Eastbourne Dairy Farm Limited

ANNUAL REPORT

2015/2016

ROGER DICKIE
NEW ZEALAND

TABLE OF CONTENTS

DIRECTORS ANNUAL REPORT

The 2015/2016 season saw our variable order sharemilkers Ben Worker & Penny Timmer-Arends achieve outstanding production of 238,446 kgMS. This was 8.4% up on the target of 220,000 kgMS and 15% ahead of the previous year. This production well surpassed expectations and was achieved despite a challenging start to the season, which saw extremely wet weather conditions impact early grass growth. This production equates to 482 kgMS/cow.

The final payout announced by Open Country Dairy (OCD) was $3.90/kgMS, slightly higher than the $3.66 that was originally forecast. Ben & Penny once again achieved excellent milk quality and received a Milk Quality Certificate with an average Somatic Cell Count of 76,000; well below OCD's target of 150,000. This achievement meant that we were guaranteed all eight cents of the quality portion of the payout.

This outstanding effort for milk quality, ranked them 3rd in Southland and 20th nationwide amongst Open Country Dairy Suppliers. We would like to congratulate them on this achievement, it is a fantastic reflection of their diligence within the cow shed and the care they take with animal health.

A valuation of all land and buildings and stock were undertaken for the financial year. These were completed by Logan Stone Limited and Progressive Livestock Limited respectively. Summaries of the valuation documents are included in this annual report. For the 2015/2016 financial year Eastbourne was given a total value of $9,819,275. This was made up of land and buildings of $6,750,000 for the farm and $2,175,000 for the run-off, and all stock at $894,275. It should be noted that this is a drop in value of $579,250 from the previous financial year. This decline in values can directly be attributed to the fall in dairy prices over the past two seasons. As the dairy industry begins to recover we are confident that the asset value will increase.

The share value for Eastbourne from the current accounts gives a net asset backing value of $0.90 per share.

With the dairy payout continuing to be low, Ben & Penny and our administration team have continued to work hard to minimise costs without impacting milk production. For the 2015/2016 season the farm working expense (FWE) were $3.98/kgMS, which was below the original budget figure of $4.09/kgMS. With cost saving measures in place we ended the season with a cash surplus of $37,770, considering the dairy climate this is an excellent outcome.

The total capital expenditure for the year was $7,509. This included the purchase of a colostrum milk vat for calf milk for $3,800, Tru Test weigh scales at $2,280 and LIC (formally Livestock Improvement) Shares $1,428. We minimised all capital expenditure this season as we continued to experience low dairy prices.

As part of the continued development of the farm we prioritised maintenance work to only essential projects. The three major expenditures were $18,294 on laneway repairs, as the condition of the laneways was impacting animal health with lameness becoming an issue with the herd. $12,045 was spent on maintaining hedges on the farm. The hedges were scheduled to be cut at the end of the 2014/2015 season; however weather conditions meant that this was pushed in to the 2015/2016 season. We also completed drainage upgrade on both the farm and runoff, to the value of $14,450. This will be an ongoing process that will continue for the next few years. With the location of Eastbourne guarantying a summer safe position, with wet conditions during winter and spring needing to be managed.

Some of the areas we have made savings includes animal health, which was $85,384, $26,584 lower than the previous year. Pasture maintenance & cropping was $103,133, which was $45,830 less than the previous year.

I would like to take this opportunity to thank my fellow Directors Jeff Whitlock and Stephen Barr, our Variable Order Sharemilkers Ben Worker & Penny Timmer-Arends and our farm consultant Jack Ballam for their contributions over the past year.

Farm Update – Current Season

We are pleased to announce that Ben and Penny have signed a contract to stay with Eastbourne for the 2016/2017 and 2017/2018 seasons. As an incentive to keep such good sharemilkers, the directors have given them the opportunity to rear a maximum of fifty calves. As part of this arrangement Ben and Penny purchase the calves from Eastbourne and pay for any milk and feed used. Once the calves reach 100kg they will be removed from the farm.

