



2021-2022

CHAIRMAN'S REVIEW

For Financial Year Ending 31 May 2022

A WORD FROM OUR EXECUTIVE CHAIRMAN

This past year has served as a stark reminder of how inter-connected we all are, as the impact of global events has pushed to the forefront of our operating environment.

The disruption and uncertainty caused by Covid-19, the Russian invasion of Ukraine with its terrible human costs and immediate global economic impact, and the inflationary pressures resulting, both directly and through flow-on effects, from the war and pandemic, have all deeply marked the year 2021 – 2022.

This has come on top of monthly, weekly and at times daily reminders of climate change volatility's impact on people's lives, crops, and livelihoods globally.

These things also serve to remind us that, in order to survive and be resilient, successful businesses and organizations must continue to anticipate long-term challenges and problems, regardless of any immediate uncertainty and pressure to focus on short-term issues.

We know that future generations will carry the costs of recovery from economic and geopolitical crisis. It is our belief at Southern Pastures that we should not increase that burden with additional environmental costs. In 2021 - 2022 we have strengthened our resolve to produce high-quality nutritionally dense foods from farms that have fewer imported inputs wherever possible and are increasingly resilient to climate volatility, because we know this is in our common interest.

Our long-term intention, ultimately, is to become carbon-neutral by 2050. Beyond that, we will strive to become a net extractor of atmospheric carbon. In other words, our aim is to become climate positive.

Our ambition is to aim to achieve this, if possible, through in-setting rather than off-setting.

At the simplest level this means continuing our work to build healthy soils that sequester carbon and produce nutrient-dense feed for our animals, so they in turn can produce the healthiest foods possible.

It also means continuing with, and advancing, our various other climate change mitigation measures. We are retiring more land to native plantings to increase biodiversity. We are increasing and fostering soil biology, which includes intensifying our use of earthworms and dung beetles as effective soil engineers. Southern Pastures assisted in importing dung beetles into New Zealand, and under some soil types they have proven capable of sequestering surface carbon up to 1.2 meters below ground.

We are continuing to improve our cows' digestive systems through the use of prebiotics. We are increasing pasture species and in particular increasing the use of deeper-rooted plant species. We are also further decreasing our use of fossil fuel, to complement our already 100% renewable electricity supply, among other measures.

We are committed to this comprehensive programme of in-setting carbon. We are opposed to off-setting emissions through trading credits generated by monocultural forestry on productive lands, even though this has become increasingly fashionable and profitable in New Zealand in 2022. Often it means productive land is locked up for generations in exotic planting that does not foster native biodiversity.

Instead, we pleased to be able to state that we are working with Toitū Envirocare¹ to take genuine long-term climate action. We have committed to achieving 'carbon reduce' certification by the end of 2022 as part of Southern Pastures' sustainability initiatives. We are also working with Crown Research Institute Manaaki Whenua to set a baseline for soil carbon across our portfolio so we can measure our soil carbon sequestration over time.

While many organisations have put their environmental policies on the backburner as they try to manage the impacts of Covid-19, inflation and war, it is our belief that this is dangerous short-term thinking as the longer-term planetary risks have not changed – indeed if anything they have increased as countries and organizations are having to turn back to fossil fuels for short-term survival.

Such pressures may lead others to think only of their short-term position and their single profit bottom-line, rather than risk transforming their businesses in an uncertain environment. We continue to uphold the relevance and importance of our ESG policies, principles, and public reporting within this changing landscape.

It's our view that ESG commitments are essential to our social license to operate, and that they underpin our ability to deliver values-for-money to our premium consumers.

We must continually prove to consumers that they can trust us, and we must not rest on our past efforts alone. The more uncertain the times become, the more important our ESG policies become, as a guide to our 'true north'. They ensure we stay focused on delivering sustainable long-term returns to our investors while considering the interests of all stakeholders.

