



**SILVER
FERN[®]
FARMS**

CO-OPERATIVE LTD

ANNUAL REPORT 2019





ANNUAL MEETING OF SHAREHOLDERS

The 2019 Annual Meeting of Silver Fern Farms Co-operative Limited Shareholders will be held at 2pm on Thursday 30 April 2020.

Following the Government's implementation of Alert Level 4, we currently anticipate that we are no longer able to hold a physical meeting. The Annual Meeting of Shareholders will now be held online. Our Notice of Meeting will provide details of how to join, or any other alternate arrangements. The Notice of Annual Meeting will be provided separately to Shareholders.

Prior to the Annual Meeting Shareholders are welcome to join at 1.00pm for a presentation from Silver Fern Farms Limited Chief Executive Simon Limmer.

The 2019 Chair's report is based on the 2019 financial result and the strategic goals for the Co-operative before the effects of Covid-19 and a level 4 lockdown. The details incapsulated in this report should therefore be read in the context of a pre Covid-19 operating environment.

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**SILVER
FERN
FARMS**

100% MADE OF NEW ZEALAND



Silver Fern Farms Limited

The performance of the operating company, of which we have a 50% investment in.

	2019	2018	Movement
Revenue	\$2.6B	\$2.4B	↑ \$0.2B
EBITDA ¹	\$124.3M	\$32.4M	↑ \$91.9M
Net Profit before tax	\$89.6M	\$6.3M	↑ \$83.3M
Net Profit after tax	\$70.7M	\$5.8M	↑ \$64.9M
Total equity	\$571M	\$501M	↑ \$70M
Return on equity	13.2%	1.2%	↑ 12.0%

1. EBITDA is earnings before interest, taxes, depreciation and amortisation. It is calculated from the financial results of Silver Fern Farms Limited reported in note 2(b) to the Financial Statements on page 58 by adjusting profit before tax for depreciation and amortisation and finance costs.



Silver Fern Farms Co-operative Limited

Your Co-operative's result

	2019	2018	Movement
Share of earnings	\$35.4M	\$2.9M	↑ \$32.5M
Net Profit before tax	\$35.1M	\$2.4M	↑ \$32.7M
Net Profit after tax	\$34.9M	\$0.9M	↑ \$34.0M
Total equity	\$304M	\$269M	↑ \$35.0M
Return on equity	12.2%	0.3%	↑ 11.9%

Chair's Review

A renewed purpose – Leading progressive food producers committed to a sustainable future



**Richard Young – Chair
Silver Fern Farms Co-operative Limited**

This Annual Report of Silver Fern Farms Co-operative Limited covers the performance of the Co-operative over the 12-month period from 1 January 2019 through to 31 December 2019.

The 2019 financial year was a particularly successful year for your Co-operative, with our investment in Silver Fern Farms Limited delivering well above budgeted expectations.

While the world has changed dramatically in the last few weeks, 2019 will be remembered for the exceptional in-market dynamics which created significant global market demand for natural, safe and sustainable grass-fed red meat.

Your Co-operative also defined its strategy to better fit its role as an investor in Silver Fern Farms Limited, and in supporting the businesses of our farmer-shareholders. Out of that strategy comes our renewed purpose – *Leading progressive food producers committed to a sustainable future*. This report covers how we will deliver on our commitment to shareholders – particularly in these turbulent times.

A view from the Chief Executive of Silver Fern Farms Limited, Simon Limmer, covers the 2019 performance of Silver Fern Farms. That report covers the market dynamics we are seeing today in more detail and sets out the company's progress on its drive towards its vision of being the *world's most successful and sustainable grass-fed red meat company*.

Co-operative Highlights 2019

RE-DEFINED

our Co-operative's Strategy

Enhanced

SHAREHOLDER BENEFITS PROGRAMME

for fully shared suppliers

CONTINUED GROWTH

in shareholders who are
suppliers of livestock

Strong uptake of

SHAREHOLDER PROGRAMMES

– governance development
and market experiences

On-going governance
succession with

RICHARD YOUNG'S APPOINTMENT

as Co-operative Chair

Our investment in Silver Fern Farms Limited delivered a solid result and improved performance in 2019 – a year which saw an exceptional lift in global demand for protein. Continued profitability was matched by advances in sales & marketing, infrastructure capital investments, people development, operational performance and in sustainability programme deliverables.

Our Co-operative's Strategy

PURPOSE

Leading progressive food producers committed to a sustainable future

VISION

A proud collective of consumer focused farmers innovating to meet the highest possible standards of sustainable farming practice



PLANET

World class sustainable farm practices led by evolving consumer preferences

Leadership in transitioning towards low carbon production across our sphere of influence.



PEOPLE

Instill a culture of best in class governance

Deliver effective governance extension for current and up and coming governors

Offer scholarship opportunities that support our people and their communities.



PROSPERITY

Delivering a compelling shareholder value proposition

Transparent and authentic relationships with all stakeholders

Delivering consistent returns on equity

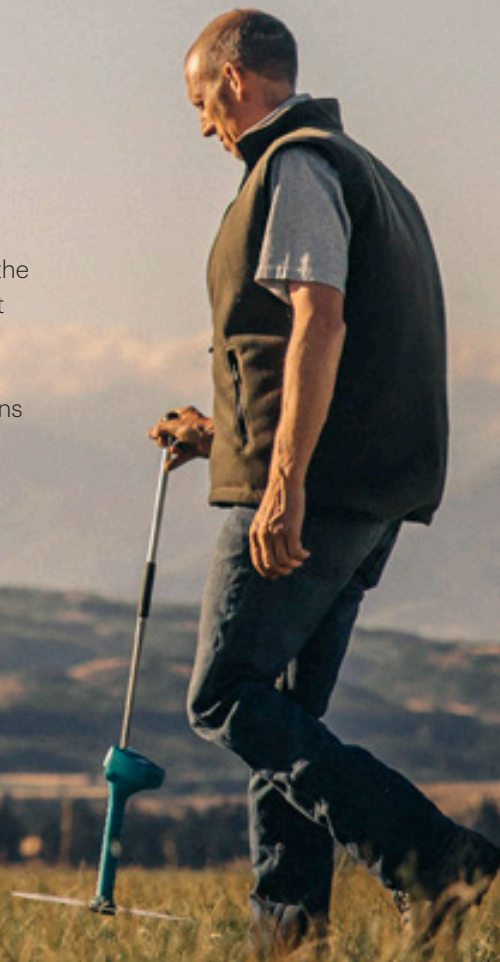
Ensuring the integrity of the Partnership's founding documents are maintained.

LONG TERM SUSTAINABLE VALUE CREATION

Co-operative Strategy re-defined

In 2019 the Co-operative embarked on a process of reviewing and redefining our strategy.

The role of the Co-operative has matured since the formation of our partnership with Shanghai Maling. Our constitutional review which we completed in 2018 aligned aspects of our role to the new operational model of Silver Fern Farms Limited. At the same time, it set new rules governing the construct of our Board of Directors, including eligibility and maximum terms for directors. This up-to-date Constitution provided your Board strong foundations with which to review and strengthen our strategy.



While no longer governing the day-to-day operations of Silver Fern Farms Limited, we continue to have a crucial role – one that is more than simply that of an investor. We are determined to build on our strong foundations and make sure our Co-operative is sustainable and continues to create enduring value for shareholders. Silver Fern Farms Co-operative's role is to support farmers now, but just as importantly to support future generations of food producers.

OUR PURPOSE IS ONE OF

'Leading progressive food producers committed to a sustainable future'.

OUR VISION IS TO BE

'A proud collective of consumer-focused farmers, innovating to meet the highest possible standards of sustainable farming practice.'

This new vision and purpose for our Co-operative align with Silver Fern Farms' vision, which was refined in 2018. Our vision supports Silver Fern Farms in its drive towards 'being the world's most successful and sustainable grass-fed red meat company'.

We are a Co-operative with a long history, so naturally we have a role to bring together our farmer shareholders to leverage our collective strength. This collective strength will benefit your Co-operative, our own individual farm businesses, and importantly the business which processes and markets sustainable red meat – Silver Fern Farms Limited.

To meet changing consumer preferences for red meat we must continue to adapt our farming practices and to strengthen our commitment to sustainability. Mere compliance will not maintain a market leading position. Your Co-operative understands it has a role to play in supporting its farming members in achieving these sustainable farming practices. This is an essential and a natural

link to our processor and marketer Silver Fern Farms Limited, which needs to source livestock from trusted, loyal suppliers of sustainably farmed stock.

This redefined strategy for your Co-operative will keep us clearly focused on our future. Our collective strength in how we all perform underpins Silver Fern Farms Limited's performance.

The success of each of our own farming businesses relies on a financially strong and resilient processor and marketer. Our strength together delivers strength for the next generation.

Our path towards long-term, sustainable value creation is supported by activity under the three pillars of Planet, People and Prosperity. Aligned with the World Economic Forums leading practice on reporting and creating sustainable value¹ we believe this approach enables us to set the foundations for a future where we can grow our performance together and demonstrate our new strategy to support world class sustainable farm practices led by evolving consumer preferences.

To provide greater transparency in our reporting of the performance of Silver Fern Farms Co-operative Limited, in partnership with Silver Fern Farms Limited, we have developed a pathway towards integrated reporting. Integrated reporting looks at how our strategy, governance, and performance lead to the creation of sustained value over time. Not only will it better integrate the reporting of our Co-operative with that of Silver Fern Farms Limited, importantly it aims to show a more complete picture of our business impact and contribution beyond simply reporting a financial result and key activities for a year. It strongly aligns with our refreshed Co-operative strategy and Silver Fern Farms Limited sustainable chain of care. Together we have developed a roadmap that will focus our efforts on enhancing accountability, business resilience and sustainability. This roadmap is further outlined in "Our sustainable chain of care".

While this Annual Report is not yet an integrated report², we will be looking at our 2019 financial year through the three pillars of Planet, People and Prosperity.

1. www3.weforum.org/docs/WEF_IBC_ESG_Metrics_Discussion_Paper.pdf

2. In accordance with the Integrated Reporting Council (IRC)'s Integrated reporting <IR> Framework.



PLANET

World class sustainable farm practices led by evolving consumer preferences

Leadership in transitioning towards low carbon production across our sphere of influence.

Consumers expect all value chain participants to look after the land and resources with an ever-growing level of care. Care for the planet is something farmers, as guardians of the land, can have an enduring impact on and affinity for. We can share this story of toil and passion with our customers and consumers to create value for our food.

Support for shareholders linked to market expectations is where your Co-operative is having a meaningful impact. The programmes where we have assisted over the past three years include our successful market tours, scholarships and governance programmes.

We are very supportive of Silver Fern Farms Limited's drive into understanding the challenges and opportunities of operating in a zero carbon world. We have been involved in responses to domestic policy related to environmental sustainability, and discussions regarding carbon on farm.

The advancement of the New Zealand Farm Assurance Programme is an important development for our industry. It links on-farm practice to common standards expected by the market. It also has benefits in aligning our practices with domestic regulatory commitments. The continued uptake by farmers of the New Zealand Farm Assurance Programme is one we support, especially as it ties into market-led value-added supply programmes which our loyal fully shared suppliers receive preferential access to.

Consumers' expectations advance rapidly, and we need to respond by looking for the opportunity to support customer-led solutions with our on-farm actions.

We believe there is value to be attained in the market through doing this well.

We understand the complexities and potential duplication of effort of operating in this space, especially regarding on-farm environmental management. We are taking a considered approach to how we best extend our on-farm support to help us meet market expectations of sustainable farming practice.



PEOPLE

Instil a culture of best in class governance

Deliver effective governance extension for current and up and coming governors

Offer scholarship opportunities that support our people and their communities.

The Constitution has created the framework that has aided us in creating a pipeline for constructive renewal of governance in our Co-operative.

At our 2018 Annual Meeting, Mid-Canterbury sheep and arable farmer Gabrielle Thompson was announced as Silver Fern Farms Co-operative's first Board Appointed Farmer Director. A trained veterinarian and chartered member of the Institute of Directors, Gabrielle is also a Director of 'Rural Co', a Mid-Canterbury rural supplies company.

This is an important development and a result of our successful constitutional review in 2018. It has assisted our Board in how we can build governance depth in our business.

Independent Director Tony Balfour stepped down from the Co-operative's Board at our 2018 Annual Meeting in May, ending a 10-year association with Silver Fern Farms. Tony joined the PPCS Board in 2009. Tony was Silver Fern Farms' first independent director with consumer marketing experience, and his experience added much-needed diversity of thought which supported our evolution to Silver Fern Farms and the brand we are so proud of today.

The ability to transition smoothly is one we are pleased to have successfully achieved at the Chair level.

Rob Hewett passed on the role of Chair at last year's Annual Meeting, as the first stage of a planned succession for the Co-operative and Silver Fern Farms Limited. Rob remains the Co-Chair of Silver Fern Farms Limited and a Director of the

Co-operative. Rob was honoured by Co-operative Business New Zealand in 2019 with the "Outstanding Co-operative Contribution Award" for his significant contribution to the co-operative movement over the past decade.

Within our Board we have a process of external assessment and feedback. It is a rigorous process and is one that aids our development and keeps directors current and performing.

To support potential future directors, we continue to enhance the 'To the Core' Governance and Leadership programme which we run in partnership with Farmlands. 'To the Core' is a 3-day programme which introduces our shareholders to governance and leadership of co-operatives by providing access to experienced New Zealand directors and senior company executives in order to be able to develop their skills. 64 people have been through the course since it was established in 2016.

The Co-operative offers additional governance and leadership development scholarship opportunities. With the support of the Burnside Hart Co-operative Education Trust we support up-to two shareholders each year to take part in the Fonterra Governance Development Programme, the Kellogg Rural Leaders Programme and the Agri-Women's Development Trust Escalator Programme.

