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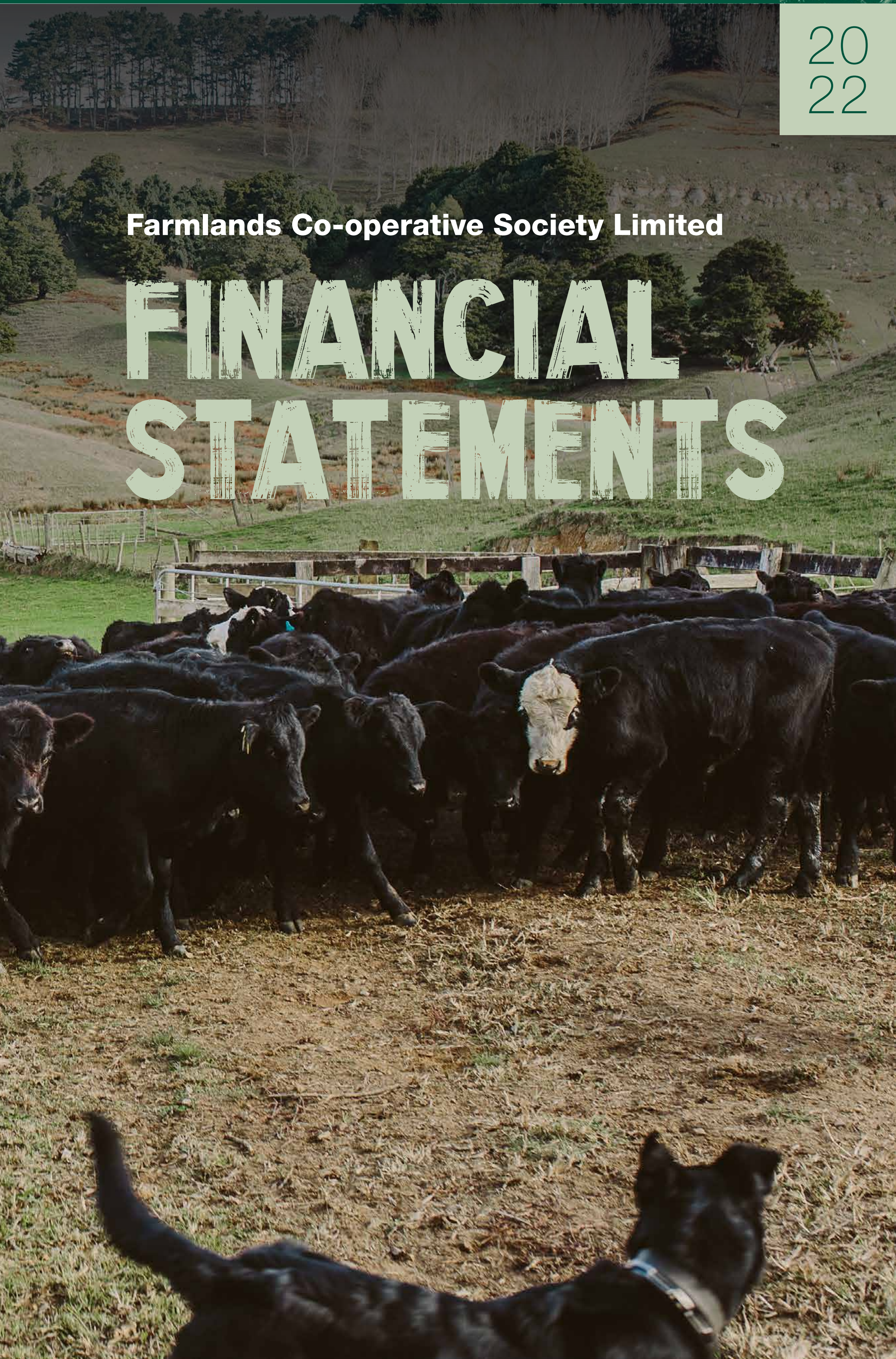
Farmlands Co-operative Society Limited

FINANCIAL STATEMENTS



Farmlands

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Consolidated Income Statement

For the year ended 30 June 2022

	Notes	2022 $000	(Restated)* 2021 $000
REVENUE	**3**	**787,815**	**759,269**
Cost of goods sold		(619,436)	(601,661)
Gross profit		**168,379**	**157,608**
Less other operating expenses		(128,224)	(122,396)
Operating EBITDA**		**40,155**	**35,212**
Less depreciation and amortisation	10,11,12	(28,042)	(27,832)
Other income	3	1,749	355
Less finance costs		(3,490)	(3,565)
Less share of loss in associates		(1,725)	(992)
Profit before tax from continuing operations		**8,647**	**3,178**
Income tax expense	4	(2,837)	(1,032)
Profit after tax from continuing operations		**5,810**	**2,146**
Profit after tax from discontinued operation	**23**	**6,101**	**6,894**
Change in retained earnings attributable to members		**11,911**	**9,040**

Consolidated Statement of Comprehensive Income

For the year ended 30 June 2022

	Notes	2022 $000	(Restated)* 2021 $000
Change in retained earnings attributable to members		11,911	9,040
Other comprehensive income			
Items that may be recycled to profit or loss:			
Movement in cash flow hedge reserve		90	326
Income tax effect		(25)	(91)
Other comprehensive income, net of tax	5	65	235
Total Comprehensive Income for year attributable to members		**11,976**	**9,275**

*Note 2.3(y), Note 23
**Earnings before interest tax depreciation and amortisation

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

Consolidated Statement of Changes in Equity and Members' Interests

For the year ended 30 June 2022

	Notes	2022 $000	(Restated)* 2021 $000
Balance at beginning of year		**106,088**	**96,483**
Change in retained earnings attributable to members		11,911	9,040
Net contributions from members - all capital types		256	330
Other comprehensive income	5	65	235
Balance at end of year		**118,320**	**106,088**

Consolidated Statement of Changes in Equity

For the year ended 30 June 2022

	Retained Earnings $000	Cash Flow Hedge Reserve $000	Total Equity $000
2022			
Balance at 30 June 2021	(13,949)	62	(13,887)
Change in cash flow hedge reserve net of tax	-	65	65
Change in retained earnings attributable to members	11,911	-	11,911
Balance at end of year	**(2,038)**	**127**	**(1,911)**

	Retained Earnings $000	Cash Flow Hedge Reserve $000	(Restated)* Total Equity $000
2021			
Balance at 30 June 2020	(22,989)	(173)	(23,162)
Change in cash flow hedge reserve net of tax	-	235	235
Change in retained earnings attributable to members	9,040	-	9,040
Balance at end of year	**(13,949)**	**62**	**(13,887)**

*Note 2.3(y), Note 23

Consolidated Balance Sheet

As at 30 June 2022

	Notes	2022 $000	(Restated)* 2021 $000
Equity and members' other interests			
Retained earnings		(2,038)	(13,949)
Cash flow hedge reserve	5	127	62
Total equity		**(1,911)**	**(13,887)**
Share capital repayable on demand	6	120,231	119,975
Total equity and members' interests		**118,320**	**106,088**
Represented by:			
Current assets			
Cash and cash equivalents		717	1,035
Accounts receivable	7	256,305	244,873
Loans receivable	7	-	800
Inventories	8	116,876	109,452
Derivatives		176	86
Assets held for sale	23	58,662	-
Total current assets		**432,736**	**356,246**
Non-current assets			
Carrying value of associate	9	-	888
Property, plant and equipment	10	61,493	93,654
Intangible assets	11	39,727	41,519
Right-of-use assets	12	45,004	59,334
Deferred tax	4	4,310	9,543
Total non-current assets		**150,534**	**204,938**
Total assets		**583,270**	**561,184**
Current liabilities			
Bank borrowing	13	75,500	68,000
Accounts payable	14	227,137	236,131
Employee entitlements		7,153	7,191
Lease liabilities – current	12	12,537	18,784
GST payable		29,588	27,213
Liabilities held for sale	23	53,894	-
Total current liabilities		**405,809**	**357,319**
Non-current liabilities			
Term bank loans	13	21,000	50,500
Employee entitlements		535	674
Leases liabilities – non-current	12	37,606	46,603
Total non-current liabilities		**59,141**	**97,777**
Total liabilities other than share capital repayable on demand		**464,950**	**455,096**
Net assets excluding members' interests		**118,320**	**106,088**

