FOR YEAR ATTRIBUTABLE TO MEMBERS		**5,647**	**4,659**

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

Statement of Changes in Equity and Members' Interests

For the year ended 30 June 2019

	Notes	2019 $000	2018 $000 *(Restated)*
BALANCE AT BEGINNING OF YEAR		**125,462**	**117,738**
Change in Retained Earnings Attributable to Members		5,659	4,611
Net contributions from members – all capital types		7	5
Other Comprehensive Income	5	(12)	48
Bonus Rebate to be (unallocated)/applied to Share Capital		(335)	3,060
BALANCE AT END OF YEAR		**130,781**	**125,462**

Statement of Changes in Equity

For the year ended 30 June 2019

2019	Retained Earnings $000	Cash Flow Hedge Reserve $000	Total Equity $000
Balance as 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**

2018	Retained Earnings *(Restated)* $000	Cash Flow Hedge Reserve $000	Total Equity *(Restated)* $000
Balance as 30 June 2017	826	(6)	820
Change in Cash Flow Hedge Reserve net of tax	-	48	48
Change in Retained Earnings Attributable to Members	4,611	-	4,611
Balance at End of Year	**5,437**	**42**	**5,479**

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

Balance Sheet

As at 30 June 2019

	Notes	2019 $000	2018 $000 *(Restated)*
EQUITY AND MEMBERS' OTHER INTERESTS			
Retained Earnings		11,096	5,437
Cash Flow Hedge Reserve	5	30	42
Total Equity		**11,126**	**5,479**
Share Capital Repayable on Demand	6	119,655	116,923
Bonus Rebate Applied to Share Capital	7	-	3,060
TOTAL EQUITY AND MEMBERS' INTERESTS		130,781	125,462
Represented by:			
CURRENT ASSETS			
Cash and Cash Equivalents	13	-	2,319
Accounts Receivable	8	229,330	224,474
Loans Receivable	8	1,542	1,510
Inventories	9	90,669	92,454
Derivatives		41	59
Income Tax Receivable		357	38
Total Current Assets		**321,939**	**320,854**
NON-CURRENT ASSETS			
Other Investments	10	38	38
Equity Investment	10	1,652	2,505
Loans Receivable	8	-	353
Property, Plant and Equipment	11	74,943	71,423
Intangible Assets	12	92,531	59,561
Deferred Tax Asset	4	188	1,804
Total Non-Current Assets		**169,352**	**135,684**
TOTAL ASSETS		491,291	456,538
CURRENT LIABILITIES			
Bank Borrowings	13	118,279	83,350
Accounts Payable	14	211,153	213,038
Employee Entitlements		5,675	7,422
GST Payable		24,805	23,723
Bonus Rebate Payable in Cash	7	-	3,060
Total Current Liabilities		**359,912**	**330,593**
NON-CURRENT LIABILITIES			
Employee Entitlements		598	483
Total Non-Current Liabilities		**598**	**483**
TOTAL LIABILITIES OTHER THAN SHARE CAPITAL REPAYABLE ON DEMAND		360,510	331,076
NET ASSETS EXCLUDING MEMBERS' INTERESTS		130,781	125,462

For and on behalf of the Board

Lachie Johnstone
Chairman of the Board

Julie Bohnenn
Chair of the Audit and Risk
Management Committee

23 October 2019

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

Statement of Cash Flows

For the year ended 30 June 2019

	Notes	2019 $000	2018 $000 *(Restated)*
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash was provided from:			
Cash Receipts from Customers		2,625,079	2,489,236
Receipts from sale of Loan Book		965	4,563
Interest Received		192	449
Income Tax Received		-	202
Dividends Received		1	3
		2,626,237	2,494,453
Cash was applied to:			
Cash Paid to Suppliers and Employees		2,608,303	2,466,513
Interest Paid		2,465	1,805
Income Tax Paid		1,680	-
		2,612,448	2,468,318
Net cash inflows from operating activities	**21**	**13,789**	**26,135**
CASH FLOWS USED IN INVESTING ACTIVITIES			
Cash was provided from:			
Proceeds from Sale of Property, Plant and Equipment		1,751	4,597
		1,751	4,597
Cash was applied to:			
Purchase of Property, Plant and Equipment	11	12,625	9,422
Purchase of Intangibles	12	36,990	33,030
Investment in Joint Ventures		-	3,206
		49,615	45,658
Net cash outflows to investing activities		**(47,864)**	**(41,061)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash was provided from:			
Share Capital issued	6	1,633	1,689
		1,633	1,689
Cash was applied to:			
Share Capital repaid	6	1,626	1,684
Bonus Rebate Paid to Shareholders		3,180	-
		4,806	1,684
Net cash inflows / (outflows) from financing activities		**(3,173)**	**5**
NET (DECREASE) IN CASH HELD		(37,248)	(14,921)
Net Bank Borrowings at Beginning of Year		(81,031)	(66,110)
NET BANK BORROWINGS AT END OF YEAR	13	(118,279)	(81,031)

Notes to the Financial Statements

For the year ended 30 June 2019

Note 1: General Information

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 2019.

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 Society'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 2019.

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: Summary of Significant Accounting Policies

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 Society's functional currency.
All financial information presented in New Zealand dollars has been rounded to the nearest thousand.

