



Annual Report 2020





Silver Fern Farms Co-operative Annual Reports can be found on the Co-operative's website
<http://www.silverfernfarms.coop/investor-information/annual-reports/>

Previous Silver Fern Farms Sustainability Reports can be found on Silver Fern Farms' website
www.silverfernfarms.com/our-company/our-sustainable-chain-of-care/

A summary of the operating company's financial results is included in the notes to this report. 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/>

About our reporting suite

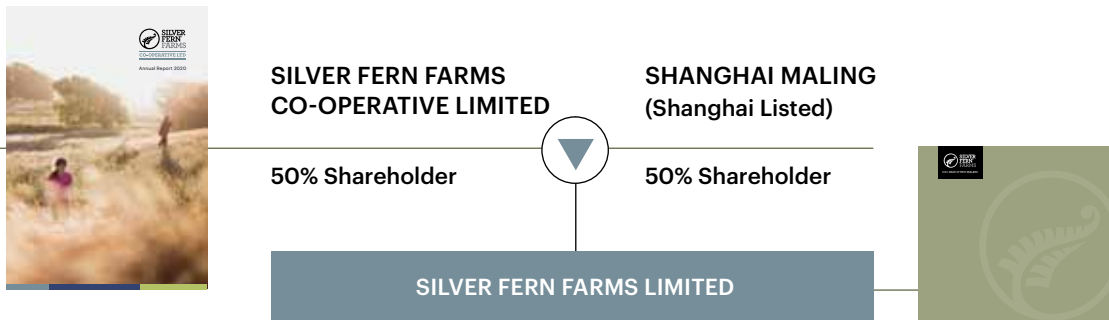
This Annual Report for Silver Fern Farms Co-operative covers the activities and financial overview of Silver Fern Farms Co-operative Limited and Silver Fern Farms Limited.

Silver Fern Farms Co-operative has a 50% share in Silver Fern Farms Limited, alongside its 50% partner investor Shanghai Maling Aquarius Limited.

Silver Fern Farms Limited is a leading producer and global marketer of grass-fed red meat.

In addition to the business of the Co-operative, this report describes Silver Fern Farms Limited's management strategy, approach to sustainability practices and the relevant performance and achievements for the year that ended 31 December 2020.

Our two companies and how we have structured this report:



2020 Annual Financial Report of the Co-operative

Purpose – To inform Co-operative Shareholders of the performance of the Co-operative.

This report covers the Governance, Statutory Information, audited Financial Statements, Auditor's Report and commentary on performance of Silver Fern Farms Co-operative.

Towards an Integrated Report of Silver Fern Farms Limited

Purpose - To inform Co-operative Shareholders, and stakeholders of the performance and achievements of Silver Fern Farms Limited for the year ended 31 December 2020.

This report describes Silver Fern Farms Limited's approach to how it creates value.

While this performance has not been externally verified, it takes an integrated approach as a first step towards integrating key sustainability measures and operational performance. This report follows the International Integrated Reporting <IR> Framework (2013)

The 2020 Annual Meeting of Silver Fern Farms Co-operative Limited Shareholders will be held at 2pm on Thursday 29 April 2021 in Dunedin at the Distinction Hotel, 6 Liverpool Street, Dunedin.

Prior to the Annual Meeting Shareholders are welcome to join us at 1pm for a presentation from Silver Fern Farms Limited Chief Executive Simon Limmer on the performance of Silver Fern Farms Limited.

Afternoon tea will be provided at the conclusion of the Annual Meeting.

The Annual Meeting will also be livestreamed with information on access contained in the Notice of Annual Meeting provided separately to Shareholders.



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The Co-operative

CO-OPERATIVE IN BRIEF

Represents more than 5,900 ordinary shareholders and 15,000 rebate shareholders throughout New Zealand

Together the shareholders supply sheep, beef and deer to Silver Fern Farms Limited

Silver Fern Farms Co-operative Limited is listed on the USX

Silver Fern Farms Co-operative Limited and Shanghai Maling own Silver Fern Farms Limited in partnership

Information on Silver Fern Farms Co-operative Limited can be found on silverfernfarms.coop



CO-OPERATIVE HIGHLIGHTS 2020

Four successive years of dividend payments and/or patronage rewards to shareholders

Continued growth in numbers of livestock supplying shareholders – 3.2m additional shares eligible for Patronage Reward

Strong lift in share value from full-year growth from 55c to 80c.

Enhanced shareholder benefits programme for fully shared suppliers

Strong uptake of shareholder governance development programmes

\$8.1m distribution declared to shareholders



Your Co-operative



Chairman Review
Richard Young

At the heart of any co-operative is the realisation that individuals understand the need and the advantage of pulling together for their mutual benefit, and the benefit of their wider community.

The 2020 financial year certainly demonstrated how important it was to embrace this co-operative spirit. The year reinforced the need to have a deep connection to our global markets and a highly functional supply chain.

As events unfolded across our world, individual farmers realised the advantages of being united across the supply chain.

Food that is produced safely, and sustainably, became highly valued through the context of the global COVID-19 pandemic.