As an industry, we will do much more to advance the wellbeing of humanity and to protect our own profitability, if we remain focused on farming as a force for environmental good.

It will become a requirement in future for organisations to report on their risk exposure to climate change. Accordingly, we have assessed and declare our exposure as outlined:

- Southern Pastures is exposed to unpredictable climate change volatility, and we are managing this through:
 - o our farming methods that are focused on making our farms more resilient,
 - o our on-farm infrastructure and
 - o keeping adequate feed inventories.

¹ Toitū Envirocare is part of Crown Research Institute, Manaaki Whenua – Landcare Research Manaaki Whenua – Landcare Research



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Demonstrating by this review, and our ESG policies and practices, that while we are doing all we can to mitigate climate change at our operating level, Southern Pastures is actually expected to be a beneficiary of climate change.

- Creating our own 10 Star Certified Values™ that are independently audited by AsureQuality¹ and which include climate change mitigation and environmental sustainability among our declared and audited values.
- Having all Southern Pastures farms certified Carbon Reduce™ by Toitū Envirocare (Toitū)² by the end of 2022.
- Setting a baseline soil measurement of carbon stock on all Southern Pastures farms in 2022. This will be done by Manaaki Whenua/Landcare Research³ in 2022. Southern Pastures has comprehensive independent audits and measurements of its climate.
- Constructing our portfolio after specifically taking into account the potential impacts of long-term global and regional climate change forecasts. While we cannot predict the exact outcomes of future climate change volatility, we remain comfortable with the current portfolio construction.

It may sound counter-intuitive but increased soil carbon, temperatures, moisture and a potentially longer growing season will allow Southern Pastures to produce quality food while others in different geographies and micro-climates will struggle.

The world is already short of protein, and we believe our premium-quality, nutrient-dense, free-range, grass-fed protein will become even more highly valued as our world changes.

Against this background we set out our key outcomes and activities from 2021 – 2022, as we intensify our commitment to pursue sustainable, profitable, healthful food production.

Prem Maan,
Executive Chairman
Southern Pastures Group

¹ Asure Quality is a New Zealand government food and biosecurity assurance entity

² Toitū Envirocare is a wholly owned subsidiary of Manaaki Whenua-Landcare Research, a NZ Government owned Crown Research Institute.

³ Manaaki Whenua/Landcare Research is a NZ Government owned Crown Research Institute.

OUR OPERATIONS

Overview

Southern Pastures LP owns and operates 20 farms encompassing over 6,600 hectares of land in the North and South Islands of New Zealand.

The Southern Pastures Group consists of:

- A portfolio of 20 farms in Aotearoa New Zealand's North and South Islands
- 11 farms in South Waikato (ten dairy and one support farm) and nine farms in Central Canterbury
- Our 10 Star Certified Values™ program
- Commercial on-farm forestry operations in the Waikato
- 500 Permanent beehives across the 20 farms.

Our post-farmgate operations include:

- Wholesale, Business-to-Business, division NZ Grass Fed Products LP
- Consumer division, Lewis Road Creamery Ltd
- New Zealand Collagen Products Ltd, a joint venture with Ovation New Zealand Ltd

TAKING PREMIUM DAIRY TO THE WORLD

NZ GRASS FED PRODUCTS LP

Our wholesale and foodservice business

Southern Pastures saw significant wholesale ingredients growth over 2021 - 2022, supported by our integrated business model which is directly linked to our 10 Star farms.

NZ Grass Fed Products LP (NZ Grass) sells butter, butter sheets, cheese and milk and protein powders to premium export markets and domestic customers.

Over the last 12 months, it has become a significant dairy commodities and food service products exporter with sales booked of over \$400 million. Products are made from 10 Star Certified Values milk from Southern Pastures own farms, as well as commodity dairy ingredients sourced from Southern Pastures' New Zealand milk processor partners.

