



2016

Annual Report



NOTICE OF ANNUAL GENERAL MEETING



Notice is hereby given that the fifty-third Annual General Meeting of shareholders of Farmlands Co-operative Society Limited will be held at 3.30pm on Tuesday 1st November, 2016 at 535 Wairakei Road, Christchurch.



Shareholders are invited to join the Directors and Executive of the Society for refreshments at the conclusion of the meeting. At this function, shareholders will be entered into a complimentary sweepstake in the Melbourne Cup that will run at 5.00pm.

Great prizes on offer!

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

Please RSVP by Friday 28th October to rsvp@farmlands.co.nz or 0800 200 600.

Business

1. To receive and adopt the Annual Report for the year ended 30th June 2016.
Resolution to be put: That the Annual Report for the year ended 30th June 2016 be adopted.
2. To appoint the auditors.
Resolution to be put: That the auditors, PricewaterhouseCoopers, continue in office and that the Directors be authorised to fix their remuneration.

By order of the Board
Stephen Higgs, Secretary
Christchurch
3rd October 2016

HAVE YOUR SAY

Vote in the Farmlands Director elections.
Visit www.farmlands.co.nz – voting closes 5pm, 25th October 2016.



CONTENTS

2	Notice of Annual General Meeting
4	Chairman and Chief Executive Officer's Report
8	Farmlands Co-operative Society Limited Summary Financial Statements
10	Independent Auditors' Report on Summary Financial Statements
11	Governance and the Board of Directors
12	Farmlands Board of Directors
14	Meet the Farmlands Team
18	Farmlands in Focus
21	Health and Safety Review
22	Business Units Review



CHAIRMAN AND CHIEF EXECUTIVE OFFICER'S REPORT



We are a co-operative owned by New Zealand's farmers, growers, contractors and rural people. Our co-operative base means we are stronger together.

As a Farmlands shareholder, you are at the heart of our success. The focus of this year's Annual Report looks at our performance, our challenges and the way forward to build a stronger Farmlands. We are confident we can demonstrate that we are well on the way to building a stronger and better co-operative for the future and our strategy to achieve it is the underlying theme of this Report.

The highs and lows confronting the sector are well documented and Farmlands has not been immune to them, posting a \$9.0 million loss for the year ended 30th June 2016. As a co-operative we have weathered this storm through a combination of staff dedication and shareholder loyalty. We appreciate both.

As the 2016 financial year evolved, we moved to explain to all our shareholders that there would be no Bonus Rebate this year, because the conditions we were experiencing would not allow it. Our approach to shareholders in communicating this message early was well received. This announcement pre-empted the reality of a full year financial loss for Farmlands Co-operative. We can report that since the end of the financial year, our results suggest we are on track for a stronger 2017.

A decline in sales required an adjustment to our cost base and right sizing our organisation, after many years of growth, became an urgent focus. We have incurred a higher level of operating cost as we have transitioned from two ERP platforms to one. Amongst other things, there has been a significant investment in training. Over time we expect that many of these costs will reduce. We have restructured our Nutrition team and consolidated our Retail, Supply Chain and Operational teams into one "Operations" team to contribute to reducing overheads. We will continue to review the systems we use and where necessary, we will spend money to save money in the longer-term.

On the operational side, our Nutrition and Retail businesses were hard hit. Decreased foot traffic in our dairy-oriented stores had a ripple effect, while some of our business units – Livestock and Real Estate – were down on previous years. There were positive contributions from other parts of our business, in particular Grain and Seed, Horticulture, Fuel and Card.

In the Nutrition sector, a sharp dairy downturn has seen farmers cut back on a lot of supplementary feed and in many cases they have stopped buying. This has created issues for our business, from sales right through to demand planning on our grain procurement. We have long lead times that are critical given the scheduling required for procuring, planting, growing and harvesting domestic grain through our shareholders. The significant drop in sales meant we had a surplus of grain that was no longer needed, from stock that was contracted 18-24 months beforehand. This has meant we had to write down the stock on hand to meet the market.

It is important to note that this problem is not exclusive to Farmlands – it is the same challenge for other players in this sector. Our Nutrition team has worked hard over the past 6 months to ensure we have a business that has the right size, the right cost base and the right structure to make sure we are competitive in this changed marketplace and to continue to deliver a superior product and service offering.

Our Horticulture business unit has posted a significant increase in revenue. This reflects the strong performance of the industry as a whole and we are delighted to see our horticulture shareholders flourishing.

Our Fuel business has continued to grow on the back of good service and trusted relationships with our shareholders and customers. We have a new supply agreement with Z Energy and we look forward to working with them. We take this opportunity to thank Chevron for their many years of commitment to the co-operative.



LACHIE JOHNSTONE

Chairman



PETER REIDIE

Chief Executive Officer

Another success story is the Farmlands Card, which performed outstandingly well over the past year, as more shareholders realised the unparalleled benefit of our offer. Choices Rewards, rural New Zealand's largest loyalty programme, also posted a very impressive \$6.0 million worth of Choices Rewards Points earned by our shareholders.

Success in our business model relies on a co-operative that can respond quickly to challenges and ensuring we are the market leaders in agricultural knowledge and technical expertise on-farm. Our leaders at Farmlands have been tasked with making sure this is a priority. Our teams at the front line and in the field are paramount to making our shareholders' businesses successful and we must continue to invest in their training. We are focused on ensuring our technical teams have access to the very latest practices and information, which in turn increases our shareholders' ability to improve their profitability. Technology is a critical part of our forward thinking, so we are growing our ability to have every shareholder decision and requirement in the palm of our hand.

We have also spent the past few months travelling the country, visiting all staff and talking to them directly about the vision for Farmlands. Our current period is a stepping stone to a more prosperous future and it

has been essential that every staff member had a chance to understand our direction and our need for change, so we could get their input into our thinking on how we build Farmlands for the future.

This year will go down in the books as "character building", to say the least! Our aim is to evolve into a more resilient and more dynamic organisation. We have a new leadership team in place, with the right balance of existing experience from within Farmlands and new people who have joined the team, bringing with them extensive knowledge and expertise in retail and agri products and services. These proven rural business leaders are tasked with enhancing our capability and skill set in key areas, to steer Farmlands through its voyage of recovery and return to profitability.

On behalf of the Board of Directors and Farmlands Leadership Team – and our business as a whole – we thank all shareholders for your ongoing support of Farmlands. We value our partnership and we are proud to be the co-operative you own.



Lachie Johnstone
Chairman



Peter Reidie
Chief Executive Officer

CHAIRMAN ACKNOWLEDGEMENTS

In a year of significant change, there has also been a number of notable achievements that deserve acknowledgement.