Measurement Base

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.

The following specific accounting policies materially affect the reporting of financial performance and financial position:

(i) Group Financial Statements Basis of Consolidation Accounting Policies

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.

(ii) 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.

(iii) Adoption of new reporting standard, NZ IFRS 15 and NZ IFRS 9

Adoption of NZ IFRS 15 Revenue from Contracts with Customers

Farmlands adopted NZ IFRS 15 Revenue from Contracts with Customers from 1 July 2018. As a result of the new standard Farmlands' assessment of sales as agent or principal, treatment of monthly rebates, Choices points issued and proceeds received from suppliers has changed.

1. The new revenue standard moves from a risk and reward model to a control based model. Under the new revenue model Farmlands will no longer record revenues collected on behalf of card partners as principal but as agent as the Society does not obtain sufficient control of inventory. Under the previous revenue standard Farmlands recognised gross proceeds as revenue and under the new standard Farmlands will recognise administration and other fees received from card partners as revenue. As a result, $1,141,402k has been reclassified from revenue to cost of goods sold within the comparative income statement. There is no impact on total comprehensive income.

2. Under the new revenue model Farmlands considers monthly rebates to customers a sales discount and part of the sales transaction price rather than an operating expense. Customers are entitled to their monthly rebates if they pay their accounts by the due date, Farmlands uses judgement to estimate the net rebate based on accumulated experience of rebates earned by Customers. As a result, $91,087k has been reclassified from revenue to rebates to members within the comparative income statement. There is no impact on total comprehensive income.

3. Choices points have been identified as a separate and future performance obligation on Farmlands. The Society 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. The value attributed to reward points is deferred as a liability and recognised as revenue on redemption by members. Customers have three years to redeem points once earned and in determining the transaction price Farmlands uses judgement to estimate the value of points that will be lost due to expiry. As a result, $6,451k has been reclassified from revenue to cost of goods sold within the comparative income statement. There is no impact on total comprehensive income.

4. Certain amounts received from suppliers are no longer considered revenue from customers in the ordinary course of business and have been reclassified to a reduction in operating expenses. As a result, $7,595k has been reclassified from revenue to either cost of goods sold or other operating expenses within the comparative income statement. There is no impact on total comprehensive income.

The impact of adoption of the new accounting standard NZ IFRS 15 is a reduction in both revenue and operating costs with no impact to profit.

During the NZ IFRS 15 implementation process, the Group has re-assessed the information used and judgements and assumptions made at each reporting period. It has been identified that supplier rebates totalling $32,384k were incorrectly classified as revenue when it should have been classified as cost of goods sold. The net impact of this item is that revenue was overstated in FY18 by $32,384k. In re-assessing this as part of the transition to NZ IFRS 15, the Group has assessed that this was a classification error. This has been shown separately in the transition tables on page 34. As a result of the adjustment the opening retained earnings has decreased by $3,400k, inventory has decreased by $4,700k and tax (payable) receivable has increased by $1,300k.

The standard has been applied retrospectively. The impact of the adoption of NZ IFRS 15 on the Income and Cash Flow Statements is as follows:

INCOME STATEMENT	Original 2018 $000	Classification Error $000	Transition Adjustment $000	Ref No.	Restated 2018 $000
REVENUE	2,392,027	(32,384)	(1,246,535)	1,2,3,4	1,113,108
Cost of Goods Sold	(2,124,724)	32,384	1,151,929	3,4	(940,411)
GROSS PROFIT	**267,303**	**-**	**(94,606)**		**172,697**
Other Income	2.313	-	-		2,313
Less Finance Costs	(1,805)	-	-		(1,805)
Less Other Operating Expenses	(163,784)	-	3,519	4	(160,265)
Less Rebates to Members	(91,087)	-	91,087	2	-
Less Share of loss in Associates	(699)	-	-		(699)
	(255,062)	-	94,606		(160,456)
PROFIT FROM OPERATING ACTIVITES	**12,241**	**-**	**-**		**12,241**

CASH FLOW STATEMENT	Original 2018 $000	Classification Error $000	Transition Adjustment $000	Ref No.	Restated 2018 $000
Cash was provided from:					
Cash Receipts from Customers	2,623,562	(32,384)	(101,942)	1,2,3,4	2,489,236
Receipts from sale of Loan Book	4,563	-	-		4,563
Interest Received	449	-	-		449
Income Tax Received	202	-	-		202
Dividends Received	3	-	-		3
	2,628,779	(32,384)	(101,942)		2,494,453
Cash was applied to:					
Cash Paid to Suppliers and Employees	2,509,980	(32,384)	(11,083)	3,4	2,466,513
Rebates Paid to Cardholders	90,859	-	(90,859)	2	-
Interest Paid	1,805	-	-		1,805
	2,602,644	(32,384)	(101,942)		2,468,318
NET CASH INFLOWS FROM OPERATING ACTIVITIES	**26,135**	**-**	**-**		**26,135**

1 – Reclassification of card partner revenue.
2 – Reclassification of rebates.
3 – Reclassification of Choices revenue.
4 – Reclassification of other revenue.