The production forecast for the 2016/2017 season has been set at 235,000 kgMS. Spring in Southland is one of the best for a number of years. Ben & Penny have their cows milking extremely well, however this season we have had a greater number of calves to be fed therefore more milk has had to be taken to feed calves and has meant they are 5.3% behind target.

For the current season, Open Country Dairy has forecast a milk price for the 2016/2017 season of $4.90. As prices begin to show signs of recovery, we need to remember that prices are still not entirely stable. As we proceed into this season, we continue to work with our sharemilkers to create the most efficient cost structure. As a result we have worked hard to minimise costs and have budgeted a FWE of $3.81/kgMS.

I look forward to seeing you at the AGM.

Kind Regards

Roger Dickie
Director
Eastbourne Dairy Farm Limited

VOSM ANNUAL REVIEW – Ben Worker & Penny Timmer-Arends

The extremely wet and cold winter in Southland meant we ran short of crop due to poor utilization (the stock trample more crop into the mud in the wet), and went through a lot of balage in August feeding the dry cows prior to calving. Fortunately we had dried the cows off in late-May close to the required body condition score at calving, and weren't battling to put weight on them over winter.

The harsh winter also affected our opening pasture cover at the milking platform, and we had to feed ~5kg/day of supplement to hold our round length. Sticking to our round and filling the feed gap with PKE and balage paid off, and the cows were producing 8% more milk than last season, as at the end of November.

The summer safe location of Eastbourne proved an asset again this summer, with good consistent grass growth over this period. A myriad factors contribute to milk production, and we didn't do anything special to chase production this season. Our focus was to get the basics right; correct pasture allocation every day, fully feeding the cows, and not pushing them to eat too low (using the mower to control quality not the cows). Jack Ballam's system looks after the cows, and they look after us.

Grass growth during March and April was exceptional. Soil temperatures remained high throughout autumn and we were able to build-up a good cover of pasture for the cows to eat in May when growth dropped below demand. We dried off with an average pasture cover of 2300kgDM/Ha, which includes a few paddocks for the lame cows to graze over winter. This also gives us a good wedge of grass to eat in early spring when the cows come home.

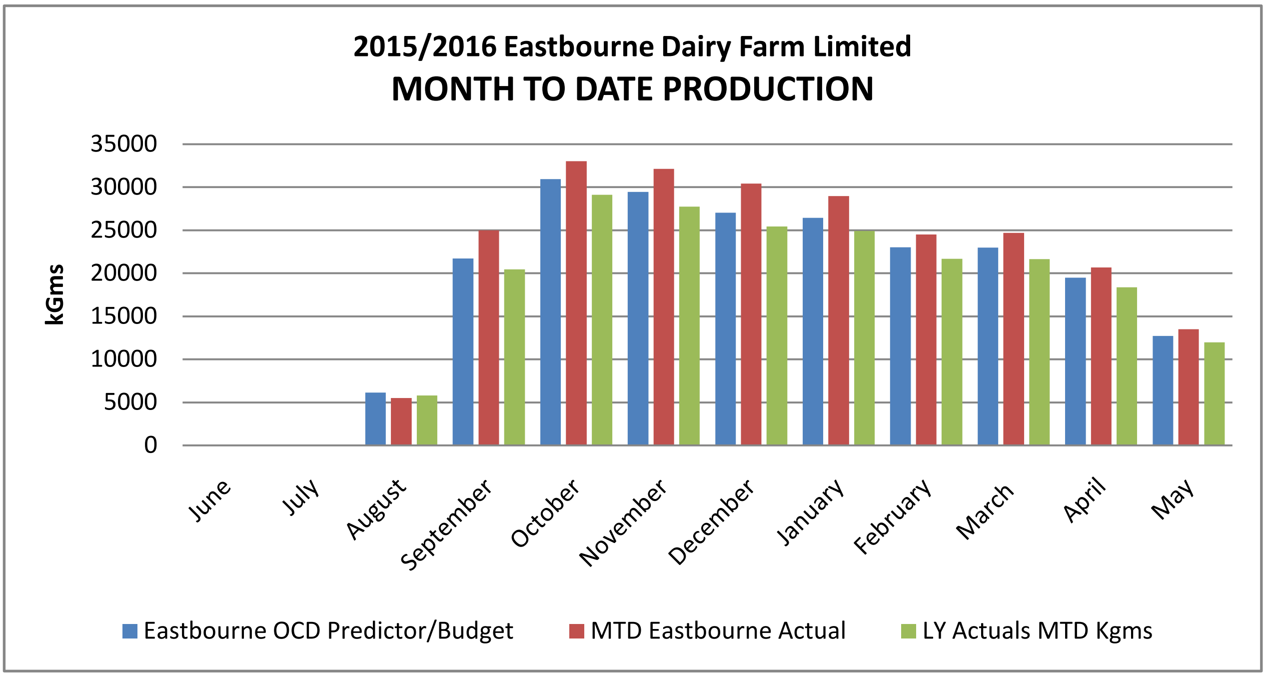
Despite the cracker autumn and plentiful supply of grass, the Achilles heel of Eastbourne Dairy Farm is the heavy soils. As happens every year in Southland, we got a lot of rain in late-May and the soil became saturated. For us this is the trigger to begin drying off the cows and sending them away for grazing, to minimise soil and pasture damage from pugging.