I would first like to take this opportunity to officially welcome Rob Hewett to the Board of Directors, after he replaced the long-serving Howie Gardner last year.

Three individuals with strong links to Farmlands have also been acknowledged over the past 12 months with prestigious honours. In June, current director Peter Wilson was made a Member of the New Zealand Order of Merit. This is an outstanding achievement and I congratulate Peter for this honour.

Stuart Heal, a man synonymous with our co-operative in the South Island, was honoured on the same list and is now a Member of the New Zealand Order of Merit. While no longer a part of our co-operative's executive, the contribution of Stuart (as a former CEO of CRT) cannot be overstated and on behalf of the Board of Directors, I congratulate him on receiving his award.

Finally, Deputy Chairman Don McFarlane, who was made an MNZM last year, added to his already impressive list of accolades by being awarded the prestigious Bledisloe Medal by Lincoln University. I wish to congratulate Don and thank him for his ongoing contribution to our industry.



OUR POSITION AT A GLANCE

While there were lower sales in the last financial year, the steps we have taken have already improved our financial position.

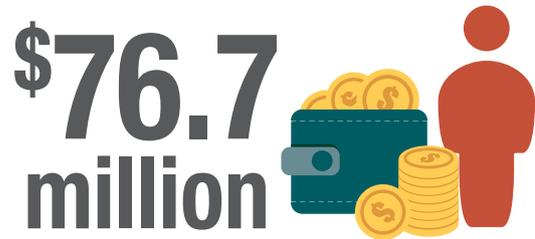
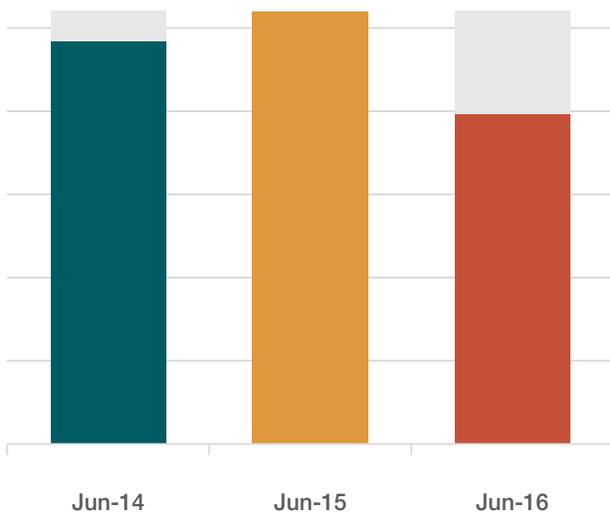
Both net debt and inventory levels have been reduced since their peaks in January 2016 and October 2015, respectively. This reflects a focused effort to implement changes that are more flexible to the current changing market conditions.

Our co-operative is still proving popular with rural New Zealand, with shareholder numbers continuing to increase year on year. Add in the many benefits of being a shareholder – including Choices Rewards Points and monthly shareholder rebates (via Card Partner discounts and our own market leading prices in-store) – and Farmlands is confident we have the structures in place to re-pay the loyalty of our shareholders.



2,158 net increase in shareholders

Annual Sales

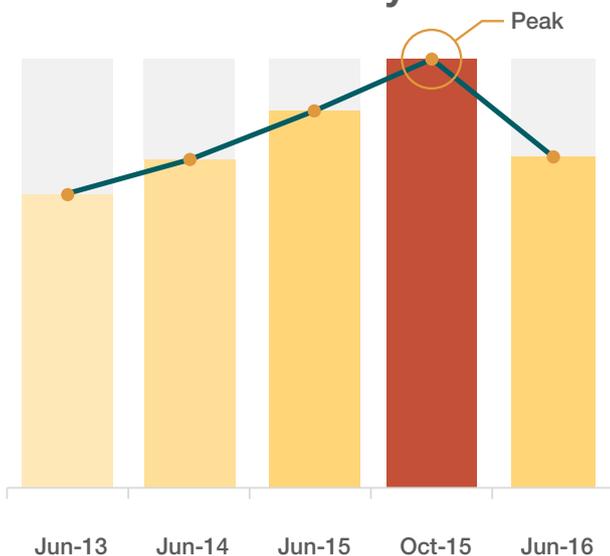


Monthly Shareholder Rebates



Total revenue of \$2.1 billion

Inventory



\$118.4 million

Total members' interests



\$118.4 million total members' interests



\$6.0 million in Choices Rewards

OUR FOCUS

At Farmlands, our shareholders have been at the centre of everything we do for more than 50 years.

The key to that longevity has been an unwavering commitment to services, support and a quality range of competitively priced products. We were created to provide competition to the status quo and that still rings true today.

- Building **enduring customer relationships** focuses on the “Farmlands Way” – our way of doing things. Our way is to elevate our interaction with shareholders above that of the normal rural service provider experience.
- Developing an **impregnable business model** that will mean we create competitive advantage through a business system that is the most effective and efficient. Farmlands will continue to evolve to ensure shareholders receive the best opportunities in our industry.
- Through our **leading agricultural knowledge and expertise** we harness the relationships, history and experiences forged over more than half a century to bring answers and solutions.



AML/CFT – THE ACT IN ACTION

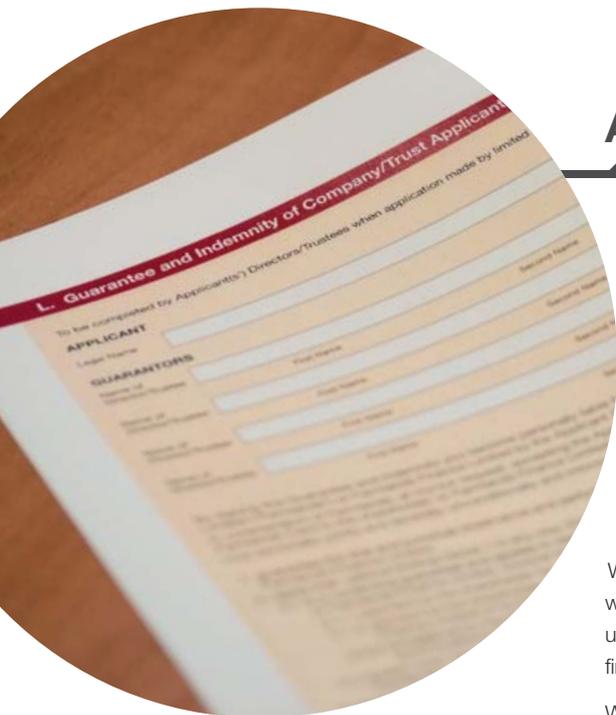
On 30th June 2013, New Zealand’s Anti-Money Laundering (AML) and Counter Financing of Terrorism (CFT) legislation came into effect. It is designed to enhance the transparency of where money has come from and where it is going.