Adoption of NZ IFRS 9: ‘Financial Instruments’

Farmlands has adopted NZ IFRS 9 Financial Instruments from 1 July 2018 with no impact on the Group’s opening balance sheet or comparative information.

The changes the new standard introduces are

- new requirements for the classification and measurement of financial assets and financial liabilities;
- a new model for recognising impairments of financial assets; and
- changes to hedge accounting by aligning hedge accounting more closely to an entity’s risk management objectives.

a) Classification and measurement

NZ IFRS 9 introduces a principles-based approach to the classification of financial assets. Financial assets are measured at fair value through profit or loss, fair value through other comprehensive income or amortised cost. Classification is determined by the nature of the cash flows of the assets and the business model in which they are held. These categories replace the existing NZ IAS 39 classifications. For financial liabilities, most of the pre-existing requirements for classification and measurement previously included in NZ IAS 39 are carried forward unchanged into NZ IFRS 9. There were no material changes in relation to the classification and measurement of financial assets and liabilities, and the associated accounting policies as detailed in the notes to the financial statements.

b) Impairment

NZ IFRS 9 introduces an expected credit loss impairment model that differs from the incurred loss model under NZ IAS 39. Farmlands adopted the expected credit loss model using the simplified approach for financial assets from 1 July 2018. The change in methodology has no impact on Farmlands opening balance sheet.

c) Hedge accounting

The Group hedges its committed foreign currency purchases by buying foreign currency forwards. There is no measurement impact from the adoption of NZ IFRS 9 on the Group's foreign exchange hedges.

(iv) New Standards and Interpretations Not Yet Adopted

NZ IFRS 16 Leases

NZ IFRS 16 Leases will result in almost all leases being recognised in the statement of financial position, as the distinction between operating leases and finance leases is removed. The standard is mandatory for the Group from 1 July 2019.

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 an operating lease (off balance sheet) and a finance lease (on balance sheet). NZ IFRS 16 now requires a lessee to recognise a lease liability reflecting the future lease payments and a 'right-of-use' asset for almost all lease contracts. The statement of comprehensive income will be impacted by the recognition of an interest expense and a depreciation expense with premise rental and vehicle lease equipment expenses removed altogether.

The impact for the Group will be primarily focused on the accounting for operating leases on properties rented and vehicles. As at the reporting date, the Group has operating lease commitments on rented property and vehicles of $91,003k.

Management has put considerable resource and effort capturing the key terms of all property and vehicle lease contracts. In addition, management has:

- Licensed specific software to undertake the required calculations under IFRS 16
- Updated all current lease contracts covering properties and vehicles.

Management are currently undertaking a verification exercise to confirm the completeness of all lease contracts and contractual terms entered into the software on a lease by lease basis to determine the appropriate renewal terms and an appropriate discount rate for the leases. The review and validation of data and assumptions is in progress. Therefore management have not yet concluded on the potential quantification of the impact of NZ IFRS 16 based on the current property lease arrangements across the Group. With the significant focus on implementing the new ERP system which went live in September attention can now be applied to completing the IFRS 16 project. This is expected to be completed by the end of November.

The implementation of NZ IFRS 16 will have no cash impact to the Group as changes are limited to financial reporting requirements only. The Group intends to implement the modified retrospective transition approach as defined in the standard for the year ended 30 June 2020 and will not restate comparative amounts for the period prior to adoption.

(v) Revenue from Contracts with Customers

Farmlands Rural Supplies:

Farmlands operates rural supply stores nationwide selling farming supplies and equipment. Sale of rural supplies also includes stock 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 Farmlands 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:
Farmlands 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. Farmlands 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:
Under the new revenue model Farmlands considers monthly rebates to customers a sales discount and part of the sales transaction price rather than an operating expense. Customers are entitled to their monthly rebates if they pay their accounts by the due date.

Choices points have been identified as a separate and future performance obligation on Farmlands. The Society 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

(vi) Other Income

Other income is comprised of Interest earned on Finance company loans, bank deposits and gain on disposal of Property, Plant and Equipment. These are recognised using the effective interest method.

(vii) 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.

(viii) 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 placed in service and concurrently placed into one of the three asset categories above.

(ix) 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 Farmlands financial period.

(x) 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.

(xi) 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 Farmlands 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 statement of profit or loss as applicable.

(xii) 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.

(xiii) 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.

(xiv) 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.

(xv) 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 Farmlands Co-operative Society Limited 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.

(xvi) 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.

(xvii) Operating Leases

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.

(xviii) 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.

(xix) 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.

(xx) 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.

(xxi) 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.

(xxii) 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 Farmlands Co-operative Society Limited 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.

(xxiii) 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.

(xxiv) 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 Society.

(xxv) Loyalty Scheme – Choices Rewards

The Society 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 Society 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.

(xxvi) 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.

Standards, Interpretations and Amendments to Published Standards

The following standards were adopted during the year ended 30 June 2019.

- NZ IFRS 9: 'Financial Instruments
- NZ IFRS 15: 'Revenue from contracts with customers'

Various standards and amendments to existing standards are not yet effective and have not been early adopted by the Group:

- 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.

The standard is effective for accounting periods beginning on or after 1 January 2019. There is a project plan in place to assess the full impact of the standard.