During 2019, we provided a scholarship to Canterbury farm manager Valerie Walpot who attended the Kellogg Rural Leaders programme. It was very fitting that her topic was 'Supporting environmental sustainability in the red meat sector'.



PROSPERITY

Delivering a compelling shareholder value proposition

Transparent and authentic relationships with all stakeholders

Delivering consistent returns on equity

Ensure the integrity of the Partnership's founding documents are maintained.



Our Co-operative's Financial Highlights

\$35.1M

—
NET PROFIT
BEFORE TAX

\$34.9M

—
NET PROFIT
AFTER TAX

DEBT FREE

—
\$17.7M

Cash in hand

3

—
YEARS IN A ROW
OF PROFITABLE
RETURNS

TOTAL
SHAREHOLDER
EQUITY

—
↑12.9%

Co-operative financial result

Year Ended 31 December 2019

Silver Fern Farms Limited's result for 2019 of a Net Profit After Tax (NPAT) of \$70.7m, Net Profit Before Tax (NPBT) of \$89.6m and Earnings Before Interest Tax Depreciation and Amortisation (EBITDA¹) of \$124.3m was the strongest financial result in the past decade.

This result is more fairly representative of the significant scale of the business and our investment in it.

Up until late March 2020, the Silver Fern Farms Limited Board declared a dividend to its shareholders, within the parameters contained within the Shareholders Agreement, one of the documents that underpins our Partnership with Shanghai Maling.

In turn, your Co-operative's intention was to retain a portion of that dividend and pay out the remainder by way of a fully imputed dividend and Patronage Reward.

Retention of a proportion of funds was deemed by the board as essential to:

- Build resilience in the Co-operative
- Maintain an operating budget largely generated from interest on reserves in the current low deposit interest rate environment
- Further expand our shareholder benefits offering with a focus on helping food producers become market leading from a sustainability perspective.

1. EBITDA is defined on page 2

However, since balance date, Covid-19 has fundamentally changed the market and our operating situation. Market dynamics are changing daily making scenario modelling of short/medium term financial impacts difficult to accurately determine. Liquidity and cash flow management will be critical for optionality in managing Silver Fern Farms Limited's relationships with all stakeholders in uncertain times.

Silver Fern Farms Co-operative and Shanghai Maling have made the decision and requested Silver Fern Farms Limited defer the dividend payment until the outlook for the global operating environment becomes clearer. As we come through the current crisis and enter a 'new normal' Silver Fern Farms Limited's Board will gain more clarity around timing payment of the dividend.

We remain confident that Silver Fern Farms Limited is in a strong financial position. With cash on hand in the business, they will be equipped to respond to the pending rise in consumer demand post Covid-19 disruption.

Flowing out of Silver Fern Farms Limited's performance we turn to the financial result of your Co-operative.

We report a net profit before tax of \$35m for the 12-month period from 1 January 2019 through to 31 December 2019 and an after tax profit of \$34.9m. This builds on the previous periods' positive performance.

At the Co-operative level we remain in a strong position. At balance date, 31 December 2019, we remained free of debt, and had cash on hand and short term deposits of \$17.7m, and Total Shareholder Equity of \$303.8m, up from \$269.1m in 2018.

The administrative overhead for the Co-operative for the 12-month period was \$0.4m, \$0.3m below last year's \$0.7m. The higher expense in 2018 was primarily due to the costs associated with the Constitution review. Up to \$0.5m of annual costs are met by Silver Fern Farms Limited as agreed under the terms of our partnership.



The Share Standard

is based on the typical volume of stock units that a supplier provides to Silver Fern Farms in a calendar year.



A lamb/bobby/mutton represents
1 stock unit



a deer **6 stock units** and



a cattle beast **12 stock units**.

To qualify as fully-shared the following applies:

- For supply up to 5,000 stock units, the multiplier is **8 shares per stock unit**, and over 5,000 stock units an additional **3 shares per stock unit**.
- Our largest suppliers only need to hold **200,000 shares** in the Co-operative to be classified as fully shared.

2019 a solid year for Silver Fern Farms Limited

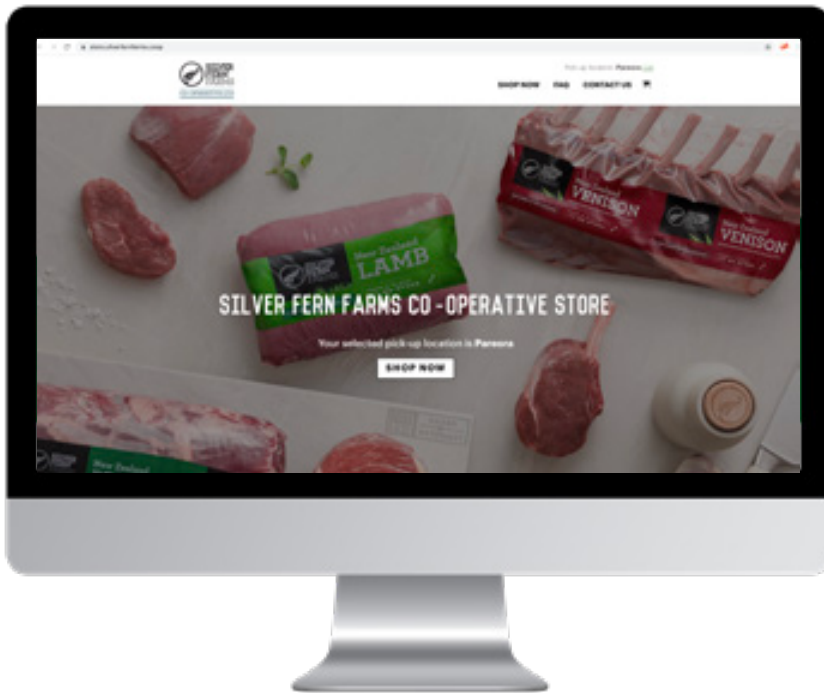
2019 was a solid year for Silver Fern Farms Limited off the back of a rising global market for protein. While their result is covered in detail later in this report, Co-operative Shareholders should see Silver Fern Farms Limited's level of profitability as a step in the right direction to deliver sustainable returns to you as a shareholder.

Silver Fern Farms Limited delivered a result representing a return on equity of 13.2 percent. The financial result was influenced by extraordinary factors in the market, but which the business was nimble enough to take full advantage of. With improved business disciplines, annual capital reinvestment and improving operational efficiencies in Silver Fern Farms Limited, shareholders were able to make the most of the opportunities the market presented.

CO-OPERATIVE'S RETURN ON EQUITY

12.2%

Shareholder Benefits programme



**ON-LINE SHOP
ORDERS**

—
\$485k

Our Shareholder Benefits programme included our fourth overseas market tour. 24 shareholders including Directors and staff toured China in May 2019 where a highlight was visiting the SIAL Shanghai Food Exhibition and spending time with our customers and SMA. These tours enable farmers to obtain a deeper understanding of the markets and customers for our grass fed, natural products.

Our scheduled 2020 return to this fascinating growth market, and to Korea for the first time, has been put on hold due to the global disruption caused by Covid-19. Demand for this tour surpassed our expectations with over 60 registrations of interest for the maximum 32 available places. Fully shared, actively supplying shareholders received preferential rights to this tour which we hope to extend next year, as it is becoming a valued shareholder benefit.

Other highlights included the addition of an on-line shop to the Co-operative's website for the purchase of red meat from Silver Fern Farms Limited. Suppliers and shareholders have placed orders of over \$485k since the on-line shop's launch in March 2019.

Leading into Christmas we also partnered with the University Bookshop who developed an online store (<https://silverfernfarms.unibooks.co.nz/>) of specially curated books designed to appeal to readers on the farm. While a small addition to what we offer, it is offered at no cost to us, and has been well received.

We believe these benefits contribute to delivering a compelling shareholder value proposition.

Shareholder benefits attracting active farmers

We welcomed 111 new shareholders to the Co-operative in 2019. 91.8% of these new shareholders have a supply relationship with Silver Fern Farms – they are actively farming. This is up on the 84% of new shareholders with a supply relationship who we attracted in 2018.

Additionally, we are seeing the effect of continued preferential processing space allocation for loyal fully shared suppliers. Based on the Patronage Reward levels of 400 Stock Units being the qualifier, shareholder supply as a portion of all supply over 400 stock units, has grown from 62.1% in 2018, to 63.9% last year.

This upward trend in preferential allocation assists how we grow value for our members. It is a measure we monitor to ensure on an 'all things being equal basis' when it comes to stock specification and timing that loyal fully shared suppliers receive preferential service commensurate with their investment in the Co-operative.

Non-supplying shareholders should also see this creation of demand for shares from suppliers as a positive trend as it creates enduring value for their investment.

Leading progressive food producers committed to a sustainable future

We will continue to develop our activity in-line with the vision and purpose set out in our re-defined strategy over the course of 2020.

It is important that at this time we accept that the environment we continue to farm and trade in through 2020 is not normal; it will also not last forever. A new normal will emerge and your Co-operative and its investment in Silver Fern Farms Limited is well placed to ride the storm and move quickly and efficiently out the other side.

To get through we must accept that we will all have to make some form of on-farm change or sacrifice. That said, the only way to get through this is together.

Together we will be stronger.

Lastly, I would like to thank all shareholders for your commitment to our Co-operative. My thanks also to our Board of Directors, our partner Shanghai Maling, our Shareholder Relations Manager, and Silver Fern Farms Limited management and staff for their efforts throughout 2019.



Richard Young

Chair
Silver Fern Farms Co-operative Limited



100% MADE OF NEW ZEALAND

100% MADE OF NEW ZEALAND

View from our investment



**Simon Limmer – Chief Executive
Silver Fern Farms Limited**

2019 was an outstanding year for providers of sustainable, grass fed red meat with rising market demand, and excellent farm-gate returns.

While global market conditions and domestic challenges move by the day in 2020, our achievements in 2019 set us up well to manage these challenges.

Silver Fern Farms is in the strongest financial position it has seen at any time in the past decade – and is robust enough to withstand the current global disruption caused by Covid-19. Our financial stability provides a platform to execute our strategy, develop our people, support our farmers, and feed New Zealanders and the world with sustainable, naturally delicious red meat.

<p>\$89.6M</p> <p>—</p> <p>Net profit before tax</p>	<p>\$70.7M</p> <p>—</p> <p>Net profit after tax</p>	<p>GENERATED</p> <p>—</p> <p>\$2.6B</p> <p>Revenue</p>
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For the 12 months ended 31 December 2019, Silver Fern Farms Limited revenue was \$2.6 billion and earnings before interest, tax, depreciation and amortisation (EBITDA¹) including share of associate earnings of \$124.3m (FY 2018: \$32.4m). We achieved a net profit after tax of \$70.7m (FY2018: \$5.8m) and a net profit before tax of \$89.6m (FY2018: \$6.3m).

The group had borrowings and funding working capital of \$130.8m at the end of December (in line with \$134.9m at the same time in 2018).

Total shareholder equity is at \$571m up from \$501m at the end of December 2018.

This was a significant lift in company performance compared to the 2018 financial year's result. It is a significant step towards our 2023 goal of achieving an aggregated profit over the 5 year period of over \$150m.

While market dynamics played a significant role in supporting this level of performance we executed our opportunities well – in the market, and through our operational management of the business.

This level of profitability of the business has enabled us to maintain our capital investment programme. We have invested in our infrastructure, operations and systems to become safer, to lower our environmental footprint, and to become a more efficient and effective market led producer.

Our capital reinvestment programme gained pace in 2019. The company invested over \$32m in capital expenditure for the period. Over the past three years the company has invested over \$90m in capital projects. In our key markets we also stepped up our local presence in sales and marketing capability and programmes. These are essential areas for us to maintain and build on our premium market position for Silver Fern Farms red meat.

1. EBITDA is defined on page 2



Our Vision

To become the world's most successful and sustainable grass-fed red meat company.



Our Purpose

To sustainably add value to New Zealand's natural grass-fed red meat by being the first choice for people who care about food.



Above: Cam McKelvie with daughters Chloe and Caitlin



Our Goals to achieve together by 2030

1.

Aggregated profit over the 5-year period of over \$150m.

2.

A level of 10% return on equity.

3.

Industry leading safety, quality and sustainability outcomes.



Above: John Douglas-Clifford with granddaughter Lily





A Plate to Pasture Market-led Organisation – The Markets

We came into 2019 following the worst December result the company had experienced in the previous ten years and an uncertain international political environment. However, the impact of African Swine Fever on Chinese pork stocks drove global consumer demand for protein and countered any downsides of Brexit and USA-China trade issues. 2019 was a China story.

With customers in China looking to beef and lamb items to fill some of the void left by the culling of pigs, it set a positive benchmark for other markets to follow and they responded accordingly. Beef experienced a rising market through the year with high demand and pricing for lean beef trim and items more popular with Chinese customers.

Strong farm gate pricing across beef and lamb were seen throughout the year with returns well above the 5-year average.

However prime beef cuts did not fare quite as well across all markets. Europe again experienced heat waves which added to the slack demand for beef steak cuts and was compounded by a glut of South American product flowing to the continent.

UK importer demand for lamb improved over the course of the year as the market began ignoring the chaotic uncertainty of Brexit. Customers then looked to secure product for their key consumption periods or risked missing out due to China’s seemingly insatiable appetite.

The Middle East and North American markets performed solidly, but also lost volume to China as they struggled to come up to the new pricing levels, and as China took on a greater range of cuts.

In December 2019 however, pricing levels in China threatened to move red meat out of the reach of many consumers and the government intervened, releasing reserve protein stocks to ensure the China New Year period would see greater affordability. As a result, pricing settled back sharply – though still well ahead of the previous year’s returns – and other global markets came back into relevance.

Venison returns started the year at record levels off the back of demand for manufacturing items. These markets fell off from mid-year as levels became unsustainable for health food manufacturing customers and pet-food customers.