For and on behalf of the Board

Rob Hewett
Chair of the Board
30 September 2022

Julie Bohnenn
Chair of the Audit and Risk Management Committee
30 September 2022

*Note 2.3(y), Note 23

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

Consolidated Statement of Cash Flows

For the year ended 30 June 2022

	Notes	2022 $000	(Restated)* 2021 $000
Cash flows from operating activities			
Cash was provided from:			
Cash receipts from customers		3,004,505	2,680,006
Interest received		140	66
		3,004,645	2,680,072
Cash was applied to:			
Cash paid to suppliers and employees		2,861,503	2,556,105
Rebates Paid to Shareholders		94,374	89,386
Interest paid		3,490	3,565
		2,959,367	2,649,056
Net cash inflows from operating activities	**21**	**45,278**	**31,016**
Cash flows used in investing activities			
Cash was provided from:			
Proceeds from sale of property, plant and equipment		3,404	473
		3,404	473
Cash was applied to:			
Purchase of property, plant and equipment	10	4,804	7,445
Purchase of intangibles	11	4,319	10,607
Loans to associates		837	-
		9,960	18,052
Net cash outflows to investing activities		**(6,556)**	**(17,579)**
Cash flows from financing activities			
Cash was provided from:			
Share capital issued	6	1,703	1,992
Proceeds from bank loans		-	4,000
		1,703	5,992
Cash was applied to:			
Share capital repaid	6	1,447	1,662
Repayment of bank loans		22,000	-
Principal elements of lease payments		17,296	17,608
		40,743	19,270
Net cash outflows from financing activities		**(39,040)**	**(13,278)**
Net increase/(decrease) in cash held		**(318)**	**159**
Cash on hand at beginning of year		1,035	876
Cash on hand at end of year		**717**	**1,035**

*Note 2.3(y), Note 23

Notes to the Financial Statements

For the year ended 30 June 2022

1: General information

1.1 Reporting entity

The Income Statement, Statement of Comprehensive Income, Statement of Changes in Equity and Members' Interests, Statement of Changes in Equity, Balance Sheet and Statement of Cash Flows are those for Farmlands Co-operative Society Limited for the year to 30 June 2022.

Farmlands Co-operative Society Limited is a rural supplies and services co-operative within New Zealand. The Farmlands Group offers a wide range of products and services through its retail stores, charge card partners, a national fuel distribution network, nutrition solutions and grain and seed product offerings. The Group's major purpose is to reduce farmers' costs by means of a collective buying group. It is a for-profit entity for financial reporting purposes.

The financial statements presented here are the consolidated financial statements of the Group comprising Farmlands Co-operative Society Limited and its controlled entities. Farmlands Co-operative Society Limited is a Society which is incorporated under the Industrial and Provident Societies Act 1908.

These financial statements are authorised for issue by the board of directors on 30 September 2022.

1.2 Statutory base

The financial statements have been prepared in accordance with the requirements of the Industrial and Provident Societies Act 1908 and the Financial Markets Conduct Act 2013. The Society and Group are non-exempt entities under the Financial Markets Conduct Act 2013 (FMCA). As the Group reports under the FMCA, Group only financial statements have been prepared.

2: Significant accounting policies

2.1 Basis of preparation

These annual financial statements of the Group have been prepared in accordance with New Zealand generally accepted accounting practice (GAAP). They comply with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and other applicable Financial Reporting Standards as appropriate for for-profit entities.

These financial statements also comply with International Financial Reporting Standards (IFRS).

These financial statements are presented in New Zealand dollars ($) which is the Group's reporting currency. All financial information presented in New Zealand dollars has been rounded to the nearest thousand, ($000).

The accounting principles recognised as appropriate for the measurement and reporting of financial performance and financial position on a historical cost basis (with the exception of the revaluation of certain assets) are followed by the Group.

2.2 Basis of consolidation

All material transactions between subsidiaries or between the Group and subsidiaries are eliminated on consolidation. The results of subsidiaries acquired or disposed of during the year are included in the profit or loss from the date of acquisition or up to the date of disposal.

Subsidiaries are entities that are controlled, either directly or indirectly, by the Group. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries which form part of the Group are consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases. Refer to Note 16.

Associates are those entities in which the Group has significant influence, but not control, over their financial and operating policies. Associates are accounted for using the equity method. The consolidated financial statements include the Group's share of the income and expenses of any such equity accounted investees. The carrying value of equity accounted investees is reviewed where any indicators of impairment are present. Refer to Note 9.

2.3 Summary of significant accounting policies

a) Foreign currencies

Monetary assets denominated in foreign currencies at the balance date are translated to New Zealand dollars at the foreign exchange rate ruling at that date. Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at the balance date exchange rate of monetary assets denominated in foreign currencies are recognised in the income statement.

b) Revenue from contracts with customers

Farmlands rural supplies:
The Group operates rural supply stores nationwide selling farming supplies and equipment. Sale of rural supplies also includes feed, fertiliser, grain and seed. Revenue from the sale of rural supplies is recognised when control of the product has transferred to the customer, being when the customer picks the goods up from the store, or when the products are delivered to the customer. The monthly rebates paid to customers is a sales discount under NZ IFRS 15 and is part of the sales transaction price rather than an operating expense. Customers are entitled to monthly rebates if accounts are paid by the due date.

Farmlands fuel:
Farmlands fuel includes a nationwide network of delivering bulk fuel, equipment, oil and lubricant sales. Revenue is also earned by the Group by receiving a net margin on fuel sales. Revenue is recognised when control of the product has transferred to the customer, being when the customer picks the goods up from a store, or when the fuel/products are delivered to the customer. The bulk fuel and associated equipment sales operation has been discontinued with associated assets sold on 31 July 2022. See note 23 for further detail.

Farmlands card:
The Group offers a transaction card that can be used at more than 7,000 Farmlands card partner locations across New Zealand as well as at Farmlands stores. Revenue is recognised from administration and other agreed fees received. The Group has negotiated discounts and rebates with card partners.

Other revenue:
Other revenue includes commission and fees received from agency relationships with 3rd parties for agricultural supplies and services. Commission and administration fees received are deducted from the gross amounts payable to the principal of the transaction.

Choices points have been identified as a separate and future performance obligation on the Group. The Group allocates a portion of the transaction price to this loyalty program based on the standalone selling price of the vouchers or goods purchased by customers when redeeming Choices points. The Choices rewards programme is planned for decommissioning in October 2022.

c) Other income

Other income is comprised of interest earned on finance company loans, bank deposits and gains on the disposal of property, plant and equipment. The interest is recognised using the effective interest method.

d) Property, plant and equipment

Buildings, motor vehicles and plant and equipment are stated at historical cost less accumulated depreciation and any impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the assets. Land is stated at historical cost and is not depreciated.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred. Residual values and useful lives are reviewed at least annually.

An asset's carrying amount is written down to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. Gains and losses on disposals are determined by comparing proceeds with carrying amount and are included in the income statement within other income.

e) Depreciation

Depreciation is charged so as to expense the cost or valuation of the assets to their expected residual value over their estimated useful lives. Land is not depreciated. Depreciation is calculated using the following rates and methods:

Buildings	33 – 50 years	Straight Line
Plant and equipment	2 – 33 years	Straight Line
Motor vehicles	5 – 14 years	Straight Line

Plant and equipment includes tenant leasehold improvements. Depreciation on leasehold improvements is charged at the lower of the estimated useful life and the lease term. Work in progress is depreciated when the asset is available for its intended use and concurrently placed into one of the three asset categories above.

f) Accounts receivable

Accounts receivable are initially recorded at their transaction price and subsequently recorded at amortised cost. Receivables are assessed regularly for any impairment.

Trade receivables are usually due on the 20th of the month following purchase and collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. A provision for doubtful receivables is established based on both objective evidence of significant financial difficulty of the debtor or a breach of contract and the loss the Group expects to incur based on prior history and the current economic conditions. The Group exercises judgement in determining the percent of expected loss. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The movement of the provision is recognised in the Income Statement.