In March 2022, Neil Senauer was appointed CEO of NZ Grass. Neil has worked in dairy and agribusiness industry for over 20 years across various senior roles in Asia, Europe, the Americas and Australia/NZ with Interfood Group, Westland, James Farrell & Co, Dairygold and Cargill.

Prior to becoming the CEO of NZ Grass, Neil had been on the Advisory Board of Southern Pastures' investment arm since late 2020.

We continue to see growth opportunity for Southern Pastures' value-added and provenance based wholesale butter and cheese into premium Australasian, European and US markets, where food businesses are increasingly concerned about the quality and provenance of their ingredients, and the impact of the production of these on the planet.

We are also now pleased to be developing a client-base of customers for protein and whole milk powders who also care about such attributes.



NZ GRASS FED PRODUCTS

LEWIS ROAD CREAMERY LIMITED

Our premium New Zealand and export markets

LEWIS ROAD CREAMERY LIMITED - Our premium New Zealand and export markets consumer brand

In 2021 - 2022 we completed our first year of operations as 100% owners of premium boutique dairy producer Lewis Road Creamery.

The company's product portfolio spans a premium wholesome white milk range covering Jersey, A2 Protein, Organic and Comfort™, indulgent flavoured milks, cream, a range of butters, and ice cream, all selling domestically in New Zealand where Lewis Road is a beloved local brand.

Comfort™ Milk is our own unique formulation of GMO-free and PKE-free Lactose free A2 Protein milk that is designed for consumers who have lactose intolerances and/or just feel better – and have more tummy comfort in – consuming A2 Protein milk.

We also export to Singapore and the US, where we have seen success in the premium butter category in grocery. We will soon export packaged instantized premium wholemilk powder to Australia.

In November 2022 Jason Clements was appointed as the General Manager of Lewis Road Creamery. He was previously the GM, NZ & International at Darrell Lea Confectionery Co Pty Ltd, which included RJ's famous liquorice confectionaries.



NZ Launch of Premium Butter

In 2022, Lewis Road made its export-only premium butter available in New Zealand. The butter is made from Southern Pastures' own cream that meets our stringent and independently audited 10 Star Certified Values.

The butter won a Gold Medal at the 2022 Outstanding NZ Food Producers Awards after delighting the Judging panel, which commented:

"Pure joy from grass-fed (foraging) animals enjoying nature. Creamy, silken, velvety mouthfeel with a subtle taste of lingering saltiness. Stunning fresh, natural flavour – buttery and creamy. Butter with a richness and creaminess that can stand alone, whether it be spread over bread or toast, used to pan fry fish or in baking."

In 2020, the butter was the first New Zealand dairy product to be stocked US-wide by Whole Foods, often as its most expensive butter sold nationally.

In New Zealand, the butter is sold at a substantial discount for domestic customers, to acknowledge the butter's local provenance and the reduced transport costs of selling it here at home.



Palm Kernel Expellar (PKE)

Free and Genetically Modified Organism (GMO-Free)

Lewis Road Creamery, following the lead of its parent, Southern Pastures, made a strategic decision to eliminate palm products from its fresh white milks. This principally required removing PKE from our supplying farms.

PKE is the product produced after palm oil has been extracted from the oil palm fruit flesh, leaving the solid kernel which is then mashed, dried and powdered. New Zealand is the largest importer of PKE in the world where dairy farmers use it as a cheap supplementary cow feed.

Our decision to ban PKE was firstly a moral call, so that we are playing our part to prevent rainforest destruction and protect global biodiversity. Secondly, we know that milk produced from cows who eat mainly grass, without any PKE, yields higher quality and more healthful dairy products.

By not using PKE on our Lewis Road Creamery supplying farms, we are producing better dairy products and protecting biodiversity overseas. Our New Zealand production does not cause rainforest destruction elsewhere in the world. We support local farmers to grow additional feed for us – and this supports our drive to reduce our carbon footprint.

PKE has now been eliminated entirely from our production system. The non-Southern Pastures farms that supply Lewis Road Creamery have also committed to not using PKE.