Our Co-operative of dedicated food producers experienced the challenges through the supply chain of getting that food to the plate of the consumer. This was all carried out while juggling the on-farm demands of increased stock numbers due to the COVID-19 restrictions and a quickly approaching winter.

Together we eventually worked through the backlog, the weather played ball and continued to be mild as the Silver Fern Farms Limited team were able to keep supply chains moving while pivoting between markets.

Leading progressive food producers committed to a sustainable future

Together the spirit, culture and unflinching determination to do the right thing for our people, our business and our country is truly Co-operative in nature.

The performance of Silver Fern Farms Limited will be covered in detail by Chief Executive Simon Limmer in their Integrated Report later in this document. From our Co-operative's perspective, the performance of the operating company in 2020 was truly commendable across a range of areas. Most important was how they put the health and welfare of their people first. In doing so they set a platform of trust and shared commitment from their staff to stand up as essential workers to service our regional communities, and to service our global consumers.

There were many unknowns, and new processes as we learned about how to live and work in a pandemic. All 7,000 staff at Silver Fern Farms, our food producing farmers, and our partners through the supply chain should feel proud of what was achieved in a time of unprecedented crisis.

On-farm, the importance of access to processing space during the summer dry is always critical – and this preferential access to processing space is a key reason why shareholders choose our Co-operative. There was minimal disruption to operations during lockdown, and we saw a rapid scaling-up in processing capacity as

operations found efficiencies under the alert level restrictions and MPI agreed protocols for essential service production. This was appreciated by suppliers as it eased on farm pressure materially from original expectations.

The markets experienced swings in terms of being open to trade and this affected demand and pricing throughout the year. These market dynamics still change daily, both between and within markets. Opportunities exist and the business' financial strength and capable sales, marketing, logistics and planning teams demonstrated they are ably equipped to take advantage of the market variability.

We also realised the importance of working constructively, as appropriate, with other organisations in our supply chain. Kotahi – our joint venture with Fonterra is a great example of the benefits of partnerships. It ensured we had preferential access to shipping and containers to ensure the supply chain ran smoothly.

Silver Fern Farms' communications with suppliers continued to be transparent and timely, offering suppliers the best information available to assist making on-farm decisions.

Well done to the whole team for displaying the fortitude and poise to steer the company through this challenging period, and to post another strong set of results.

Co-operative Performance

A review of the 2020
Financial Year

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 2020 through to 31 December 2020.

In 2019 your Co-operative developed and put in place a strategy with a clear purpose – **Leading progressive food producers committed to a sustainable future.**

Your Co-operatives' strategy plays to its role as an investor in Silver Fern Farms Limited, and in supporting the businesses of our farmer-shareholders.

It is built around the pillars of:

- **Planet**
- **People and**
- **Prosperity**

with long-term value creation for our shareholders our goal.

The 2020 financial year continued our progress across these three pillars.



Our Co-operative 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



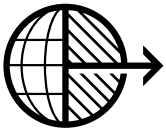
PEOPLE



PROSPERITY

Long term sustainable value creation

Planet



World class sustainable farm practices led by evolving consumer preferences

Leadership and transitioning towards low carbon production across our sphere of influence

We continued to support Silver Fern Farms Limited's involvement in the development of the New Zealand Farm Assurance Programme's 'Plus' standard (NZFAP+). Shareholders were involved in trialling the NZFAP+ standard through the Ministry for Primary Industries' (MPI's) Sustainable Food and Fibre Futures fund 'Proof of Concept' project.

The trial used the McDonald's supply chain as a test case to develop a model for producing independently verified sustainable beef through the entire supply chain. The pilot focused on the sustainable principles of economic, environmental and social responsibility. It was significant in that it saw collaboration between farms, processing companies (Silver Fern Farms, ANZCO Foods, Greenlea) and Beef + Lamb New Zealand.

The trial showed that the New Zealand Farm Assurance Programme Plus (NZFAP+), developed under the Red Meat Profit Partnership, is an important part of demonstrating New Zealand's ability to produce sustainable beef.

While this was a pilot focused on understanding sustainability metrics across the beef supply chain, it was important in further testing the NZFAP+ standard with farmers and a key customer.

In 2021 we will see the extension of the NZFAP+ standard across the industry and across multiple species. The programme goes beyond the national Farm Assurance programme, which covers 95% of New Zealand's sheep, beef and deer production, with the intention of providing a guarantee to consumers of our performance as food producers. Farm Assurance Plus provides us with longer-term market viability by understanding and meeting consumer preferences.

On farm NZFAP+ will enhance what we do to meet market requirements for higher value food. It needs to be underpinned by digital tools.

Through Silver Fern Farms Limited we have invested in FarmIQ. We are aware of the need to have seamless transfer of data to meet our market and regulatory requirements and investment in digital tools supports this.

Increasingly farmers are looking at diversified business models for the food and fibre we can produce from our natural resources. Your Co-op needs to understand how the global trends, and domestic policy around how we use natural resources influences the decisions of our farmers so we can remain relevant with the services we offer.

Low-carbon production is an opportunity for New Zealand's red meat producers. Silver Fern Farms continued its work on their on-farm carbon pilot. Extensive on-farm research into emissions and sequestration across 17 shareholders' farm businesses is being supported by the Ministry for Primary Industries' (MPI's) Sustainable Food and Fibre Futures fund.