As Farmlands falls under the umbrella of this legislation, we must abide by the rules imposed by checking our records and updating information. This means that we may need to confirm some of your details, such as:

- Personal identification
- Physical address
- In some cases, financial details or business structure

While we realise it is strange for us to ask for identification from you when we have been working together – in most cases – for many years, this is part of non-negotiable legislation for us and other businesses captured by the legislation. Non-compliance means we risk significant financial penalties, or even the inability to trade.

Whether you are a single farmer, or a trust with multiple trustees, we need to be thorough to comply. Please rest assured that we will be doing everything we can to make this process as painless as possible for our shareholders and all data is treated with the strictest confidentiality.



FARMLANDS CO-OPERATIVE SOCIETY LIMITED

SUMMARY FINANCIAL STATEMENTS

Summary Statement of Comprehensive Income Year Ended 30th June 2016

HOW THE DOLLARS WERE MADE AND SPENT	Group 2016 \$000	Group 2015 \$000
Revenue	2,102,515	2,210,035
Cost of Goods Sold	(1,863,761)	(1,944,982)
Gross Profit	238,754	265,053
Plus Other Income	2,604	3,066
Less paid/due to suppliers for goods and costs to run the Society	(170,836)	(164,236)
Interest paid to the bank	(2,843)	(3,043)
Monthly rebates to shareholders	(76,728)	(89,813)
PROFIT/(LOSS) FROM OPERATING ACTIVITIES	(9,049)	11,027
Less distribution to shareholders		
Bonus Rebate owing to shareholders	(94)	(8,244)
Profit/(loss) after distribution to members	(9,143)	2,783
Less income tax credit/(expense)	1,282	(999)
Profit/(loss) left in our Society	(7,861)	1,784
Other comprehensive income, net of tax	(430)	203
TOTAL INCOME/(LOSS)	(8,291)	1,987

Summary Statement of Financial Position As at 30th June 2016

THE VALUE OF OUR SOCIETY	Group 2016 \$000	Group 2015 \$000
Current assets:		
Stock held at retail branches, grain and seed, stock feed	96,449	109,966
Money owed to us by customers and income tax refundable	222,359	216,316
Investments	-	150
	318,808	326,432
Non-current assets:		
Land, buildings, vehicles, fixtures and plant	67,458	61,850
Investments	51	51
Computer software and goodwill	22,885	19,696
Money owed to us by our customers	1,119	545
Income tax receivable in future years	4,551	3,079
	96,064	85,221
Total assets - the things we own	414,872	411,653
Current liabilities - take away what we owe:		
Money we owe to the bank (net of cash held)	84,615	66,043
Money we owe to our suppliers and employees	191,394	192,055
Money we owe Inland Revenue for GST and income tax	20,040	20,378
Money we owe for Bonus Rebate payable in cash	-	5,086
	296,049	283,562
Non-current liabilities:		
Money we owe our employees	469	294
Total Liabilities other than share capital repayable on demand	296,518	283,856
This leaves the total members' interests of our Society at	118,354	127,797

Summary Statement of Changes in Equity and Members' Interests Year Ended 30th June 2016

	Group 2016 \$000	Group 2015 \$000
Equity at the beginning of the year	9,124	7,340
Profit/(loss) left in our Society	(7,861)	1,784
Equity at the end of the year	1,263	9,124
Share capital repayable on demand at beginning of the year	118,673	115,877
Net contribution from owners	(1,038)	(565)
Other comprehensive income	(430)	203
Bonus Rebate applied to share capital	(114)	3,158
Members' interests at the end of the year	118,354	127,797

Summary Statement of Cash Flows Year Ended 30th June 2016

	Group 2016 \$000	Group 2015 \$000
Net cash flows from operating activities	8,674	1,084
Net cash flows (to) investing activities	(20,914)	(8,720)
Net cash flows (to) financing activities	(6,332)	(11,705)
Net increase (decrease) in cash held	(18,572)	(19,341)

NOTES TO SUMMARY FINANCIAL STATEMENTS

The specific disclosures included in this summary financial report have been extracted from the full financial report which was authorised for issue on 3rd October 2016. The full financial statements have been prepared in accordance with full NZ GAAP as a profit-oriented entity and the Group has made an explicit and unreserved statement of compliance with IFRS's in the full financial report. The full financial statements have been audited and an unmodified audit opinion has been issued. These summary financial statements comply with FRS 43. Figures are in New Zealand dollars, which is the Group's functional currency. All financial information has been rounded to the nearest thousand.

The summary financial report cannot be expected to provide as complete an understanding as provided by the full financial report of the Group.

If you require a full set of accounts, please write to: **The Secretary, Farmlands Co-operative Society Limited, PO Box 271, Christchurch 8140**, giving your name, address and shareholder number and we will forward a copy to you.



Lachie Johnstone
Chairman of the Board



Peter Wilson
Chairman of the Audit and Risk
Management Committee



pwc

INDEPENDENT AUDITORS' REPORT ON SUMMARY FINANCIAL STATEMENTS

To the shareholders of Farmlands Co-operative Society Limited

The accompanying summary financial statements, on pages 10 to 11 which comprise the summary statement of financial position as at 30 June 2016, the summary statement of comprehensive income, the summary statement of changes in equity, the summary cash flow statement for the year then ended, and related notes, are derived from the audited financial statements of Farmlands Co-operative Society Limited for the year ended 30 June 2016.

The summary financial statements do not contain all the disclosures required for full financial statements under New Zealand Equivalents to International Financial Reporting Standards. Reading the summary financial statements, therefore, is not a substitute for reading the audited financial statements of Farmlands Co-operative Society Limited.

Our audit of the financial statements for the year ended 30 June 2016 was completed on 3 October 2016 and our unmodified opinion was issued on that date. We have not undertaken any additional audit procedures in relation to those financial statements from the date of the completion of our audit and those financial statements and the summary financial statements do not reflect the effects of events that occurred subsequent to the date of our report on those financial statements.

This report is made solely to the Society's shareholders, as a body. Our work has been undertaken so that we might state those matters we are required to state to them in a report from the auditor 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's shareholders, as a body, for this report, or for the opinions we have formed. In addition, we take no responsibility for, nor do we report on, any part of the annual report not specifically mentioned in our report.

Directors' Responsibility for the Summary Financial Statements

The Directors are responsible on behalf of the Society for the preparation of the summary financial statements in accordance with FRS-43: Summary Financial Statements (FRS 43).

