

Farmlands 2009

Annual Report





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Contents

- 3** Notice of Annual General Meeting
Directors
- 4-5** Notice of Business
- 6** Chairman's Report
- 7** Chief Executive's Statement
- 8** Members' Trading Statement
- 9** Accounts In A Nutshell
Income Statement
Balance Sheet
- 10** Accounts In A Nutshell
Statement of Changes in Equity
Statement of Cash Flows
Notes
Auditors' Report
- 11-12** Proxy/Representative Form 2009

Cover: *New Zealand fencing contractor Gordon Hansen, driving home a post in Western Hawke's Bay.*

Notice of Annual General Meeting

Notice is hereby given that the Annual General Meeting of Shareholders of Farmlands Trading Society Limited will be held at The Copthorne Hotel and Resort, Solway Park, Masterton, Solway Room 3, on Tuesday 3 November. The Meeting will start promptly at 3.00pm and shareholders are asked to be seated at that time. The meeting is preceded with an afternoon tea served at 2.30pm.

Directors

L-R: Steve Wyn-Harris B.Com (Ag), Roger T Barton, Dennis L Munro Dip.VFM, Lachie JC Johnstone Chairman, B.Com, Ross I Linklater, Peter D Wilson CA, Wayne Walden ONZM, David P Jensen B.Ag, DipAgSc.



Notice of **Business**

1. To receive and consider the Chairman's Report, the Financial Statements and the Auditors' Report.

2. To record the appointment of three Directors to the Board, Messrs. Johnstone, Wyn-Harris and Jensen retired by rotation and in accordance with the Society's Rules and being eligible, Messrs. Johnstone, Wyn-Harris and Jensen offered themselves for re-election. Nominations were called during September and if required an election was held in October.

3. Resolution 1:

To fix the remuneration of Directors. Shareholders are asked to consider and, if thought fit, to pass the following resolution:

"That the remuneration of Directors remain at the amount of \$280,000 per annum to be divided amongst the Directors in such proportion and such manner as they may agree."

4. Resolution 2:

To consider the appointment of PricewaterhouseCoopers as Auditors of the Society.

5. Resolution 3:

Proposed amendments to Rules.

Notices

Commentary

Existing Rule 55 specifies how the Society gives notice to its members. It states that a notice sent by post is deemed to have been received by the member on the day after the date of its posting. However, the postal system does not provide for delivery throughout New Zealand on the day after posting. The proposed new Rule 55 instead specifies that a notice sent by post is deemed to have been received four days after it was sent. The further service options of courier and facsimile are added.

Delete Rule 55 and substitute the following:

"55. Notices

A notice required to be given under the Act or under these Rules may be given by the Society to a member either personally, or by post, courier or facsimile to the New Zealand address for service last notified by the member to the Society. The member shall be deemed to have received a notice sent by:

55.1 post, 4 days after it has been sent, and

55.2 courier, on the date of delivery, and

55.3 facsimile, upon confirmation of transmission.

A member who has not supplied an address for service within New Zealand to which a notice may be sent shall not be entitled to receive any notice from the Society."

Dispute Resolution

Commentary

The Society has always focused on providing excellent service to its members. That objective relies on every member paying their account by due date.

From time to time some members have failed to pay their account by due date. When Court proceedings have been taken by the Society to recover the overdue account the defaulting member has created a dispute about their account. In every case the Society has been successful in obtaining judgment against the defaulting member.

However each Court success has been at a cost to all the other Society members. Often there has been a delay (up to a year or longer) in obtaining payment. Considerable and unnecessary legal costs have been incurred. In most instances some of these costs have also been recovered.

The Industrial and Provident Societies Act 1908 allows the Society to make provision in its Rules for dealing with disputes. Where procedures for dispute resolution are included in the rules of a Society, disputes must be dealt with under those procedures and the decision is binding and cannot be appealed to a court.

The Society proposes to incorporate new Rule 57 to deal with disputes. It provides for the Society to make decisions on any dispute.

For account disputes, the new Rule requires the dispute to be notified within one month following the date of the business record. The new Rule would reduce much of the delay and cost the Society is presently faced with as it recovers overdue amounts.

The new Rule will also apply to any other dispute which may arise between the Society and a member, although there is no time limit for raising other disputes. The setting out of a resolution process in the Rules will benefit both the Society and its members.

Notice of **Business** cont...