The work of this pilot group has assisted the development of on-farm carbon verification programmes. It has also informed Silver Fern Farms Limited, and the Co-operatives' understanding of on-farm practice, emissions trading regimes and the current state of data systems to support farmers. This has developed at pace over the past two years and is changing rapidly with the passing of the Climate Change Response (Zero Carbon) Amendment Act 2019 in November 2019 and the subsequent establishment of the Climate Change Commission.

We continue to encourage the operating company to continue to explore areas where they provide on-farm support through extension activity and partnerships.

We will continue to have a strong focus on this area as environmental stewardship of our planet plays heavily on the minds of people globally and affects their decisions as consumers.



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

Education, training and information are one of 'The Rochdale Principles' which set out ideals for the operation of co-operatives. It is a principle we have developed and have a long history of upholding through our membership of Cooperative Business New Zealand and the Burnside Hart Co-operative Development Trust through which we offer scholarships to our members.

In 2020 our successful and well-attended 'To the Core' programme was affected by COVID-19. However, we were able to push on and offer the next phase of governance development through the launch of the 'To the Core Extension' programme. We ran this programme in partnership with fellow co-operative Farmlands and through the generous support of AgMardt. We successfully attracted 12 candidates for the two-day session in Christchurch in early November with Janine Smith from the Board Room Practice facilitating the programme. All those that attended were 'To the Core' alumni.

Feedback was first class and certainly reinforced that the Extension programme should continue to form part of our governance development work into the future alongside our 'To the Core' programme.

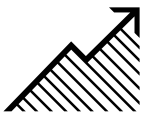
Following the disruption of COVID-19 we have over 80 applications for the available 24 positions for the 2021 course. This is an exceptional response and gives us confidence we are delivering what our shareholder base sees as a valuable governance development experience.

During 2020 we also supported two of our shareholder suppliers through personal development programmes. One attended the Fonterra Governance Programme, and another completed the AWDT Escalator Programme.

The continued constructive renewal of your Board was also highlighted with the appointment of Tim Gibson.

Tim has significant governance experience within co-operatives and within agribusiness and food companies.

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 investment in Silver Fern Farms Limited again delivered well above budgeted financial expectations in 2020 to generate returns for our Co-operative.

Over the past year, there has been a heightened awareness of the compelling value our Shareholder Benefits Programme delivers to our suppliers.

A combination of external and internal factors has resulted in the increase in demand for our shares:

- The strong financial result for the Co-operative reported for 2019
- \$7.9m Dividend and Patronage Reward paid 14 August 2020 on 2019 result
- Challenges for processing space during last season – with COVID-19 lockdown having a direct impact
- Increased transparency of shared status available to farmers through the Silver Fern Farmer digital site and app
- A material lift in attention to shared status for access to processing space and market-led programmes by the Silver Fern Farms Livestock Team, supported by increased availability of information
- Strong shareholder engagement on the 2020 Roadshow which clearly articulated the value of being fully shared.



The decision for Silver Fern Farms Limited to defer the dividend and retain that cash within the business through that uncertain period was the right decision at the time as it gave Silver Fern Farms Limited greater flexibility and confidence around how it continued operations through COVID-19 restrictions.

We believe that shareholders should be the first port of call for financial support and we were pleased to be in a position to offer up that support.

Once Silver Fern Farms had traded safely through that uncertain period the Co-operative received a net cash dividend of \$13.25 million. This dividend payment translates to the Co-operative's half share of a total dividend payment of 37.5 percent of Silver Fern Farms Limited's Net Profit after Tax from 2019. The Co-operative retained \$4.5 million to build cash reserves over and above redeemable rebate shares and other shareholder claims and paid a dividend and patronage reward for shareholders totalling \$7.9 million, fully-imputed.

One of the factors that the Co-operative Board considers important is that it has the financial reserves to ensure our own financial sustainability into the future and enables the co-operative to take opportunities that will create value for all shareholders if they arise.

The Board has been considering ways we can make our shares available to meet the increasing demand from those wanting to become new supplying shareholders or to increase their shareholding to meet the share standard. Ultimately the market on the Unlisted exchange will determine the price and the increased demand may well shake shares out from retired farmers and dry shareholders. We are happy with the dividend and patronage reward mechanism at present that sees supplying shareholders approximately twice as well rewarded as those not supplying. We hope over time that this will see more shares lie with those supplying and ultimately deliver further strength to the Co-operative. Evidence to date confirms this is occurring with an additional 3.2m shares eligible for the Patronage Reward in 2020.

The greater the supply of livestock from shareholders to Silver Fern Farms Limited, the stronger we will be as a 50% partner in the business – and this will ensure the voice of our farmers continues to be heard loud and clearly.

Share value has increased. Our share price opened the year at 55 cents, lifting to a trading range of 75-80 cents from mid-November. A significant majority of these were active suppliers purchasing shares. This is now the third successive year that we have seen increased demand through the last two months of the financial year. During the fourth quarter, 1.23 million shares were traded through the Unlisted exchange.

It is still the Board's intention to standardise the share structure and consequently reduce overhead costs of maintaining the share register.