Auditors' Responsibility

Our responsibility is to express an opinion on the summary financial statements based on our procedures, which were conducted in accordance with International Standard on Auditing (New Zealand) 810: Engagements to Report on Summary Financial Statements.

We are independent of the Society. Our firm carries out other services for the Society in the areas of additional assurance services, financial analysis and treasury advice. The provision of these other services has not impaired our independence.

Opinion

In our opinion, the summary financial statements on pages 10 to 11 derived from the audited financial statements of Farmlands Co-operative Society Limited for the year ended 30 June 2016 are consistent, in all material respects, with those audited financial statements, in accordance with FRS-43.

Restriction on Use of our Report

This report has been prepared for inclusion in the annual report. We disclaim any responsibility for reliance on this report or the amounts included in the summary financial statements, for any purpose other than that for which they were prepared.



Chartered Accountants
Christchurch
3 October 2016



GOVERNANCE AND THE BOARD OF DIRECTORS

Farmlands has eight shareholder Directors, elected and approved by shareholders and two independent Directors appointed by the Board. Shareholder Directors retire by rotation after three years, with two rotating this year; a 3/3/2 cycle will restart after that.

Overview

The eight shareholder Directors are located equally between the North and South Islands, four in each, as required by the rules. The independent Directors are also based one in each island.

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 with two multi-director committees:

- Audit and Risk Management - Peter Wilson (Chair), Tony O'Boyle, John Foley and David Jensen.
- Remuneration - Nikki Davies-Colley (Chair), Lachie Johnstone, Craig Boyce and Don McFarlane.

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

The Remuneration Committee reviews the performance and sets the remuneration of the Chief Executive, reviews the remuneration of the Executive team and recommends remuneration of Directors to shareholders.

Board Meetings

Farmlands Board meetings are scheduled at the beginning of each month with extra meetings held if required. Management reports from across the business are provided to Directors in the week leading up 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

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 520ha in the western Waikato, predominantly finishing bulls and is majority shareholder of the food logistics company Wholesale Frozen Foods Limited.

Lachie is currently a Director of Centreport Ltd, Centreport Properties Ltd, C. Alma Baker Trust (NZ) Ltd and Deputy Chair of the Board of Governors at Kings College.

Don McFarlane *MNZM*

A Nuffield and Kellogg Scholar, Don McFarlane has directorships with Moeraki Ltd and Presbyterian Support SC and is Chair of Farmlands Fuel. He chairs Clough Holdings/Duncan Ag, which manufactures farm equipment and seed drills for NZ farmers and exports to several countries.

He is a Director of Hunter Downs Irrigation Ltd, which has consents to irrigate 35,000ha south of Timaru. He is a trustee of the Mackenzie Charitable Foundation. Don and his wife Di live in Geraldine and with son Hamish farm 700ha fully irrigated land near Temuka. The farm produces carrots, cereals, potatoes, grass seeds and blackcurrants. Dairy support and cow wintering, as well as winter lamb finishing are the main grazing activities.

Nikki Davies-Colley

Nikki and her husband Peter have been farming and involved in the forestry industry in Northland for over 30 years. They have been Farmlands shareholders since 2004 when Farmlands moved into Northland. Nikki is well known in the Northland business and farming communities.

She is Chair of Northpower Ltd, a Kellogg Scholar and holds a Masters in Business Administration. Nikki is Chair of the Remuneration Sub-Committee of the Farmlands Board, as well as being a Director of Landcorp Farming Limited, where she is Chair of the People and Safety Sub-Committee. She is a past Director of Northpower Fibre Ltd, West Coast Energy Pty Ltd, The Tree People Ltd and MP Logging Ltd. Nikki is a fellow of the New Zealand Institute of Directors.

Joe Ferraby

A Kellogg Scholar, Joe and his wife Carolyn live on their 640ha irrigated sheep and beef property in the Awatere Valley in Marlborough. Joe is a trustee and Director of a large neighbouring property and a Director of a large corporate farming business with properties in New Zealand and Australia. He chairs Terra Vitae Vineyards, a publicly owned viticulture company owning 400ha of vineyards in Marlborough and Hawke's Bay. He is also Chairman of a large, family-owned construction company and its subsidiary companies associated with the construction industry, based in Blenheim. His past governance roles have included PPCS, Silver Fern Farms, The Equitable Group, chairing Destination Marlborough, chairing Marlborough Lines and Nelson Electricity. He is a Chartered Fellow member of the Institute of Directors and is a committee member of the Nelson Marlborough Branch of the IOD.

John Foley

John has spent most of his farming life in North Otago except for a 10 year interlude farming in the Gisborne region. John, together with his wife Ruby, has recently converted the farms from an intensive arable farming system to dairy farming. One block runs a system 3 dairy farm and the most recent conversion is a hybrid style dairy farm, which incorporates herd homes and a supplement feeding system.

John and Ruby run the remainder of their land with crops to provide to the dairy farms and to winter graze the cows. John has had many governance roles and has previously



Farmlands Board of Directors. Back Row (from left): John Foley, Peter Wilson, Tony O'Boyle, Joe Ferraby, David Jensen, Craig Boyce.
Front Row (from left): Nikki Davies-Colley, Don McFarlane, Lachie Johnstone (Chairman), Rob Hewett.

won the East Coast FMG Royal Excellence Award and went on to win the AC Cameron Award for the North Island. He is a graduate of the Rabobank Executive Development Programme, a member of the NZ Institute of Directors and is President of the Oamaru Jockey Club. John is also a member of the Farmlands Audit and Risk Committee and a Director of Farmlands Fuel.

Rob Hewett

Rob was elected to the Board of Farmlands last year, becoming a Director during November 2015. He has also been a member of the Silver Fern Farms Board since 2008 and Chairman since December 2013. Rob also chairs the Clutha District Economic Development Agency.

A 6th generation farmer, Rob has operated a 9,000 stock unit sheep, beef and forestry operation in the Clutha District since 2002. Rob returned to his farming roots following a successful corporate career working with Shell across the Asia-Pacific region.

Rob is a Lincoln graduate with a Masters of Commerce and a B.Com (Ag).

David Jensen

David lives at Pyes Pa, Tauranga. He has a 750 cow dairy farm, 24ha of Gold and

Green Kiwifruit and 3ha of Avocados. David is a Director of Livestock Improvement Corporation. He is currently a member of the Tauranga-Katikati Vet Club Executive.

He was previously a Director of Satara Co-op, Figured and Chair of the Eastpack Growers Forum, and Chair of Satara Kiwifruit Supply Ltd. He has also been Chair of AvoFresh. He has been a NZ Dairy Board dairy farm consultant and manager of the Dairy Excellence Awards.