Insert the following new rule:

“Dispute Resolution

- 57.1** Every dispute between a member, or person claiming through a member, or under the Rules, and the Society or an officer of the Society, shall be decided by the Society in accordance with this Rule 57.
- 57.2** Written notice of a dispute must be sent to the Society at its Address for Service.
- 57.3** A dispute relating to a business record on an invoice or statement of the Society must
- 57.3.1** be notified to the Society within the month following the date of the business record, together with all supporting documentation; and
- 57.3.2** specifically identify the incorrect business record, or defective goods, and where possible in relation to defective goods, be accompanied by the defective goods or a sample.
- 57.4** The member or person claiming through a member, must take all reasonable steps to ensure that the Society has every opportunity to investigate the dispute.
- 57.5** The Society shall
- 57.5.1** investigate the dispute on a good faith basis;
- 57.5.2** ensure that the member or person claiming through the member has a

reasonable opportunity to respond to any questions or provide additional information on any issue which may arise during the investigation of the dispute;

- 57.5.3** make its decision within 40 days of receiving written notice of the dispute”.

6. Announcement of the winner of the Tom Cranswick Memorial Scholarship.

7. Shareholders are invited to join the Directors and Executive personnel of the company for cocktails at the conclusion of the meeting. At this function shareholders will be entered into a complimentary sweepstake on the Melbourne Cup that will run at 5.00pm.

The shareholder winning the sweepstake will receive as a prize: return airfares to Melbourne for two for six nights; hotel twin share accommodation; dinner on the Colonial Tram Car for two; and show tickets for two.

It would be most helpful for shareholders to RSVP to Farmlands Head Office Reception by Tuesday 27 October on (06) 873 1090 or email to RSVP@farmlands.co.nz

We look forward to your attendance at our Annual General Meeting.



Lachie Johnstone

Chairman's Report



I am pleased to present the 47th Annual Report of the Farmlands Trading Society on behalf of my fellow Directors. This year we will return \$34.9 million in monthly - rebates and loyalty rebates to our shareholders which is an another excellent achievement.

Total sales generated for the year were \$531 million, up 20% on last year. The company generated a \$4.6 million profit for the year, pre tax and loyalty rebate.

The monthly rebates and loyalty rebates consist of:

- Trading rebates to members, \$29,936,000.
- Loyalty rebates to members, \$4,432,000.
- Credit payments in lieu of loyalty rebates, \$498,000.

It seems that the only constant, is change. The East Coast of the North Island has battled through its third drought in as many years. The majority of farms have wintered well albeit from a very low base of stock carried. This, along with the dramatic change in the dairy payout, has

led to some significant concern around short term cashflow and farm profitability.

The first three quarters of the trading year provided very robust results. The last quarter, however, was less than desirable. This was a direct result of people looking to rationalise and limit spending where possible. More recently there has been some more positive market information that would suggest that the long term health of the industry remains solid.

As a board we are mindful of managing the impact of the current economic malaise whilst ensuring that we don't lose focus of longer term goals within the business.

We are constantly driving for all shareholders to direct a greater percentage of their spend through the Co-operative and as a consequence have a greater reward for that loyalty and support. We will continue to achieve this through a quality offering, the best products brought to you by great people.

Recently, I had the pleasure of attending the Farmlands Annual Supplier's Function in Taupo. In a brief address, I made mention of three strands, (Enthusiasm, Engagement and Innovation) that would ensure that Suppliers continued to add value to Farmlands and its customers.

These are very pertinent points that can be filtered through all aspects of the business. It is always work in progress but we have made great strides in this area over the past twelve months. So much of this falls under the umbrella of 'Organisational Culture'. Much of the credit for this should go to Peter Ellis and his senior management team. Their style is to lead from the front and 'pull' rather than 'push', preferring empowerment and encouragement as motivational tools.

Over the last 2 months we have taken several opportunities to acknowledge the achievements of Graeme Clinton. Graeme leaves us after 37 years. He has dedicated the majority of this working life to Farmlands and many of the internal disciplines that are evident within Farmlands are as a result of Graeme's effort. We wish Graeme and his wife Bonny all the best in retirement.

What does the future hold for Farmlands?