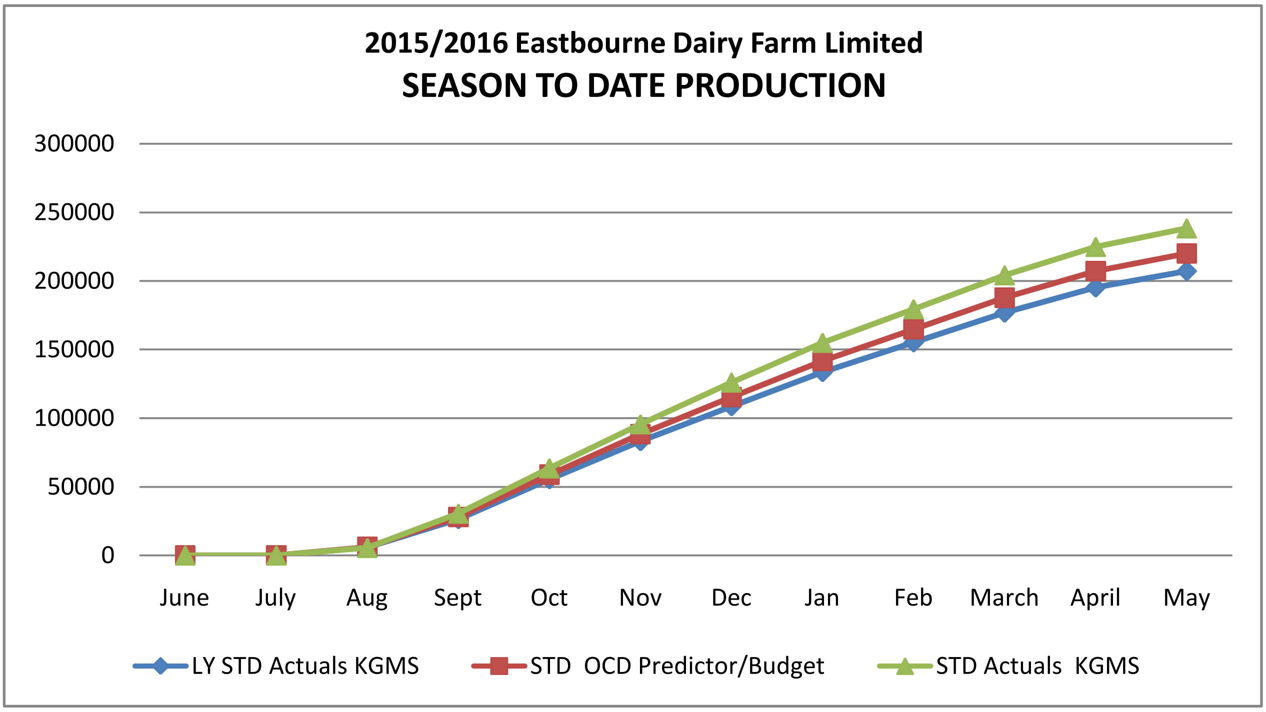
We dried off the herd over several days based on calving date and condition score, and finished milking for the season on 26 May. The majority of cows were trucked out to grazing over the following few days, where they were break-fed on kale and balage.