Through all of these dynamic shifts and turns in the markets we have needed to remain strongly customer focused and agile in order to take advantage of the opportunities they present.

Our sales and marketing, and operational teams did an exceptional job in managing a changing market mix, growing our market penetration in markets such as China while still retaining optionality in traditional markets.

We are creating a stronger alignment across our market, operations and supply functions in order to drive more effective decision making and maximise market returns.



—
Rising demand in China.



—
Started the year at record levels.
Markets fell mid-year.



—
Rising markets in China.
Falling Prime markets in Europe.



The Silver Fern Farms brand resonates with our customers. We generated strong brand awareness domestically with consumers and with our retail and food service customers abroad through our 'Delicious Starts Here' marketing campaign, which ran through the year. The campaign takes consumers back to the source of their red meat, encouraging them to appreciate everything that it takes to deliver delicious red meat every time. Most importantly the brand is backed by consistent quality and service which drives consumer confidence, repurchase and therefore value across the product range.

Over the course of the year we developed our in-market capabilities. Importantly, we established our own entity in China and completed our first direct transactions. Establishing these complex business structures and the appointment of key staff gives us the advantage of stronger relationships with our customers, greater market knowledge and allows us to respond to market signals with greater agility.

This move will, over time, help us to build customer partnerships, leveraging our products and brand with their in-market capabilities to establish more stable long-term value. These relationships will also support our connection with consumers, leverage our attribute marketing and gain value from our investment in product traceability.

We also benefited from an increased presence in the North American market. The relationships our staff in-market built with retailers, and distributors, and with retail processing through our joint-venture partnership the NZ Lamb Company, hold us in good stead for when we expand our retail programme. Our collaboration with Beef + Lamb New Zealand's Taste Pure Nature campaign has also proven a successful addition to our pilot promotion. It is complementary in its messaging, and we have shown we can work collaboratively to promote the 100% grass-fed, naturally raised attributes of our product in a rapidly changing consumer market.

The refresh of our product packaging across all ranges, which we completed in 2019, was a further development in how we tell our Silver Fern Farms story. It has put our grass-fed point of difference front and centre with chefs and consumers.



Integrated Supply Base

On the livestock front, volumes processed were in-line with 2018 levels with no material change to market share across all species.

Market-led success has driven a competitive procurement environment. Market returns for beef have been at record levels across all classes. Lamb returns also hit record levels through 2019.

We know our farmer suppliers understand the value our team of Livestock Representatives bring to their businesses. Their service and advice are significant and is the key relationship most suppliers have with Silver Fern Farms. The annual Silver Fern Farms supplier survey shows that our suppliers' value them highly compared to alternative services. We are particularly proud of their commitment and relationship with suppliers.

We also know that we could better back their service with the support of technology. Significant focus has gone into digital integration across our supply chain. Benefits have already been seen in the areas of transport logistics, and the digital experience suppliers now enjoy through the Silver Fern Farmer app and supplier site which we developed and progressively released through 2019.

Bringing our sites into the e-ASD process has also eased the paperwork burden on-farm and enhanced traceability for our customers and regulators and has cut waste from our operations by significantly reducing errors from lost or incomplete information. These are examples of how we are driving towards the creation of an efficient supply chain with a focus on the areas of procurement and logistics. It has also set us up well to have greater visibility over our commitments to fully shared suppliers. We have refined processes to ensure shareholders have preferential access to programmes and report this to the Co-operative. Digitisation of our systems is about making dealing with Silver Fern Farms an easier and more satisfying experience for our farmers as much as it is about removing processes that waste resource and time.



Best in Class Operations

On a similar theme, our operations team made progress with our continuous improvement programme – STREAMLINE. This programme has now been rolled out across all of our 14 processing sites. We are seeing benefits in processing efficiencies and importantly in our product quality.

Our customers require product delivered to specification. We see delivering on a promise of quality as a point of market advantage for us. It is a foundation of our brand.

We are focused on *production, done safely to a high standard*. Ora Health & Safety remains a core programme for Silver Fern Farms. Protecting our people at work is an absolute given. We must, and will invest in the health and safety of our people. Based on our core Ora programme we continued to build a number of initiatives in 2019.

We undertook an extensive review of our health and safety incident reporting systems to improve the reliability of the reporting. This included cross-referencing everything in our own system with available data from ACC. The ultimate aim of this review is to provide us with much better data to address areas of harm and strongly support an open culture and absolute focus on safety. The review of how we report has resulted in the reported injury frequency rate significantly increasing at year end. (*Total Recordable Injury Frequency (TRIF) rate per 200,000 hours worked reduced from 6.7 in 2017 to 4.6 in 2018 but has risen to 9.4 in 2019*). We are confident that our renewed approach provides a more reliable foundation for which to measure improvements against. Our actual Accident Compensation Corporation (ACC) claims have slightly dropped (0.8% down) which indicates that although we have seen the increase in reported injuries, our overall injury rate has remained steady from 2018. Pleasingly, we saw a 30% reduction in high severity injuries.

We continue to build our cross-business health and safety culture which is supported by a leadership group called the Runanga. The focus of the Runanga is also shifting to help us achieve a wider reaching worker engagement process. This will allow us to better factor in their input into our strategic health and safety improvements. We have trained a number of facilitators and held Good Yarn mental health sessions at all of our sites. We are now rolling out these workshops over the next 2 years to ensure we involve the majority of our people directly in a mental health initiative.

We have worked constructively with our Unions to develop an effective employment relations environment. In 2019 we carried out the tri-annual review of many of our collective agreements. During these discussions we addressed conditions to ensure our people are equitably paid for the skilled work they do and for the additional time that is needed for them to prepare themselves for work with their personal protective equipment. We operate in regional New Zealand, in an environment where labour shortages are commonplace, where we strive to be an employer of choice. We have programmes in our business to ensure that we attract skilled people, keep them safe, develop them and retain them.

The working environment has seen significant capital investment. \$32.7m has gone into areas including Health & Safety, the cold chain, in-plant technology, information technology and systems and equipment upgrades. It has also gone into wastewater management, water and energy infrastructure. These areas are all critically important to our operations.

In a first for New Zealand's red-meat processing and marketing sector, Toitū Envirocare verified our processing carbon footprint, based on our 2018 production year. This was a major programme of work and crucially allowed us to focus on developing an emissions reduction plan that aligns to our corporate vision and sustainability goals.

We are making good progress in reducing our total energy use – especially from fossil fuels – and are currently on track to meet our 2020 goals. We have built our capital investment off the back of engaging specific external expertise through the Energy Efficiency and Conservation Authority (EECA) and Waikato University to help us develop a path to lower energy and Greenhouse Gas emissions reductions. We have some ambitious goals to reduce our energy and carbon footprints further, these require large capital expenditure through a planned programme to 2030, but we are determined to make a substantial contribution in line with New Zealand's carbon and energy goals.



Our Operations

↓ **30%**

—
**REDUCTION IN
HIGH SEVERITY
INJURIES**

14

Plants throughout
New Zealand.

7,000

—
Staff in the peak of season

ACC CLAIMS

↓ **0.8%**

\$32.7M

—
**CAPITAL
INVESTMENT**



Looking Ahead

Lastly, a future view of our markets. It is always challenging to tease apart medium to long-term trends from the day-to-day fluctuations surrounding customer requirements for specific orders. 2020 has added a dimension not seen before at this scale in over 80 years – when the world was last experiencing such global disruption – and this has even greater global implications to our future.

At the time of writing many markets are in a state of ever-increasing lockdown, affecting certain channels to market and supply chains. This is a much-needed response by Governments to control the spread of Covid-19 to protect people. It is uncertain how long this situation will endure or what the impact will be on our global economy.

We are serving a world in a time where people demand trusted sources of food like we have not experienced before. Global consumers are intensely focused on their food security today. Tomorrow, they will increase their focus on the source of their food; its nutritional value, how it is sustainably produced, its carbon life cycle and its impact on climate change, its traceability and how people in the supply chain are supported through the life-cycle of its production. We continue to build a strong platform for our business response to a changing climate, shifting consumer demands on low carbon production and playing our part to help New Zealand meet its international commitment to climate change. These trends will not go away – they will only intensify. This environment presents us with an opportunity.

We know this because just like 2019 but in a completely different way, 2020 will also be a China story. In a Covid-19 recovering China we are meeting consumers in Shanghai who are seeking out the food we produce in New Zealand. Safe, natural and trusted. Through supply-chain disruptions, customers have continued to show demand for Silver Fern Farms' red meat to deliver to this consumer need. Other global markets will follow this lead as they work through changing consumer habits and supply-chain disruption to come out the other side of Covid-19.

As of today, global foodservice channels are effectively closed, however, the counterpoint is the rise in demand for red meat retail items. North America's appetite for grinding beef and retail product is strong as consumers opt to stock up on hamburger patties at supermarkets – in preparedness for the significant Covid-19 impact. Retail items and product destined for ready-meals are in strong demand in the UK. Domestically, New Zealanders rely on readily available mince and affordable slow-cook cuts. This pivot in demand all acts to offset the negative impact on the important restaurant trade which was the heart of our value-added foodservice business. It is also a useful counter to the downturn in Europe, and the Middle East which are both facing disruption in this environment.



Our challenge is to adapt to these new customer channels and navigate a chaotic global supply chain, to get the products on tables in front of consumers. The appetite is clearly strong. The path to their plates continues to be a winding one.

While there is uncertainty and opportunity, this is also a pivotal time for us.

We have stepped up to the Government's call for us to act as an 'Essential Service' under Alert Level 4 controls. Our primary responsibility is the protection and wellbeing of our people and the community. We have implemented a response plan across our business.

All of our people should be very proud of this recognition alongside emergency services and other food companies. We are needed to produce safe food for our country, and safe food for the world in return for goods and services our country needs from others globally.

We have implemented working practices which will help prevent further spread of Covid-19. Our ongoing licence to operate depends on us being able to manage our facilities in a safe manner, something which we are constantly assessing for ourselves, and for which we are accountable to the Ministry of Primary Industries who are overseeing our revised operating procedures. We have adapted to do this safely, as the well-being of our people is beyond compromise.

The efforts made to reconfigure our plants to keep our people safe in a fast-moving environment have been exemplary and we thank the support of our people and the Meat Workers Union to make these changes happen.

Silver Fern Farms is well placed for success. You, and all Silver Fern Farms stakeholders are critical to our future and I must acknowledge your contribution to achieving our vision – creating the *world's most successful and sustainable grass-fed red meat company*.

Lastly, I would like to thank our food people – our heroes. The way you are working with care, for your colleagues and for the food you create for our country and our world is exceptional. Your mahi, your skills, your dedication is hugely valued.



Simon Limmer
Chief Executive
Silver Fern Farms Limited



Our Sustainable Chain of Care

Our Sustainable Chain of Care is fundamental to achieving our vision and we have expressed this through our progress across eight material sustainability issues.

These were identified in 2016 by internal and external stakeholders and we developed a group of goals and targets around these, to drive sustainability decision-making deeper into everything we do.

Our reporting on our material issues helps to demonstrate our progress. It also assists us as we evolve our goals and targets over time to adapt and respond to changing stakeholder expectations.

Silver Fern Farms uses this process to demonstrate how we navigate and overcome complex sustainability challenges responsibly. It helps us protect and build our natural, people, social and economic capitals, and share this progress through greater transparency to help grow trust in the way we produce natural, 100% Made of New Zealand grass fed red meat.

You can read more about our approach to sustainability at:
**[silverfernfarms.com/our-company/
our-sustainable-chain-of-care/](https://silverfernfarms.com/our-company/our-sustainable-chain-of-care/)**



Our Journey

2015

8

AUG 2016
Material sustainability issues process completed – refined to 8 issues



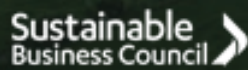
SEP 2017
Sustainability Goals, Targets and Initiatives agreed, Sustainability Policy adopted



SEP 2018
Sustainable Chain of Care first report launched



APR 2017
Sustainability Leaders Group formed



DEC 2015
Joined Sustainable Business Council



CLIMATE LEADERS COALITION

JULY 2018
Joined climate leaders coalition

OCT 2018
Carbon reporting process developed and plan to reduce carbon footprint developed



The Aotearoa Circle

OCT 2018

Joined Aotearoa Circle as a founding member

TOITŪ



SEPT 2019

Toitu carbon reduce certified carbon footprint achieved - New Zealand industry first



NOV 2019

2018 Sustainability Report Card Published

2020

BEES

FEB 2019

Began supporting Trees for Bees



NOV 2019

Became a member of the Global Round Table for Sustainable Beef



APR 2020

Sustainability reporting incorporated into Co-operative Annual Report



Demonstrating our path to sustainable value creation through integrated reporting

The range of food options available to consumers around the world continues to grow. Every food show around the world is promoting new products, or old products marketed in ever more sophisticated ways to highlight their attributes to consumers. The expectations of discerning consumers remain high. They want to feel good about their food choices. Our plate to pasture, market-focused strategy is well placed to meet their expectations, but we will have to work for it.

Part of that work is in how we show our progress to our people, our customers, our farmer suppliers and our wider community. You'll notice some changes in this report and over the next two years as we change the way we report.

Integrated reporting helps to move beyond reporting our financial results to openly sharing progress across a much broader range of measures. This approach also helps demonstrate how we are making progress across our sustainability goals. Integrated reporting, however is only a natural reflection of a much wider and deeper, transparent business approach to sustainability that discusses the key risks and opportunities associated with each of our material issues, how we are responding to those and how we are using those actions to create real value for our people, for shareholders, for the environment and communities in which we operate and for our customers and consumers all over the world.