Tony O'Boyle

Tony O'Boyle joined the Farmlands Board in late 2010. Tony, together with his wife Pattie have experience in both dairy and drystock, having grown up in the Central Plateau. They now live in the Wairarapa, where they farm a 1,080ha hill country sheep and beef farm.

Tony has been elected to hold various industry roles, including with NZDG, then Councillor and Chairman of the Fonterra Shareholders' Council. He has chaired and held membership in various Board sub-committees – past and present directorships include being a Director of both Rotorua Vet Club and ANZPAC Oils, Airtel Wairarapa Limited and Silver Fern Farms Limited.

Independent Directors

Craig Boyce

Craig Boyce has for the last 15 years been Chairman or Director of a number of New Zealand companies operating in diverse industries and market environments. He is currently Chairman of Ovation New Zealand (formerly Bernard Matthews), Progressive Leathers, Horizon Farms, Datacom, Smiths City, Snowy Peak and Transdiesel. Prior to his involvement in governance he held positions including CEO at Smiths City and General Manager in the meat industry.

Peter Wilson MNZM

Peter is a Wellington based professional Director with extensive experience in banking, business establishment, problem resolution, asset sale and management of change functions. Currently Peter is Chairman of Arvida Group Limited, Deputy Chairman of Meridian Energy Limited and Chairman of P F Olsen Limited. Peter is the immediate former Chairman of Westpac New Zealand Limited.

MEET THE FARMLANDS TEAM



At Farmlands, our people are our strength. The hard work of our staff is one of the key points of difference we bring to the market. We invest heavily in their training and health and safety, to ensure they can continue to provide shareholders with the best service in New Zealand's primary sector.

While the staff that head up your driveways or greet you in-store are the face of Farmlands, delivering for our shareholders starts at the top. That's why Farmlands has worked hard to recruit an internationally assembled, highly experienced team of senior leaders.

The senior leaders at Farmlands have between them more than 200 years of experience in the primary sector and have work experience covering Europe, North America, Asia, Australia and New Zealand.

Having the right mix is important when appointing leaders to help guide such a diverse co-operative. The first key ingredient is the direct experience in farming, horticulture and the wider primary sector. From agriculture commodity trading, to agricultural banking to starting out with Farmlands in the field, our senior leaders have proven experience in dealing with the same industry challenges facing shareholders and staff today.

Another key ingredient is finding the right balance given by a wider perspective. Our search for leadership has drawn in experienced managers from well-regarded national and global brands such as Fletcher Building, Coca Cola, Sainsburys and Shell. Three of these leaders have experience as a Chief Executive, while others acquired their senior management experience internationally before returning to – or arriving on – these shores.



COMBINED

**200+
YEARS**

**OF PRIMARY
SECTOR
EXPERIENCE**



**FARMLANDS
LEADERSHIP
TEAM**



PETER REIDIE
Chief Executive Officer



TONY VAN DER HOORN
Chief Financial Officer



ANDREW HORSBRUGH
Director Agri Products and Services



JESS STRANGE
Director Marketing



RUTH KNEWSTUBB
Director People and Safety



COLM HAMROGUE
Director Strategy
and Communications



GREG SMITH
Director of Technology



JAIMIE McNABB
General Manager Card



MARK McHARDY
General Manager Fuel



MALCOLM SCRYMGEOUR
General Manager Operations



NEAL SHAW
General Manager Sales

**TRADING
GENERAL
MANAGERS**



GEOFF HARDACRE
General Manager Finance



MARK ELLIOTTE
General Manager
Grain and Seed



MARK DANIELS
General Manager Horticulture



NICK HUGHES
General Manager Livestock



PHILLIP BRACEFIELD
General Manager Nutrition



CALVIN LEEN
General Manager Real Estate





MARK'S CO-OPERATIVE CONTRIBUTION



General Manager – Fuel, Mark McHardy was awarded the Cooperative Leader of the Year Award at this year's Cooperative Business New Zealand Awards. The award is gifted to individuals that have displayed co-operative leadership and principles for at least 10 years.

Mark says he was both surprised and humbled by the award. "Farmlands is a great co-operative and I am proud to be part of that team," he says. "It is the hard work of that extended team that makes these prestigious awards possible. Farmlands' mission is simply to enhance the profitability of our shareholders through the provision of rural services and supplies, which obviously includes fuel. Hearing my name called out is to me an acknowledgement that we are probably on the right track, though fully aware there's still so much more scope for improvement."

Cooperative Business New Zealand CEO, Craig Presland, says that Mark was the stand out nominee for the award. This was backed up by Farmlands CEO, Peter Reidie, who says Mark has been at the forefront of growth for Farmlands Fuel for the past 10 years. Displaying decisive leadership around the expansion and delivery of the Farmlands Fuel business to shareholder customers and the wider rural New Zealand community, Mark has helped to offer innovative solutions throughout the fuel and lubricant sector.

RANGIORA TOPS 2016 ENVIRONMENTAL RESPECT AWARDS

The Farmlands Rangiora team were delighted to be named New Zealand Champion in the 2016 Environmental Respect Awards.

The New Zealand Champion honour was part of the global Awards, which are sponsored by DuPont Crop Protection and presented by CropLife® and Agribusiness Global® magazine.