Note 3: Revenue, Gross Turnover and Other Operating Expenses

	2019 $000	2018 $000 *(Restated)*
Revenue from contracts with customers:		
Rural Supplies	727,705	727,971
Fuel	380,841	347,737
Card	21,644	20,125
Other	18,202	17,275
Total revenue from contracts with customers	**1,148,392**	**1,113,108**
Interest earned on short-term bank deposits	113	140
Interest on Finance Company loans	79	309
Dividend income	1	3
Gain on disposal of property, plant and equipment	729	1,861
Other Income	922	2,313

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:	2019 $000	2018 $000 *(Restated)*
Gross Turnover generated	2,716,819	2,596,869
Less Turnover as Agent	(1,474,697)	(1,382,675)
Less Rebates to Members	(86,123)	(92,322)
Less Choices Points Issued	(6,685)	(6,451)
Less Other Income	(922)	(2,313)
Total Revenue	**1,148,392**	**1,113,108**

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 Society's operations and member activity.

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

	2019	2018
	$000	**$000**
Other Operating Expenses include:		*(Restated)*
Fees paid to Auditors		
- Annual audit of financial statements [1]	244	281
- Financial analysis [2]	27	190
- Treasury advisory services [3]	12	140
- Taxation advisory services	-	4
- Corporate finance services [4]	56	-
- Trust accounts audit	6	6
Total fees paid to Auditor	345	621

1. Annual audit of financial statements includes audit work performed in relation to new accounting standards of $8k (2018 $53k).
2. 2018 figures have been restated to include additional fees of $119k relating to financial analysis that were not disclosed in the 2018 financial statements.
3. Provision of Treasury related financial markets risk analysis and commentary.
4. This includes services for internal financial performance analysis on the rate of return on capital, industry benchmarking against publicly available information on companies in the agri-sector, and providing a financial analysis of certain new business initiatives.

	2019	2018
	$000	**$000**
Amortisation of Computer Software	4,447	4,723
Bad Debts	363	818
Bank Interest	2,465	1,805
Depreciation	7,395	7,621
Directors' Fees	735	689
Employee Entitlements	83,417	81,018
Decrease in Provision for Doubtful Loans	(20)	-
Decrease in Provision for Doubtful Trade Receivables	(63)	(1,013)
Lease Expense – Property	14,384	14,188
Lease Expense – Vehicles	3,007	2,099

Note 4: Income Tax

	2019	2018
	$000	**$000**
Operating Profit before Income Tax	8,426	12,241
Permanent Differences		
Bonus Rebate	16	(6,120)
Expenditure not deductible for income tax	1,255	432
	1,271	(5,688)
Operating Profit adjusted for permanent differences	9,697	6,553
Tax Expense @ 28%	2,715	1,835
Deferred Tax Expense relating to temporary differences	-	-
Under/(over) provision prior years	267	(325)
Income Tax Expense	**2,982**	**1,510**

	2019 $000	2018 $000
Comprising:		
Current Tax	1,349	1,219
Deferred Tax	1,633	291
	2,982	1,510

Deferred Tax Asset		
Balance at beginning of year	1,804	2,157
Current year movement	(1,925)	(433)
Other comprehensive income	(5)	43
Prior year movement	314	37
Balance at end of year	188	1,804

Comprising:			
Tax effect of	- Employee entitlements	1,255	1,516
	- Other provisions	1,288	1,037
	- Property, Plant and Equipment differences	(2,366)	(765)
	- Foreign exchange contracts	11	16
		188	1,804

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

Note 5: Cash Flow Hedge Reserve

	2019 $000	2018 $000
Balance at beginning of year	42	(6)
Movement, net of tax	(12)	48
Balance at end of year	30	42

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

2019	Shareholders	Shares '000	Share Capital $000
Balance at beginning of year	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

2018	Shareholders	Shares '000	Share Capital $000
Balance at beginning of year	65,757	116,918	116,918
Plus: New Shareholders during the year	3,539	1,689	1,689
Less: Shareholders withdrawing during the period	(1,313)	(1,684)	(1,684)
Balance at end of year	67,983	116,923	116,923

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 Society 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 Society'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 2019 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 Farmlands. There are different circumstances where shares may be surrendered. These include the shareholder requesting the surrender, or Farmlands 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 Farmlands or any of its related companies.

Where Farmlands has required the surrender of the Shares, the consideration must be paid within three months. If Farmlands 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 (iv) provides additional information on Share capital repayable on demand.

Note 7: Bonus Rebate Payable

	2019 $000	2018 $000
Bonus Rebate to be applied to Share Capital	-	3,060
Bonus Rebate Payable in Cash	-	3,060
	-	6,120

Note 8: Receivables

	2019 $000	2018 $000
Accounts Receivable		
Trade Receivables	215,029	210,950
Less Provision for Doubtful Debts	(1,621)	(1,685)
Other receivables	12,238	10,417
Prepayments	3,684	4,792
	229,330	224,474
Provision for Doubtful Debts		
Balance at beginning of year	1,685	2,698
Decrease in provision	(64)	(1,013)
Balance at end of year	1,621	1,685
Loans Receivable		
Amounts due from Finance Customers	1,748	2,089
Less Provision for Doubtful Loans	(206)	(226)
	1,542	1,863
Comprising:		
Current Asset	1,542	1,510
Non-current Asset	-	353
	1,542	1,863
Provision for Doubtful Debts		
Balance at beginning of year	226	226
Decrease in provision	(20)	-
Balance at end of year	206	226