There is a considerable cost in servicing the over 11,600 holders of Rebate Shares who have fewer than 1,000 shares in their Co-operative. These holdings alone cost the Co-operative in excess of \$50k per annum in administrative charges from the share registry. Of these individual shareholders only 370 supplied livestock in 2020. This is an area we will look to address in 2021.

We welcomed 158 new shareholders to the Co-operative in 2020. 76% of these shareholders have a supply relationship with Silver Fern Farms – they are actively farming.

In 2020 we entered into 54 new Glidepath Agreements, representing 322,000 stock units. This compares to 18 Glidepath Agreements in the previous two years. The Glidepath approach has been welcomed as an avenue to spread the cost of sharing up over three years while being able to take part in the Shareholder Benefits Programme which sees prioritisation towards fully-shared suppliers for many of the services offered by Silver Fern Farms Limited.

Communicating the value of the Co-operative extends beyond the quarterly 'Your Co-op' updates and other Co-operative e-mails. This year we completed the update of our Cooperative website at www.silverfernfarms.coop. The original version was established late 2017, so it was timely to provide a refresh and update some of the collateral contained within it.



We also adapted our communications to the situation, holding our 2019 Annual Meeting on a virtual platform, necessitated by the Level 3 & 4 Lockdown protocols. It was pleasing to have over 85 participants on-line to connect with us to understand our performance.

Building our membership is fundamental to us. Our collective strength in how we all perform underpins Silver Fern Farms Limited's performance.

As noted in the 2019 Annual Report, we are stronger together and the success of each of our own farming businesses relies on a financially strong and resilient processor and marketer.

The founding documents of the agreement we have with Shanghai Maling Aquarius set us up for a successful partnership. We want to re-state the importance of these as they set a constructive and shared relationship for Governance.

The partnership is collaborative in nature, as demonstrated by how we supported Silver Fern Farms Limited with cash-flow certainty. I would like to recognise Mr Wang who retired as Co-Chair of Silver Fern Farms Limited and Ms Tang who also retired from her role as a Director over the course of the year. I welcome Mr Jian Wu from Shanghai Maling as Silver Fern Farms Ltd Co-Chair and Ms Yan Juan Xu as Director and look forward to developing the same strong and collaborative relationship with them.





Co-operative financial result

Your Co-operative has reported a net profit before tax of \$32.4m for the 12-month period from 1 January 2020 through to 31 December 2020.

The after-tax result for the period was a net profit of \$31.6m.

At balance date, 31 December 2020, we remained free of debt, had cash on hand of \$22.3m (up from \$17.7m FY19), and Total Shareholder Equity of \$327.4m (up from \$303.8m FY19).

The administrative overhead for the Co-operative for the 12-month period was \$0.5m. This cost was met by Silver Fern Farms Limited as agreed under the terms of our partnership.

Under the founding partnership we have a targeted range for a dividend payment to the two shareholders of a minimum 30% of Silver Fern Farms Limited's net profit after tax.

The Board of Directors of Silver Fern Farms Limited agreed to pay a dividend of \$26.2m representing 40% of the operating company's Net Profit After Tax for the year ending 31 December 2020. The Co-operative and our partner Shanghai Maling Aquarius Ltd each receive a 50 percent share of this dividend. This represents a fully-imputed dividend receivable by the Co-operative of \$13.1m.

This distribution out of taxed paid profits represents a fourth consecutive year of returns.

The Co-operative Board has resolved to retain \$5m in cash from this dividend. The retention of cash further strengthens the Co-operative's resilience in the face of an uncertain global environment where our operational costs are partly funded by earnings generated from interest on reserves, and enables us to pursue options to simplify the shareholding classes in future.

	2020	2019	MOVEMENT
Share of earnings	\$32.7m	\$35.4m	(\$2.7m)
Dividends received	\$13.3m	\$0.9m	\$12.4m
Net Profit before tax	\$32.4m	\$35.1m	(\$2.7m)
Net Profit after tax	\$31.6m	\$34.9m	(\$3.3m)
Total equity	\$327.4m	\$303.8m	\$23.6m
Return on equity	10.0%	12.2%	(2.2%)

Co-operative \$8.1m Distribution of Dividend and Patronage Reward

Your Co-operative Board have decided to make a distribution by way of a \$6.3m dividend to all Ordinary and Rebate Shareholders, as well as a \$1.8m Patronage Reward distribution. Combined this takes the total distribution to qualifying shareholders to \$8.1m.

The shareholder dividend equates to a net return of 5.5 cents per share fully imputed (7.6 cents per share gross).

The quantum of dividend reflects a tax paid return on 84 cents share price (as at 29/3/21) of 6.54% for all shareholders.

The record date for the dividend is 16 April 2021.

The Patronage Reward will be distributed to shareholder-suppliers who are identified as eligible as at 31 December 2020 and who have an aligned shareholder-supplier match. To be eligible, shareholder suppliers must have supplied a minimum of 400 livestock units in the 2020 calendar year direct via our network of Livestock Representatives. They will receive 5.7 cents per eligible share fully imputed (7.9 cents equivalent gross).

