Te Uranga B2 Incorporation

Farm Performance Report 2014

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1.0 Background and Climate

After the 2012/13 season dealt the region the worst drought in 70 years we headed into 2013/14 with some optimism on the theory that we couldn't get two years in a row that bad. Unfortunately Mother Nature had a different idea and the second half of the season up to 30th June 2014 became just as dry and challenging as the year before.

Thankfully the farms were well set up following a strong recovery in the year before as well as an excellent spring period which meant there was more supplementary feed on board to ensure that stock could remain well fed.

We cannot overlook however the fact that pasture production has dropped over the last two seasons and the variability we are having in pasture growth is forcing the need to ensure that there is a high level of planning that is undertaken to ensure profitability is maintained.

2.0 Farm Focus

The farming entities continue to operate around a simple philosophy:

Maximise Pasture Production

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Optimise Feed Conversion Efficiency

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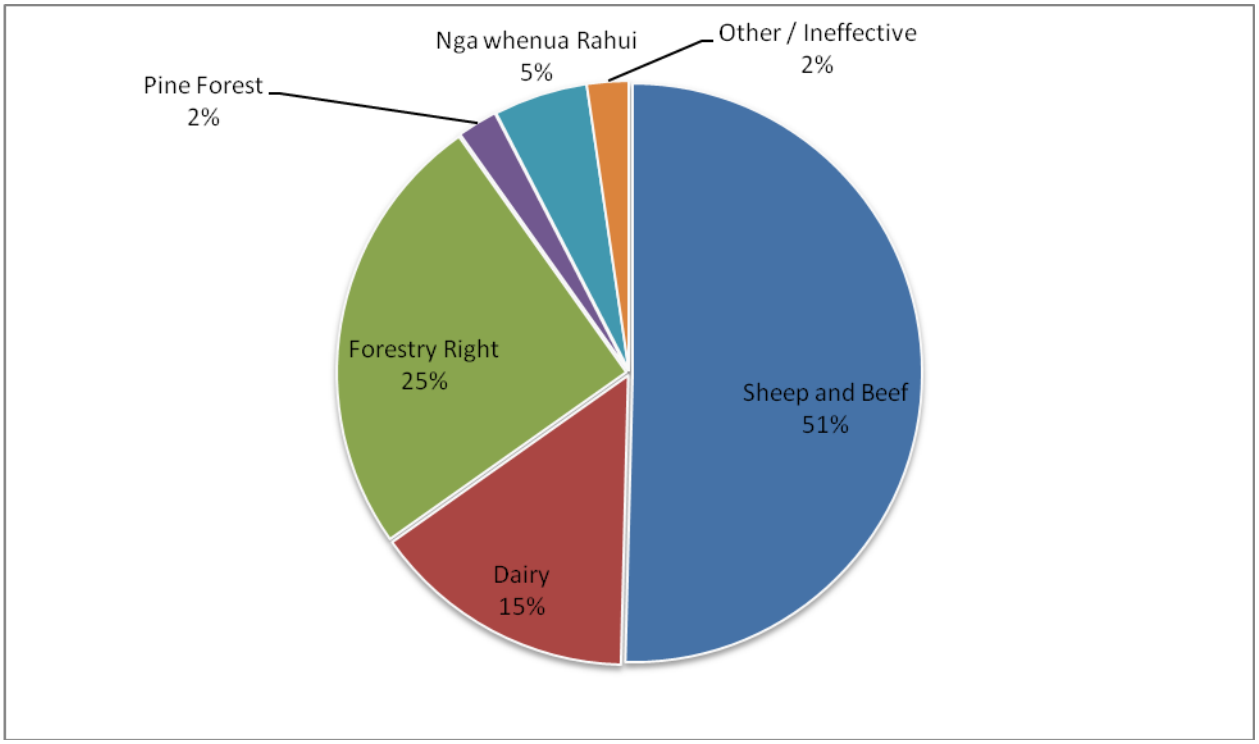
Maximise Productivity and Financial Return

In simple terms the focus is on growing as much grass on the farms as possible, turn this grass into meat, wool or milk in the most efficient manner and generating the highest level of income for the least cost. All of this translates into ensuring a strong bottom line for the Incorporation and opportunity to grow the asset.