Trade and loans receivable ageing are as follows:

30 June 2019	Current $000	0–30 days $000	31–60 days $000	61+ days $000	Total $000
Expected Loss Rate	0.004%	1.815%	6.899%	5.769%	0.004%
Trade 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

30 June 2018	Current $000	0–30 days $000	31–60 days $000	61+ days $000	Total $000
Expected Loss Rate	0.004%	1.961%	7.275%	6.360%	0.004%
Trade Receivables	211,151	6,187	1,376	2,653	221,367
Loans Receivable	2,061	2	2	24	2,089
Trade Receivables Provision	-	321	350	1,014	1,685
Loans Receivable Provision	-	-	-	226	226

Loans receivable are either secured or unsecured Farmlands Term Loans, Hire Purchase Loans or Farmlands Livestock Loans and are to Farmlands Co-operative shareholders. There have been no new loans during 2019.

Interest is charged at 0% to 15% per annum for the duration of the loan (2018 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 Farmlands hold 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 $511k (2018 $644k) 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 2019 or 1 July 2018 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.

Farmlands applies the 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 2018.

Note 9: Inventories

	2019 $000	2018 $000 *(Restated)*
Farm Merchandise	74,546	74,026
Feed Inventory	10,616	12,304
Other Inventory	5,507	6,124
	90,669	92,454

Inventories comprise retail merchandise in retail branches, grain and seed, stock feed, fuel and lubricants. All inventories are pledged as security to the Society's bankers. At year end the provision for inventory obsolescence is $515k (2018 $450k).

At balance date, the Group had purchase commitments of $17,290k for goods for resale (2018 $8,900k). To manage price risk associated with future commitments the Group enters into back to back sale commitments. At balance date, the Society has no impairment of future purchase commitments.

Note 10: Investments

Other Investments	2019 $000	2018 $000
Interests in business undertakings:		
Balance at beginning of year	38	38
Decrease during the year	-	-
	38	38
Comprising:		
Current Asset	-	-
Non-current Asset	38	38
	38	38

Other Investments comprise shares in the Real Estate Network Limited measured at fair value. This is determined by market rate with changes recognised in other gains in the statement of profit or loss as applicable.

Equity Investment in Farm IQ

The Society invested $3,206k to acquire a 30% share in FarmIQ Systems Limited in 2018. This investment was made to enable shareholders' access to important farm information on favourable terms and assist Farmlands to provide enhanced service offerings to shareholders. The investment is accounted for on an equity accounting basis and the value in the balance sheet reflects movements in the trading position in FarmIQ. At balance date, the carrying value of the investment was $1,652k, (2018 $2,505k).

Note 11: Property, Plant and Equipment

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
Movements in the period ended 30 June 2019						
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

2018	Freehold Land $000	Buildings $000	Motor Vehicles $000	Plant and Equipment $000	Work in Progress $000	Total $000
At 30 June 2017						
Cost	7,526	16,890	17,595	69,977	1,747	113,735
Accumulated Depreciation	-	(859)	(10,279)	(30,209)	-	(41,347)
Net Book Value	7,526	16,031	7,316	39,768	1,747	72,388
Movements in the period ended 30 June 2018						
Additions	151	203	343	7,655	1,070	9,422
Disposals	-	(24)	(2,452)	(290)	-	(2,766)
Depreciation	-	(565)	(1,713)	(5,343)	-	(7,621)
Closing Net Book Value	7,677	15,645	3,494	41,790	2,817	71,423
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

Note 12: Intangible Assets

	2019 $000	2018 $000
Computer Software		
Cost at beginning of year	67,955	34,924
Accumulated Amortisation	(19,454)	(14,731)
Net Book Value	48,501	20,193
Movements in the year		
Additions	36,990	33,030
Disposals	427	1
Amortisation	(4,447)	(4,723)
Closing Net Book value	81,471	48,501
As at end of year		
Cost	104,941	67,955
Accumulated Amortisation	(23,470)	(19,454)
Computer Software Net Book value	81,471	48,501
Goodwill		
Cost at beginning of year	11,479	11,479
Accumulated Impairment	(419)	(419)
Net Book Value at beginning of year	11,060	11,060
As at end of year		
Cost	11,484	11,479
Accumulated Impairment	(424)	(419)
Goodwill Net Book value	11,060	11,060
Total Intangibles	**92,531**	**59,561**

Work in progress software additions include work to date performed on our business transformation project as commented on in the State of Affairs note in the Directors' Report. A further $5,038k (2018 $21,400k) has been committed at balance date as detailed in Note 17 Commitments.

Included in computer software is $64,601k (2018 $45,794k) of work in progress relating to the business transformation project. Upon completion of the project, the work in progress will be transferred to the intangible asset register and amortised.