A select group – our lame and light cows - get to live the dream in the barn at home where we can closely monitor their health. On a cold or wet day, they'll often remain inside until lunchtime when they muster the enthusiasm to drag themselves out to the feed troughs.

Milk production

Final milk production for the 2015-16 season was 238,446kg milksolids. We were pleased with the 15% increase on last year's 207,217kgMS.





Youngstock & run-off

Due to the poor spring, we had to send 70 of our 2014 born heifers to a grazier in October, keeping 41 smaller heifers at the runoff. These girls came home in late April and (minus the empty heifers) we wintered all 101 in-calf heifers at home.

Without those 70 heifers to feed we were able to make 950 bales at the run-off. Enough for winter, spring and a hundred or so surplus bales if we have an unexpected feed shortage in 2016/17. When it comes to Mother Nature, anything can happen.

All 106 of the 2015 born calves have been grazing at the runoff since they left the calf sheds in October, and were wintered on crop there. Our Farmwise consultant Jack Ballam has recommended we move away from using the runoff as a wintering block, to a youngstock block.

For the 2016/2017 we will plant less area in crop and therefore require less balage. This will mean we can winter both classes of youngstock and still be able to cut enough balage for winter and spring.

Our challenge for the 2016/17 season is to achieve a similar level of production with less purchased supplements. If we have a kind spring (and we're due for a good one after the previous two we've had!) we should be able to reduce the amount of PKE purchased.

Kind Regards

Ben Worker & Penny Timmer-Arends

2017 SHAREHOLDER FARM VISIT

The date for the next bi-annual shareholder visit to Eastbourne has been set for Sunday 19th March 2017. Further detail to follow early in the new year.

RESOLUTIONS

Appointment of Auditor

It is moved that Silks Audit Chartered Accountants of Wanganui be appointed auditors for Eastbourne Dairy Farm Limited.

Moved:	Jeff Whitlock	Director
Seconded:	Roger Dickie	Director

Appointment of Director

In accordance with the constitution Steve Barr retires as a Director and Steve is available for re-appointment. That Steve Barr is re-appointed as a Director.

Eastbourne Dairy Farm Limited
11 Eastbourne Park Road
SOUTHLAND

Desk Top Market Valuation prepared for:

Roger Dickie Limited

As at 31 May 2016

LOGANSTONE
PROPERTY ■ SOLUTIONS ■ VALUATION

Please note this is a summary document and a full valuation is available on the website.

1.0 INTRODUCTION

1.0.1 Further to instructions from Kate Murdoch we have undertaken a 'Desk Top' market valuation appraisal on the above property in order to assess the market value for financial reporting purposes. As per instructions we have been advised not to re-inspect the property and have therefore relied on an inspection undertaken on 4 May 2015 and described in our previous full report dated 12 June 2015. We have been advised there have been no substantial changes to the property since this date and base our assessment on the property being in similar physical condition.

1.0.2 Due to not re-inspecting the property and not providing a full report this report does not comply with international valuation standards.