Combined, the distribution of Dividend and Patronage Reward reflects a tax paid return on 84 cents share price (as at 29/3/21) of 13.28% for eligible shareholders.

We trust shareholders will see this as strong acknowledgement of the commitment of all Co-operative members, who, along with their communities, and the New Zealand economy as a whole, will benefit from this distribution.

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.



Dividend and Patronage Reward

YEAR	DIVIDEND PER SHARE	PATRONAGE REWARD PER SHARE	PAID OUT
2017	2.8c	2.8c	April 2018
2018	–	3.0c*	April 2019
2019	5.4c	6.0c	August 2020
2020	5.5c	5.7c	April 2021

* not fully imputed



Looking ahead

Your Co-operative Strategy focus areas for 2021

We took time to set targets and priorities for 2021 as we continue to create enduring value for our shareholders.

We have learned much from 2020 that we will take into the year ahead. We operate in a far more dynamic world to that we knew prior to COVID-19 becoming part of the daily conversation. In the dynamism we have discovered the strength in co-operative action and I would like to thank all shareholders for the commitment they have demonstrated to our Co-operative. My thanks to our Board of Directors, our partner Shanghai Maling, our Shareholder Relations Manager, and Silver Fern Farms Limited management and staff for their considerable efforts throughout 2020.



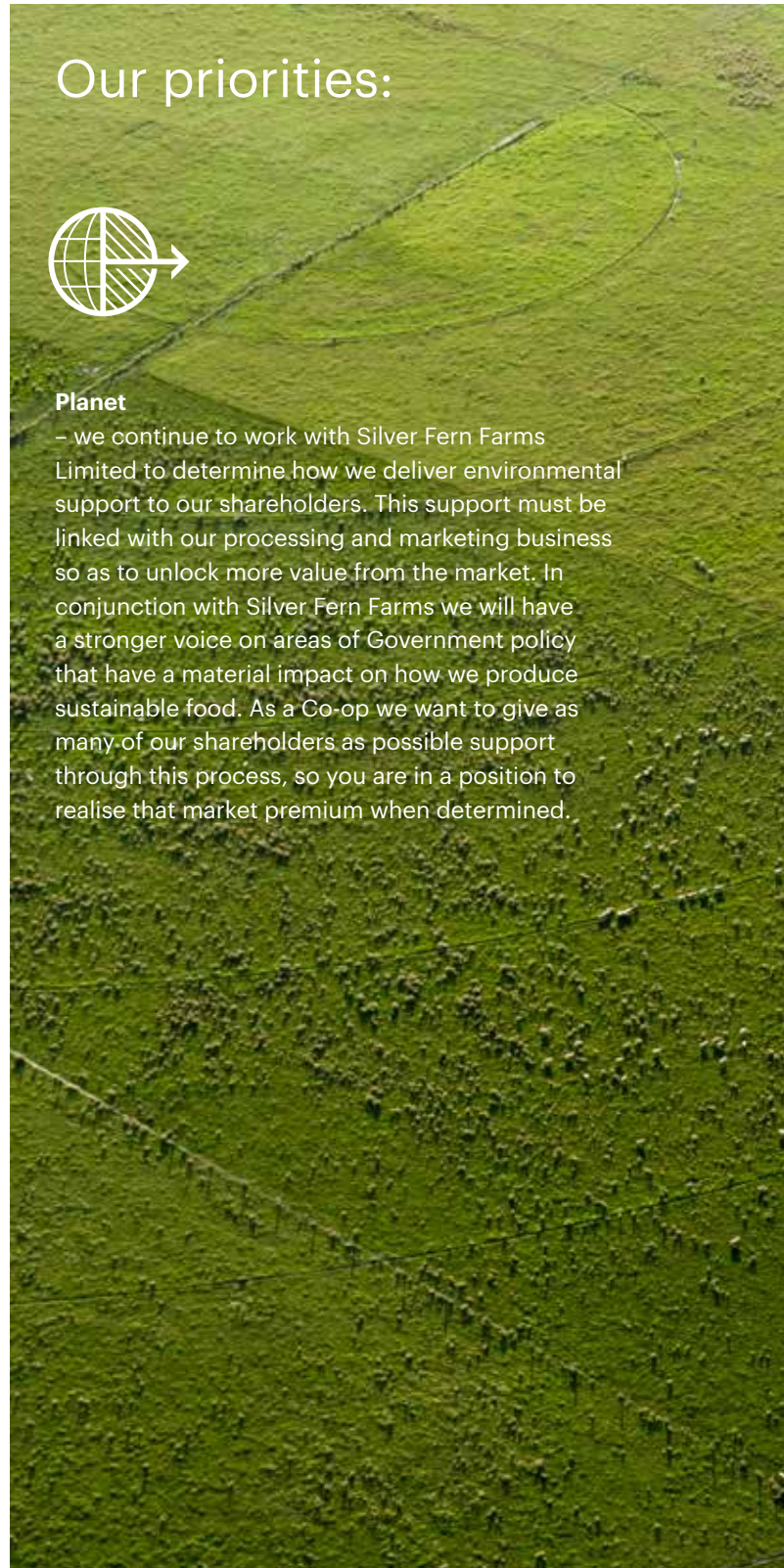
Richard Young, Chair
Silver Fern Farms Co-operative Limited