This means that Lewis Road Creamery fresh white milk is unique in the New Zealand market as being guaranteed PKE-free.

We also made a decision to be GMO-free. We only use our own, or other New Zealand-grown and sourced feed, and have the only non-GMO certified products approved for sale exclusively in New Zealand.



10 STAR CERTIFIED VALUES PROGRAM

Our commitments to our consumers

We have captured and explained the way we farm for our consumers through our own independently audited 10 Star Certified Values program. This is to assure consumers that our products are traceable and authentic.

The program remains globally unique and covers our strict requirements across environmental, climatic, animal and human welfare.

All Southern Pastures' farms have achieved compliance with the 10 Star Certified Values program, and we've designed it in the hope it will become a trusted benchmark for others looking to pursue pastoral farming excellence.

The 10 Stars measure farm performance in these critical areas:

- Grass-fed diet
- Non-GMO
- 365 days free-range
- Animal welfare
- Human welfare
- No palm or tallow products
- Environmental sustainability
- Antimicrobial stewardship
- Climate change mitigation
- No added rBST or other hormones



Our rPET Bottles

Since Lewis Road Creamery changed its bottles from virgin plastic to recycled plastic late 2018, it has saved 20 million new virgin plastic bottles being put into circulation and allowed for the equivalent to be recycled curbside or at recycling stops.



NEW ZEALAND COLLAGEN PRODUCTS

Our whole animal approach

As part of our efforts to maximise the value and reduce the waste from our farming system, Southern Pastures has developed a collagen product from the hides of cows from our farms, using a novel, earth-friendly process.

In 2021 - 2022 Southern Pastures formed a joint venture company with Ovation New Zealand Ltd, called New Zealand Collagen Products Ltd, to further develop the collagen business.

Our New Zealand Collagen Products Ltd collagen business utilizes by-product cow hides from Southern Pastures 10-Star Certified Values farms, and sheep hides from our partner, as a bioresource for the high-value and rapidly growing collagen market.

Both joint venture partners believe that the quality of the environment impacts the quality of nutrition derived from it, so it is important to act sustainably and take proactive measures that protect our environment.

Collagen sourced from hides from Southern Pastures farms are from our free-range cows and meet our 10-Star program values.

Our collagen is manufactured by a unique, proprietary process called SUPROSOL™ which uses less energy, uniquely no-acid agents and produces less toxic waste and odour pollutants. The collagen is a clean label, non-allergic product and is, we believe, globally unique.

High Value Nutrition¹ in conjunction with Liggins Institute² and Massey University is currently undertaking a \$1.5 million study on NZ Collagen Product's SUPROSOL™ collagen and its potential beneficial impacts on arthritis and on post-workout muscle recovery.

¹ High Value Nutrition is a New Zealand government funded programme to support the development of high value nutritional food products

² The Liggins Institute is an Auckland University medical and health research institute





UK FREE TRADE AGREEMENT UPDATE

We were pleased and encouraged by the New Zealand Free Trade Agreement (FTA) with the United Kingdom announced in 2022.

Southern Pastures is well positioned to export high-value, ethically-produced dairy to these markets. This includes export of our premium consumer brand Lewis Road Creamery products, as well as our premium wholesale offering through NZ Grass.

However, it is currently uncompetitive for Southern Pastures to consider such opportunities because of technical issues with the export quota eligibility criteria in the Dairy Industry Restructuring Act 2001 (DIRA).

Southern Pastures has submitted its arguments for change to the New Zealand government, and the quota allocation system is now being reviewed with positive indications for criteria updates by year two of the FTA.

The UK, like the EU and the USA, have large segments of socially conscious and environmentally aware consumers. They present an ideal match for Southern Pastures' capacity to provide our values-for-money dairy to discerning buyers.

UPDATE GLOBAL RECOGNITION AT SUSTAINABILITY AWARDS

In 2022, Southern Pastures and Lewis Road Creamery were announced as finalists in the Sustainability Excellence Award category of the World Sustainability Awards.