In our Co-operative report we talked about how we have reframed our reporting in line with best practice including framing our reporting under Planet, People and Prosperity. For Silver Fern Farms Limited, we want to report in a way that more clearly links our commitment to sustainability and how this drives value to us as a business, to our suppliers, the environment and communities in which we operate and how it is expressed in the attributes and value of our product. Not only is this moving us to best practice business reporting but it helps us to be able to demonstrate how we are considering climate change amid other strategic risks and opportunities within our sustainable chain of care. This approach brings together the elements of our first sustainability report in 2017 and our updated 2018 report card, where we discuss our progress against our targets and goals for each of our material issues.

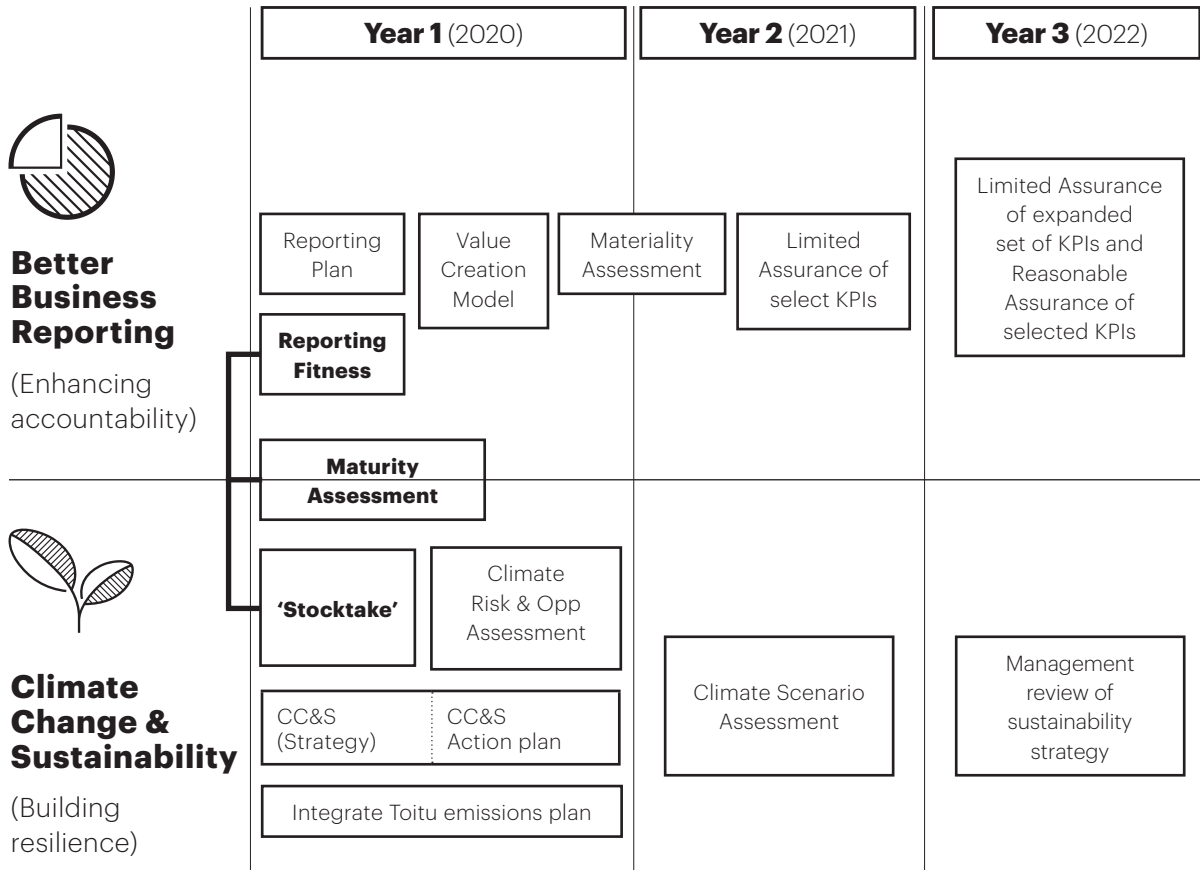
In accordance with this approach we have developed a roadmap to deepen our integrated approach to sustainable value.

In 2020 and into 2021 we will be continuing to mature our approach to integrated reporting. A first step is assessing our current approach against best practice for integrated reporting. From this review we will be able to enhance our reporting on our progress towards our 2020 sustainability targets. In addition, our modelling of climate change risk on our supply and operations will continue, supporting our decisions on energy use and how we work with our suppliers to support our transition to a low carbon operating environment. We will be setting new targets and reassessing our priorities by undertaking a comprehensive review of our material issues, integrating those with our business planning and develop an enhanced and independently verified methodology of measuring and reporting our commitment to sustainability and climate change.

Our Proposed Sustainable Value Roadmap

WORK PROGRAMME*

Objective of the work programme is to support Silver Fern Farms Limited in developing an effective and efficient climate change and sustainability (CC&S) strategy that meets the moral and fiduciary duties shareholders, farmers, customers and other key stakeholders, through two complementary pathways.



*Proposed work programme and activities to be revisited as part of Silver Fern Farms Sustainability Strategy refresh (end 2020)



Case study

Low carbon future crucial pillar of sustainable chain of care

One of the topics which has been top of mind both domestically and internationally is the global response to climate change. In New Zealand we are all seeing the rise of concern around our world's climate and our Government's response to this through the introduction of the Zero Carbon Act. The combination of this international and domestic concern is the increasing pressure, and risk on our sustainable livestock supply. It is materialising through changing land use on food-producing hill country farms to plantation forestry, and has significant ramifications on the mosaic of our regional communities.

There is no doubt in our mind that we need to lead on carbon. Tackling this issue is becoming an important part of how we create value in the market for our Silver Fern Farms product – by demonstrating to consumers and customers that we are doing the right thing. The pathway for New Zealand to achieve a carbon zero goal is critical to ensure the sustainability of regional New Zealand.

On our 2019 supplier roadshow, through our farmer and customer surveys, and our workshop sessions at the 2019 farmer conference we have heard significant evidence supporting our leadership position on carbon.

These interactions also reinforced that there is a high level of concern that speculation around future carbon policy is driving productive food-producing land into plantation forestry. We are concerned about hollowing out of rural communities through large-scale, monoculture pine plantations on productive livestock finishing country.

While it is ultimately a landowner's choice as to how they make the best use of their land, we believe there is an opportunity for the right trees in the right places on farms. When done well, it enhances the natural, biodiverse, farming environments we have in New Zealand and supports the value we can create in market for our sustainable, natural red meat.

We also consider that there is value in the carbon claims we can make and the work we can do with shareholders to manage carbon on their farms. We will continue to work proactively with our suppliers to ensure that there is a sustainable future in red meat produced in low carbon systems.

We worked with both Beef + Lamb New Zealand and the Meat Industry Association to ensure that we aligned our position to Government through submissions on the Zero Carbon Bill. We were also able to demonstrate significant industry leadership in respect to carbon both as a processor and with our suppliers.

Whilst Government has agreed to an industry-led solution to managing carbon reductions in our sector, what shape that will take is currently being refined. What is clear is that domestic pressure will continue to build for farmers and our industry to act.

We believe farmers and processors will be required to report their emissions and take steps to reduce them over time, and that customer and consumer interest in the actions we are taking to manage carbon will continue to build. We are stepping up to that expectation because we believe it is the right thing to do.

In conjunction with our partner Toitū Envirocare, and in-line with our commitment to the Sustainable Business Council and Climate Leaders Coalition, 2019 saw Silver Fern Farms become the first red meat processing and marketing company in New Zealand to publicly verify and report our emissions. We are proud to have gained CarbonReduce certification which meets the globally recognised ISO 14064-1 standard. It helps us to show we are committed to measuring, reporting and reducing our emissions.

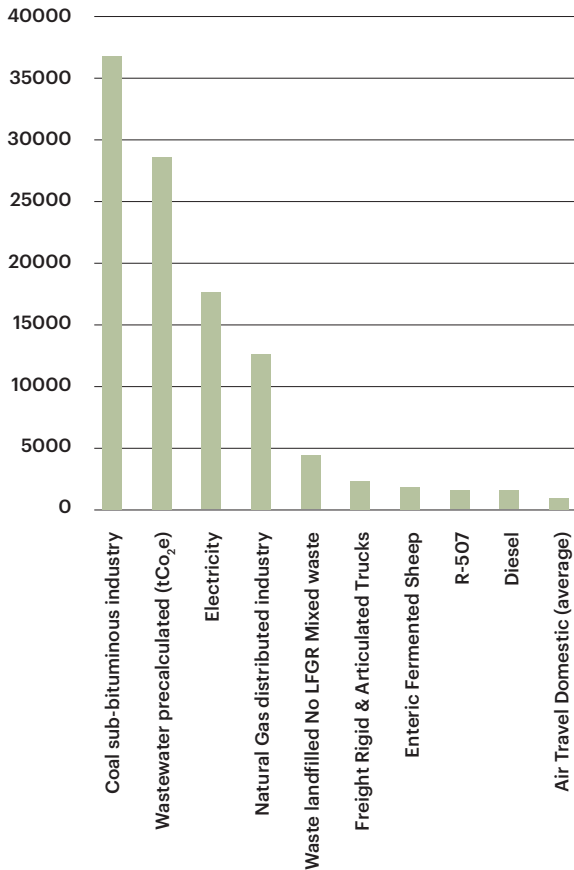


Reducing our emissions

A critical component of gaining the Toitū Envirocare certification process is the development of an emissions reduction plan. We have commenced work on a combination of process changes and capital expenditure to drive emissions reductions. This commenced at a low level in the 2019 year and will continue over the next three years. We have made good progress on reducing our fossil fuel use with an 8% reduction on 2018 levels in 2019.

Our next and largest step will be developing and implementing a reduction plan that adheres to science-based targets. This is where we need to demonstrate our commitment to remaining within a band of warming. The only way we will be able to do this is to transition our plants that rely on coal to alternative energy sources. Developing this plan and aligning it to our future infrastructure and capital investment will be a key project in 2020.

GHG Operational emissions by source - Top 10



Our emissions profile

CO₂ EQUIVALENT
EMISSIONS FOR
2018

113,475T

GHG EMISSIONS
REDUCED BY

2030

1st

Red meat processing and marketing company in New Zealand to publicly verify and report our emissions

↓ 7.7%

Reduction in energy use per kg produced

You can read more about our emissions and our CarbonReduce certification on our website at:
www.silverfernfarms.com



Supporting Our Farmer Partners

To support our suppliers, we have established a pilot group of farms and technical expertise to understand and support low carbon farming, linking it to our food, and its place in the market. To Silver Fern Farms this is a critical link we need to make. While domestic climate policy is placing increasing cost and complexity for farmers, the only way we see to counter this is through reducing those costs, and/or creating additional value for on-farm carbon sequestration, or for low carbon red meat products in the market. In addition to developing our emissions reduction plan as a processor this will be a key focus of our sustainability work in 2020.

Partnerships key to success

In addition to our long-term memberships and participation in industry groups such as the Meat Industry Association, Agricultural Health and Safety Action group, and food safety and animal welfare groups, we continue to expand and deepen our network of partnerships across our material sustainability issues. These are important for a number of reasons. It enables us to use these partnerships to champion a primary industry position, demonstrate leadership across our industry and across business in New Zealand, learn from others, gain access to funding for innovation and support our extended New Zealand and international networks. Our ongoing membership of the sustainable business council, the climate leaders' coalition and the Aotearoa circle have not only supported a primary sector focus to their wider work but have also provided external peer review and assessment of our progress that supports our interaction with Government and customers.

These partnerships also enable us to support others where their goals align with our strategy and vision. A great example of this includes our support for the Trees for Bees programme to support and encourage landowners to protect and plant vegetation that enhances and supports year-round food sources for bee colonies as a critically important provider of pollination and honey. We are actively seeking additional partnerships to enhance our progress towards our vision.



Advancing our commitment to the Farm Assurance Programme

The benefits of an industry wide Farm Assurance Programme continue to grow, especially with our conversations with customers. Red meat produced under the NZ Farm Assurance Programme comes with the assurances of integrity, origin, traceability, biosecurity, environmental sustainability and animal health and welfare. Silver Fern Farms works in partnership with our livestock suppliers to operate the New Zealand Farm Assurance Programme. Participation in this programme assures our customers that our products come from animals that have been raised in compliance with New Zealand's animal welfare codes of practice, and that potential food safety risks have been controlled. The New Zealand Farm Assurance Programme is consistent with Silver Fern Farms' Quality Management System, and supports the objectives of our Environmental and Animal Welfare Policies. It is accredited to ISO/IEC 17065 and meets legislative and customer requirements. 2019 saw our suppliers' commitment to that programme continue to grow. In addition to growing the number of suppliers who reached full compliance with the standard, Silver Fern Farms is contributing to leading the development of an advanced standard under the programme that will continue to drive continuous improvement in all areas of sustainability on farm. Continuing to enhance the programme is key to retaining our trust domestically and providing leadership internationally to support our leading market position.

Community

We continued to up our investment in community events in 2019 where we spent \$573,840 in regional sponsorship. We supported over 300 events and organisations over the course of the year. A critical part of that process is continuing to earn our place in the community by making strong connections with our people who work at our sites and the events that they support and participate in throughout their communities. We also continue to grow the connection between farmers and our sites and their staff. Events such as our best boning competition, whanau days, 'passion on a plate' competition and our support for sports clubs, farming events, schools, catchment groups, rescue helicopters, farm discussion groups and award programmes all help to support and grow our place in the community.

Graduate programme

A critical part of a sustainable future for the red meat sector is investing in our young people. The scale, breadth and complexity of Silver Fern Farms creates numerous opportunities for a rewarding and challenging careers. As part of our People Strategy, our Graduate Programme seeks-out two recent graduates per year who are keen to join our business and get a first-hand view of the industry. Our graduates work in real jobs with real responsibilities. The programme exposes them to different parts of the business and supports building our links into a new generation of primary industry leaders.