Impairment Testing

The estimated recoverable amount of goodwill has been determined based on value-in-use calculations for each component as at 30 June 2019 for all cash generating units, which include Operations, Real Estate, Grain, Seed, Feed, and Fuel. The amount allocated to each component is not significant in comparison to the entity'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 2019 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 (2018 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 13: Bank Borrowings

The overdraft and other bank borrowings from the ASB Bank Limited are secured by a General Security Agreement (GSA) over all assets of the Society 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 Society's properties. An all obligations guarantee by Farmlands Real Estate Limited and Farmlands Fuel Limited also comprises a part of the GSA. Interest rates varied from 2.97% to 3.60% per annum for the financial year. The Group has bank borrowing evergreen facilities of no less than one year and no more than five years of $125,000k (2018 $125,000k). There are financial bank covenants relating to assets (refer to Note 19). No breaches in financial bank covenants have occurred in the 2019 financial year (2018 no breaches).

	2019 $000	2018 $000
Bank borrowings comprise:		
Bank loans – payable within one year	118,279	83,350
Less cash and cash equivalents	-	(2,319)
Net borrowings repayable on demand	118,279	81,031

	Cash/Cash Equivalents	Borrowings < 1-year	Total
Net borrowings as at 30 June 2018	(2,319)	83,350	81,031
Cash flows	2,319	34,929	37,248
Net borrowings as at 30 June 2019	-	118,279	118,279

At balance date, current liabilities exceed current assets by $37,973k (2018 $6,339k). Current liabilities include all of the Group's bank facilities, which are for funding working capital (and therefore classified as current). The difference reflects funding part of the transformation project from these facilities (classified as non-current). The Group has full bank support to meet peak season demand and continue to meet its debts as they fall due. On this basis, the Group continues to apply the going concern assumption.

Note 14: Trade Payables

	2019 $000	2018 $000 *(Restated)*
Accounts Payable		
Trade Payables	201,748	203,631
Deferred Income	9,405	9,407
	211,153	213,038

Deferred Income relates to the Loyalty Scheme – Choices Rewards the value attributed to reward points is deferred as a liability and recognised as revenue 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.

	2019 $000	2018 $000
Movements in Deferred Income		
Balance at beginning of year	9,407	9,929
Choices rewards issued	6,685	6,451
Choices rewards recognised in revenue	(6,687)	(6,973)
Balance at end of year	9,405	9,407

Note 15: Contingent Assets and Liabilities

There were no contingent assets and liabilities at balance date.

Note 16: Related Party Transactions

Subsidiaries

	Equity Holding	
	2019	**2018**
Farmlands Finance Limited	100%	100%
Farmlands Fuel Limited	100%	100%
Farmlands Real Estate Limited	100%	100%
Farmlands Real Estate Property Management Limited	100%	100%

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

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 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 $4,790k (2018 $5,338k). In addition, termination benefits were paid of $285k (2018 nil).

Directors Information

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

	Remuneration $
L J C Johnstone (Chairman)	140,000
G W Baldwin (appointed 23 November 2018)	39,445
N P Davies-Colley, Whangarei (Chair of the People & Performance Committee)	69,000
C J Dennison, Oamaru	65,000
M W A Donald, Invercargill (appointed 7 November 2017)	65,000
D S Ferraby, Seddon (retired 23 November 2018)	25,866
R J Hewett, Lawrence	65,000
D P Jensen, Tauranga (retired 23 November 2018)	25,866
J Journee (appointed 23 November 2018)	39,445
W J Parker, Rotorua (appointed 7 November 2017)	65,000
H D Sangster (appointed 23 November 2018)	39,445
P Wilson, Otaki, Independent (retired 23 November 2018)	28,254
J A Bohnenn, Rangiora, Independent, (Chair of the Audit & Risk Management Committee) (appointed 1 August 2017)	68,000
	735,321

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 Society 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 Society in the same manner as all other shareholders.

Use of Information

There were no notices from directors of the Society requesting to use Society 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	2019	2018
	$000	$000
Payable no later than one year	18,353	14,078
Payable later than one, not later than five years	51,428	34,263
Payable later than five years	21,222	19,273
	91,003	67,614

These leases are for the Group's premises, motor vehicles and office equipment. The leases have varying terms, and renewal rights.

Capital Commitments

There is capital expenditure contracted for at balance date of:	2019	2018
	$000	$000
Land and Buildings	886	-
Computer Software	5,038	21,400
Fuel Tanks	-	843
Property	56	250
Vehicles	990	100
	6,970	22,593

The Society has committed to a major transformation project at an estimated cost of $90,000k over three years of which $36,888k (2018 $32,610k) has been incurred during the year. This project includes the replacement of legacy IT systems and scalable enhancements that will provide significantly enhanced information to better manage the business and improve business performance. The project's major components will be deployed during the 2020 financial year. As disclosed above the legal commitment at balance date is $5,038k which represents the scope of work with Microsoft less actual spend to date (2018 $21,400k). Funding for the project is provided within existing banking arrangements.

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.

(i) 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
(a) Currency risk	No significant assets are denominated in overseas currencies	Immaterial
(b) Interest rate risk	Exposure to changes in interest rates of loans receivable and bank borrowings	as below
(c) Other price risk	No securities are bought, sold or trade	nil

(ii) 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 2.25% (2018 1.5%). Interest rates on current borrowings can be reviewed at the lender's discretion. Interest rates on bank borrowings are 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/increased the profit before tax by $782k (2018 $598k).