1.0.3 The report complies with NZ IAS 16 and can be relied upon by Silks Audit for financial reporting purposes.

1.0.4 Your instructions, as per our scope of work agreement, require us to make the following valuation assessments;

1. Market Value as at 31 May 2016

2.0 PROPERTY CONCLUSIONS

2.0.1 A 170.8633 hectare dairy milking platform situated in the Thornbury district of Southland which has been converted approximately 12 years. Milking 490 cows and producing 237,994 kilograms of milk solids for the 2015/16 season. From a dairying perspective location is regarded as good. Climate is suited for seasonal supply dairy land use. The land is of flat to undulating contour and deep soils with pastures in good heart. Overall layout is good being well subdivided into 51 paddocks, bore reticulated water supply and well raced. Housing includes three dwellings which are of adequate number of fair to good quality. The milking shed is of adequate capacity and in good condition. There are adequate supporting farm buildings including a calving shed and feed pad for 240 cows. Overall a good quality dairy platform being tidily presented and achieving above Southland average production based on a higher supplement import system. We estimate average efficient production to be 218,000 kilograms of milk solids (1389 kg ms / effective ha).

2.2 VALUATION CONCLUSIONS

2.2.1 The appropriate valuation approaches for estimating the market value of a dairy unit (where a dairy platform is deemed the highest and best land use) are the market approach and income approach.

2.2.2 Under the market approach umbrella we use two main methodologies;

i) A summation approach on a per hectare basis. In this approach we determine the relevant classes of land at a land value level and add the added value of improvements, and chattels and plant as appropriate. This is then compared at a market value per hectare level.

ii) A summation approach on a per kilogram of milk solids based on estimated average efficient production.

2.2.3 Under the income approach umbrella the two methodologies used are;

i) A capitalisation of the Earnings before Interest, Tax, Depreciation and Amortisation (EBITDA) under average efficient management after an allowance for Wages of Management. This capitalized sum provides an estimate of the Total Farm Capital required to operate the business as a standalone unit. Deduction for stock, plant and Fonterra shares are required to arrive at the appropriate realty basis that as dairy units normally transact in the market. The milk price is based on the average past five year actual and current forecast under average efficient management production levels.

ii) A multiplier of the milk price which is based on the average past five year actual and current forecast under average efficient management production levels.

2.2.4 The above approaches are supported by analysed benchmark levels from sales deemed most comparable in the market.

2.2.5 Our opinion of the quality of market evidence available is outlined in the below table:

Factor	Quality
Number of comparable sales	Poor
Recent time frame	Poor
Direct Comparability	Fair

2.2.6 When assessing the market value of the subject property we have considered the property features and compared the sales of other properties that have transacted recently and have adjusted those sales to reflect the location, standard of improvements, plantings, mixed age of plants and productive capacities compared to the subject property.

2.2.7 There have only three unconditional dairy unit sales and one near unconditional sale for 2016 to date. This is a reflection of the low confidence in the dairy sector at present due to low global commodity prices flowing through to poor farm gate returns on a historical basis. From the limited recent sales evidence there appears to be a slight drop in dairy farm values over previous years. The value drop is lower for well-located and good quality dairy units. Dairy units of lower quality with inferior locations and larger scale could find saleability and liquidity further restricted.

2.2.8 Some commentators estimate approximately 80% of dairy farm businesses have run at a cash loss over the past two years and with the forecast milk price for the 2016/2017 season only being marginally higher there will be severe financial pressure in the sector.

2.2.9 The above financial pressures could see a number of dairy units coming to the market as dairy farm businesses need to restructure their capital if there is insufficient equity to allow extended bank support. This could see an oversupply of dairy units to the market in conjunction with weak and limited buyer demand given existing industry participants have not been creating wealth and have most likely been losing money and equity over recent years.

2.2.10 Our income based valuation methodologies are based on a an average of the five past seasons milk prices and the current forecast milk price which currently gives an average milk price of $5.48 per kg milk solids. The resultant estimate of market value from these approaches is lower than the more traditional comparable sales summation approaches. Given the current Fonterra forecast for the 2016/17 season milk price is $4.25, some $1.23 per kg milk solids lower than the average, we are placing more weight on the income based approaches as a guide to market, especially where good comparable market evidence is limited, and influences our inputs for the summation approaches.