Health and Safety

Protecting our people at work is an absolute given. We must, and will, continue to invest in the health and safety of our people. Based on our core Ora programme we have a number of initiatives aimed at improving the health and safety of our people. We have a cross-business health and safety leadership group called the Runanga. The focus of the Runanga is also shifting to help us achieve a wider reaching worker engagement process. This will allow us to better factor in their input into our strategic health and safety improvements.

We have trained facilitators and rolled out Good Yarn mental health sessions at all of our sites. We are now rolling out these workshops over the next 2 years to involve the majority of our people directly in a mental health initiative.

2019 involved an extensive review of our reporting systems to improve the reliability of the reporting. This included cross-referencing everything in our own system with available data from ACC. This review of how we report has resulted in the reported injury frequency increasing at year end but despite that resulting in a higher number of actual injuries reported we are confident that this approach provides a more reliable foundation for which to measure improvements against.

Guardian Bandsaws

2018 saw the beginning of the implementation of a project to lift the safety of our people and this continued with greater pace in 2019. Swapping traditional bandsaws for the 'Guardian Bandsaw' brings a combination of the latest digital and intelligent engineering technology to protect people using bandsaws. The Guardian saw shuts off in milliseconds to avoid the chance of cutting the operator.

A full roll out of over 50 saws, costing over \$6 million across all our sites will be completed in 2021. This is an important safety initiative, it's part of our 'Ora H&S programme', our real and sustained commitment to health and safety.

Changing for good – reducing our plastic use

Our sustainable chain of care is important to us and we are working hard to embed all aspects of sustainability into our business decision making. One of the important ways of doing that is listening to our customers and deeply understanding consumer trends. There is a domestic and international focus on reducing plastic use and more importantly the amount of plastic entering our natural environment. The starting point for Silver Fern Farms is reducing the amount of plastic we need to use, rather than focusing on the type of plastic we use. In 2019 we developed a cardboard sleeve, which replaces the outer plastic packaging on our New Zealand retail packs. The move to our new packaging shows that we are actively listening and responding to our consumers; the outer cardboard sleeve is sourced from sustainably managed forests and is kerbside recyclable. This is one of a number of steps toward reducing the amount of plastic we need to use.

It builds on the good work we have already done to reduce plastic use across the business, including our long term partnership with our packaging partner sealed air and our 50% reduction in stretch wrap used for export pallets, which has collectively reduced our plastic use by 80 Tonnes annually across our supply chain.



Our Sustainable Chain of Care Highlights

PEOPLE STRATEGY

Silver Fern Farms Graduate Programme seeks out two graduates a year.

Good Yarn mental health session started.

\$6M

Investment in Guardian Bandsaws for greater safety.

574k

Community sponsorship

80TN

reduction in plastic use across our supply chain since 2018.

↓50%

Reduction in stretch wrap used for export pallets.















Our 2019 Sustainability report card

2020 TARGET	2019 PROGRESS	PROGRESS	NEXT STEPS	UN SDG
ENGAGED PEOPLE SUSTAINING COMMUNITIES				
<p>Trending improvement in engagement</p> <p>Annual reduction in injury rates</p> <p>Targeted regional sponsorship</p>	<p>0.8% reduction in ACC claims</p> <p>9.5 TRIFR</p> <p>\$573,840 in regional community sponsorship</p>	<p>Guardian bandsaws installed</p> <p>Digital staff communication platform launched – over 2000 users</p>	<p>Frontline leadership programme</p> <p>GoodYarn workshops</p> <p>Continue to build community engagement and strategic sponsorship</p> <p>Support initiative that makes meat affordable to high need communities and families</p>	
SUSTAINABLE FUTURE FOR FARMERS				
<p>Increase supplier loyalty through a competitive and valued service offering</p> <p>Measured by an increase in suppliers involved in programmes</p> <p>Advocate and provide leadership</p>	<p>28.5% increase since 2016</p> <p>Over \$4.2M paid in programme premiums</p>	<p>Increasing volume into supply programmes</p> <p>Industry leadership on sustainability issues</p> <p>New Co-operative strategy</p> <p>Colmar Brunton Top 20 Companies</p>	<p>Build new supply programmes and grow market share for programme stock</p>	
FOOD SAFETY AND QUALITY				
<p>Maintain our 100% record for food safety</p>	<p>100% record for food safety since 2016 with zero recalls</p>	<p>Food safety training</p> <p>Company quality reset programme</p>	<p>Further quality initiatives embedding reset programme, quality training and food safety culture into business</p>	
ANIMAL WELFARE				
<p>100% of livestock in market-linked programmes accredited to the National Farm Assurance Standards</p>	<p>100% farmers supplying programmes are Farm Assured</p>	<p>Finalise new Farm Assurance Programme embedding strict animal welfare requirements into supply and improving environmental planning, actions and reporting</p>	<p>Build Farm Assurance programme participation throughout supply</p> <p>Improved transport logistics reduce animal wait times</p>	
MARKET ACCESS				
<p>To be viewed as a trusted partner by Government and industry bodies through involvement in brokering trade agreements and involvement in trade visits</p>	<p>Progress to be evaluated</p>	<p>Market access plan developed</p>	<p>Survey stakeholders end 2020</p>	

KEY: On track Requires additional focus



Our 2019 Sustainability report card

2020 TARGET		2019 PROGRESS	PROGRESS	NEXT STEPS	UN SDG
OPERATIONAL EFFICIENCY					
Water	10% reduction in water use per kg of product produced	-8.9%	Sensors installed in washdown areas to reduce water use Sites adopted water reduction targets into operational plans	Further capital expenditure on water saving measures such as sensors and infrastructure repair	 
Waste	10% reduction in waste to land fill per kg of product produced	80.8 Tonne plastic has been permanently removed from supply chain	Project with waste services partners established to measure waste	Waste audit Identify key waste sources and plan for removal replacement or reduction Further waste to energy and compost options investigated	 
Energy	10% reduction in energy use per kg product produced	-7.7%	Silver Fern Farms largest participant in Energy Transition Accelerator	Implement EECA energy reduction actions	 
Carbon	By 2030 we will reduce the GHG emissions intensity of our operations by tonne of product on 2005 levels by 30%	Toitu Carbon reduce verified 2018 footprint 113K Tonnes of CO ₂ equivalent	Publicly reporting emissions On farm pilot commenced Fossil fuel use trending down	Develop science-based target Align energy use reduction with new carbon targets Develop transition plan Work with farmers to integrate low carbon supply chain	
Wastewater	10% reduction in wastewater per kg of product produced	2.0% decrease	Wastewater improvement plan at Pareora Screen installation at Waitane decreases nutrient loading Te Aroha site improves solids management Dargaville site improves wastewater treatment Belfast site reduces paunch volume by 30%	Develop and implement Environmental Management System (EMS) – Continuous improvement adopted Site Risk Assessments completed Refine targets to more closely reflect environmental risk	   
FINANCIAL PERFORMANCE					
Four years of profits and dividends	2019 Silver Fern Farms Limited financial result: • NPAT: \$70.7M • EBITDA ¹ : \$124.3M • Total revenue: \$2.6B	Sustained profit Positioned well to respond to significant market disruption Strong relationship with shareholders allows flexibility in dividend payment	Optimise opportunities in disrupted market Progress profitability towards 2020 targets		

KEY: On track Requires additional focus

1. EBITDA is defined on page 2





Pictured: Charles and Erin Douglas Clifford with their children George and Lily.

Board of Directors



Richard Young - Chair

Richard operates a 300ha sheep and cropping property at Tapanui, West Otago. He was elected to the Board in 2013. He has a Bachelor of Commerce in Economics from Otago University. He is a Chartered member of the Institute of Directors and completed the Institute of Directors company directors' course in 2014 and audit and risk committee course in 2016. He also completed the Kellogg Rural Leaders Programme in 2011 and the Leading Board cooperative governance course in 2013.



Trevor Burt

Trevor joined the Board in August 2009 and is Chairman of the Remuneration and Appointments Committee. A Chartered Fellow of the NZ Institute of Directors, Trevor is an experienced director of large scale companies and is currently Chairman of New Zealand Lamb Company Ltd, Chairman of Mercer Group Ltd, Chairman of Rua Bioscience Ltd and a director of Market Gardeners Ltd and Landpower NZ Ltd. He was a previous Chairman of Ngai Tahu Holdings Corporation Ltd and Lyttelton Port Ltd and former Deputy Chairman of PGG Wrightson Ltd. He has a long career in governance of companies in a wide range of sectors including energy, retail, and distribution



Fiona Hancox

Fiona was elected to the Board in February 2015. She operates a 34,000 stock unit sheep and beef breeding and finishing operation in West Otago. Fiona completed the 2015/16 Fonterra Governance Development Programme. She is a Director on CBNZ (Cooperative Business NZ) and a trustee on the Lincoln University Foundation. Fiona has served on the Beef + Lamb NZ Southern South Island Farmers Council, and is a former South Island Farmer of the Year. Fiona is a Director of three farming companies.



Rob Hewett

Rob was elected to the Co-operative Board in February 2008. He was the Chairman of Silver Fern Farms Co-operative from December 2013 until May 2019. He has been Co-Chair of Silver Fern Farms Ltd since December 2016, Chairman of Farmlands Co-operative Society Ltd, a Director of NZX listed T&G Global, Pioneer Energy and its joint ventures Southern Generation and Pulse Energy. He is a Lincoln University Council member and a chartered member of the Institute of Directors. Rob farms 9,250 stock units in Manuka Gorge, South Otago. He is a Graduate of Lincoln University, holding an M.Com. (Marketing) and a B.Com (Ag) in Economics.



Dan Jex-Blake

Dan was elected to the Board in 2013. He is the Managing Director of Mangapoike Ltd, a 24,000 stock unit pastoral farming company near Gisborne. He was invited to take part in the 2014 Rabobank Global Farmers Masterclass and has completed the 2014/15 Fonterra Governance Development Programme. He is a Director of FarmIQ Systems Ltd.



Tony O'Boyle

Tony O'Boyle was elected to the Silver Fern Farms Board in December 2015. He is a Wairarapa sheep and beef farmer. Tony is a past director of Farmlands and is a past Chairman of the Fonterra Shareholders Council.



Jane Taylor

Jane holds an LLB(Hons) and an LLM with First Class Honours from Auckland University. She also holds a postgraduate qualification in accountancy and finance. Jane is a Barrister and Solicitor of the High Court, a Member of the New Zealand Law Society, a Fellow of Chartered Accountants of Australia and New Zealand (CAANZ) and a Chartered Fellow of the New Zealand Institute of Directors.

Jane is Chairman of the Orion New Zealand Group, Manaaki Whenua Landcare Research and Predator Free 2050. She is also a Director of Ontario Teachers' Pension Plan, New Zealand Forest Investments, Port Otago and the Aspen Institute New Zealand. Jane is also Deputy Chairman of the External Reporting Board, a Guardian of the Aotearoa Circle and an independent hearings commissioner.



Gabrielle Thompson

Gabrielle Thompson is the first board appointed Farmer Director for Silver Fern Farms Co-operative. She has a BVSc from Massey University, after graduating, she developed and ran a multi clinic companion animal business around the lower South Island before selling to a nationwide company. She has also owned an artisan bread company.

Gabrielle and her husband, along with their family, own and operate a 530ha arable and store lamb farm at Dorie, Mid Canterbury. Gabrielle is a chartered member of the Institute of Directors. She is currently a director of rural supplies company Rural Co

Governance

Silver Fern Farms Co-operative Limited's governance policies are reviewed to ensure they are consistent with best practice.

Silver Fern Farms Co-operative Limited is a limited liability company registered under the New Zealand Companies Act 1993 and the Co-operative Companies Act 1996. The company is a co-operative owned primarily by suppliers of livestock to the group.

The company has a class of shares called New Ordinary Shares which are traded under the code "SFF" on the Unlisted Securities Exchange (USX). USX is a cost efficient trading facility and is not a registered stock exchange under the Securities Markets Act 1988.

The constitution of Silver Fern Farms Co-operative Limited is available on the company's website or on request.

Role of Board of Directors

The Board of Directors is responsible for the company's corporate governance and strategic direction. The Board is committed to undertaking this role in accordance with best practice appropriate to the company's business. The Board is responsible for determining the company's policies and objectives, managing risk, developing major strategies, and monitoring the performance of management. The Board has delegated certain powers to committees of the Board and the day-to-day management of the company to the Shareholder Relations Manager.

Policies

Silver Fern Farms Co-operative Limited's policies are designed to enhance overall performance and assist the company in reaching its objectives.

Director Independence

Silver Fern Farms Co-operative currently has two Independent Directors.

Board Composition

The Co-operative's Constitution determines that:

- a. Silver Fern Farms Co-operative Limited will have a Board of between six and nine directors;
- b. up to five directors are to be elected by shareholders who are suppliers of livestock to the Company. Shareholder-elected Directors must also be an eligible person (supplying shareholder);

- c. up to four directors may be appointed by the Board ('Independent Directors'). If there are more than three Independent Directors, one must be an eligible person (supplying shareholder).

To qualify for election or appointment, a director must not be an employee of Silver Fern Farms Co-operative, Silver Fern Farms Limited or any of their subsidiaries.

The Board at 31 December 2019 comprised, five supplier-elected Directors, Board-appointed Directors as follows:

Richard Young	Chair, Shareholder-elected
Trevor Burt	Independent
Fiona Hancox	Shareholder-elected
Rob Hewett	Shareholder-elected
Dan Jex-Blake	Shareholder-elected
Tony O'Boyle	Shareholder-elected
Jane Taylor	Independent
Gabrielle Thompson	Board Appointed Farmer Director

Biographies of current Directors are set out in the Board of Directors section of this report.

Director Nominee Process

Director nominees must be nominated by two current shareholder suppliers. The Director nominee process involves an independent evaluation of those nominated, against a range of skill set requirements for the business, with the independent evaluator advising shareholders of each candidate's fit against that framework.