The judging panel was made up of Chief Sustainability Officers from Walgreens Boots, Colgate Palmolive, AT&T, PepsiCo, Schneider Electric, Telus, CBRE, Heineken, Thermo Fisher Scientific, Anheuser-Busch InBev, and Societe Generale, among others.

BEHIND OUR FARM GATE

SOUTHERN PASTURES

In 2021 - 2022 at Southern Pastures we continued to push our sustainability commitments beyond what is currently required by New Zealand law and industry best practice.

This is because our premium consumers around the world are increasingly seeking values-for-money rather than merely value for money when they purchase food.

As the links between food production and global megatrends, such as antimicrobial resistance, animal welfare, climate change and water stress are better understood, people want to know a lot more about the provenance of their food.

These are the consumers we have always sought to deliver to, and we believe that over time this trend will become mainstream.



Our primary focus is on how we can contribute to climate change mitigation through the way that we farm. As the graphs show, New Zealand farmers are already the most efficient in the world, with a national dairy footprint that is one-third of the global average.

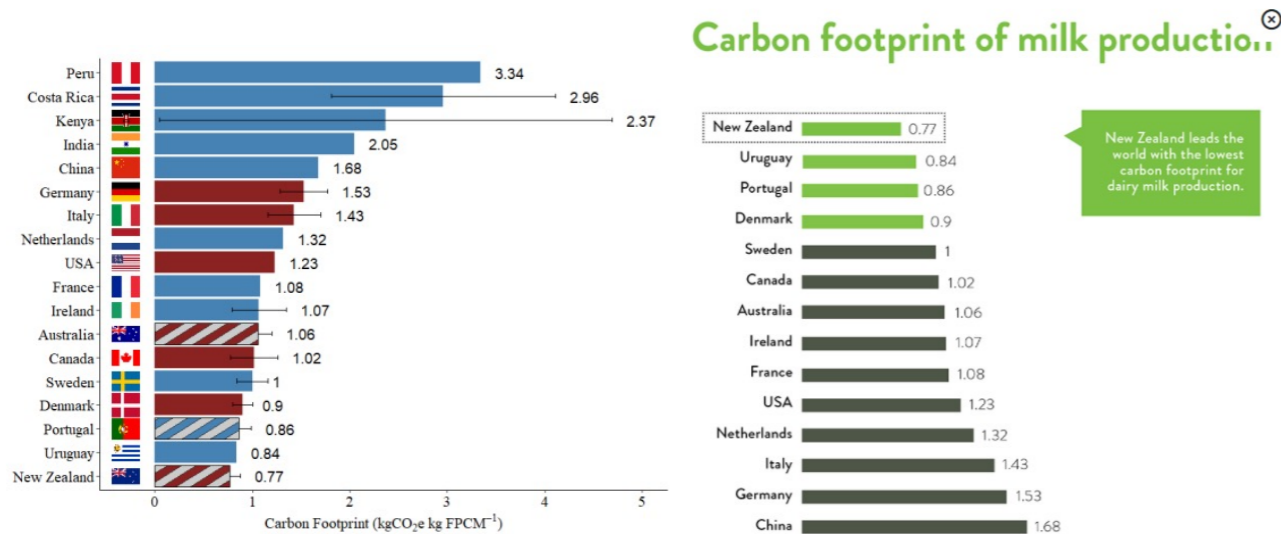


Figure 4: Carbon footprint of milk production (kg CO₂e/kg FPCM) in different countries (after correction to common GWP, functional unit and allocation methodology) – NZ data excludes dLUC and would be 0.91 if it was included. Red bars represent studies that used the IDF (biophysical) allocation. Bars with diagonal grey pattern represent studies that used region-specific emission factors (more details in section 4.3). Error bars denote the standard deviation, calculated as a weighted standard deviation when more than one study was selected per country or extracted from the study when only one study was considered. Studies from Peru, India, China, Netherlands, USA and France didn't report standard deviations.