2.2.11 In the Southland dairy property market it is our observation that there are generally three categories of dairy unit which have broad ranges of value bands. These bands are mostly influenced by quality of property and infrastructure, location and production per hectare. We have graded these properties as A, B, and C. 'A' type properties are quality, good soil and contour units in the Central Southland and Southland Plains districts which generally show good consistent production per hectare. 'B' type units are basic, reasonably well located properties with Southland average type production. 'C' type units are poorer dairy units which may have issues with buildings, location, contour and shape etc.

2.2.12 In our opinion we assess the subject property as an A category.

2.2.13 Below is a summary of our market analysis and market value estimates under each approach:

Valuation Approach	Market Value Estimate
Per Hectare	$6,750,000
Per kg Milk Solids. Average Efficient	$6,758,000
Income Capitalisation	$6,295,000
Multiplier of Milk Income	$6,690,000

2.2.14 Our preferred valuation approach is the summated valuation approach based on establishing the land value and summating the added value of improvements and associated chattels and plant as outlined as we consider this a more accurate approach to factor all the attributes of the subject property.

2.2.15 In assessing the value of the property we have undertaken an analysis of the property in the market particularly looking at the strengths and weaknesses specific to this property and how this relates to the wider market and economic conditions prevailing at date of the valuation and over the short term that may influence the demand and value levels.

Strengths & Opportunities	Weaknesses & Threats
• Well laid out. Good shelter • Good soil fertility • Good pastures • Low input production system • Good centrally sited milking shed • More supplementary feeding for production	• One dwelling short • Northern Southland location • Climate has summer dry risk • Environmental regulations • Volatile milk price pay-out • Softening Real estate Market

3.0 MARKET VALUATION

3.0.1 After examining all factors and subject to the overriding conditions we conclude the market value of the property as at 31 May 2016 is:

SIX MILLION SEVEN HUNDRED AND FIFTY THOUSAND DOLLARS ($6,750,000)

Apportioned as follows:		
Value of Improvements		
– Residential Improvements	$526,000	
– Productive Buildings	$394,000	
– Other Improvements	$590,000	
		$1,510,000
Land Value		$5,120,000
Realty Value – Land & Buildings		$6,630,000
Household & Farm Chattels		$30,000
Milking & Effluent Plant & Equipment		$90,000
Market Value		$6,750,000

The above valuation assessment is plus Goods and Services Tax (if any).

3.0.2 Unit analysis

Area	170.8633 ha	(157ha effective pasture)
Ave Efficient Production	218,000kg milk solids	(1389kg ms / effective ha)
Land Value	$29,965/ha	$23.49/kg ms
Market Value (*net of shares*)	$39,505 ha	$30.96/kg ms

3.0.3 Fonterra Shares are not included.

3.2 Certification

Experience

3.2.1 'The principal signatory has a minimum of five years' experience in valuing the subject class of asset, has all appropriate qualifications and registrations enabling them to practice as a Valuer and has not been subject at any stage to disciplinary action by the relevant professional governing body to prevent them acting as a Registered Valuer.'

Independence

3.2.2 The signatories have no direct or indirect pecuniary or other interests in the property being valued and are not aware of any other potential conflicts of interest.

Professional Indemnity Cover

3.2.3 We certify that Logan Stone Limited hold professional indemnity insurance for an amount of up to $3 million and note this may be less than the requirement for insurance cover as set by the lender.

4.0 OVERRIDING CONDITIONS

- Our valuation is subject to the attached Statement of General Valuation Policies.
- This valuation is current as at the date of valuation only. The value assessed herein may change significantly and unexpectedly over a relatively short period (including as a result of general market movements or factors specific to the particular property). We do not accept liability for losses arising from such subsequent changes in value. Without limiting the generality of the above comment, we do not assume any responsibility or accept any liability where this valuation is relied upon after the expiration of three months from the date of the valuation, or such earlier date if you become of aware of any factors that have any effect on the valuation. Unless otherwise stated our assessments are made in New Zealand Dollar currency.