We have numerous initiatives that are designed to achieve the following outcomes:

- Reinforce our position as a significant player in the rural supplies market.
- Deliver core card and store offerings in a more focused manner.
- Complete the roll out of new stores in locations where Farmlands currently has limited exposure.
- Extend our reach and service offering in the horticulture sector, leveraging our existing store network.
- Continuously developing the relationship that we have with our shareholders so that we understand what they need on a day to day basis.
- Put the best interests of our customers at the core of our decision making.
- Continuously fine tune our retail offering to ensure that we maintain our position as 'best of class' in the rural supplies market.
- Nurture our people to cement them as industry leaders for knowledge and delivery of service.
- Strengthen our relationships with suppliers to optimise supply chain efficiencies.

There is an awareness that we need to continuously improve and to adapt to stay ahead of the game.

The strategy of extending our geographic coverage has continued. Taupo and Te Kuiti were opened in the autumn and have been very well received. We look forward to their successes. New Plymouth and Kaitia have recently opened and are trading well.

There has been no change in either the senior management team or the board over the last year. I would take this opportunity to thank all concerned for their efforts. We have a large team of dedicated and passionate people, striving hard. Thank you.

We look forward to the coming year.

Lachie Johnstone, Chairman

Peter Ellis

Chief Executive's Statement

Dear Shareholders,

Despite a slowdown in the New Zealand rural merchandise market in the last quarter of the financial year, Farmlands has made solid progress in its objective of becoming the preferred supplier of rural merchandise in the North Island:

- \$531 million turnover - an increase of 20% over the year.
- \$34.9 million of rebates to members, an increase of \$5.8 million over the year.
- \$4.4 million year end loyalty rebates.
- 24,500 shareholders an increase of 1,400 over the year.
- An estimated 5% increase in our market share of rural merchandise in the North Island.

Underpinning this achievement has been the singular focus of the business to provide innovative and costs effective solutions to our shareholders' needs. This has been supported by our expanding retail store network with new stores opening in Te Kuiti and Taupo and a full year contribution from Skeltons our horticultural advisory business.

In the last year significant effort has been expended to ensure that we have the right management structure to support the expanding business' needs:

- The retail business of 37 stores operating at balance date is now managed in six distinct regions each headed by a regional manager, reporting to our GM Operations, Tom Hamilton. This robust structure ensures that we can implement and manage the disciplines required to run a high performance retail business.
- Our Farmlands Card team has been refocused to create greater awareness to the unique benefits available to shareholders through use of their Card, to ensure that it becomes 'front of wallet', when shareholders make purchasing decisions.
- Our Head Office support teams have been realigned to ensure we have the right people in the right place to support the needs across our growing business.
- A roll out of the Skeltons horticulture model



in Gisborne, Horowhenua, Manawatu and the Wairarapa.

In the current year as part of our three year strategy we are continuing our geographic expansion, with new store openings in New Plymouth, Hautapu, Kaitaia and Taihape and a rebuild of our Marton store already announced.

We are aware of the pressures currently facing many sectors of New Zealand agriculture but are hopeful that this is just a readjustment phase on the journey to a brighter future for all primary sector producers. We remain totally focused therefore on our core objective of reducing the cost of farm inputs, to assist you as shareholders navigate this journey.

We would not be able to deliver on our promises without our staff, they are integral to the Farmlands offering and I would be remiss if I did not recognise the contribution that they have made to last year's result. They are a very motivated and focused group and embrace the Farmlands vision and desire to add value to our shareholders businesses.

I trust that the coming of spring brings success to your respective businesses and we at Farmlands all look forward to the opportunity of assisting you exploit these opportunities as they arise.

A handwritten signature in blue ink, appearing to read 'Peter Ellis', written over a light blue horizontal line.

Peter Ellis, Chief Executive Officer

"In the current year as part of our three year strategy we are continuing our geographic expansion, with new store openings in New Plymouth, Hautapu, Kaitaia and Taihape..."

Members' Trading Statement For the year ended 30 June 2009

All figures are in thousands of New Zealand Dollars.

How the dollars were made & spent

	2009	2008
How the dollars were made & spent	\$000	\$000
GROSS SALES - before Trading Rebates to Members	530,736	441,756
GROSS PROFIT	67,132	55,153
Other Income	2,932	2,027
	70,064	57,180
Less Expenses	33,979	27,435
Interest Paid	1,074	401
Surplus before Tax & Rebates	35,011	29,344
Less Trading Rebates to Members	29,936	24,177
Loyalty Rebates to Members	4,432	4,461
Credit Card Payments in lieu of Loyalty Rebate	498	435
Total Rebates to Members	34,866	29,073
Surplus before Tax	145	271
Less Taxation	508	759
Leaving surplus/(deficit) after Tax and Rebates	(363)	(488)

John Stephens mustering for pre-lamb drenching at Whenuahou Station.