The Board establishes the framework and appoints an independent evaluator. An independent director also chairs the candidate evaluation process. No other members of the Board are involved in this process. The Directors believe in encouraging the creation of a pool of director capability relevant to the business, particularly among the share-holder-elected constituents. In addition to working with organisations such as Co-operative Business New Zealand, Institute of Directors and Fonterra to encourage director training, during 2008/2009 the company established the Burnside-Hart Co-operative Education Trust to further such an outcome. Applications for funding should be addressed to:

The Trustees, Burnside-Hart
Co-operative Education Trust
c/o Shareholder Relations Manager
PO Box 941
Dunedin 9054.

Committees

The Board has appointed two committees, established to work on behalf of the board on specific issues, reporting back to the Board. The Audit, Risk Assessment and Mitigation Committee assists the Board in matters relating to auditing, reporting and risk. It provides the Board with assurance regarding the credibility of financial reporting and assurance regarding the discharge of its responsibilities related to financial reporting and regulatory compliance.

The Remuneration and Appointments Committee reviews the performance of the Shareholder Relations Manager and recommends remuneration of Directors to the shareholders. In addition, the Committee oversees the Elected Director process and the process for appointment of Independent Directors.

Operation of the Board

The Silver Fern Farms Co-operative Board meets formally four times each year, and as otherwise required. The Board's Audit, Risk Assessment and Mitigation Committee is scheduled to meet two to three times a year or as otherwise required. The Remuneration and Appointments Committee meets at least once a year.

The Chairman and Shareholder Relations Manager establish the agenda for each Board meeting. The Shareholder Relations Manager prepares a quarterly management report that includes a summary of the company's activities together with financial and other reports. The Board also receives regular briefings on key strategic issues from management.

New Directors receive induction training which includes written and oral presentations by the Chairman, Shareholder Relations Manager, Silver Fern Farms Limited's Chief Executive and senior management team on the key strategic and operational business issues facing Silver Fern Farms. External training providers are also utilised.

The Board has established a Board Capability Matrix that outlines the ideal competencies and skills required by Directors to operate effectively on the Silver Fern Farms Co-operative Board. This matrix is used to assess performance of the Board collectively and the performance of Directors individually. An independent consultant has been used to establish the Competency Matrix and complete the Board and Director Effectiveness reviews. Reviews are generally completed every two years.

Auditor Independence

The company requires its Auditor to maintain independence in accordance with best practice.

The Audit, Risk Assessment and Mitigation Committee reviews the independence and objectivity of the Auditor.

Directors' Fees

The current total Directors' fee pool is \$725,040 per annum.

Public release of material information

Silver Fern Farms Co-operative Limited has developed processes for release of material information to Unlisted and for the public release of information and the publication of information on the company's website.

Attendance at meetings

During the year ended 31 December 2019, the Board met five times as follows:

Director	Board	Annual Meeting	Board Committee'
Tony Balfour	2	1	-
Trevor Burt	5	1	2
Fiona Hancox	5	1	2
Rob Hewett	5	1	3
Dan Jex-Blake	5	1	2
Tony O'Boyle	5	1	3
Jane Taylor	4	1	4
Gabrielle Thompson	3	1	2
Richard Young	5	1	4

* Board committee meetings include Audit, Risk Assessment & Mitigation / Remuneration & Appointments

Statutory Information

Directors' Statement

This Annual Report is dated 20 March 2020 and is signed on behalf of the Board by:



RG Young
Chair



DJ Taylor
Chairman – Audit, Risk
Assessment & Mitigation
Committee

Directors

The Directors of Silver Fern Farms Co-operative Ltd as at 31 December 2019 are:

- Richard George Young (Chair)
- Trevor John Burt
- Fiona Margaret Hancox
- Robert James Hewett
- Dan Charles Jex-Blake
- Anthony Michael O'Boyle
- Deborah Jane Taylor
- Gabrielle Jane Thompson.

Directors' Interest in Transactions

For the period ended 31 December 2019, no Director caused to be entered in the company's interest register any transaction or proposed transaction with the company. Also, no director of any subsidiary of the company disclosed any such interest.

Co-operative Status

The following resolution was unanimously passed by the Board on 31 January 2020:

"In the opinion of the Board, Silver Fern Farms Co-operative Limited has throughout the period ended 31 December 2019 been a "co-operative company" as defined in the Co-operative Companies Act 1996 ("Act") for the following reasons:

- More than 60% of the shareholders of the Company entitled to vote are transacting business with the Company and are transacting shareholders as set out in Section 4 of the said Act;
- The Company carries on a co-operative activity as set out in Section 3 of the Act."

Information Disclosure

For the period ended 31 December 2019, no Director requested to use Company information received by them in their capacity as Directors.

Remuneration and Appointments Committee

The Committee comprises Trevor Burt – Chair, Tony O'Boyle and Rob Hewett.

Audit, Risk Assessment and Mitigation Committee

The Committee comprises Jane Taylor – Chair, Fiona Hancox, Gabrielle Thompson and Dan Jex-Blake.

Directors' Insurance

Directors' and officers' liability insurance is taken out and paid for by Silver Fern Farms Limited, the operating company. In the event of a claim, the Directors may benefit under the terms of these policies.

Donations

During the period ended 31 December 2019, Silver Fern Farms Co-operative made no donations (2018: \$nil).

Auditor

KPMG were appointed as auditors of both the Co-operative and Silver Fern Farms Limited, the operating company. Audit fees for the period are disclosed in the notes to the financial statements.

Directors' Interests in Silver Fern Farms Shares

The shares held in Silver Fern Farms Co-operative Limited by each director as at 31 December 2019 are set out in the following table.

Director	Holding as at 31 December 2019
Trevor Burt	18,166
Fiona Hancox	212,646
Rob Hewett	70,000
Dan Jex-Blake	120,000
Tony O'Boyle	24,000
Jane Taylor	-
Gabrielle Thompson	55,031
Richard Young	30,768

Remuneration of Employees

One employee of Silver Fern Farms Co-operative Limited received remuneration and other benefits in excess of \$100,000 in the year ended 31 December 2019 (\$140,000 – \$150,000).

Directors' Fees

Consistent with the terms of the Shareholders' Agreement between the Co-operative, Maling and the operating company, the Co-operative Board

appoints five directors to the Board of the operating company, including a Co-chair. The Co-operative is responsible for all remuneration of directors in connection with their appointments to the Board of the Co-operative, the Board of the operating company and to the Committees of those Boards. No Director of the Company has, since the end of the previous period, received or become entitled to receive a benefit other than Directors' fees and insurances. The total pool for directors' fees was \$725,040.

		Co-operative	Operating Company	Total
Director	Positions	Year ended 31 December 2019	Year ended 31 December 2019	Year ended 31 December 2019
Rob Hewett	Director of the Co-operative and operating company, Chair of the operating company	30,124	192,933	223,057
Tony Balfour	Director of the Co-operative (ceased directorship in April 2019)	7,383	-	7,383
Trevor Burt	Director of the Co-operative and the operating company, Chair of Remuneration and Appointments Committee of the Co-operative and the operating company	24,276	81,973	106,249
Fiona Hancox	Director of the Co-operative	22,741	-	22,741
Dan Jex-Blake	Director of the Co-operative and operating company	22,741	80,973	103,714
Tony O'Boyle	Director of the Co-operative	22,741	-	22,741
Jane Taylor	Director of the Co-operative and the operating company, Chair of Audit, Risk Assessment and Mitigation Committee of the Co-operative	25,014	80,973	105,988
Gabrielle Thompson	Director of the Co-operative	15,357	-	15,357
Richard Young	Chair, Director of the Co-operative and director of operating company	38,836	78,973	117,810
Total Directors' fees		209,213	515,827	725,040

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2019

NZD IN THOUSANDS (\$000)	Notes	2019	2018
Share of earnings of Silver Fern Farms Limited	2(b)	35,373	2,912
Interest income		413	509
Total income		35,786	3,421
Operating expenditure		(727)	(977)
Profit before tax		35,059	2,444
Tax expense	3	(146)	(1,540)
Profit after tax		34,913	904
Other comprehensive income			
Share of Silver Fern Farms Limited other comprehensive income	2(b)	639	19
Total comprehensive income		35,552	923
Earnings per share attributable to shareholders of the parent		Cents	Cents
Basic earnings per share	4	35.37	0.92
Diluted earnings per share	4	34.78	0.90

The consolidated statement of comprehensive income above should be read in conjunction with the accompanying notes.

Consolidated Balance Sheet

As at 31 December 2019

NZD IN THOUSANDS (\$000)	Notes	2019	2018
ASSETS			
Current assets			
Cash and cash equivalents	8	683	3,113
Short term deposits	8	16,970	15,000
Trade and other receivables	5	51,157	31,230
Equity receivable	7(b)	1,099	1,179
Total current assets		69,909	50,522
Non-current assets			
Equity-accounted investment in Silver Fern Farms Limited	2	300,932	265,790
Total non-current assets		300,932	265,790
TOTAL ASSETS		370,841	316,312
LIABILITIES			
Current liabilities			
Trade and other payables	6	53,024	31,421
Current tax payable	3	86	1,540
Total current liabilities		53,110	32,961
Members' rebate shares	7(a)	13,910	14,212
TOTAL LIABILITIES		67,020	47,173
NET ASSETS		303,821	269,139
EQUITY			
Ordinary share capital	7(b)	136,495	136,495
Foreign currency translation reserve		1,457	818
Retained earnings		165,869	131,826
TOTAL EQUITY		303,821	269,139

The consolidated balance sheet above should be read in conjunction with the accompanying notes.

For and on behalf of the Board



RICHARD YOUNG
Chair

20 March 2020



JANE TAYLOR
Chair – Audit, Risk Assessment
and Mitigation Committee

20 March 2020

Consolidated Statement of Changes in Equity

For the year ended 31 December 2019

NZD IN THOUSANDS (\$000)	Notes	Share capital	Foreign currency translation reserve	Retained earnings	Total equity
Balance as at 1 January 2018		136,495	799	134,945	272,239
Profit for the year		-	-	904	904
Other comprehensive income					
Share of Silver Fern Farms Limited other comprehensive income		-	19	-	19
Total comprehensive income		-	19	904	923
Transactions with owners in their capacity as owners:					
Dividends paid	7(c)	-	-	(4,023)	(4,023)
Balance as at 31 December 2018		136,495	818	131,826	269,139

NZD IN THOUSANDS (\$000)	Notes	Share capital	Foreign currency translation reserve	Retained earnings	Total equity
Balance as at 1 January 2019		136,495	818	131,826	269,139
Profit for the year		-	-	34,913	34,913
Other comprehensive income					
Share of Silver Fern Farms Limited other comprehensive income		-	639	-	639
Total comprehensive income		-	639	34,913	35,552
Transactions with owners in their capacity as owners:					
Dividends paid	7(c)	-	-	(870)	(870)
Balance as at 31 December 2019		136,495	1,457	165,869	303,821

The consolidated statement of changes in equity above should be read in conjunction with the accompanying notes.

Consolidated Statement of Cash Flows

For the year ended 31 December 2019

NZD IN THOUSANDS (\$000)	Notes	2019	2018
Cash flows (used in)/from operating activities			
Payments to suppliers and directors		(974)	(504)
Dividends received from Silver Fern Farms Limited	2	870	6,000
Interest received		366	477
Income taxes paid		(1,600)	-
Net cash flows (used in)/from operating activities	9	(1,338)	5,973
Cash flows (used in)/from investing activities			
Proceeds from short term deposits		15,000	15,000
Investment in short term deposits		(16,970)	(15,000)
Net cash flows (used in) investing activities		(1,970)	-
Cash flows (used in)/from financing activities			
Dividends paid	7(c)	(870)	(4,023)
Deferred proceeds from issue of ordinary shares	7(b)	80	21
Cash returned from unclaimed dividends and share redemptions	6	1,970	-
Members' rebate shares redeemed	7	(302)	(499)
Net cash (used in)/from financing activities		878	(4,501)
Net (decrease)/increase in cash and cash equivalents		(2,430)	1,472
Cash and cash equivalents at the beginning of the financial year		3,113	1,641
Cash and cash equivalents at end of year		683	3,113

In addition to cash and cash equivalents, the Co-operative held short term deposits of \$16,970,000 at balance date (2018: \$15,000,000).

The consolidated statement of cash flows above should be read in conjunction with the accompanying notes.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

1. General information and summary of accounting policies

The consolidated financial statements of Silver Fern Farms Co-operative Limited (the 'Co-operative'), for the year ended 31 December 2019, comprise the Co-operative, its subsidiary and its equity-accounted investment in Silver Fern Farms Limited (the 'Operating Company'). The Co-operative is registered under the Companies Act 1993 and the Co-operative Companies Act 1996. The Co-operative is a reporting entity under the Financial Markets Conduct Act 2013 (FMC Act). Under the FMC Act, parent company numbers are not required to be presented in the consolidated financial statements.

The Co-operative is domiciled in New Zealand and the Operating Company's principal place of operations is New Zealand. The Co-operative's primary activity is the management of its investment in the Operating Company (also domiciled in New Zealand), which is involved in the processing, marketing and distribution of beef, sheepmeat, venison and related products.

At 31 December 2019, the Co-operative had one dormant New Zealand subsidiary, SFFC Sub Limited.

The ordinary shares of the Co-operative are traded on the Unlisted Securities Exchange (USX).

The consolidated financial statements were authorised for issue by the directors on 20 March 2020.

a. Basis of preparation

The financial statements of the Co-operative have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand ('NZ GAAP'). The financial statements comply with New Zealand equivalents to International Financial Reporting Standards ('NZ IFRS') and other applicable Financial Reporting Standards, as appropriate for tier 1 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 Co-operative's functional currency. All amounts have been rounded to the nearest thousand, unless otherwise indicated.

b. Significant accounting judgements, estimates and assumptions

The preparation of financial statements in conformity with NZ IFRS requires directors to exercise their judgement in the process of applying the Co-operative's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed below.