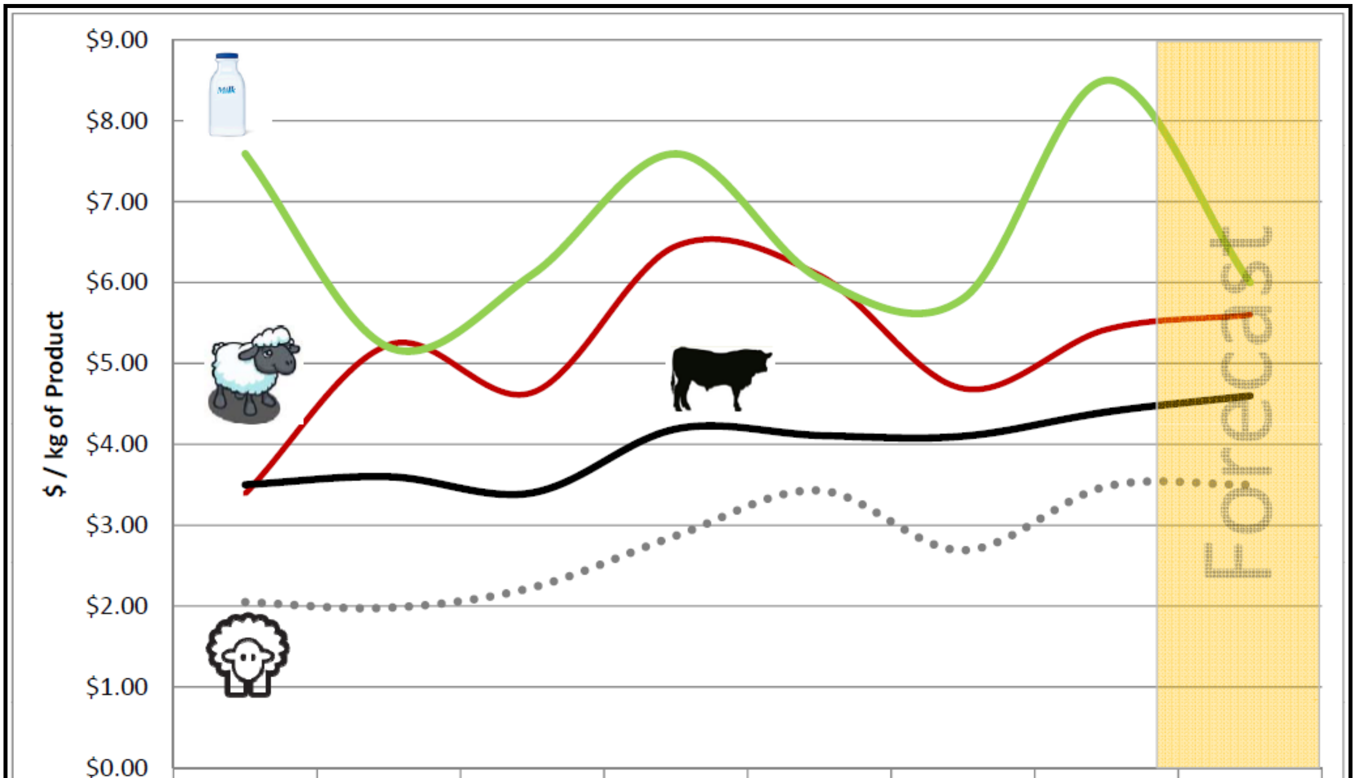


The above shows the land use split across the Incorporation reflecting the diversity and showing the split of income streams.

All of the planning that is undertaken by the Committee is based around ensuring that profit and diversity of income remains the key focus. This includes everything from expenditure on fertiliser to decisions made around land development.

3.0 Product Prices

While last year was a challenging one to grow grass the markets in which Te Uranga B2 operates had a strong year and this helped to maintain the bottom line. The dairy payout reached a record high of \$8.50 / kg MS and we again saw lifts across all of the three market streams that Upoko sells product through. However the effects of the drought and the resulting reduced production meant Te Uranga B2, like all farms in the region, was unable to fully capitalise on these high prices.



	2008	2009	2010	2011	2012	2013	2014	2015
Lamb	$3.39	$5.23	$4.64	$6.45	$6.09	$4.69	$5.42	$5.60
Wool	$2.05	$1.98	$2.23	$2.87	$3.43	$2.69	$3.48	$3.50
Beef	$3.50	$3.60	$3.40	$4.19	$4.11	$4.10	$4.40	$4.60
Dairy	$7.59	$5.20	$6.10	$7.59	$6.05	$5.80	$8.50	$6.00

Looking forward the graph above confirms that we are seeing a very *"mixed bag"* at present. Dairy markets are going through a period of higher volatility and this year will likely see a significant drop from 2014. We need to keep this in context however and remember that the current year is in line with the long term average.