(iii) 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 2019 is a trade customer of $1,754k (this has subsequently been received) (2018 $1,250k). There is no collateral held relating to this trade customer.

At 30 June 2019 past due accounts receivable and loans, excluding impaired receivables, were $12,218k (2018 $8,333k) 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 $305k (2018 $1,470k) 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 2019 were $1,827k (2018 $1,911k) and are impaired because the amounts are significantly overdue. The provision for doubtful debts substantially provides for potential losses on these receivables.

(iv) 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 2019

	0–6 months $000	6–12 months $000	1–2 years $000	2+ years $000	Total $000
Group Liabilities					
Accounts Payable	211,153	-	-	-	211,153
Bank Borrowings	118,279	-	-	-	118,279
Share Capital Repayable on Demand	119,655	-	-	-	119,655
	449,087	-	-	-	449,087

30 June 2018

	0–6 months $000	6–12 months $000	1–2 years $000	2+ years $000	Total $000
Group Liabilities					
Accounts Payable	213,038	-	-	-	213,038
Bank Borrowings	83,350	-	-	-	83,350
Share Capital Repayable on Demand	116,923	-	-	-	116,923
	413,311	-	-	-	413,311

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 Society and applies to the Board for the approval to surrender their shares in the Society is entitled to receive a return of the shares and any other entitlements within three months from the date of notifying the Society 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 Society 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 Society can be maintained through new shareholders and the capitalisation of bonus rebates.

(v) 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 $5,394k (2018 $4,991k). These contracts are forward contracts for future purchase commitments and have a value based on the spot rates at 30 June 2019 of $5,435k (2018 $5,050k). The derivative financial instruments qualify for hedge accounting, and the movement in fair value of loss of $12k before tax (2018 $48k gain) are accounted for through the Statement of Other Comprehensive Income.

Note 19: Management of Capital

The objectives of the Society when managing capital are to safeguard the Society'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 Society 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 Society is compliant with all financial covenants. The financial covenants include; the Society's aggregate book value of trade receivables less receivables held on trust and stock, divided by the total borrowings 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, Fuel and Real Estate) 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

	2019 $000	2018 $000
Closing Balance available for future use	8,917	8,239

The Society may attach imputation credits to dividends paid or bonus shares issued which represent the tax already paid by the Society 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 Changes in Retained Earnings Attributable to Members to Cash Flow from Operating Activities:

	2019 $000	2018 $000
Profit after Tax and Bonus Rebate Declared	5,659	4,611
Plus/(Less) Non-Cash / Non-Operating Items		
Depreciation and Amortisation	11,842	12,344
Gain on Disposal of Assets	(462)	(1,830)
Share of losses in Associate	853	699
Decrease in Deferred Taxation	1,616	353
Bonus Rebate (unallocated)/declared	(215)	3,060
	19,293	19,237
Plus/(Less) movements in Working Capital Items		
Increase in Operating Accounts Receivable	(4,856)	(15,442)
Decrease in Loans Receivable	321	3,918
Increase/(Decrease) in Operating Accounts Payable	(1,885)	21,733
Increase in GST Payable	1,082	1,332
Decrease in Employee Entitlements	(1,632)	(1,772)
Increase/(Decrease) in Tax Payable	(319)	1,262
(Increase)/Decrease in Inventories	1,785	(4,133)
Net (Increase)/Decrease in Working Capital	(5,504)	6,898
Net cash inflow from Operating Activities	**13,789**	**26,135**

Note 22: Categories of Financial Assets and Liabilities

	2019	2018
	$000	$000
Financial Assets		
Cash and Cash Equivalents	-	2,319
Accounts Receivable	229,330	224,474
Loans Receivable	1,542	1,863
Derivatives	41	59
Other Investments	38	38
Equity Investment	1,652	2,505
	232,603	231,258

	2019	2018
	$000	$000
Financial Liabilities at Amortised Cost		
Accounts Payable	211,153	213,038
Bank Borrowings	118,279	83,350
Employee Entitlements	6,273	7,905
Bonus Rebate payable in cash	-	3,060
	335,705	307,353

Note 23: Events Subsequent to Balance Date

There were no 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

Bank of New Zealand
Riccarton Road, Christchurch

SOCIETY SECRETARY

Catherine Walker
Farmlands, Christchurch

SOLICITORS

Anderson Lloyd
Cnr Princes Street & Moray Place, Dunedin

SUBSIDIARY – Farmlands Finance Limited

Directors:
K R Cooney, executive

SUBSIDIARY – Farmlands Fuel Limited

Directors:
K R Cooney, executive

SUBSIDIARY – Farmlands Real Estate Ltd

Directors:
A K Horsbrugh, executive
I G Moore, executive (retired 21 February 2019)
J R Wills, executive (appointed 21 February 2019)

SUBSIDIARY – Farmlands Real Estate Property Management Ltd

Directors:
I G Moore, executive (retired 21 February 2019)
A K Horsbrugh, executive
J R Wills, executive (appointed 21 February 2019)

SUBSIDIARY – CRT Limited (non-trading)

Directors:
K R Cooney, executive

DIRECTORS

L J C Johnstone, Pukekohe (Chairman)