Consideration of impairment of associate investment

The Co-operative considers whether its equity accounted investment in the Operating Company might be impaired at each reporting date, firstly, by understanding if there are indicators of impairment under NZ IAS 28. If indicators of impairment exist, an evaluation of the current fair value of the investment is required. No indicators of impairment were identified at 31 December 2019.

c. Standards, amendments and interpretations effective in 2019

NZ IFRS 16 Leases

NZ IFRS 16 replaces NZ IAS 17. The effective date of this new standard was 1 January 2019, the Co-operative has applied this standard for the first time in this current financial year.

The Co-operative has applied NZ IFRS 16 using the modified retrospective method. There is no restatement of comparative financial information or impact on opening equity, the comparative period continues to be reported under NZ IAS 17 and NZ IFRIC 4.

The Co-operative had no leases during the previous and current financial year, but the application of the new standard is reflected in the earnings of the Operating Company which are equity accounted in the financial statements of the Co-operative.

The Operating Company has made its own assessment of the impact of NZ IFRS 16. The assessment resulted in a change in the measurement of operating leases, including an impact on profit for the year. This standard also resulted in additional disclosures in the financial statements of the Operating Company.

NZ IFRS 16 impacts the accounting for associate earnings relating to the Operating Company. The overall impact on the profit and loss of the operating company was \$278,000 decrease in profit, this results in a \$139,000 decrease in share of profit in associate recognised by the Co-operative.

2. Equity accounted investment in Silver Fern Farms Limited



Accounting policy

Significant influence

With effect from 6 December 2016, the Co-operative has equity accounted for its investment in the Operating Company as an associate. The Co-operative owns 50% of the shares in the Operating Company; the other 50% is owned by Shanghai Maling Aquarius Co. Limited ('Maling'). The directors have concluded that the Co-operative has significant influence over the Operating Company, due to its appointment of five of its ten directors, including a co-chairperson, and other terms of the Shareholders' Agreement. However, it does not control the Operating Company, as defined by NZ IFRS 10 Consolidated Financial Statements, due to the casting vote rights of the Maling appointed co-chairperson on certain specific matters.

Measurement

The Co-operative's investment in the Operating Company was recorded at its fair value on initial recognition. Fair value was determined by reference to the subscription price paid by Maling. Subsequent to initial recognition, the consolidated financial statements include the Co-operative's share of profit or loss and other comprehensive income.

Consideration of impairment

The directors consider whether any objective indicators of impairment exist in relation to its investment in the Operating Company, by reference to NZ IAS 28 Investments in Associates and Joint Ventures, at each reporting date. Per NZ IAS 28, indicators of impairment might include significant financial difficulty, a need for financial reorganisation, the disappearance of an active market or significant adverse effects from changes to the technological, market, economic or legal environment in which the Operating Company operates. When indicators of impairment exist, an assessment of the fair value of the associate investment is required. An impairment loss in respect of an equity accounted investee is measured by comparing the recoverable amount of the investment with its carrying amount. An impairment loss is recognised in profit or loss, and is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. Goodwill was recognised by the Co-operative upon initial recognition of its associate investment.

a. Carrying amount of investment in Silver Fern Farms Limited

The Co-operative equity accounts for its 50% investment in the Operating Company as an associate. The Co-operative holds no other investments in associates.

NZD IN THOUSANDS (\$000)	Notes	2019	2018
Opening balance		265,790	268,859
Share of profit after tax	2(b)	35,373	2,912
Share of other comprehensive income	2(b)	639	19
Dividend received		(870)	(6,000)
Closing balance		300,932	265,790

The directors have assessed that there are no objective indicators of impairment at 31 December 2019, noting the strong financial performance of the Operating Company in 2019. Economic circumstances and events which are outside of the control of the Operating Company are expected to continue to give rise to some variation in results year to year but forecasts indicate continued strong underlying demand globally for red meat.

b. Co-operative's share of total comprehensive income of Silver Fern Farms Limited

NZD IN THOUSANDS (\$000)	2019	2018
Revenue	2,561,298	2,388,754
Share of profit of associates	6,101	7,074
Interest income	459	244
Raw materials and consumables used	(1,886,456)	(1,848,240)
Employee benefits expense	(389,473)	(349,336)
Finance costs	(4,380)	(3,783)
Other operating expenses	(167,653)	(166,128)
Depreciation and amortisation	(30,323)	(22,258)
Profit before tax (100%)	89,573	6,327
Income tax expense	(18,828)	(503)
Profit after tax (100%)	70,745	5,824
Other comprehensive income (100%)	1,279	39
Total comprehensive income (100%)	72,024	5,863
Co-operative's share (50%)		
Co-operative's share of profit after tax (50%)	35,373	2,912
Co-operative's share of other comprehensive income (50%)	639	19
Co-operative's share of total comprehensive income (50%)	36,012	2,931

c. Co-operative's share of net assets of Silver Fern Farms Limited

Net assets of Silver Fern Farms Limited (100%)

NZD IN THOUSANDS (\$000)	2019	2018
ASSETS		
Current assets		
Cash and cash equivalents	2,897	2,506
Trade and other receivables	287,780	224,688
Derivative financial instruments	17,109	2,897
Inventories	228,630	199,748
Non-current assets classified as held for sale	18,130	-
Total current assets	554,546	429,839
Non-current assets		
Property, plant and equipment	295,088	308,744
Intangible assets	3,628	1,603
Investments in associates	17,483	17,587
Shares in unlisted companies	81	81
Right-of-use assets	14,316	-
Total non-current assets	330,596	328,015
Total assets	885,142	757,854
LIABILITIES		
Current liabilities		
Trade and other payables	134,032	101,781
Interest bearing loans and borrowings	130,773	134,944
Tax provision	6,037	25
Provisions	5,962	5,247
Derivative financial instruments	48	5,406
Lease liabilities	4,474	-
Total current liabilities	281,326	247,403
Non-current liabilities		
Provisions	10,020	9,712
Deferred tax liabilities	12,653	-
Lease liabilities	10,120	-
Total non-current liabilities	32,793	9,712
Total liabilities	314,119	257,115
Net assets of Silver Fern Farms Limited (100%)	571,023	500,739
Co-operative's share of net assets (50%)	285,511	250,369
Goodwill on initial recognition	15,421	15,421
Equity accounted investment in Silver fern Farms Limited	300,932	265,790

A copy of the financial statements of Silver Fern Farms Limited can be obtained from the Companies Register in New Zealand at <https://companies-register.companiesoffice.govt.nz>

3. Income tax



Accounting policy

The income tax expense or credit for the period comprises current and deferred tax. Income tax is recognised in the income statement except when it relates to items recognised directly in other comprehensive income (in which case income tax is recognised in other comprehensive income). Income tax is based on tax rates and regulations enacted in the jurisdictions in which the entities operate.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised.

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

The Co-operative's main source of income is its share of associate income from the Operating Company. The share of associate income is not directly taxable in the Co-operative and an adjustment is made in the note below. Dividends received from the Operating Company are taxable and are recognised as taxable income, as indicated in the note below.

Income tax expense

NZD IN THOUSANDS (\$000)	2019	2018
Current tax		
Current tax on profits for the year	146	1,549
Benefit of previously unrecognised tax losses	-	(9)
Income tax expense	146	1,540

Numerical reconciliation of prima facie tax payable to tax expense

NZD IN THOUSANDS (\$000)	2019	2018
Profit from continuing operations before income tax expense	35,059	2,444
Income tax @ 28%	9,817	684
Tax effects of:		
• Non-assessable earnings from Silver Fern Farms Limited	(9,904)	(815)
• Dividends from Silver Fern Farms Limited	243	1,680
• Adjustment in respect of prior years	(9)	43
• Benefit of tax losses for which no deferred income tax asset was previously recognised	-	(52)
• Non-deductible permanent differences	(1)	-
Tax expense recognised in profit or loss	146	1,540

Imputation credit balance

The Co-operative has an imputation credit balance as at 31 December 2019 of \$585,000 (2018: \$438,000).

Deferred tax

The Co-operative does not recognise a deferred tax asset or liability in the consolidated balance sheet since it has no assets or liabilities that give rise to deferred tax assets or liabilities.

4. Earnings per share

a. Earnings used in calculating earnings per share

NZD IN THOUSANDS (\$000)	2019	2018
Profit attributable to the ordinary equity holders of the Co-operative used in calculating basic and diluted earnings per share	34,913	904

b. Weighted average number of shares

NUMBER OF ORDINARY SHARES (000s)	2019	2018
Weighted average number of ordinary shares for basic earnings per share	98,699	98,523
Effect of dilution - partly paid ordinary shares	1,680	1,856
Weighted average number of ordinary shares for diluted earnings per share	100,379	100,379

There have been no transactions involving ordinary shares that would significantly change the number of ordinary shares outstanding between the reporting date and the date these financial statements have been signed.

5. Trade and other receivables



Accounting policy

Trade and other receivables are amounts due from other entities in the ordinary course of business.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less any provision for impairment. A provision for impairment on trade receivables is considered by taking into account any expected future credit losses.

NZD IN THOUSANDS (\$000)	Notes	2019	2018
Livestock receivables from the Operating Company	14	50,950	31,149
Other receivables from the Operating Company	14	20	-
Other receivables		187	81
Total trade and other receivables		51,157	31,230

The largest component of receivables relates to amounts owed by the Operating Company for livestock supplied by Co-operative shareholders in the last 14 days of the financial year. Note 14 includes further details of the transactions between the Co-operative and the Operating Company during the year.

6. Trade and other payables



Accounting policy

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or in the normal operating cycle of the business if longer. If not, they are presented as non-current liabilities.

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

NZD IN THOUSANDS (\$000)	Notes	2019	2018
Livestock payables to shareholder suppliers	14	50,950	31,148
Other payables		2,074	26
Payables to the Operating Company	14	-	247
Total trade and other payables		53,024	31,421

The payables balance mostly relates to amounts due to Co-operative shareholders for livestock supplied to the Operating Company in the last 14 days of the financial year. Note 14 includes further details of the transactions between the Co-operative and its shareholders during the year.

As at 31 December 2019, other payables include amounts owed to shareholders of \$2,020,000. This represents \$1,293,000 of dividends and \$727,000 of Supplier Investment Share redemptions, which were unable to be distributed to shareholders as incomplete details were held by the Co-operative's third party share registrar. Most of the unclaimed amounts arose in connection with the payment of a special dividend and the redemption of Supplier Investment Shares in 2017. Unclaimed funds were held in trust until 2019, when, following legal advice, \$1,970,000 was returned to the Co-operative. These funds are held on deposit by the Co-operative and interest earned will be used for the benefit of shareholders. The share registrar continues to hold the balance of \$50,000 in trust, which is included within other receivables, disclosed in note 5. The Co-operative will continue to honour any outstanding amounts due to shareholders, as and when valid details are supplied.

7. Members' rebate shares and ordinary shares



Accounting policy

Ordinary share capital is classified as equity.

Members' rebate shares are hybrid financial instruments as they have characteristics of both equity and financial liabilities. The equity component has a nominal value of \$nil. Since members' rebate shares are redeemable, a financial liability component is recognised, measured at fair value; fair value is the redemption amount of \$1 per share. Accordingly, a financial liability component of \$13,910,000 is recognised.

Since the payment of dividends on members' rebate shares is discretionary and there is no contractual obligation, dividends on members' rebate shares are accounted for as a deduction from equity.

Patronage rewards are a component of the overall dividend paid to qualifying shareholders. Whilst the calculation of patronage rewards is connected to the volume of livestock supplied within the qualifying period, payment of patronage rewards is discretionary. Accordingly, patronage rewards paid to holders of both ordinary and members' rebate shares are accounted for as deductions from equity.

NZD IN THOUSANDS (\$000)	Members' Rebate Shares	Ordinary Shares
At 31 December 2017	14,711	136,495
Shares redeemed	(499)	-
At 31 December 2018	14,212	136,495
Shares redeemed	(302)	-
At 31 December 2019	13,910	136,495

a. Members' rebate shares

All members' rebate shares have a nominal value of one dollar per share. Under the Co-operative Companies Act 1996, the Co-operative has a right to defer redemption but not to withhold payment.

Members' rebate shares carry full voting rights subject to the shareholder being a current supplier (as defined in the constitution of the Co-operative) at the time of voting. Members' rebate shares participate equally on winding up.

The maximum shareholding for members' rebate shares is 17,500 (2018: 17,500).

b. Ordinary share capital

i. Partly paid shares

As part of a change in capital structure in 2009, shareholders could elect to exchange rebate shares and supplier investment shares for ordinary shares on a one for one basis; no cash was payable on exchange. In addition to the exchange of shares, shareholders could elect to participate in a two for one rights issue. Under the terms of the rights issue, shareholders were entitled to subscribe in cash for two ordinary shares for every one ordinary share issued to them under the exchange offer.

The rights issue price per ordinary share of \$1.00 was payable either in full on application or under a deferred payment option, over a period of approximately three years by way of deduction from proceeds of the sale of livestock. Some shares remain partly paid and the balance receivable is \$1,099,000 (2018: \$1,179,000). During the year, \$80,000 was received in respect of partly paid shares (2018: \$21,000).

ii. Authorised and issued shares

At 31 December 2019, there were 100,378,874 authorised and issued shares (2018: 100,378,874 shares). The average issue price per share was \$1.36 and the total carrying value of issued share capital was \$136,495,000.

c. Dividends

During the year ended 31 December 2019, no ordinary dividend was paid to shareholders (2018: 2.8 cents per share) but eligible shareholder suppliers were rewarded with a patronage reward of 3.0 cents per share (2018: 2.9 cents per share), with the total distributed amounting to \$870,000 (2018: \$4,023,000).