What cannot be underestimated is the value that Te Uranga B2 gains from having a much diversified operation with income coming from four main sources; sheep, beef, dairy and forestry. When we have a year such as the one ahead, the value of not having all of the eggs in one basket cannot be underestimated.

In the next three to five years the Incorporation remains focused on ensuring that production is increased in profitable manner to ensure a higher level of resilience in the tough years. The forecast for the primary sector for the next five years is still positive and we expect to see product prices across all sectors similar or above the prices being received today.

4.0 Upoko (Sheep / Beef / Dairy Support)

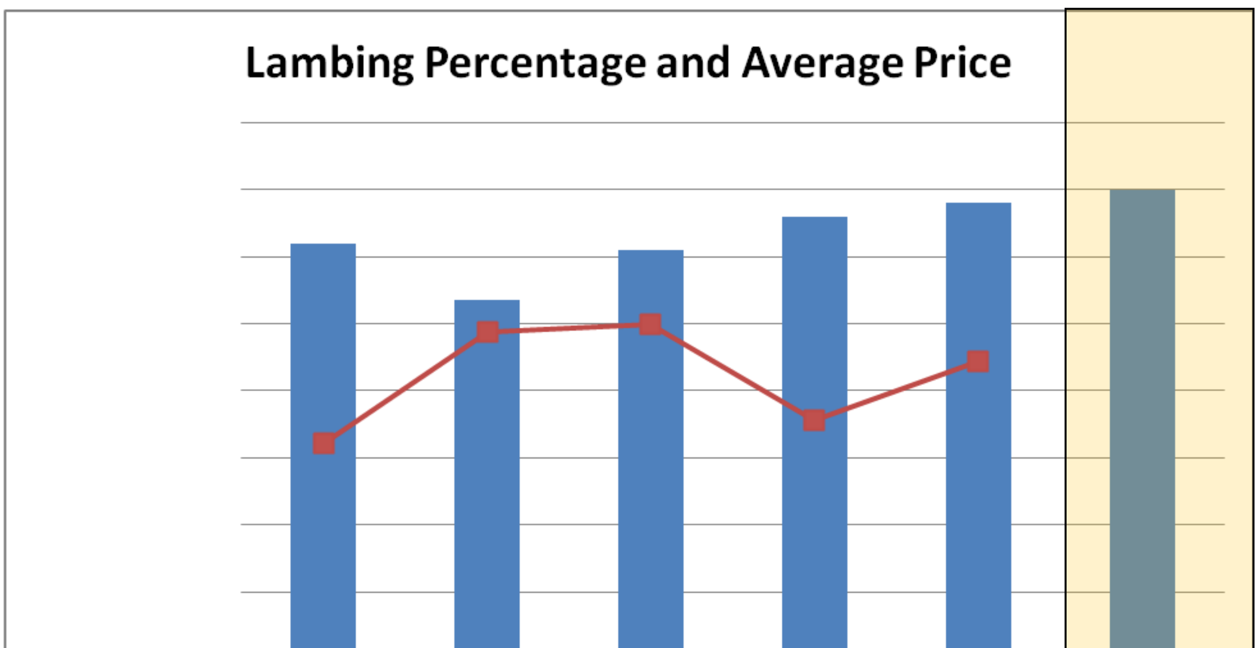
The Upoko operation continues to improve and despite the challenging climatic conditions this last year we have seen further improvement across the board. While a significant portion of the income for Upoko continues to come from meat and wool production, the land continues to provide support to the dairy operations in three main areas:

- Replacement heifers grazing on Upoko which secures the quality of replacement stock entering the dairy herds
- Winter cows grazing from Koromiko on Upoko which guarantees winter feed and develops more land for Upoko
- Maize production on Upoko which provides the dairy units with a lower cost feed and provides Upoko with a lease payment and therefore recognition of a higher land use