Supplier rebates receivable are accrued at balance date based on current period purchases and rates in accordance with supplier contracts. Most of these receivables are received soon after balance date. A proportion of these receivables relate to an annual growth rebate, which is not confirmed until after the suppliers' period- end. These are accrued based on expected growth rates and pro-rata the amount to the related Group's financial period.

g) Loans receivable

Loans receivable encompass various residual lending products such as hire purchase loans. Term loans are to a shareholder-only customer base and are financial assets with fixed or determinable payments that are not quoted on an active market.

h) Other investments

Other investments comprise unquoted equity security investments. These investments are initially measured at the purchase price including any transaction costs and subsequently measured at fair value through profit or loss. Fair value is measured by reference to the amount the Group would expect to receive should they choose to sell their shares. This is determined by market rate with changes recognised in other gains/(losses) in the income statement as applicable.

i) Goods and services tax (GST)

The income statement and the statement of cash flows have been prepared so all components are stated exclusive of GST. Receivables and payables in the balance sheet are stated inclusive of GST.

j) Intangible assets

Goodwill arises on the acquisition of subsidiaries. Goodwill represents the excess of the cost of the acquisition over the Group's interest in the net fair value of the assets and liabilities of the acquiree. Separately recognised goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed.

Goodwill is allocated to cash generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

Software assets are initially measured at cost and amortised in subsequent years over the periods of expected benefit on a straight-line basis. The amortisation periods range from 1 to 10 years. Where the periods of expected benefit or recoverable values have diminished due to technical change or market conditions, amortisation is accelerated or the carrying value is written down. Software as a Service (SaaS) arrangements are not recognised as software costs. Refer to note 2.3(y).

k) Impairment of non-financial assets

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Goodwill is tested annually for impairment, irrespective of changes in circumstances. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. An impairment loss is recognised for the amount by which the carrying amount exceeds its recoverable amount. Impairment losses are recognised in the income statement.

l) Income tax

The income tax expense recognised for the period comprises current and deferred tax.

Current tax is calculated by reference to the amount of income tax payable calculated using tax laws that are enacted at balance date.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements as per NZ IAS 12. The deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction, other than a business combination, that at the time of the transaction affects neither accounting nor taxable profit or loss.

Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by balance date and are expected to apply when the related deferred income tax asset is realised or deferred income tax liability is settled. Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

m) Inventories

Retail, Feed, Grain and Seed and Lubricant stocks are valued at the lower of cost (determined on weighted average or standard cost) and the expected net realisable value on a line-by-line basis. Damaged or obsolete inventory is written down to its net realisable value. The amount of any write down of inventories to net realisable value is recognised as an expense in the period the write down occurs.

n) Recognition of financial instruments

The Group classifies its financial assets in the following categories: subsequently measured at amortised cost, fair value through other comprehensive income or fair value through profit or loss and classifies its financial liabilities in the following categories: subsequently measured at amortised cost or at fair value through profit or loss. Regular purchases and sales of financial assets are recognised on the trade date. Financial instruments are generally recognised at fair value in the balance sheet and include cash and bank balances, accounts receivable, loan receivables, accounts payable and foreign exchange forward contracts. The recognition methods adopted are disclosed in the individual policy statements associated with each item.

o) Accounts payable

Accounts Payable represents liabilities for goods and services provided to the Group prior to the end of the financial period which are unpaid. The amounts are unsecured and are usually payable within 30 days of recognition. Accounts Payable are recognised initially at fair value plus transaction costs and subsequently measured at amortised cost using the effective interest method.

p) Employee entitlements

Liabilities for salaries and wages, annual leave and long service leave expected to be settled within 12 months of the reporting date are recognised as current liabilities in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled. Employee entitlements not due to be settled within 12 months are measured at the present value of the estimated future out flows and are recognised as non-current liabilities.

q) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, cash in bank, and investments in money market instruments which are at call and with maturities on inception of less than three months. Bank overdrafts are included as a component of cash and cash equivalents for the purposes of the statement of cash flows.

r) Bank borrowing

Borrowings are initially recognised at fair value plus transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (plus transaction costs) and the redemption amount is recognised in the income statement over the period of the borrowings using the effective interest method. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the drawdown occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period to which it relates. Borrowing costs are expensed as incurred.

s) Bonus rebate to shareholders

Bonus rebates are recognised as an expense and as a liability at the time the entitlement to the rebate has been approved by the directors. The bonus rebates are distributed by way of share capital and/or cash at the sole discretion of the directors.

t) Share capital

Ordinary shares are classified as members' interests as opposed to equity due to the fixed value attributable to each share. There are no incremental costs directly attributable to the issue of new shares and all shares for any member are repayable on demand after confirmation of a request to withdraw from the Group.

u) Loyalty scheme – Choices Rewards

The Group operates a loyalty programme where points are awarded to members based on their purchases. The programme allows members to collect points and exchange them in future periods for vouchers or goods. Members have up to three years to redeem the points after they have been earned. The Group allocates a portion of the transaction price to the loyalty program based on the standalone selling price of the vouchers or goods purchased. The value attributed to reward points is deferred as a liability and recognised as revenue on redemption by members. The Choices rewards programme is being decommissioned in October 2022. Note 14 provides additional detail on Choices rewards.

v) Statement of cash flows

For the purpose of the statement of cash flows, cash and cash equivalents include cash and bank balances and bank overdrafts.

The following terms are used in the statement of cash flows:

Operating activities are the principal revenue producing activities of the Group and other activities that are not investing or financing activities. Gross cash flows are recognised for receipts and payments as cash is physically paid to the Group, and in turn the Group makes payment to the end supplier (rather than being net settled).

Investing activities are the acquisition and disposal of long-term assets and other investments not included in cash equivalents.

Financing activities are the activities that result in changes in the size and composition of the contributed equity and borrowings of the Group.

w) Critical accounting estimates and judgements

Key assumptions concerning the sources of estimation at the reporting date that may have a risk of causing an adjustment to the carrying amounts of assets and liabilities within the next financial year are described in the note or policy to which they relate. These include revenue judgement and estimates, bad debt provisioning, goodwill impairment, accrual for supplier rebates, the net realisable value of inventory, assumptions on lease arrangements and SaaS assessments. The Group bases its assumptions and estimates on historical experience and other factors such as future expectations at the time the financial statements are prepared.

x) Leasing Activities

The Group leases various buildings, vehicles, fuel trucks and trailers, and equipment. Rental contracts are typically made for fixed periods of 6 months to 30 years but may have extension options as described below.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of fixed payments (including in-substance fixed payments), less any lease incentives receivable. Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Group, the Group's incremental borrowing rate is used, being the rate that the Group would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the Group uses the borrowing facility with its banker ASB Bank Limited as a starting point, adjusted to reflect changes in risk premium, and lease term for each lease category.

Lease payments are allocated between principal and finance cost. The finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received
- any initial direct costs, and
- restoration costs.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

Payments associated with short term leases of equipment and all leases of low value assets are recognised on a straight-line basis as an expense in the income statement. Short term leases are leases with a lease term of 12 months or less. Low value assets comprise IT equipment and small items of office furniture.

Extension and termination options are included in a number of building and vehicle leases across the Group. These are used to maximise operational flexibility in terms of managing the assets used in the Group's operations. The majority of extension and termination options held are exercisable only by the Group and not by the respective lessor. Management perform a periodic assessment of lease extensions and terminations for buildings to ensure they are in line with the Group's operating plan and strategy.

y) Standards, interpretations and amendments to published standards

In April 2021, the IFRS Interpretations Committee ("IFRIC") published an agenda decision clarifying the accounting treatment for configuration and customisation costs associated with cloud computing arrangements, under IAS38. The new interpretation only permits capitalisation in limited circumstances and in many instances configuration and customisation costs must be recognised as an operating expense. The group previously capitalised configuration and customisation costs for cloud computing arrangements.

In response to this interpretation, the Group has now completed its analysis of configuration and customisation costs associated with cloud computing arrangements, resulting in retrospective restatements of the following historical financial information:

- The income statement for the year ended 30 June 2021;
- The balance sheet as at 30 June 2021; and
- The statement of cash flows for the year ended 30 June 2021.