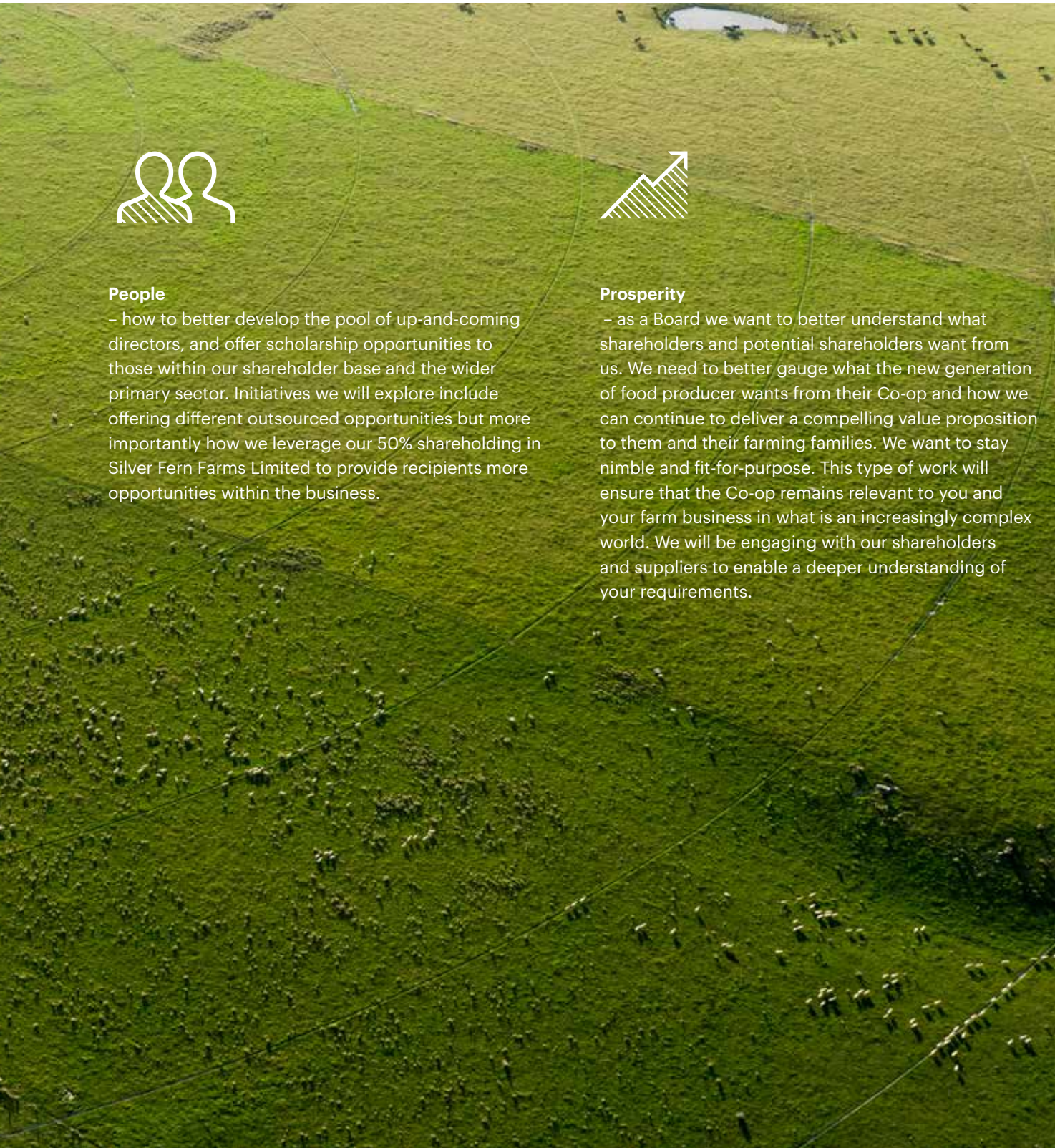
Our priorities:



Planet

– we continue to work with Silver Fern Farms Limited to determine how we deliver environmental support to our shareholders. This support must be linked with our processing and marketing business so as to unlock more value from the market. In conjunction with Silver Fern Farms we will have a stronger voice on areas of Government policy that have a material impact on how we produce sustainable food. As a Co-op we want to give as many of our shareholders as possible support through this process, so you are in a position to realise that market premium when determined.





People

– how to better develop the pool of up-and-coming directors, and offer scholarship opportunities to those within our shareholder base and the wider primary sector. Initiatives we will explore include offering different outsourced opportunities but more importantly how we leverage our 50% shareholding in Silver Fern Farms Limited to provide recipients more opportunities within the business.



Prosperity

– as a Board we want to better understand what shareholders and potential shareholders want from us. We need to better gauge what the new generation of food producer wants from their Co-op and how we can continue to deliver a compelling value proposition to them and their farming families. We want to stay nimble and fit-for-purpose. This type of work will ensure that the Co-op remains relevant to you and your farm business in what is an increasingly complex world. We will be engaging with our shareholders and suppliers to enable a deeper understanding of your requirements.