8. Other accounting policies

The following accounting policies are not addressed separately in the financial statements.

a. Goods and Services Tax (GST)

The income statement has been prepared so that all components are stated exclusive of GST. All items in the balance sheet are stated net of GST, with the exception of receivables and payables, which include GST invoiced.

b. Interest income

Interest income is recognised using the effective interest method.

c. Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise cash at bank and on hand, and term deposits with a maturity of three months or less, which are subject to an insignificant risk of changes in value.

Short term deposits, presented separately on the face of the balance sheet, are those with a maturity date of three months or more, from the date of investment, and include term deposits at major New Zealand banks.

9. Reconciliation of profit after tax to net cash flow from operating activities

NZD IN THOUSANDS (\$000)	2019	2018
Profit for the period	34,913	904
Share of earnings of Silver Fern Farms Limited	(35,373)	(2,912)
Dividends received from Silver Fern Farms Limited	870	6,000
Movement in working capital		
Increase in receivables	(19,876)	(2,251)
(Decrease)/increase in tax payable	(1,454)	1,540
Increase in payables	19,582	2,692
Net cash (outflow)/inflow from operating activities	(1,338)	5,973

10. Risk management

The Co-operative is exposed to financial risks, which are outlined in summary below, together with the Co-operative's approach to managing these risks, to protect its financial position and financial performance.

Credit risk

As detailed in the note 5, the Co-operative is exposed to credit risk in respect of trade and other receivables and equity receivable.

The Co-operative is able to manage risk in respect of trade and other receivables by maintaining visibility over the solvency of the Operating Company through reports received as a 50% shareholder and the directors it appoints to the Operating Company's board.

The Co-operative has several options to manage credit risk in connection with equity receivable, including the right to acquire partly paid shares where balances remain unpaid. The Co-operative would expect no impact on the statement of comprehensive income from any unrecoverable balances.

Interest rate risk

The Co-operative is currently exposed to interest rate risk as it has funds invested in bank deposits at major New Zealand banks with approval from the Co-operative board. The Co-operative has outsourced its day to day treasury management to the Operating Company treasury function. The Co-operative has treasury policies and procedures in place to optimise the interest returned on these deposits and has not identified any significant interest rate risk on current bank deposits. Treasury policies include investing no more than \$10,000,000 with any one bank.

Foreign currency risk

The Co-operative is not directly exposed to foreign currency risk. The Co-operative is only exposed to foreign currency risk through its investment in the Operating Company. The Operating Company exports most of its goods which exposes it to foreign currency risk. The Operating Company has treasury policies and procedures, including the use of hedging instruments, to mitigate foreign currency risk.

Liquidity risk

The Co-operative is exposed to liquidity risk from the redemption of member's rebate shares outstanding. These shares are subject to redemption at \$1 per share which could result in a significant portion of cash reserves being drawn down. The Co-operative mitigates this risk by retaining the right to defer redemption under the Co-operative Companies Act 1996 and shareholder constitution, and by retaining cash and term deposits in excess of the maximum liability. The Co-operative is not permitted to accept the redemption of any shares unless it is able to satisfy the solvency test immediately after doing so.

11. Contingencies

As at 31 December 2019, the Co-operative had no contingent liabilities or assets (2018: \$Nil).

12. Commitments

As at 31 December 2019, the Co-operative had no capital commitments (2018: \$Nil).

13. Events occurring after the reporting period

Subsequent to balance date, the board of the Operating Company resolved to pay a dividend in respect of the year ended 31 December 2019. The Co-operative expects to receive a partly imputed dividend of \$13,250,000.

Cases of novel coronavirus (COVID-19) were first identified in China in December 2019. Since then, the outbreak has spread globally, causing disruption to businesses and economic activity. The outbreak was recognised as a pandemic by the World Health Organization (WHO) on 11 March 2020. The Operating Company has put in place a response team to actively monitor and manage its response to disruption in demand and supply chains across global markets and potential disruption to operations in New Zealand. The directors of the Co-operative have assessed that no adjustments are required to the financial statements for the year ended 31 December 2019.

14. Related party disclosures

Operating Company

Under the terms of the Co-operation Memorandum between the Co-operative, Maling and the Operating Company, the Co-operative purchases all livestock supplied to Silver Fern Farms processing plants by shareholders of the Co-operative, and immediately on-sells this to the Operating Company at the same price. Under NZ IFRS 15 Revenue from Contracts with Customers, the Co-operative has concluded that this is an agency relationship. As a result, the amount received from the Operating Company for livestock is offset against the amount paid to shareholder suppliers. No revenue or expense is recognised by the Co-operative in connection with these transactions. The Co-operative does not physically take control of the livestock and no commission is received on this transaction. The Co-operative purchases no livestock from non-shareholder suppliers. All prices for both shareholder and non-shareholder supplies are determined by the Operating Company. The total amount of purchases from shareholder suppliers and the total amount invoiced to the Operating Company are disclosed below.

- During the year \$1,074,927,000 (2018: \$1,066,939,000) was invoiced to the Operating Company in respect of livestock. \$1,074,927,000 (2018: \$1,066,939,000) was invoiced from shareholder suppliers in connection with livestock supplied for the year.
- At 31 December 2019, \$50,950,000 (2018: \$31,148,000) was receivable from the Operating Company and \$50,950,000 (2018: \$31,148,000) was payable to shareholder suppliers in connection with livestock supplied.
- Other receivables from the Operating Company amounted to \$20,000 as at 31 December 2019 (2018: \$247,000 was payable to the Operating Company).

In accordance with the Shareholders' Agreement between the Co-operative, Maling and the Operating Company, administrative services are provided to the Co-operative by the Operating Company. Administrative services include the maintenance of records, the preparation and audit of financial statements, taxation returns, the maintenance of bank accounts, share registry services, the conduct of shareholder meetings and director elections and the payment of dividends. The Operating Company undertakes to pay all reasonable costs of the Co-operative that relate to its governance and administration, excluding directors' fees, and all reasonable costs of engagement with its shareholders, up to a maximum of \$500,000 in any accounting period.

Governance and administration costs totalled \$428,000 in the year ended 31 December 2019 (2018: \$706,000).

Directors and their trading entities

The Co-operative purchased livestock and made other livestock related payments to the farming businesses of the Co-operative and Operating Company directors on the same terms and conditions as other suppliers.

- During the year purchases totalled \$8,787,000 (2018: \$6,202,000).
- At 31 December 2019, \$353,000 was payable to directors and their trading entities (2018: \$184,000).

Key management personnel

Key management personnel of the Co-operative, as defined by NZ IAS 24, comprise the board of directors only. The Co-operative is responsible for paying fees to directors of the Co-operative and paying fees to directors of the Operating Company who have been appointed by the Co-operative. Fees for the year amounted to \$725,000 (2018: \$704,000).

15. Auditor's remuneration

NZD IN THOUSANDS (\$000)	2019	2018
Audit fees	20	20
Total remuneration to auditors	20	20

In accordance with the Shareholders' Agreement described in note 14, audit fees in respect of the Co-operative are paid by the Operating Company.



Independent Auditor's Report

To the shareholders of Silver Fern Farms Co-operative Limited

Report on the audit of the consolidated financial statements

Opinion

In our opinion, the accompanying consolidated financial statements of Silver Fern Farms Co-operative Limited (the 'company') and its subsidiary (the 'group') on pages 52 to 65:

- i. present fairly in all material respects the group's financial position as at 31 December 2019 and its financial performance and cash flows for the year ended on that date; and
- ii. comply with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

We have audited the accompanying consolidated financial statements which comprise:

- the consolidated balance sheet as at 31 December 2019;
- the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended; and
- notes, including a summary of significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) ('ISAs (NZ)'). 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 group in accordance with Professional and Ethical Standard 1 (Revised) Code of Ethics for Assurance Practitioners issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ('IESBA Code'), and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

Our responsibilities under ISAs (NZ) are further described in the auditor's responsibilities for the audit of the consolidated financial statements section of our report.

Our firm has also provided audit and audit related services to the equity accounted investee, Silver Fern Farms Limited. Subject to certain restrictions, partners and employees of our firm may also deal with the group on normal terms within the ordinary course of trading activities of the business of the group. These matters have not impaired our independence as auditor of the group. The firm has no other relationship with, or interest in, the group.

Materiality

The scope of our audit was influenced by our application of materiality. Materiality helped us to determine the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and on the consolidated financial statements as a whole. The materiality for the consolidated financial statements was set at \$3.4 million determined with reference to a benchmark of group total assets. We chose the benchmark because, in our view, the value of the investment in Silver Fern Farms Limited (which represents the majority of the group's assets) and the movements in this investment are the most important indicators of the Co-operative's performance. Materiality represents approximately 1% of the selected benchmark.



Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements in the current period. We summarise below those matters and our key audit procedures to address those matters so that the shareholders as a body may better understand the process by which we arrived at our audit opinion. Our procedures were undertaken in the context of and solely for the purpose of our statutory audit opinion on the consolidated financial statements as a whole and we do not express discrete opinions on separate elements of the consolidated financial statements.

The key audit matter

How the matter was addressed in our audit

Equity accounted investment in Silver Fern Farms Limited

As disclosed in note 2 to the Annual Report, the group holds an equity accounted investment for its 50% share in Silver Fern Farms Limited. The investment is carried at \$300.9 million having accounted for the Cooperative's share of profits made during the year of \$35.4 million and distributions received of \$0.9 million.

The equity accounted investment is a Key Audit Matter because:

- The investment is significant to the group's position and performance (representing 81% of total assets and 99% of total income in the current year); and
- Management is required to assess whether there are any indicators of impairment relating to the investment in Silver Fern Farms Limited. The investee operates in a highly competitive market which is subject to fluctuations in livestock procurement, operating efficiency and selling prices. The financial performance can fluctuate in any given year. Consequently, the performance is considered over a longer horizon when considering whether any indicators of impairment exist.

Our audit procedures included:

- Reconciling the movements in the investment in associates to the audited accounts of Silver Fern Farms Limited;
- Challenging management's assessment of the impairment indicators. This included an independent assessment of the indicators which are noted in the relevant accounting standards and a comparison of current performance and outlook to management's historical and current valuation models.

Overall, we found the judgements and assumptions used in assessing whether any indicators of impairment existed in relation to the equity accounted investment to be balanced.



Completeness and accuracy of the disclosure of related party transactions

Refer to Note 14 to the Annual Report.

The group provides farmer shareholders with a channel to sell their livestock to Silver Farm Farms Limited. In the ordinary course of business the group purchases livestock from and makes other livestock related payments to the farming businesses of Directors.

Completeness and accuracy of the disclosures relating to shareholder Directors and their trading with the group is a Key Audit Matter because:

- The group has significantly increased its focus on related party disclosures in response to the latest best practice and regulatory environment.
- There is an assertion that the group transacts with related parties on the same terms and conditions as other suppliers.
- The accounting rules define related parties in relatively broad terms, which includes close family members and dependents of the supplying Directors. Such closely connected relationships are inherent in New Zealand's farming sector.

Our audit procedures included:

- Evaluating the company's processes and controls for identifying related parties and their transactions and balances;
- Reviewing the confirmations obtained by management which outline the business interests of Directors, their close family members and dependants;
- Testing the completeness of the related parties identified by management by searching public records to identify companies controlled by Directors or their close family members or dependants;
- Evaluating management's assertion that transactions with the related parties are conducted on the same terms and conditions as other suppliers by comparing the transactions' terms and pricing offered during the financial year to those offered in comparable transactions to other suppliers.

Overall, we did not identify material exceptions from procedures performed.

Other information

The Directors, on behalf of the group, are responsible for the other information included in the entity's Annual Report. Other information may include the Chairman's report, disclosures relating to corporate governance and statutory information. Our opinion on the consolidated financial statements does not cover any other information and we do not express any form of assurance conclusion thereon.

The Annual Report is expected to be made available to us after the date of this Independent Auditor's Report. Our responsibility is to read the Annual Report when it becomes available and consider whether the other information it contains is materially inconsistent with the consolidated financial statements, or our knowledge obtained in the audit, or otherwise appear misstated. If so, we are required to report such matters to the Directors.

Use of this independent auditor's report

This independent auditor's report is made solely to the shareholders as a body. Our audit work has been undertaken so that we might state to the shareholders those matters we are required to state to them in the independent 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 shareholders as a body for our audit work, this independent auditor's report, or any of the opinions we have formed.



Responsibilities of the Directors for the consolidated financial statements

The Directors, on behalf of the company, are responsible for:

- the preparation and fair presentation of the consolidated financial statements in accordance with generally accepted accounting practice in New Zealand (being New Zealand Equivalents to International Financial Reporting Standards) and International Financial Reporting Standards;
- implementing necessary internal control to enable the preparation of a consolidated set of financial statements that is fairly presented and free from material misstatement, whether due to fraud or error; and
- assessing the ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate 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 objective is:

- 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 independent 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 NZ will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They 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 these consolidated financial statements is located at the External Reporting Board (XRB) website at:

<http://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-1/>

This description forms part of our independent auditor's report.

The engagement partner on the audit resulting in this independent auditor's report is Ian Proudfoot.

For and on behalf of

KPMG
Auckland

20 March 2020

Directory

BOARD OF DIRECTORS

Richard Young – Chairman
Trevor Burt
Fiona Hancox
Rob Hewett
Dan Jex-Blake
Tony O'Boyle
Jane Taylor
Gabrielle Thompson

MANAGEMENT

Clark Taylor – Shareholder Relations Manager

OFFICE

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SHAREHOLDER ENQUIRIES

For enquiries regarding Silver Fern Farms Co-operative Limited's Ordinary Shares and Rebate Shares, contact:

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SHARE REGISTRAR

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BANKERS

- Kiwibank Limited
- Westpac New Zealand Limited

AUDITOR

KPMG

TAX ADVISORS

PwC

LEGAL ADVISORS

Harmos Horton Lusk



Pictured: Bill McKelvie



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