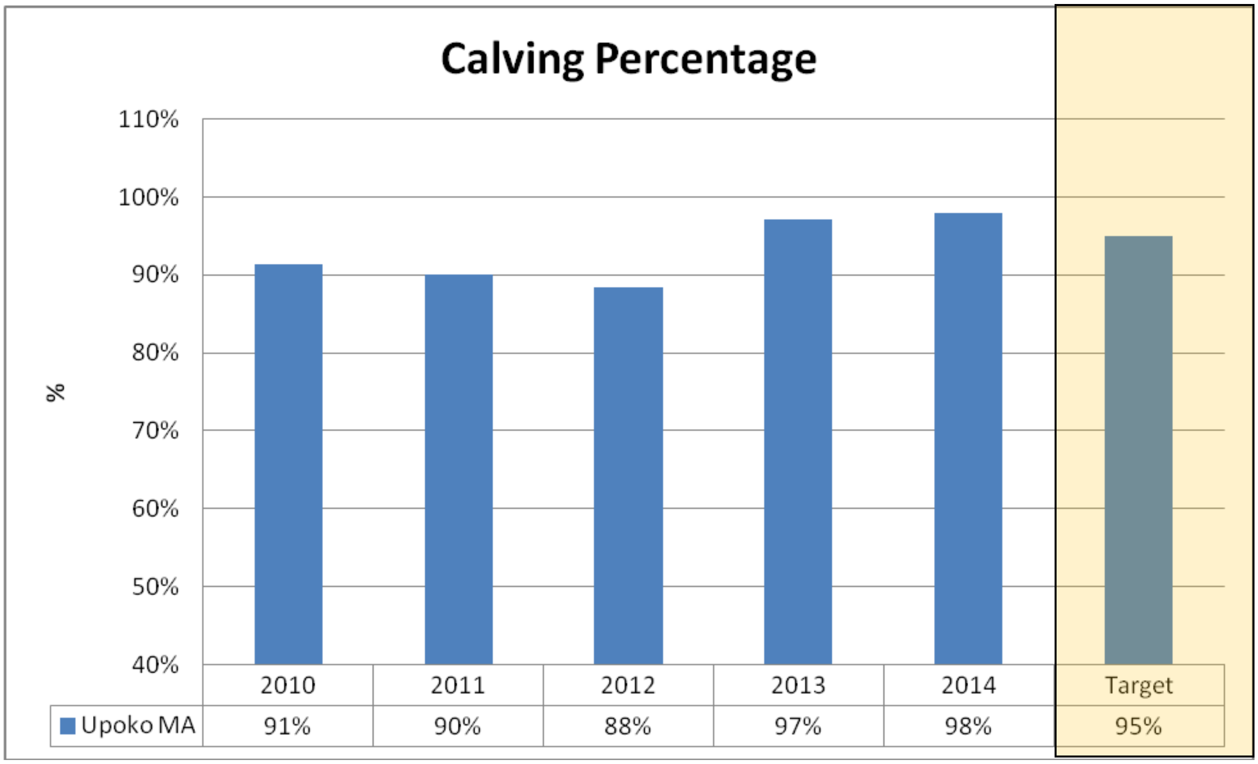
This integration continues to be a challenge as the priorities are balanced to ensure the right decisions are being made for the Incorporation as a whole however this does ensure added resilience. Additional subdivision and water reticulation remain high focus areas to lift productivity and there is also ongoing reinvestment in core infrastructure to improve the efficiency of the operation.

The key driver for Upoko remains the performance of the breeding systems for both sheep and beef. For the sheep system this is about getting the balance right between feeding lambs and feeding ewes to ensure the best outcome. This is being aided by the additional crops that have been sown to give more reliability to the sheep system.

Breeding performance is continuing to lift across both enterprises as shown below:



	2010	2011	2012	2013	2014	Target
Lambing %	124	107	122	132	136	140
Lamb Price	$64.22	$97.61	$99.97	$71.33	$88.69	



We are mindful that there is still room to lift this even further and ensure that this occurs on a consistent basis despite the challenges of the weather.

Despite what was another challenging year we have seen a lift in meat and wool produced by Upoko in the 2014 year to also have a record year for production. The result was 3% better than the previous best. Unlike the dairy operations, this was able to be achieved purely with the additional feed grown inside the gate and is a reflection on the improvements in efficiency within Upoko.