100% MADE OF NEW ZEALAND



Thriving in a Dynamic World

Towards an Integrated Report
of Silver Fern Farms Limited

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.

Our values



Expertise

At our heart we are food people, making it well, taking care of it from plate to pasture.



Integrity

We do the right thing by our people, shareholders, suppliers, customers, communities and the environment.



Performance

We must sustainably grow our profitability in order to invest in our business.



Collaboration

We are individually accountable and collectively responsible.



Innovation

We have big ideas, take action and get it done.



Our Plate to Pasture market focused strategy

Operating sustainably underpins our premium Silver Fern Farms brand.

We believe that sustainability across our business is a must have. We need to ingrain sustainability into everything we do; our environmental footprint, our communities we operate in and in our financial performance.

We care deeply about doing the right thing and doing it well, striving every day to be the world's most successful and sustainable grass-fed red meat company.

Founded in 1948, we are New Zealand's leading procurer, processor, marketer and exporter of premium quality lamb, beef and venison.

Our 'plate-to-pasture' strategy is how we make it happen – focusing first on identifying consumer needs, and then working with our farmers to understand the land and conditions required to grow the right specification livestock so we can apply our processing and sales and marketing expertise to meet those customer and consumer needs.

We believe our Plate to Pasture strategy is the right one. Our consumers' needs drive how we do things. Clearly, we need to be close to the consumer in markets around the world so we can understand how best we meet their expectations of exceptional eating experiences, health and nutrition, and sustainable production processes with genuine integrity.



The Silver Fern Farms brand is a powerful tool, and we are developing long-term additional value for our business through differentiated and branded products.

We produce a broad range of products which are supplied to uniquely diverse markets in more than 60 countries. It is important for us to reinforce the foundation that our business has been built on but by enhancing our customer focus, be capable of responding to and shaping a fast-evolving consumer environment.

Refreshing our strategy to deliver

<p>1. Creating a deep, commercially intimate, relationship with our customers.</p>	<p>2. Creating a deep, commercially intimate, relationship with our farmer suppliers.</p>	<p>3. A technologically enabled management ecosystem and ways of working that connects consumers with farmer suppliers and enables high quality, market-based, value accretive decision making.</p>	<p>4. A supply chain that effectively and efficiently facilitates the manufacturing and delivery of product to our consumers.</p>
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Our model to deliver shows how the Plate to Pasture strategy is built from the pillars of a Market and Customer Led Organisation, Best in Class Operations, Integrated Supply Base and Functional Enablement.

Each of these functions have critical pillars for us to deliver on our goals: Market and Customer Led, Aligned Infrastructure, Capability, Differentiated Livestock Supply, Technical Evolution – Transformation and Commercial Agility. It is through this focus and an awareness of the resources we use and the external risks and opportunities we rise to that we create value for our Silver Fern Farms and the communities and partners we work with.

Like many companies, in early 2020 we took the opportunity to revisit the relevance and performance of our plate to pasture market-led strategy in the face of significant global changes to consumer behavior, our domestic operating environment and trade conditions which were forced on us by the pandemic.

Through that process we concluded that Silver Fern Farms was in a strong position to face into traditional challenges of the New Zealand meat industry (e.g. over capacity, low profitability, low investment in marketing and R&D, availability of skilled labour), as well as recent/emerging challenges (e.g. sustainability, technology disruption, alternative proteins).

We believe the societal and business changes occurring as a result of the COVID-19 pandemic, combined with our strong financial performance, open an opportunity for Silver Fern Farms to generate further change and faster value creation from our Plate to Pasture strategy.

The following four imperatives help guide our focus as we navigate the current global environment:

1. Creating a deep, commercially intimate, relationship with our customers
2. Creating a deep, commercially intimate, relationship with our farmer suppliers
3. A technologically enabled management ecosystem and ways of working that connects consumers with farmer suppliers and enables high quality, market-based, value accretive decision making
4. A supply chain that effectively and efficiently facilitates the manufacturing and delivery of product to our consumers.

Our key insight was that our strategy remains fit for purpose and relevant for how we are creating value while at the same time pointing to a need to reallocate capital towards customer, supplier and technology enablers in order to support the delivery of our strategy.

We are aware that the environment we work in is constantly changing, and as it does, we will evolve our strategy to meet the needs of our consumers, shareholders, partners and communities.