The adjusted amounts presented in these interim financial statements are as follows:

	Audited June 2021 $000	**Adjustment June 2021 $000**	**(Restated) June 2021 $000**
Items from the income statement:			
Operating expenses	(127,364)	(427)	(127,791)
Depreciation and amortisation	(35,099)	5,114	(29,895)
Income tax	(2,401)	(1,312)	(3,713)
Items from the balance sheet:			
Property, plant and equipment	76,511	17,143	93,654
Intangible assets	100,610	(59,091)	41,519
Retained Earnings	(16,253)	30,202	13,949
Deferred tax (liability)/asset	(2,202)	11,745	9,543
Items from the cash flow statement:			
Cash paid to suppliers and employees	2,555,678	427	2,556,105
Purchase of intangibles	11,034	(427)	10,607

The group has applied the new interpretation from the year commencing July 2019. Consequently, for the year to June 2021, operating costs are higher by $427k and depreciation and amortisation is lower by $5,114k than was reported under the group's previous policy.

These adjustments relate mostly to a specific software asset, created from the implementation of Microsoft Dynamics 365 cloud-based Enterprise Resource Planning ("ERP") and Customer Relationship Management ("CRM") software under the project referred to then as "Braveheart". Assessing the carrying value in respect of the Group's intangible software asset spend against the new interpretation of IAS38 has entailed significant effort. To form a definitive view on the correct treatment, the Group sought expert views and opinions from both internal and independent sources. These included the Group's internal technology team, independent accounting and tax experts, and a global ERP-products supplier. We used this work to substantiate the key estimates and judgements necessary to reclassify elements of this spend as an expense from its previous treatment as a capital investment. Additionally, the Group performed scenario analysis to provide comfort that any change in the key assumptions underpinning the final SaaS adjustments within a band of +/- 10% would not result in a materially different position. The group has revised its accounting policy in relation to upfront configuration and customisation costs incurred in implementing cloud computing arrangements. The new accounting policy is as follows:

Cloud computing arrangements

Cloud computing arrangements include software as a service, platform as a service, infrastructure as a service and other similar hosting arrangements (i.e. an arrangement in which an end-user of the software does not take possession of the software). The group applies judgement to assess whether there is sufficient control in a cloud computing arrangement to permit capitalisation of the configuration and customisation costs.

The group considers the following indicators:

- The group has the contractual right to take possession of the software at any time during the hosting period without significant penalty;
- The group can run software on its own hardware or can contract with another vendor to host the software:
- The group can control who can use any software modifications and the vendor cannot make them available to other customers; and
- The group can control the frequency and acceptance of software updates.

If the cloud computing arrangement meets the criteria, then the directly attributable costs of configuration and customisation are recognised as an asset. If the criteria and definition are not met, the directly attributable costs of configuration and customisation are recognised as an operating expense.

However, if the configuration and customisation were performed by the software supplier, the group also considers whether that upfront service is distinct from the cloud computing arrangement. If it is not distinct, then the operating expense may be initially treated as a prepayment and expensed over the term of the cloud computing arrangement.

There were no other relevant new standards, interpretations or amendments to published standards.

3: Revenue, gross turnover, other income and other operating expenses

	2022 $000	(Restated) 2021 $000
Revenue from contracts with customers:		
Rural supplies	719,769	691,646
Card	24,174	22,921
Other	43,872	44,702
Total revenue from contracts with customers	**787,815**	**759,269**
Interest earned on short-term bank deposits	140	54
Interest on finance company loans	-	12
Dividend income	1	4
Gain on disposal of property, plant and equipment	1,608	285
Other Income	**1,749**	**355**

Revenue from contracts with customers, as stated above, is determined in accordance with NZ IFRS 15 'Revenue from Contracts with Customers'.

Gross turnover generated is comprised as follows:

	2022 $000	(Restated) 2021 $000
Gross turnover generated	2,590,424	2,355,616
Less turnover as agent	(1,701,965)	(1,501,935)
Less rebates to members	(94,318)	(89,245)
Less Choices points issued	(4,576)	(4,812)
Less other income	(1,750)	(355)
Total revenue	**787,815**	**759,269**

The Group's gross turnover represents the total value generated from the sale of goods and services (excluding GST) by the Group as Agent, as Principal in accordance with NZ GAAP and revenue from other sources. The Group has disclosed total gross turnover generated as the directors believe this provides members and other interested parties with an appreciation of the size of the Group's operations and member activity.

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

	2022 $000	2021 $000
Other operating expenses include:		
Fees paid to Auditors		
- Annual audit of financial statements	260	267
- Annual audit of share register	7	-
- Advisory services	129	-
- Due diligence	75	7
Total fees paid to Auditor	**471**	**274**

	2022 $000	(Restated) 2021 $000
Bad debts	397	402
Directors' fees	655	665
Employee entitlements	81,030	78,667
Increase/(decrease) in provision for doubtful loans	737	(143)
Decrease in provision for doubtful trade receivables	(289)	(658)
Short term lease expense – property	531	93
Short term lease expense – vehicles	1,147	83

4: Income tax

	2022 $000	(Restated) 2021 $000
Operating profit before income tax	8,647	3,178
Permanent differences		
Expenditure not deductible for income tax	1,574	1,580
Operating profit adjusted for permanent differences	10,221	4,758
Tax Expense @ 28%	2,862	1,332
Deferred tax expense relating to temporary differences	(25)	(91)
Over provision prior years	-	(209)
Income tax expense	**2,837**	**1,032**
Tax on discontinued operation	**2,372**	**2,681**
	5,209	**3,713**
Comprising:		
Deferred tax	5,209	3,713
	5,209	3,713
Deferred tax		
Balance at beginning of year	9,543	13,347
Current year movement	(5,003)	(4,065)
Other comprehensive income	25	91
Leases	(255)	(67)
Prior year movement	-	237
Balance at end of year	4,310	9,543
Comprising:		
Tax effect of - Employee entitlements	1,136	1,493
- Other provisions	2,033	1,253
- Property, plant and equipment differences	(11,797)	(4,488)
- Income tax losses carried forward	11,450	9,566
- Leased assets	1,439	1,695
- Foreign exchange contracts	49	24
	4,310	9,543

These temporary differences are recognised in the statement of comprehensive income.

5: Cash flow hedge reserve

	2022 $000	2021 $000
Balance at beginning of year	62	(173)
Movement, net of tax	65	235
Balance at end of year	127	62

This represents the difference between the spot rate and the contract rate on committed foreign exchange purchases outstanding as at balance date.

6: Share capital repayable on demand

2022	Shareholders	Shares '000	Share Capital $000
Balance at 30 June 2021	75,448	119,975	119,975
Plus: new shareholders during the year	3,456	1,703	1,703
Less: shareholders withdrawing during the period	(1,061)	(1,447)	(1,447)
Balance at end of year	77,843	120,231	120,231

2021	Shareholders	Shares '000	Share Capital $000
Balance at 30 June 2020	72,466	119,645	119,645
Plus: new shareholders during the year	4,030	1,992	1,992
Less: shareholders withdrawing during the period	(1,048)	(1,662)	(1,662)
Balance at end of year	75,448	119,975	119,975

All shares rank equally, with one vote attached to each fully paid share. To exercise voting rights the shareholder must have purchased goods or services from the Group during the year preceding the vote.

Where the Group has required the surrender of the shares, the consideration must be paid within three months. If the Group has accepted a surrender request, the consideration can either be paid in one sum or in instalments, provided that the full consideration must be paid within 5 years.

Share capital repayable on demand is classified as a liability. Note 18 provides additional information on Share capital repayable on demand.