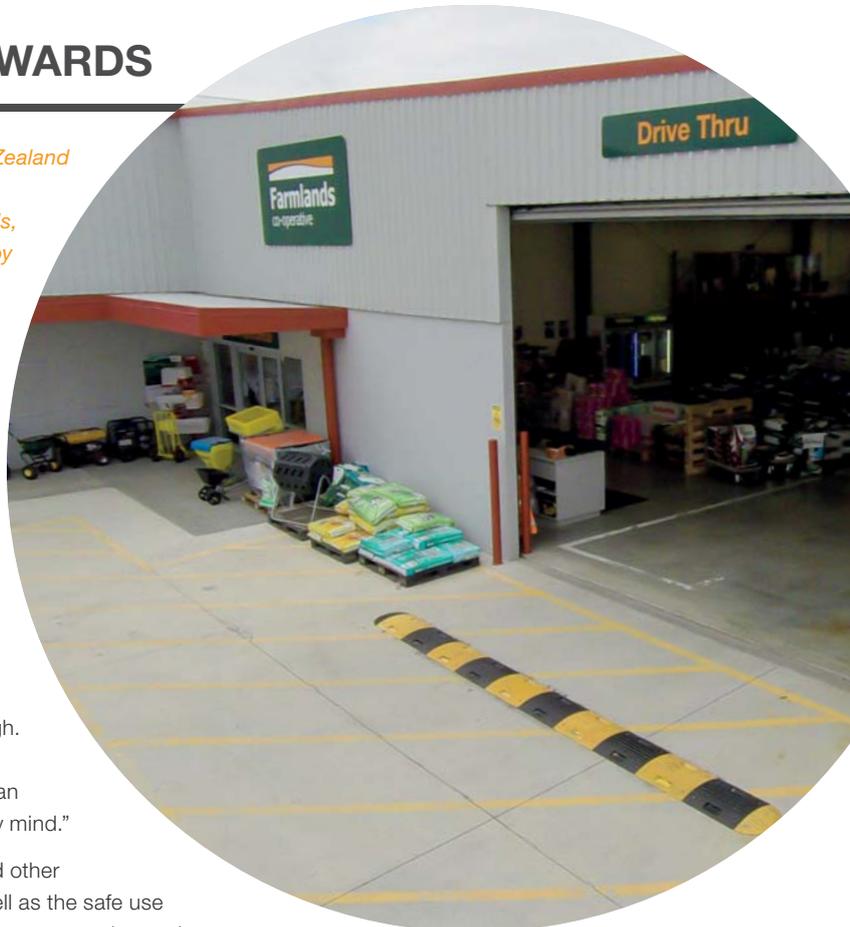
In their 26th year, the Awards are given to agricultural retailers and service providers that showcase stewardship, safety and community outreach efforts.

The Rangiora branch was selected as NZ country champion in this voluntary program by a panel of industry experts from the Asia Pacific region and won the award based on excellence in site design, storage and handling procedures, and leadership in safety and stewardship among customers and employees.

Bridget McIntosh, the Business Manager for the Farmlands Rangiora branch was delighted to receive the award.

"We want the environment to be as we have seen it over our lifetime. To be the same for our next generations that come through. If we don't look after it, preserve it and move with change, future generations will not be able to grow up in what we have, which is an amazing piece of paradise and that is environmental respect in my mind."

DuPont Crop Protection President, Tim Glenn says Farmlands and other award winners are helping to advance environmental safety, as well as the safe use of agricultural products. "We hope they will inspire others who share our passion and commitment to elevate environmental stewardship around the world."



RUGBY RETURNS TO ITS ROOTS



The Farmlands Cup was a simple premise – what if we could bring Super Rugby away from the stadiums and just off the State Highway? As it turns out, the pre-season game on 11th February between the Highlanders and the Crusaders for the first ever Farmlands Cup featured shareholders at every turn.

Played across the road from Southern Field Days at Waimumu, the game was played in a paddock owned by Farmlands shareholder, Fred Booth. Fred allowed his paddock to be re-grassed to Super Rugby standards and was quick to make sure his family could be there to see the “Footy at Fred’s”.

Even the trophy had shareholder links, with the Merino horns that became handles on the Farmlands Cup sourced from Central Otago shareholder Robbie Gibson. Tickets to the event flew out of the nearest Farmlands store and before you could say “crouch, touch, pause”, the game had arrived.

Feedback for the event has been overwhelming. The idea that Super Rugby teams could return to the home of New Zealand rugby – the heartland – generated a groundswell of support from shareholders, supporters ... even the teams themselves.

With the 2016 Farmlands Cup now in the record books, only one question remains: who rules the Farmlands Cup? With the original event being a 19-19 draw, do we need a rematch to settle the matter? You bet.

The Farmlands Cup will make its Darfield debut in 2017, with the Crusaders and Highlanders again locking horns on 4th February.

FUEL DISTRIBUTOR INDUSTRY SAFETY COMMITTEE TO DELIVER BEST PRACTICE

Farmlands Fuel is proud to have one of its own, Farmlands Fuel National Operations Manager, Derek Foley, chairing a new committee tasked with improving safety standards in the fuel distribution industry.

A group of New Zealand fuel distributors, with support from the Road Transport Forum, have announced the formation of the new industry body. It represents the interests of the fuel distribution sector and will establish best practice standards for the industry.

The mission statement declares that the Committee’s objective is to provide a forum where fuel distributors and stakeholders can collaboratively work towards establishing best practice industry standards to ensure the safe, compliant and environmentally responsible delivery and storage of fuel.

The companies involved represent over 80 percent of volume transported by the industry. Derek says in terms of addressing issues such as workplace health and safety, it makes it far easier for the industry to send information to the individual organisations via their committee, rather than having company resources stretched trying to engage with WorkSafe NZ individually.

“I’d like to thank WorkSafe NZ for their input into the Committee’s work so far – I am encouraged that this will lead to good safe outcomes for our sector.”



DROUGHT RELIEF FOR FIELDAY LOVING FARMERS

The drought that has gripped eastern parts of the South Island has made farming an exhausting task.

That's why when a couple of members of the North Canterbury Drought Response Committee decided to help their fellow farmers have a break, Farmlands was only too happy to help.

Farmlands joined other businesses from around the country help more than 100 North Canterbury farmers attend Fieldays at Mystery Creek. The amazing feat saw Nick Hamilton and Dan Hodgen raise \$85,000 in just 3 weeks to give farmers some time out to enjoy themselves and refresh.

When they arrived at Fieldays, Farmlands made sure the farmers left with a full stomach. Other sponsors from throughout the industry kept the good times coming, covering accommodation, transport and even a few laughs through guest speaker Ric Salizzo.

The trip galvanised the industry to support those that needed it most, during a difficult time. Without the support of businesses from around the country – and the creative thinking of some hard working farmers – Mystery Creek may have been skipped this year. Instead, more than 100 farmers got to see the latest in innovation up close and personal.



NIWA AND FARMLANDS FORECAST BETTER CLIMATE SERVICES

Farmlands and NIWA have announced a new partnership that focuses on making the latest climate services and technology available to rural New Zealand.

The new partnership is mutually beneficial. For NIWA, the partnership consolidates plans to provide the most comprehensive weather products and services available to rural New Zealand. For Farmlands, the partnership reinforces its pledge to provide comprehensive service and solutions to shareholders nationwide.

Up-to-date regional forecast summaries are already available to shareholders nationwide via the Farmlands website, developed by NIWA's world class team of climate scientists and meteorologists and produced using their state-of-the-art supercomputer.

Farmlands Chief Executive Peter Reidie says he is delighted to announce the new partnership, which gives Farmlands shareholders unparalleled access to cutting edge technology.

"Together with NIWA, we look forward to bringing shareholders technology that will improve their decision making abilities. The more information we can bring them, the sounder the decisions will be, which can only mean better profits for their business."



HEALTH AND SAFETY



At Farmlands our focus is on engaging with our shareholders and our employees so that everyone gets home safely, every day.