5.0 DISCLAIMER

5.0.1 Logan Stone Ltd prohibits the publication of this report in whole or in part, or any reference thereto, or to the valuation figures contained therein, or to the names and professional affiliations of the valuer, without the written approval of the valuer as to the form and context in which it is to appear.

5.0.2 Our valuation has been completed in compliance with International Valuation Standard framework. International Valuation Standards IVS 101 – *Scope of Work*, International Valuation Standard IVS 102 – *Implementation*, International Valuation Standard IVS 103 – *Reporting*. We confirm that:

- The statements of fact presented in the report are correct to the best of the Valuer's knowledge;
- The analysis and conclusions are limited only by the reported assumptions and conditions;
- The Valuer has no interest in the subject property;
- The Valuer's fee is not contingent upon any aspect of this report;
- The valuation was performed in accordance with an ethical code and performance standards;
- The Valuer has satisfied professional educational requirements;
- The Valuer has experience in the location and category of the property being valued;
- The Valuer has made a personal inspection of the property; But not re-inspected for the purpose of this report.
- The Valuer holds an Annual Practicing Certificate; and
- No one except those specified in the report, has provide professional assistance in preparing the report.

5.0.3 Should you require any further advice, do not hesitate to contact us.

Yours faithfully
LOGAN STONE LTD

Grant Barron
B Com (Ag) VFM, MBA, ANZIV, MPINZ
Mob: 027 2789 663
E-Mail: grant.barron@loganstone.co.nz

Reviewed by:

Jay Sorensen
B Appl Sc (Rural Val) Agr Bus, MPINZ, ANZIV
Cert. Adv. Sustainable Nutrient Management
Mob: 027 498 9932
E-Mail: jay.sorensen@loganstone.co.nz

160631 4912 Eastbourne Platform Short report

31st May 2016

PROGRESSIVE LIVESTOCK LTD

DAIRY & BEEF
LIVESTOCK AGENTS

Cameron Town
The Engagement Partner
Silks Audit Chartered Accountants
PO Box 7144
Wanganui 4541

Dear Cameron

LIVESTOCK COUNT AND VALUATION

We confirm that we have attended to the count and the valuation of the Livestock held by *Eastbourne Dairy Farm Limited* as at 31/05/2016.

We confirm that we understand that this information will be used in the preparation of the Farms annual financial statements.

We can confirm the following:

Livestock Class	**Verified Units on Hand**	**Price Per Head - $**	**Total Value of class - $**
3-8 year old F & FX incalf dairy cows	382	$1675	$639 850 + GST
9 year old plus F & FX incalf dairy cows	15	$800	$12 000 + GST
Mixed age budget F & FX incalf dairy cows (inc 3 titters)	19	$800	$15 200 + GST
Young Empty F & FX dairy cows	2	$700	$1400 + GST

Herd BW 100
PW 114
RA 82%

Livestock Class	**Verified Units on Hand**	**Price Per Head - $**	**Total Value of class - $**
F & FX incalf dairy Heifers	101	$1475	$148 975 + GST

BW 138
PW 167

Livestock Class	Verified Units on Hand	Price Per Head - $	Total Value of class - $
F & FX empty R1 dairy Heifers	106	$725	$76 850 + GST

BW 155
PW 167

Total $894,275
+ GST $1,028,416

We confirm that we have counted and verified the units held as above.
We confirm that the value per head above is the current market value.
We confirm that the stock appeared to be in reasonable condition and health.

The very high quality of the stock management has once again seen the Eastbourne Dairy Farm herd position itself in the market at the higher level. Particularly the young stock, including incalf heifers, which would be as good as anything we have sold this season.

We confirm that we are independent of the Farm, Farm Manager and the shareholders of the Farm.

We acknowledge that Silks Audit Chartered Accountants, as auditor of the farm, will be relying on our considerations and opinions expressed in the report.

Yours sincerely

Burke Patching

Progressive Livestock Ltd
Dairy Livestock Agent