7: Receivables

	2022 $000	2021 $000
Accounts receivable		
Trade receivables	232,247	220,582
Less provision for doubtful debts	(1,834)	(2,123)
Other receivables	22,635	21,533
Prepayments	3,257	4,881
	256,305	244,873

Provision for doubtful debts		
Balance at beginning of year	2,123	2,781
Decrease in provision	(289)	(658)
Balance at end of year	1,834	2,123
Loans receivable		
Amounts due	837	900
Less provision for doubtful loans	(837)	(100)
	-	800
Provision for doubtful loans		
Balance at beginning of year	100	243
Increase/(decrease) in provision	737	(143)
Balance at end of year	837	100

Trade receivables ageing are as follows:

30 June 2022	Current $000	0–30 days $000	31–60 days $000	61+ days $000	Total $000
Trade receivables	224,012	4,418	736	3,081	232,247
Trade receivables provision	41	330	103	1,360	1,834
Expected loss rate	0.02%	7.46%	14.06%	44.16%	0.79%

30 June 2021	Current $000	0–30 days $000	31–60 days $000	61+ days $000	Total $000
Trade receivables	210,892	5,403	1,232	3,055	220,582
Trade receivables provision	35	178	328	1,582	2,123
Expected loss rate	0.02%	3.30%	26.66%	51.78%	0.96%

Loans receivable are either secured or unsecured Group term loans or hire purchase loans and are to Group shareholders.

Interest is charged at 6% per annum for the duration of the loan (2021 0% to 14.0%). Loans receivable are carried at amortised cost less any provision for impairment, which is calculated using the expected credit loss model for financial assets. There are no loans receivable at balance date.

Other receivables include amounts due from suppliers, including supplier rebates, sale of property, plant and equipment not for resale and interest receivable from bank deposits.

The expected loss rates are based on the payment profiles of sales over a period of 12 months before 30 June 2022 or 1 July 2021 respectively and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information and macroeconomic factors affecting the ability of the customers to settle the receivables. The Group has identified the GDP and the unemployment rate of New Zealand in which it sells its goods and services to be the most relevant factors, and accordingly adjusts the historical loss rates based on expected changes in these factors.

The Group applies the NZ IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for financial assets.

8: Inventories

	2022 $000	(Restated) 2021 $000
Farm merchandise	116,583	108,629
Other inventory	293	823
	116,876	109,452

Inventories comprise retail merchandise in retail branches, grain and seed, feed, fuel and lubricants. All inventories are pledged as security to the Group's bankers. At year end the provision for inventory obsolescence is $3,205k (2021 $443k). During the year the amount of inventory write-down recognised as an expense, including the movement in provision for obsolescence, was $5,822k (2021 $1,825k).

At balance date, the Group had purchase commitments of $70,149k for goods for resale (2021 $47,800k). To manage price risk associated with future commitments the Group enters into back-to-back sale commitments. At balance date, the Group has no impairment of future purchase commitments.

9: Investments

Equity Investment in Farm IQ

Farm IQ provides farm management software

2022 Equity Investment	Shareholding	Shares '000	Share Capital $000
Balance at 30 June 2021		4,049	888
Less: share of losses in associate		-	(888)
Balance at end of year	12.6%	4,049	-

2021 Equity Investment	Shareholding	Shares '000	Share Capital $000
Balance at 30 June 2020		4,049	1,880
Less: share of losses in associate		-	(992)
Balance at end of year	26.0%	4,049	888

10: Property, plant and equipment

2022	Freehold Land $000	Buildings $000	Motor Vehicles $000	Plant and Equipment $000	Work in Progress $000	Total $000
At 30 June 2021 (Restated)						
Cost	7,707	21,880	5,327	115,163	408	150,485
Accumulated depreciation	-	(3,532)	(3,412)	(49,887)	-	(56,831)
Net book value	7,707	18,348	1,915	65,276	408	93,654
Additions	-	5	66	4,343	390	4,804
Disposals	(1,762)	(3)	(7)	(182)	-	(1,954)
Transfers held for sale	-	-	-	(25,240)	-	(25,240)
Depreciation*	-	(697)	(462)	(8,612)	-	(9,771)
Closing net book value	5,945	17,653	1,512	35,585	798	61,493
At 30 June 2022						
Cost	5,945	21,882	5,207	80,286	798	114,118
Accumulated depreciation	-	(4,229)	(3,695)	(44,701)	-	(52,625)
Net book value	5,945	17,653	1,512	35,585	798	61,493

* Depreciation expense does not match the Income Statement $28,042 (2021 $27,832), due to the re-presenting of the Income Statement for the discontinued fuel operation, and is made up of continuing operations' PPE depreciation $9,771 (2021 9,620), intangible amortisation $4,261 (2021 2,995) and right of use asset depreciation $16,381 (2021 $17,370) making a total of $30,413 (2021 $29,985) less discontinued fuel operation $2,371 (2021 $2,153).

2021 (Restated)	Freehold Land $000	Buildings $000	Motor Vehicles $000	**Plant and Equipment $000	Work in Progress $000	Total $000
At 30 June 2020						
Cost	7,707	21,851	6,034	106,899	3,052	145,543
Accumulated depreciation	-	(3,004)	(3,506)	(42,817)	-	(49,327)
Net book value	7,707	18,847	2,528	64,082	3,052	96,216
Additions	-	29	93	9,967	-	10,089
Net transfers	-	-	-	-	(2,644)	(2,644)
Disposals	-	-	(210)	(177)	-	(387)
Depreciation*	-	(528)	(496)	(8,596)	-	(9,620)
Closing net book value	7,707	18,348	1,915	65,276	408	93,654
At 30 June 2021						
Cost	7,707	21,880	5,327	115,163	408	150,485
Accumulated depreciation	-	(3,532)	(3,412)	(49,887)	-	(56,831)
Net book value	7,707	18,348	1,915	65,276	408	93,654

11: Intangible Assets

Computer software	**2022 $000**	**(Restated) 2021 $000**
Cost at beginning of year	58,598	47,992
Accumulated amortisation	(27,170)	(24,176)
Net book value	31,428	23,816
Movements in the year		
Additions	4,319	10,607
Amortisation*	(4,261)	(2,995)
Closing net book value	31,486	31,428
As at end of year		
Cost	52,098	58,598
Accumulated amortisation	(20,612)	(27,170)
Computer software net book value	31,486	31,428
Goodwill		
Cost at beginning of year	10,341	10,341
Accumulated impairment	(250)	(250)
Net book value at beginning of year	10,091	10,091
Movements in the year		
Disposals	(1,850)	-
Closing net book value	**8,241**	**10,091**
As at end of year		
Cost	**8,491**	**10,341**
Accumulated impairment	**(250)**	**(250)**
Goodwill net book value	**8,241**	**10,091**
Total intangible asset net book value	**39,727**	**41,519**

**Plant & Equipment restated balances

* Depreciation expense does not match the Income Statement, $28,042 (2021 $27,832), due to the re-presenting of the Income Statement for the discontinued fuel operation, and is made up of continuing operations' depreciation PPE depreciation $9,771 (2021 9,620), intangible amortisation $4,261 (2021 2,995) and right of use asset depreciation $16,381 (2021 $17,370) making a total of $30,413 (2021 $29,985) less discontinued fuel operation $2,371 (2021 $2,153)

Impairment Testing

The estimated recoverable amount of goodwill has been determined based on value-in-use calculations for operational cash generating units relating to ongoing revenue streams. These calculations use cash flow projections based on financial budgets and projections prepared by senior management covering a five-year period (cash flow projections for the year ending 30 June 2023 have been approved by the board). Cash flow projections are derived using past experience, expectations for the future and include external sources of economic and financial data where appropriate. A discount rate of 9.25% is then applied to these projections (2021 11.2%).

Based on the value-in-use calculations the recoverable amount of the cash generating units to which goodwill has been allocated exceeds its carrying value.

12: Leases

This note provides information for leases where the Group is a lessee.