During the past year Farmlands has continued to engage with our people to create a safer place to work:

- Investment in Smart Move equipment, which enables us to safely move and transport 200L drums.
- Development of traffic management plans across Farmlands sites, which are currently being implemented throughout the country.
- We have undertaken electrical testing and tagging at all sites.
- To ensure compliance with HSNO legislation, we have conducted hazardous substance location assessments at all retail branches.

We have also challenged our people to become safety leaders to ensure that we are all working safely:

- 98 Senior Managers and 2 Directors have attended Actura 'Switch on' Safety Leadership training.
- 134 Manager and Health and Safety reps attended health and safety training for their role.
- 106 Safety Interactions were recorded: 85 safe behaviour reports and 19 Safety Award nominations.

Through the 0508 INJURY management service, Farmlands offers employees an opportunity to get assistance with managing any discomfort, pain or injury. Farmlands records all injuries that occur to staff members, to highlight areas where extra care must be taken. Statistics have shown that a Farmlands Retail Employee is most likely to be injured to the extent that they require lost time or medical treatment, with the most common lost time injury being back sprains due to manually handling products.



MANUAL HANDLING

Most common cause of injury



Medical Treatment Injuries

- Farmlands recorded a 5 percent reduction in lost time injuries during the 2015/2016 financial year (21 LTIs in FY2016, 22 in FY2015).
- There was a 23 percent reduction in Medical Treatment Injuries at Farmlands during the 2015/2016 financial year (37 MTIs in FY16, 48 in FY2015).

A key part of Health and Safety for Farmlands is ensuring all aspects of wellbeing are looked after – not only physical. Our OCP Employee Assistance Programme continues to support the wellbeing of Farmlands employees, while the adoption of the Goodyarns programme gives Farmlands staff the ability to be more vigilant regarding shareholder wellbeing. Goodyarns focuses on seeing danger signs in people who may be struggling to cope – an increasing trend in times of uncertain pay-outs, climatic issues and poor business performance. Farmlands has proactively sought to use this programme to provide support to its staff, to support our shareholders that may be facing challenging times.

As we head towards 2017, engagement with shareholders and our employees will continue, as we endeavour to keep everyone healthy, happy and safe.



Most common first aid injury



1/7/15 – 30/6/16



Most common MTI and LTI

RETAIL



The rural supplies arm of Farmlands Co-operative has had a difficult year in the face of significant sales reductions, particularly in dairy industry related products. Supporting shareholders during this time has been a priority, with an impacted bottom line being a visible by-product.

We have had many challenges this year, as our shareholders have, so there has been a concerted effort in the current market conditions to rely less on promotional giveaways and more on upfront pricing. By focusing on delivering at the point of sale, especially in key areas of the farm, Farmlands has been able to deliver straight to shareholders, without compromising the fairness of our co-operative principles.

We have strived to meet the market with pricing, which has been a necessity in the face of aggressive competition. In addition, foot traffic has reduced as a result of many shareholders aggressively managing their cash flow. This is especially obvious in dairy sector stores – the change in dairy economics has meant dairy nutrition is no longer viable to many. Certain regions – Bay of Plenty, Hawke’s Bay and Otago – were able to buck the trends of the wider market.

Plans are already well underway to turn this result around during the current financial year. We have made cost base adjustments to our wages costs and rebalanced inventory levels. We are seeking to review our competitiveness with a revised pricing model.

Further improvements for the retail business will become obvious to our shareholders through improved service levels delivered via a new training regime, changed branch layouts and a better range. There is an emphasis on having the right stock at the right times in our stores, without carrying to excess. We are trialling the new branch layouts in four stores, with our new and improved Darfield site the first to trial the new look. In addition, we opened our 83rd store at Taieri (Mosgiel), which continues to exceed its business plan. Each individual store will continue to showcase the flexibility of being a national co-operative with a community focus.

While the year has had its fair share of challenges, the staff in-store at Farmlands should be commended for their continual hard work and support provided to shareholders. Our focus on delivering a better service for our shareholders continues unabashed and will become more obvious during the year ahead.



HORTICULTURE

Our field team of Technical Advisors have had a busy year supporting our shareholders. Farmlands Horticulture has been established as its own separate business unit with a new General Manager appointed. Sales grew 5% nationally and at regional levels we experienced significant growth in the Marlborough, Hawke's Bay and Northland regions.

We have continued to strengthen relationships with our suppliers to provide cost effective products for our shareholders. Our team remains focused on delivering technical and value added solutions, to enable optimised yield, quality and sustainability across shareholder operations.

In the year ahead there are plenty of opportunities for us to further enhance our offerings to our shareholders. We are launching some new product ranges and alternative options that provide greater value and effectiveness to our horticulturalist shareholders. In addition we are building a stronger technical team that will further enhance what our team delivers out in the field.



FINANCE

Farmlands Finance continues to bring specialist finance solutions and products to the market that complement shareholders' cash flow needs, while ensuring a 'responsible lender' focus is maintained.

Partnering with businesses that accept Farmlands Card has brought shareholders more interest-free and low interest rate deals on items that save costs and/or improve on-farm productivity. Farmlands Finance's key cash flow management facility, Creditline, has also assisted shareholders with short-term funding relief during the year when they needed it the most, by deferring part or all of the monthly Farmlands Account in times of need to smooth cash flows.

Finance was proactive in responding to the changing finance needs of shareholders in 2016. The introduction of the Renew Loan allows shareholders to unlock their own equity to restore productivity after a climatic event, such as drought or a storm. Tailored livestock finance packages provided shareholders revenue during times of possible loss for those with excess winter grazing or changed business models.

Farmlands Finance will continue to focus on supporting shareholders with choice in their finance needs. We will deliver deals to help save money, maximise working capital and assist in business growth plans.



2016 HIGHLIGHTS

- Continued growth in low interest rate plant and equipment offers
- Increased activity in deferred payment options
- Experienced team of finance specialists to support a nationwide finance offer
- Being responsive and nimble enough to meet changing shareholder needs, such as introduction of Renew Loan and providing livestock finance when grazing contracts were not fulfilled
- Positive profit contribution to the Group in a challenging year

REAL ESTATE



Choices Points and competitive commission rates were awarded to shareholders who successfully listed and sold via their co-operative. Sale trends continued in the same vein as last year, with around seven out of ten contracts processed being residential and lifestyle sales. Meanwhile, we have grown our rural market share.

It was a very challenging year in the dairy sales sector, with South Island sales volumes halving versus 2014/15. We continued to write more sheep and beef business and grow the available market, while nationally the number of farms offered was back on the previous season.