G W Baldwin, Putaruru, (elected 23 November 2018)

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

C J Dennison, Oamaru

M W A Donald, Invercargill

D S Ferraby, Seddon, (retired 23 November 2018)

R J Hewett, Lawrence

D P Jensen, Tauranga, (retired 23 November 2018)

W J Parker, Rotorua

H D Sangster, Ranfurly, (elected 23 November 2018)

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

J Journee, Auckland, Independent (appointed 23 November 2018)

P D Wilson, Otaki, Independent (retired 23 November 2018)

EXECUTIVES

Chief Executive Officer	Peter Reidie
Chief Financial Officer	Kevin Cooney
Chief Digital Officer	Richard Wilkinson
Chief People Officer	Ruth Knewstubb
Director of Agri Products and Services	Andrew Horsbrugh
Director of External Relations	Mark McHardy
Director of Group Development	Tony van der Hoorn (resigned, effective 28 September 2018)
Director of Marketing	Nick Baylis (acting)
Director of Strategy and Communication	Colm Hamrogue (resigned, effective 16 November 2018)
General Manager of Card	Jess Strange
General Manager of Energy	John Campbell
General Manager of Operations	Malcolm Scrymgeour
General Manager of Sales	Neal Shaw (resigned, effective 31 August 2018)
General Manager of Card	Jaimie McNabb (resigned, effective 31 January 2019)

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 2019;
- 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 Society), including its subsidiaries (the Group), present fairly, in all material respects, the financial position of the Society as at 30 June 2019, 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 (Revised) *Code of Ethics for Assurance Practitioners* (PES 1) issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' *Code of Ethics for Professional 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, treasury related financial markets risk analysis and commentary financial analysis services, tax advisory services and corporate finance services for internal financial performance analysis on the rate of return on capital, industry benchmarking against publicly available information on companies in the agri-sector, and providing a financial analysis of certain new business initiatives. The provision of these other services has not impaired our independence as auditor of the Society.

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 million, which represents approximately 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.

We have determined that there are two key audit matters:

- Adoption of NZ IFRS 15 revenue from contracts with customers; and
- Capitalisation of information technology system costs.

Materiality

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

Based on our professional judgment 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 industries in which the Group operates.

Key audit matters

Key audit matters are those matters that, in our professional judgment, 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.

Key audit matter	How our audit addressed the key audit matter
Adoption of NZ IFRS 15 revenue from contracts with customers The Group's revenue primarily consists of the sale of goods and services to the members of the co-operative, as outlined in Note 3 of the financial statements. As described in Note 2(iii), the Group adopted NZ IFRS 15 *Revenue from Contracts with Customers* using the full retrospective approach for the year ended 30 June 2019 and management has assessed the impact of adoption on the Group's recognition of revenue. After considering the various contractual terms, with the member and the suppliers of Farmlands Card purchases (Card Revenue) and the criteria disclosed in Note 2(v), management has concluded that:	Our audit procedures included: • Obtaining an understanding of management's assessment of the impact from adopting NZ IFRS 15, including their assessment of the criteria for the agency vs principal consideration. • Examining, on a sample basis contractual terms with suppliers and Co-operative members to determine that management's conclusion in relation to the transfer of control was appropriate. • Testing the accuracy of revenue recognition for sale of goods where the Group is acting as an agent, as well as for sale of goods where the Group is acting as a principal on a sample basis.

Key audit matter (continued)

- for the goods or services purchased by a member of the Group on their Farmlands Card, where the Group does not obtain control of the goods or services, in accordance with NZ IFRS 15, the Group is acting as an agent.
- for goods and services sold by the Group where the Group obtains control of those goods or services before control transfers to the member, in accordance with NZ IFRS 15, the Group is acting as a principal for these sales.

We have given significant audit focus and attention to the recognition of revenue in the light of the judgments in the adoption of NZ IFRS 15.

How our audit addressed the key audit matter (continued)

- Assessing the adequacy of disclosures in the financial statements to ensure that they are compliant with the requirements of NZ IFRS 15.

Based on the results of our previous procedures we have nothing to report.

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 new ERP system went live in September 2019.

As disclosed in Note 12 the Group has capitalised $37 million (2018: $33 million) during the year in relation to the new system. Management have a budget and policy which outlines the criteria for capitalising or expensing costs incurred in relation to the project.

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

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:

- Recalculated a sample of internal time capitalised by agreeing the time data to approved timesheets and capitalisation rates;
- Inspected a sample of employee timesheets to determine whether they had been appropriately approved;
- On a sample basis, considered the appropriateness of the capitalisation rates used by comparing them to actual labour costs;
- Tested a sample of external costs to supporting documentation to ensure they were capital in nature according to management's capitalisation policy; and
- Evaluated managements internal capitalisation policy to ensure it aligns with NZ IFRS.

We have no matters to report.

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 consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard, except that not all other information was available to us at the date of our signing.

Responsibilities of the Directors for the consolidated financial statements

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

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

Auditor's responsibilities for the audit of the 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 consolidated 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-5/

This description forms part of our auditor's report.

Who we report to

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

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

For and on behalf of:

PricewaterhouseCoopers

Chartered Accountants
23 October 2019
Christchurch

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