Right-of-use Assets

2022	Buildings $000	Vehicles $000	Total $000
Opening balance at 1 July 2021	53,777	5,557	59,334
Additions	136	2,592	2,728
Depreciation*	(11,203)	(5,178)	(16,381)
Modification to lease terms	-	(21)	(21)
Variable lease payment adjustments	(656)	-	(656)
Closing balance 30 June 2022	42,054	2,950	45,004

2021	Buildings $000	Vehicles $000	Total $000
Opening balance at 1 July 2020	60,119	8,137	68,256
Additions	1,374	99	1,473
Depreciation*	(11,534)	(5,836)	(17,370)
Modification to lease terms	3,537	3,157	6,694
Variable lease payment adjustments	281	-	281
Closing balance 30 June 2021	53,777	5,557	59,334

Lease liabilities

2022	Buildings $000	Vehicles $000	Total $000
Opening balance at 1 July 2021	59,749	5,638	65,387
Additions	136	2,592	2,728
Interest expense	1,333	110	1,443
Modification to lease terms	-	(21)	(21)
Variable lease payment adjustments	(656)	-	(656)
Leases payments	(13,405)	(5,333)	(18,738)
Closing balance 30 June 2022	47,157	2,986	50,143
Current	11,833	704	12,537
Non-current	35,324	2,282	37,606
	47,157	2,986	50,143

2021	Buildings $000	Vehicles $000	Total $000
Opening balance at 1 July 2020	66,226	8,321	74,547
Additions	1,373	99	1,472
Interest expense	1,565	164	1,729
Modification to lease terms	3,936	3,148	7,084
Variable lease payment adjustments	282	-	282
Leases payments	(13,633)	(6,094)	(19,727)
Closing balance 30 June 2021	59,749	5,638	65,387
Current	13,735	5,049	18,784
Non-current	46,014	589	46,603
	59,749	5,638	65,387

(i) Amounts recognised in the income statement

	2022 $000	2021 $000
Depreciation – Right-of-use assets	16,381	17,370
Interest – Lease liabilities	1,443	1,729
Expense relating to short-term leases	1,746	176
Other	40	389

The total cash outflow for the leases in 2022 was $20,484k (2021 $19,903k).

13: Bank borrowing

The overdraft and other borrowings from the ASB Bank Limited are secured by a General Security Agreement (GSA) over all assets of the Group with the exception of all present accounts receivable in which Farmlands Fuel Limited has rights. There are no registered mortgages held over the Group's properties. An all obligations guarantee by Farmlands Fuel Limited also comprises a part of the GSA. Interest rates varied from 1.6% to 3.49% per annum for the financial year. The Group entered into an amended facility agreement dated 28 October 2021 which established working capital facilities of no more than five years of $120,000k (2021 $120,000k), and a term loan of $26,250k payable over five years. The term loan is being repaid in-line with the terms of the facility and has a balance of $24,000k as at 30 June 2022 (2021 $27,000k). No breaches in financial bank covenants have occurred in the 2022 financial year (2021 no breaches).

Current liabilities include $75,500k of the Group's bank borrowing facilities, which had a term expiring within 12 months of balance date.

Bank borrowing comprises:	2022 $000	2021 $000
Bank loans – current	75,500	68,000
Bank loans – non-current	21,000	50,500
	96,500	118,500

	Borrowing < 1-year $000	Borrowing > 1-year $000	Borrowing Total $000
Borrowing as at 30 June 2021	68,000	50,500	118,500
Cash flows	7,500	(29,500)	(22,000)
Borrowing as at 30 June 2022	75,500	21,000	96,500

14: Trade payables

	2022 $000	(Restated) 2021 $000
Accounts payable		
Trade payables	220,998	228,257
Deferred income	6,139	7,874
	227,137	236,131

Deferred income relates to Choices rewards which is the Farmlands' loyalty scheme. The value attributed to reward points are deferred as a liability and recognised on redemption by members.

Historically:

- Members may redeem reward points at any time for a period of three years after they were awarded.
- 75% of these were redeemed in the next reporting period, 20% over the following two reporting periods and remaining 5% would expire.

Choices is being decommissioned on a phased approach with three groups of customers being decommissioned during the year and the last group will be decommissioned in October 2022. The final member group will continue earning and redeeming points up to 31 October 2022 at which point any unredeemed points will be expired.

	2022 $000	2021 $000
Movements in deferred income		
Balance at beginning of year	7,874	8,923
Choices rewards issued	4,576	4,812
Choices rewards recognised in revenue	(6,311)	(5,861)
Balance at end of year	6,139	7,874

15: Contingent assets and liabilities

There were no contingent assets and liabilities at balance date.

16: Related party transactions

Subsidiaries

	Equity Holding 2022	2021
Farmlands Finance Limited	100%	100%
Farmlands Fuel Limited	100%	100%

All subsidiary entities have a balance date of 30 June. All subsidiary entities are incorporated in New Zealand. Farmlands Finance Limited ceased trading on 30 June 2021.

The principal activities of the subsidiaries are:

Farmlands Finance Limited	Credit Facility
Farmlands Fuel Limited	National Fuel Distribution

All transactions with related parties, including directors and key management personnel in their capacity as shareholders are made on normal commercial terms and conditions. No related party debts were forgiven or written off during the year.

Compensation paid or payable to key management personnel as short-term benefits was $5,238k (2021 $4,611k). In addition, termination benefits were paid of $447k (2021 $0k).

Directors' information

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

	Remuneration $
R J Hewett, Lawrence (Chair)	136,000
G W Baldwin, Putaruru	65,000
C J Dennison, Oamaru	65,000
W J Parker, Rotorua (Chair of the People & Performance Committee)	69,000
H D Sangster, Ranfurly	65,000
P J Ellis, Hastings (resigned 14 December 2021)	32,500
J A Bohnenn, Rangiora, Independent (Chair of the Audit & Risk Management Committee)	71,000
S Post, Auckland, Independent	65,000
C R Nicholson, Mt Maunganui (appointed 1 March 2022)	21,667
J Journee, Auckland, Independent	65,000
	655,167

All directors are ordinarily resident in New Zealand.

Directors' insurance

Farmlands Co-operative Society Limited and its subsidiaries have arranged policies of directors' liability insurance.

Directors' benefits

No director of the Group has, since the end of the previous financial year, received or become entitled to receive a benefit (other than a benefit included in the total emoluments received or due and receivable by directors shown in the Group financial statements) other than normal rebates received by them as shareholders as a result of trading with the Group in the same manner as all other shareholders.

Use of information

There were no notices from directors of the Group requesting to use Group information received in their capacity as directors which would not otherwise have been available to them.

17: Commitments

Capital commitments

There is capital expenditure contracted for at balance date of:	2022 $000	2021 $000
Computer software	907	3,112
Plant and equipment	1,777	575
	2,684	3,687

18: Financial risk management

The Group's activities expose it to a variety of financial risks including market risk, credit risk and liquidity risk.

Market risk

The directors are of the opinion that the Group's exposure to market risk at balance date is defined as:

Risk factor	Description	Sensitivity
(i) Currency risk	No significant assets are denominated in overseas currencies	Immaterial
(ii) Interest rate risk	Exposure to changes in interest rates of loans receivable and bank borrowing	as below
(iii) Other price risk	No securities are bought, sold or traded	nil

Interest rate risk

The short-term deposits are at the ruling overnight rate and mature within one month. The interest rate on the Group's deposits average 0.58% (2021 0.75%). Interest rates on current borrowing can be reviewed at the lender's discretion. Interest rate risk on bank borrowing is managed by maximising bank loan facilities (with lower interest rates) and minimising the use of the bank overdraft facility (which has a higher interest rate).

A 1.00% (100bps) increase in bank interest rates over the past 12 months would have led to an increase to interest expense by $750k.

Credit risk

Financial assets which potentially subject the Group to concentrations of credit risk consist principally of cash, trade receivables and loan receivables. Sales to members are a large component of the Group's credit risk. The maximum exposure to credit risk is equivalent to the carrying values in the balance sheet.

The Group's cash and cash equivalents are only placed with registered banking institutions. Trade receivables and loan receivables are presented net of the allowance for estimated doubtful receivables. Concentration of credit risk with respect to trade receivables is limited due to the large number of customers comprising the Group's customer base and their dispersion across different industries and geographical areas. Accordingly, the directors believe the Group has no significant concentration of credit risk. The amount that represents the maximum exposure to credit risk for a single debtor as at 30 June 2022 is a trade customer of $3,827k (this has subsequently been received) (2021 $1,015k). There is a GSA held as collateral relating to this trade customer.

As at 30 June 2022 past due accounts receivable and loans, excluding impaired receivables, were $8,235k (2021 $6,983k) which are amounts that are overdue from the normal due date of payment by the debtor. Collateral in respect of the debts is with registered securities on the Personal Property Securities Register on the past due accounts receivable for a portion of these debts. Secured collateral totals $nil (2021 $nil) with the remaining balance of trade and loan receivables being unsecured. To mitigate credit risk the Group has the ability to offset any member's impaired receivable balance against the member's interest payable on demand.