Our people are our strength and in 2015/16 we recruited more experienced salespeople. This was complemented by Calvin Leen, the GM of Farmlands Real Estate, joining the REAA's Rural Industry Advisory Group, giving Farmlands the ability to comment on matters related to the real estate industry via an independent government organisation.

We diversified the business several years ago to include residential where the fit with the right people suited us in provincial towns. Horticulture is another market segment we wish to enter and offer shareholders an alternative marketing choice.

With the bulk of Farmlands Real Estate's expansion into the North Island now complete, most regions have representation. We will continue to grow the business nationally as and when opportunities arise.

2016 HIGHLIGHTS

- North Island expansion
- Strong sheep and beef sales in Otago
- REAA Rural Industry Advisory Group representation
- Staff retention and recruitment

CARD

Farmlands Card is a symbol of the rural community and has proven its ability to save money and time for shareholders with increased rebates across all categories.

In tough times shareholders have turned to Farmlands Card to use the co-operative's buying power to get better deals and simplify paperwork with the unique consolidated tax invoice.

This year's Card Partner of the Year Award was presented to Bunnings, in recognition of their great regional support provided to shareholders. Noel Leeming received the highly sought after Shareholder Choice Award for the second year running.

We are continuing to work with Card Partners to provide additional advice and services to save on-farm, as well as enhancing the information on the Farmlands Statement. Farmlands Card is well positioned to provide additional savings for shareholders in the 2016-17 financial year.



2016 HIGHLIGHTS

- Record number of shareholders using Farmlands Card Service
- Additional services released, including the Farmlands App and Local Printed Directories
- Growing local network of Card Partners supporting local commerce

GRAIN AND SEED



Our Retail Seed financial results were again impressive with an increase of 4.5% year on year. Given the unseasonal weather conditions in some areas around the country over the last 12 months and the competitive nature of the retail market this was very satisfying.

Grain Trading and our small seed multiplications financial results were outstanding, with an increase of 17.3% year on year. The Grain Trading volumes have continued to increase through both new grower suppliers and grain buyers being added during the year.

We have appointed an additional two Agronomists to join the Agronomy team in providing a seed and chemical technical expertise resource to Technical Field Officers (TFOs) and their shareholders. Their focus is on the establishment, management and use of forage and arable crops.

Making informed decisions is critical and we will ensure that we have the necessary staff available with the technical competency and expertise to provide you with the information you need for all your grain and seed retail and trading requirements.

2016 HIGHLIGHTS

- Grain trading performance outstanding
- Retail Seed sales increase again
- Appointment of two more arable and forage Agronomists

NUTRITION

Farmlands Nutrition has responded to a difficult year by emphasising support over sales. The infrastructure to survive the difficult market conditions was created last year, with the refining of policies and procedures and the acceptance of FeedSafeNZ accreditation.

The Nutrition Trading Desk has proven to be a valuable tool for both our shareholders and staff – the options it has created have proved critical for those on tight budgets.

Farmlands Nutrition has maintained market parity on its calf product range, a fantastic result given the slow start to the year experienced. Nutrition also experienced encouraging year-on-year growth on our equine and lifestyle sector sales.

Farmlands Nutrition had to make some tough decisions this past year, including a reduction of staff levels to better position the business going forward. Overall, Nutrition experienced a loss this financial year, due to the challenges experienced in the industry across the board.

In the year ahead, the emphasis remains on actively supporting shareholders with their nutrition needs, through our in-field feed specialists and the NRM, McMillan and Reliance teams.

2016 HIGHLIGHTS

- Year-on-year growth in lifestyle and equine markets
- Calf product sales steady in challenging market
- Hands-on, practical support service provided to shareholders through technical team
- Career pathway programme produces our first qualified Nutritionist, trained in-house through Farmlands Nutrition
- Refresh of McMillan Equine bagged range



LIVESTOCK

Farmlands Livestock has introduced a number of key initiatives over the past year, to ensure the brand continues to establish itself as the trusted team of choice for shareholders when buying or selling livestock.

In addition to welcoming a new General Manager, Farmlands Livestock launched two new services to shareholders. The Farmlands National Cull Cow Pool pools large numbers of cows regionally, using our co-operative's strength to negotiate better deals for animals, thereby putting more money in shareholders' pockets.

In 2016 we have also welcomed the Dairy Service Bull Plan, which aims to finance service bulls from October until February, to aid with dairy farmers' cash flow. This unique offering to the market requires no upfront payment, has fixed finance fees and no hidden costs, allows shareholders to choose from a variety of sale options and incorporates flexible repayment options.

Farmlands Livestock's Beef business has grown substantially on the previous year, while our Grazing business also experienced solid growth, with our monitored weight gain grazing system gaining traction in the market.

A key milestone has been reached for Farmlands Livestock with the expansion of the brand into the North Island. Shareholders and other clients are benefitting from the national network Farmlands Livestock now offers.

Another Farmlands initiative was a successful live shipment of more than 3,000 Angus heifers into China. The success of this project has opened up negotiations with the buyers for potential future business.



FUEL

Farmlands Fuel achieved continued growth in 2016, through strong customer support and improved volumes. A key change this year was the end of our 60+ year relationship with Chevron NZ, following Z Energy's acquisition of their assets. Farmlands looks forward to working closely with Z to maximise opportunity and continue our impressive growth legacy.

Farmlands Fuel's Health and Safety and Compliance programme continues to gain strong momentum. We also assisted in the establishment of a Fuel Distributors Industry Safety Committee (FDISC), which will positively impact fuel distribution safety standards nationwide.

Our bulk fuel delivery business continued its growth trend throughout 2016, the result of increases in bulk fuel volumes traded. Similarly, growth in fuel sales through Farmlands Card was impressive and shareholder exclusive specials on fuel related products complemented our delivery service.

In the year ahead, we are forecasting similar growth for both our bulk fuel and card fuel business, while continuing to expand our 24/7 network of unmanned fuel stops. Further growth is forecasted for Challenge, with a number of other competitor retailers interested in joining the network. Our Gulf lubricant business continues to gain pleasing momentum and we see this trend continuing.

2016 HIGHLIGHTS

- Further development of our Health and Safety/Compliance plan
- Continued growth in fuel volumes supplied to rural, retail and commercial sectors
- Continued growth of Farmlands fuelcard volume
- Growth in the Challenge network
- Further growth of the Gulf lubricant business
- Continued expansion of the Farmlands branded unmanned fuel stops
- Significant national tanker fleet replenishment programme





The photos used on the cover have been chosen from entries to the 2017 Farmlands Shareholder Calendar Competition. The theme for this year was "There's no place like home".