Summary of 2009 Annual Report

Accounts In A Nutshell

Income Statement For the year ended 30 June 2009

All figures are in thousands of New Zealand Dollars.

	2009	2008
How the dollars were made & spent	\$000	\$000
Revenue	498,832	417,579
Operating Profit before Finance Expense	4,413	4,409
Finance Income	1,238	724
Finance Expense	1,074	401
Loyalty Rebate	4,432	4,461
Surplus before Tax	145	271
Less Taxation	508	759
Leaving Defecit after Tax and Rebates	(363)	(488)

Balance Sheet As at 30 June 2009

All figures are in thousands of New Zealand Dollars.

	2009	2008
The value of our Society	\$000	\$000
NON-CURRENT ASSETS		
Land, Buildings, Vehicles, Fixtures, Plant and Computers	21,938	16,626
Goodwill, Computer Software and Other Investments	3,746	3,174
Future Tax Benefits	208	434
	25,892	20,234
CURRENT ASSETS		
Money in the Bank	5,858	-
Money owed to to us by our Customers	42,391	45,554
Taxation Refund Due	229	159
Stock held at Farmlands Stores	24,877	25,652
	73,355	71,365
TOTAL ASSETS - the things we own	99,247	91,599
CURRENT LIABILITIES - take away from this what we owe:		
Money we owe to the Bank (net of cash held)	-	12,607
Money we owe to our Suppliers and Employees	35,947	37,793
Money we owe to our Shareholders for the Loyalty Rebate	4,432	4,461
	40,379	54,861
NON-CURRENT LIABILITIES:		
Money we owe to the Bank	20,000	-
Money we owe to our Employees	38	34
	20,038	34
Total Liabilities - the things we owe	60,417	54,895
This leaves the Total Equity of our Society at	38,830	36,704

Summary of 2009 Annual Report

Accounts In A Nutshell

Statement of Changes in Equity For the year ended 30 June 2009

All figures are in thousands of New Zealand Dollars.

	2009	2008
	\$000	\$000
Equity at Start of Year	36,704	35,323
Net Deficit after Tax	(363)	(488)
Bonus Shares issued	1,862	1,240
Net Contributions from Members	627	629
Equity at End of Year	38,830	36,704

Statement of Cash Flows For the year ended 30 June 2009

All figures are in thousands of New Zealand Dollars.

	2009	2008
	\$000	\$000
Net Cash Flow from Operating Activities	7,648	(141)
Net Cash Flow from Investment Activities	(7,207)	(8,197)
Net Cash Flow from Financing Activities	18,024	(1,203)
Net Increase/(Decrease) in Cash Held	18,465	(9,541)

These accounts were authorised for issue by the Board on 22 September 2009.
Signed: Craig Waterhouse, Company Secretary.



Notes

1. These summary accounts have been prepared in accordance with NZ GAAP for a profit-oriented entity.
2. The specific disclosures included in this summary financial report have been extracted from the financial report dated 22 September 2009.
3. The summary financial report cannot be expected to provide as complete an understanding as provided by the full financial report of the income statement, balance sheet and cash flows of the entity.
4. If you require a full set of accounts, please write to The Secretary, Farmlands Trading Society Ltd, Private Bag 9004, Hastings, giving your name, address and shareholder number and we will forward a copy to you.
5. The full financial report has been prepared in accordance with NZ GAAP. It complies with New Zealand's equivalents to NZ IFRS and other applicable financial reporting standards as appropriate to profit-oriented entities.

Auditors' Report

To the Shareholders of Farmlands Trading Society Limited:

In our opinion, the 'Accounts in a Nutshell' contained in this Annual Report have been correctly extracted from, and are consistent with, the current annual financial statements for Farmlands Trading Society Limited.

The annual financial statements of Farmlands Trading Society Limited, are not included in this Annual Report. Our audit of the financial statements for the year ended 30 June 2009 was completed on 22 September 2009 and our unqualified opinion was expressed as at that date.

For a better understanding of the Society's financial position and the result of its operations for the period, the summarised financial statements should be read in conjunction with the related annual audited financial statements.

BDO Spicers Hawke's Bay
Chartered Accountants
Napier, New Zealand



BDO Spicers Hawke's Bay