Trade and loan receivables that are impaired as at 30 June 2022 were $2,874k (2021 $2,958k) and are impaired because the amounts are significantly overdue. The provision for doubtful debts substantially provides for potential losses on these receivables.

Liquidity risk

Liquidity risk is the risk that the Group may encounter difficulty in raising funds at short notice to meet its commitments as they fall due. Management maintains sufficient cash and marketable securities and the availability of funding through an adequate amount of committed revolving credit facilities.

The non-discounted contractual cash flows are as follows:

30 June 2022

	0–1 years $000	1–2 years $000	2–5 years $000	5+ years $000	Total $000
Group liabilities					
Accounts payable	227,137	-	-	-	227,137
Net bank borrowing	75,913	3,985	20,780	-	100,678
GST payable	29,588	-	-	-	29,588
Leases	13,126	10,804	21,283	8,411	53,624
Share capital repayable on demand	120,231	-	-	-	120,231
	465,995	14,789	42,063	8,411	531,258

30 June 2021

	0–1 years $000	1–2 years $000	2–5 years $000	5+ years $000	(Restated) Total $000
Group liabilities					
Accounts payable	236,131	-	-	-	236,131
Net bank borrowing	66,965	29,500	21,000	-	117,465
GST payable	27,213	-	-	-	27,213
Leases	19,056	12,853	25,385	13,391	70,685
Share capital repayable on demand	119,975	-	-	-	119,975
	469,340	42,353	46,385	13,391	571,469

Share capital repayable on demand is at call as any member who ceases to transact business through or with the Group and applies to the board for the approval to surrender their shares in the Group is entitled to receive a return of the shares and any other entitlements within three months from the date of notifying the Group of their intention to surrender their shares. As set out in Note 6, the board has the authority to refuse to give its approval to the surrender where the payment will detrimentally affect the financial position of the Group and affect its ongoing trading position. The board has never invoked this provision, and for the foreseeable future expects that the share capital of the Group can be maintained through new shareholders and the capitalisation of bonus distributions.

Fair values

The carrying amount of all assets and liabilities approximate their fair values. The notional amounts of foreign exchange instruments outstanding at balance date are $2,965k (2021 $9,372k). These contracts are forward contracts for future purchase commitments and have a value based on the spot rates at 30 June 2022 of $2,789k (2021 $9,287k). The derivative financial instruments qualify for hedge accounting, and the movement in fair value of gain of $90k (2021 $326k gain) are accounted for through the Statement of Other Comprehensive Income.

19: Management of capital

The objectives of the Group when managing capital are to safeguard the Group's ability to continue as a going concern so it can continue to provide competition for products and services in the rural sector and to maintain a strong capital base to support the development of its business.

The Group meets its objectives through a mix of members' funds comprising share capital and retained earnings and reserves, and facilities provided by its Bank. The ability to maintain members' funds is set out on the previous page under liquidity risk in Note 18.

The facilities provided by the Bank carry certain covenants. The Group is compliant with all financial covenants. The financial covenants include; the Group's aggregate book value of trade receivables less receivables greater than 90 days and stock, divided by the total borrowing is to be greater than 2.0 at all times; earnings before interest, tax, depreciation and amortisation divided by the net interest expense is to be greater than 2.0 times at all times. The Guaranteeing Group (Society and Fuel) must maintain 90% of the total earnings before interest, tax, depreciation and amortisation and 90% of total assets of the Group.

The reporting covenants are: monthly management accounts and signed covenant certificates are to be provided to the Bank within 60 days of the end of the month; Consolidated Group budgets for the ensuing year to be provided no later than 30 days of the commencement of the financial year; and audited annual accounts to be provided to the Bank within 120 days of balance date.

20: Imputation credit memorandum account

	2022 $000	2021 $000
Closing balance available for future use	8,862	8,862

The Group may attach imputation credits to dividends paid or bonus shares issued which represent the tax already paid by the Group on profits. New Zealand resident members may claim a tax credit to the value of the imputation credit attached to dividends.

21: Reconciliation of profit after tax to cash flow from operating activities

	2022 $000	(Restated) 2021 $000
Profit after tax from continuing operations	5,810	2,146
Profit after tax from discontinued operation	6,101	6,894
Profit after tax including discontinued operation	**11,911**	**9,040**
Plus/(less) non-cash / non-operating items		
Depreciation and amortisation	30,413	29,985
Net gain on disposal of assets	(1,450)	(86)
Share of losses in associate	1,725	992
Increase in deferred taxation	5,208	3,713
	47,807	43,644
Plus/(less) movements in working capital items		
(Increase)/Decrease in operating accounts receivable	(42,242)	849
(Increase)/Decrease in loans receivable	800	(375)
Increase/(Decrease) in operating accounts payable	44,689	958
Increase/(Decrease) in GST payable	2,375	(2,751)
Increase in employee entitlements	34	38
Increase in inventories	(8,186)	(11,347)
Net Increase in working capital	(2,530)	(12,628)
Net cash inflow from operating activities	**45,277**	**31,016**

22: Categories of financial assets and liabilities

	2022 $000	2021 $000
Financial assets		
Cash and cash equivalents at amortised cost	717	1,035
Accounts receivable at amortised cost	256,305	244,873
Loans receivable at amortised cost	-	800
Derivatives at fair value through comprehensive income	176	86
	257,198	246,794

	2022 $000	(Restated) 2021 $000
Financial liabilities at amortised cost		
Accounts payable	227,137	236,131
Bank borrowing	96,500	118,500
Employee entitlements	7,688	7,865
GST payable	29,588	27,213
	360,913	389,709

23: Discontinued operation – fuel

In June 2022 the Group announced that it had entered into an agreement with South Fuels for the sale of the fuel business into a joint venture to be formed for this transaction. Following further negotiations to complete the transaction, settlement occurred on 31 July 2022 and with effect from 01 August 2022 the joint venture, Fern Energy Limited trading as Fern Energy, was entered into with the Group owning 50% of Fern Energy Limited. Accordingly, for the financial year ending 30 June 2022, the fuel business is reported as a discontinued operation. The comparative Income Statement and respective notes have been restated to show the discontinued operation separately from continuing operations. Assets and liabilities relating to that business have been reclassified as held for sale in the balance sheet at 30 June 2022. Upon completion of the transaction the Group realised a profit on sale from the divestment of the fuel business assets and additionally recognised an associate investment asset, and is therefore comfortable that no impairment adjustment to the fuel assets carrying value is required.

Results of discontinued operation	2022 $000	2021 $000
Revenue	457,805	323,674
Cost of goods sold	(441,181)	(306,551)
Gross profit	16,624	17,123
Less other operating expenses	(5,780)	(5,395)
Operating EBITDA	**10,844**	**11,728**
Less depreciation and amortisation	(2,371)	(2,153)
Profit before tax from discontinued operation	**8,473**	**9,575**
Income tax expense	(2,372)	(2,681)
Profit after tax from discontinued operation	**6,101**	**6,894**

Effect of reclassification of the discontinued operation on the balance sheet of the Group

	At 30 June 2022 $000
Accounts receivable	30,810
Inventory	762
Property, plant and equipment	25,240
Intangible assets	1,850
Total assets held for sale	58,662
Accounts payable	(53,683)
Employee entitlements	(211)
Total liabilities held for sale	(53,894)
Net assets held for sale	4,768

Assets and liabilities disposed of:	At 31 July 2022 $000
Accounts receivable	2,773
Inventory	659
Property, plant and equipment	26,504
Intangible assets	1,850
Employee entitlements	(232)
	31,554

Cash flows from/(used in) discontinued operation	2022 $000
Net cash from operating activities	16,619
Net cash used in investing activities	(2,237)
Net cash flow of discontinued activity	**14,382**

As the fuel operations were 100% owned by the Group, net income relating to continuing operations and the discontinued operation are fully attributable to the Group.

24: Events subsequent to balance date

Subsequent to balance date on 31 July 2022 and with effect from 01 August 2022 the joint venture, Fern Energy Limited trading as Fern Energy, was entered into with the Group owning 50% of Fern Energy Limited. The joint venture became a non-adjusting event.