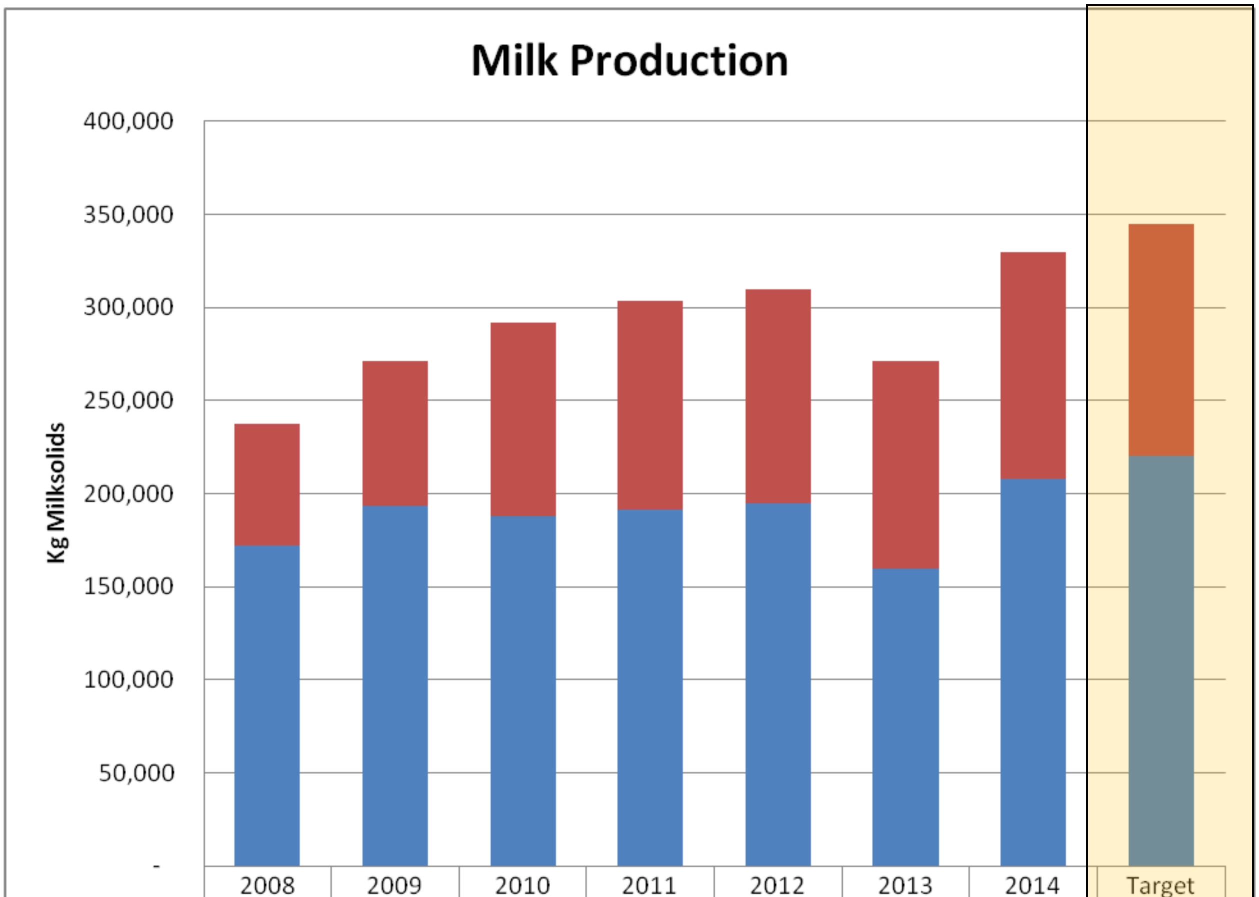
The short term target, as noted on the right, remains achievable given the focus on improved productivity inside the farm gate. Given a more "*normal*" growing season the farm will be well on the way to achieving this result. This would put Upoko in the top 20% for farms of its type.

5.0 Koromiko and Paatara (Dairy)

The dairy operations had a strong year and along with the record dairy payout from Miraka, the farms were able to achieve record production for the year. The final production of 329,624 kg MS (3.8 million litres!) was a lift of 7% over the previous best.

This was achieved due to the continued focus on land development and while the drought conditions made the season challenging the higher dairy payout also made it viable to purchase in additional feed and ensure that profitability was maximised. This is in contrast to the previous season when the lower dairy payout meant it was more profitable to dry the cows off earlier.

The below graph shows the production trends since 2008. The short term target of 335,000kg MS is very achievable given the progress the farms have made.



	2008	2009	2010	2011	2012	2013	2014	Target
Paatara	64,893	77,995	104,302	112,058	114,576	111,088	122,023	125,000
Koromiko	172,231	193,179	187,616	191,442	195,161	159,783	207,601	220,000

Even with the additional supplement that has been purchased this last season the farms still comparably purchase a very low percentage of their feed in the gate. The focus has remained on a low cost, medium stocking rate system that provides the best mix of risk, return and environmental responsibility. Environmentally the farms have a nitrogen loss that is below industry average due to the focus on putting sensible farming systems in place.

6.0 Future Focus

The focus will continue to be on increasing profitability, sustainability and resilience. Key investments required to make the farms more resilient to the challenges we face include the extension of the effluent system on Koromiko and more water reticulation on Upoko. Both of these are not easy or cheap fixes but are the requirements in the next stage of ensuring the ongoing success and improvement of the Incorporations farming enterprise.

The outlook remains very positive for the primary sector and the Incorporation as a whole.