ESG Reporting - our carbon capture ambition

Our climate change mitigation ambition and practices are reported in detail in our ESG Report.

Through these policies and practices, we commit to delivering benefits to both our investors and our environment, and to protecting our planet as we offer healthy, premium products to our consumers.

Our long-term intention is to achieve actual - not traded, off-set, or purchased - carbon-neutral status on all our farms. We do not believe that buying carbon credits generated from mono-culture exotic forests planted on productive land is particularly beneficial for New Zealand or the planet.

As a general overview, Southern Pastures practises farming techniques and systems that minimise environmental impact on all its farms, including:

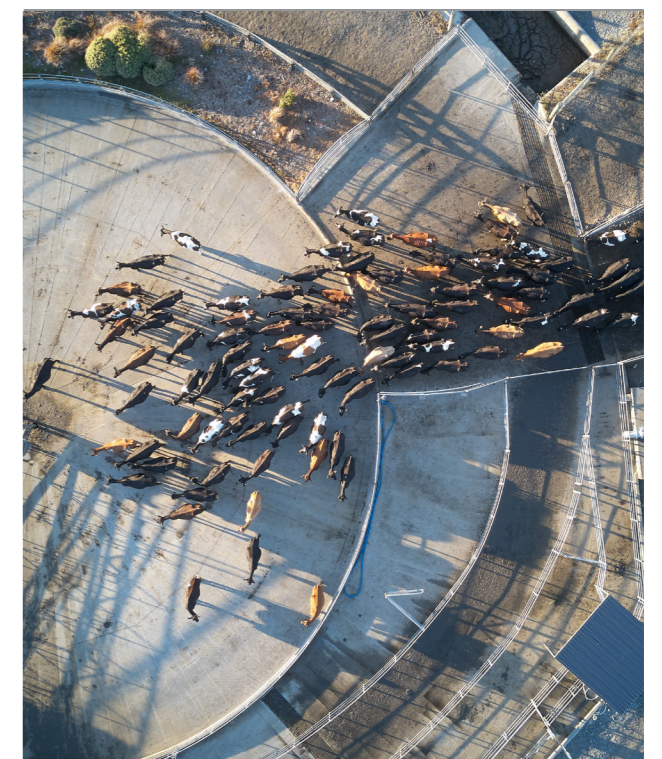
- Zero tillage where possible and low tillage where it isn't.
- Cover and catch crops, deep rooted plants and increasing pasture species diversity.
- Increasing biodiversity through the retirement of land, creation of wetlands and active native plantings.
- Permanent bee populations.
- Managed rotational grazing of livestock.
- Introduction of beneficial species of earthworms and dung beetles.
- On-farm forestry.
- Increasing the use of organic matter and the judicious use of synthetic fertilisers.
- Stewardship policy around use of all chemicals.
- Antibiotic Stewardship signatory commitment.

We are also trialling several tools to mitigate our, and indeed the wider country's greenhouse gas footprint. Some of these are:

- Biochar applications
- Dung Beetles populations being continuously increased on farms
- Prebiotics
- Plantain
- Dairy calves for beef