SOCIETY PARTICULARS

REGISTERED OFFICE IN NEW ZEALAND

535 Wairakei Road, Burnside, Christchurch
Telephone 0800 200 600

SHARE AND LOAN SECURITY REGISTERS

535 Wairakei Road, Burnside, Christchurch
Telephone 0800 200 600

AUDITORS

Deloitte
Level 4, 151 Cambridge Terrace, Christchurch

BANKERS

ASB Bank
12 Jellicoe Street, Auckland

SOCIETY SECRETARY

C J Doake
Farmlands, Christchurch

SOLICITORS

Anderson Lloyd
Anderson Lloyd House, 70 Gloucester Street, Christchurch

SUBSIDIARY – Farmlands Fuel Limited

Director:
K R Cooney, executive

SUBSIDIARY – Farmlands Finance Limited (Non-Trading)

Director:
K R Cooney, executive

SUBSIDIARY – CRT Limited (Non-Trading)

Director:
K R Cooney, executive

DIRECTORS

R J Hewett, Lawrence (Chair)

G W Baldwin, Putaruru

C J Dennison, Oamaru

W J Parker, Rotorua (Chair of the People & Performance Committee)

H D Sangster, Ranfurly

P J Ellis, Hastings (resigned December 2021)

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

S Post, Auckland, Independent

C R Nicholson, Mt Maunganui (appointed March 2022)

J Journee, Auckland, Independent

EXECUTIVES

Chief Executive Officer	T D Houghton
Chief Financial Officer	J E M Stockton
Chief Operating Officer	K R Cooney
Chief People Officer	R L Edwards (appointed August 2022)
Chief Merchandising Officer	C P Fisher (appointed January 2022)
Chief Customer Officer	J M Strange
Chief Innovation & Digital Officer	R T Wilkinson

Independent Auditor's Report

Deloitte.

To the Members of Farmlands Co-operative Society Limited

Opinion

We have audited the consolidated financial statements of Farmlands Co-operative Society Limited (the "Society') and its subsidiaries (the 'Group'), which comprise the consolidated balance sheet as at 30 June 2022, and the consolidated income statement, statement of comprehensive income, statement of changes in equity, statement of changes in equity and members interests, and statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements, on pages 4 to 29, present fairly, in all material respects, the consolidated financial position of the Group as at 30 June 2022, and its consolidated financial performance and cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards ('NZ IFRS') and International Financial Reporting Standards ('IFRS').

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing ('ISAs') and

International Standards on Auditing (New Zealand) ('ISAs (NZ)'). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We are independent of the Company in accordance with Professional and Ethical Standard 1 International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards), and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Our firm carries out other assignments for the Group in the area of share register audit services, advisory services and due diligence services. These services have not impaired our independence as auditor of the Society and Group. In addition to this, partners and employees of our firm deal with the Society and its subsidiaries on normal terms within the ordinary course of trading activities of the business of the Society and its subsidiaries. The firm has no other relationship with, or interest in, the Society or any of its subsidiaries.

Materiality

We consider materiality primarily in terms of the magnitude of misstatement in the financial statements of the Group that in our judgement would make it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced (the 'quantitative' materiality). In addition, we also assess whether other matters that come to our attention during the audit would in our judgement change or influence the decisions of such a person (the 'qualitative' materiality). We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

We determined materiality for the Group financial statements as a whole to be $6.1m.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
Revenue recognition The Group's revenue primarily consists of the sale of goods and services to the members of the Co-operative. Total revenue from continuing operations is $788 million as outlined in Note 3 of the financial statements. As described in Note 2.3 b) of the financial statements the Group applies NZ IFRS 15 *Revenue from Contracts with Customers* in determining its revenue recognition accounting policy. Management uses judgement to assess whether the Group is an agent or a principal for certain sales arrangements. After considering the various contractual terms with the members and the suppliers of Farmlands Card purchases (Card Revenue) management has concluded that: • for the goods or services purchased by a member of the Group on their Farmlands Card, where the Group does not obtain control of the goods or services, in accordance with NZ IFRS 15, the Group is acting as an agent. • for goods and services sold by the Group where the Group obtains control of those goods or services before control transfers to the member, in accordance with NZ IFRS 15, the Group is acting as a principal for these sales. We have included the appropriateness of management's judgements in relation to revenue recognition as a key audit matter due to the significance of the balances to the financial statements.	Our audit procedures included: • assessing the Group's revenue recognition policy for consistency with the requirements of NZ IFRS 15 Revenue from Contracts with Customers, specifically whether revenue should be recognised on a principal (gross) or agency (net) basis • examining, on a sample basis, contractual terms with suppliers and Co-operative members to determine that management's conclusion in relation to the transfer of control was appropriate; • testing the accuracy of revenue recognition for sale of goods and services where the Group is acting as an agent, as well as for sale of goods and services where the Group is acting as a principal on a sample basis; • performing substantive testing to validate the existence of a sample of revenue transactions; • obtained external turnover confirmations and tested the operational effectiveness of information technology general controls to allow us perform substantive analytical procedures over the revenue earned from agency revenue relationships; • assessing the adequacy of disclosures in the financial statements to ensure that they are compliant with the requirements of NZ IFRS 15.

Key audit matter	How our audit addressed the key audit matter

Recognition of computer software assets

In April 2021 the IFRS Interpretations Committee ('IFRIC') released an agenda decision clarifying the treatment of certain costs related to software implementation in circumstances where entities use Software as a Service ('SaaS'). The agenda decision disallows the capitalisation of costs for the implementation of SaaS arrangements except for costs relating to the development of customised software code where the customer maintains control of the code and its future benefits. As outlined in Note 2.3(y), during the year the Group has completed its assessment of its SaaS arrangements and aligned its accounting policy to the IFRIC agenda decision.

The Group has undertaken an assessment of its previously capitalised software assets, in order to:

1. Determine whether each capitalised asset is within the scope of the IFRIC agenda decision;
2. Whether historical adjustments are necessary to align previously capitalised costs to the new accounting policy.

The work undertaken by the Group identified certain historical projects that did not meet the capitalisation criteria under the new accounting policy, and which have been adjusted as a restatement of the prior period financial statements as set out in note 2.3(y).

These items are considered a key audit matter due to the significance of the computer software assets previously recognised along with the complexity and judgements required in applying the change of accounting policy to historical projects. In particular we note the following judgements:

- The evaluation of whether historical and current software assets are within the scope of the IFRIC agenda decision; and
- The decision to capitalise or expense costs relating to the previous ERP implementation. This decision depends on whether the expenditure is considered to relate to development costs that are directly attributable to the design, testing and implementation of identifiable and unique software products controlled by the Group and is guided by the IFRIC agenda decision.

Our audit procedures included:

- Discussions with management to understand the process undertaken and context in which management performed its assessment of the historical capitalised software assets.
- Reviewing management's assessments of previously capitalised costs, including the impact of the change in accounting policy.
- Selecting a sample of costs from the management assessment to ensure the nature of these costs were consistent with management's assessment and the decision to adjust / not adjust was aligned to the IFRIC agenda decision.
- Reviewing the fixed asset register to ensure that all material historical capitalised costs were included in the assessment.
- Reviewing the relevant contractual arrangements for capitalised assets including those relating to the previous ERP implementation.
- Reviewing and challenging key judgements in determining which costs are deemed to be in relation to Software as a Service arrangements and the apportionment of costs into capitalised or expensed costs.
- Reviewing presentation and disclosure of the change in accounting policy, including the correction of previously capitalised costs in the current year.

Other information

The directors are responsible on behalf of the Group for the other information. The other information comprises the information in the Annual Report that accompanies the consolidated financial statements and the audit report. The Annual Report is expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

Our responsibility is to read the other information identified above when it becomes available and consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

When we read the other information in the Annual Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the directors and consider further appropriate actions.

Directors' responsibilities for the consolidated financial statements

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

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

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and ISAs (NZ) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

A further description of our responsibilities for the audit of the consolidated financial statements is located on the External Reporting Board's website at:

https://www.xrb.govt.nz/assurance-standards/auditors-responsibilities/audit-report-1

This description forms part of our auditor's report.

Restriction on use

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

Deloitte Limited

Mike Hoshek,
Partner for Deloitte Limited
Christchurch, New Zealand
30 September 2022

Farmlands