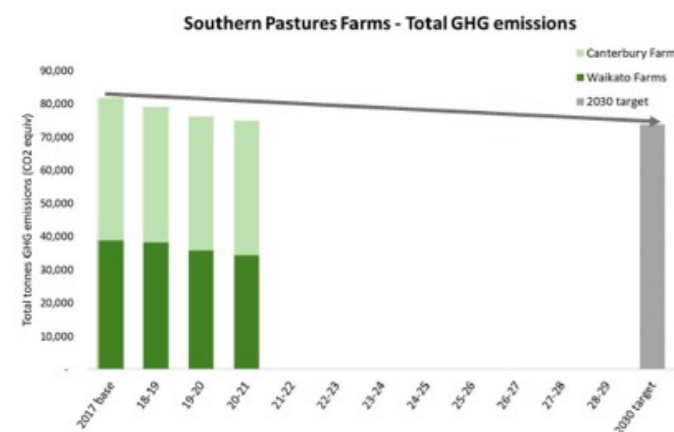
Our key commitments and recognitions

- Signatory of United Nations Principles for Responsible Investment (UNPRI);
- Signatory to Farmland Principles (a sub-group of UNPRI);
- Signatory to Investor Statement on Antibiotic Stewardship (the only NZ signatory);
- Member of the Upper Waikato Sustainable Milk Project; and
- Responsible Investment Association Australasia's recognition for the 7th year running as one of only a handful of managers in New Zealand that met its highest ESG standards (and the only one involved in agriculture).



At Southern Pastures, we have taken a decision to aim even higher and we are already well ahead of our carbon reduction target for 2030.

Enterprise (All farms) Southern Pastures



In 2020-21, Southern Pastures farms emitted a total of 74,823 tonnes of GHG emissions

From 2017 to 2021, total GHG emissions from the enterprise have reduced by -8.5%

A further 1.5% reduction is required by 2030, across the enterprise, to meet the 10% reduction target (from 2017)

OUR GOVERNANCE

Our long-term value and economic performance rests on the responsible decisions that our governance team make every year.

Key Governance updates for 2021 - 2022 include our advisory committee meetings held on July 21, October 21, February 22 and May 22. In addition to this, the Board, the CFO and the GM Farming (and other key staff as necessary) meet physically or virtually every week with few exceptions to ensure that all decisions are made on a timely basis.

Our governance structure rests on independent checks and balances:

- Baker Tilly Waikato (BTW) – all accounting functions are outsourced to BTW
- Public Trust – NZ Government Owned Public Trust handles all bank accounts transactions of Southern Pastures and undertakes random sense and sensibility checks on payment instructions
- KPMG – KPMG are the auditors
- CBRE, Colliers, QV, Arotahi Agribusiness – provide independent farm valuations
- PF Olsen – provide independent forestry valuations
- AsureQuality (AQ) - NZ Government Owned AQ audit farms for compliance with the 10 Star Certified Values™, BNZ Sustainability Linked Loan
- Toitū – Greenhouse gas and carbon certifications
- Manaaki Whenua (Landcare Research) – soil carbon measurements

Southern Pastures has a policy of being an active shareholder and voting in 100% of elections and resolutions, if we ever abstain then it is for a specific reason and it is declared.

The voting record for the 2021/2022 Financial Year was:

- In favour of resolutions: 93%
- Against resolutions: 7%
- Directors voted in successfully: 80%

In October 2022, KPMG completed its annual audit of the financial accounts.

Communicating our Values to key

As one of the largest dairy farmers in the country, Southern Pastures feels a responsibility to engage with the government, politicians, industry and, where appropriate, with the media to ensure that a fair view and key facts are presented.

Our ESG reporting remains a critical channel through which all these stakeholders can assess our commitments and our actions. Prem Maan, as the Executive Chairman of the Southern Pastures Group, has also taken a leadership position in national mainstream and industry media, sharing his ambition for Southern Pastures, and his own and, as appropriate, the Southern Pastures Group commitments to sustainability and climate change mitigation in a series of editorial articles, interviews, and industry and educational forums.

In 2022 Southern Pastures and Prem Maan were invited to participate in the CBS series Thought Leaders for distribution in the US and global online platforms in 2023. Filming of a seven-minute segment was completed in 2022 to showcase our on-farm climate change mitigation ambition. It will be screened by CBS in early 2023.

The GP's long-term philosophy continues to be to make the business firstly resilient and then "Antifragile", a term coined by The Black Swan author, Nassim Taleb – which means that the business benefits and becomes stronger from adverse conditions.





Southern
Pastures 