How we create value

RESOURCES WE USE



HOW WE WORK

OUR

To sustainably add value to New Zealand's natural grass-fed red

OUR

To become the world's most successful and

People –

The skills and expertise of our 7,000 staff and 16,000 farmer suppliers

Natural resources –

Our care and respect for the land, water and animals

Intellectual capital –

Market insight, innovation, R&D

Manufactured capital –

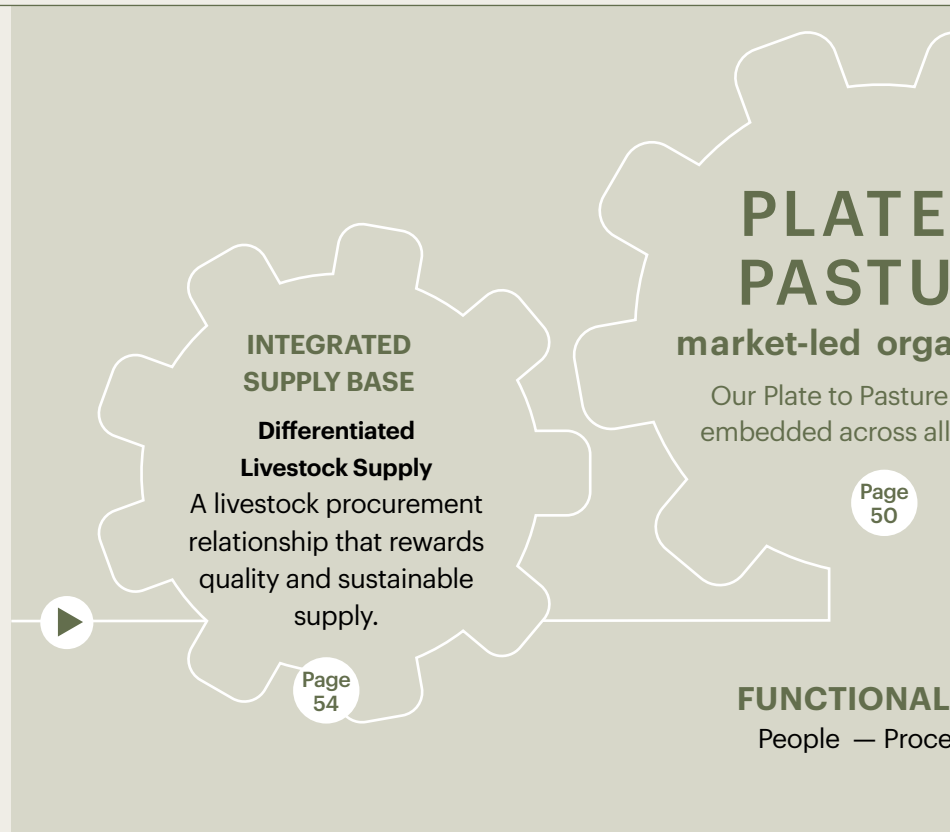
Manufacturing, logistics and offices

Social & relationship capital –

Our interaction with our communities and stakeholders

Financial capital –

Our ability to access capital to invest in our future



FUNCTIONAL

People – Proce

EXTERNAL

Our Sustainable Chain of Care – material sustainability



Engaged People
Sustaining Communities



Sustainable Future
for Farmers



Food Safety
and Quality



Animal Treatment
and Welfare



THE VALUE WE CREATE

PURPOSE

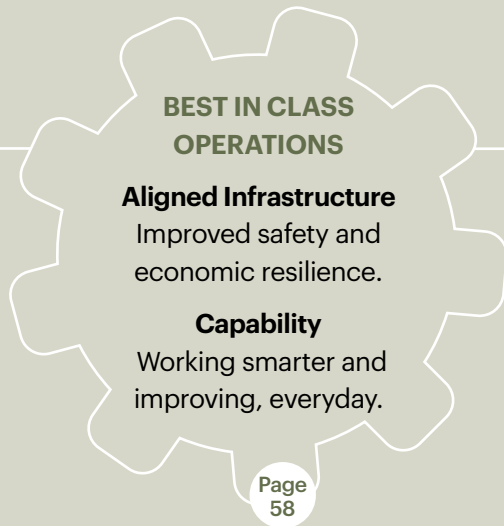
meat by being the first choice for people who care about food

VISION

sustainable grass-fed red meat company

TO RE
nisation

strategy
that we do



Page 58

Our consumers –

Their first choice for delicious food

Our environment –

Healthy land, climate, biodiversity and water

Our people –

Engaged and safe people

Our partners –

Returns distributed through the supply-chain

Our communities –

Supporting our national economy & regional communities

ENABLEMENT

Issues — Systems

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FACTORS

Issues and Strategic and Operational Risks

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Operational Efficiency



Wastewater Management



Market Access



Financial Performance

Our Sustainable Chain of Care



Our Sustainable Chain of Care is a framework to share our values, our goals and plans, and our progress towards becoming a more sustainable Silver Fern Farms.

We have a wide group of stakeholders from our consumers and customers, farmer suppliers and government regulators, through to service providers and our people who work for Silver Fern Farms – from plate to pasture. They all care about the way we produce food.

Our sustainability framework is integrated within our company's 'Plate to Pasture' strategy and is focused on issues that are important to our stakeholders.

Silver Fern Farms used a robust process to identify our material issues. It was carried out following the International Integrated Reporting Council Framework and the Global Reporting Initiative (GRI) G4 Guidelines.

We used the process to listen to a balanced and representative group of 30 of our stakeholders (internal and external). These people included our customers from around the world, our staff in roles responsible for significant areas of our business or technical expertise and people with expertise and interests in areas such as farming, animal welfare, energy, environment, food production and packaging and the communities in which we work.

Global trends facing food producers and the red meat industry as well as local industry issues were factors considered by our stakeholder group.

This group shared their views on Silver Fern Farms and where they saw the sustainability challenges and risks and opportunities for our company.







This materiality research was completed in 2016. Material issues were ranked to determine our 8 core areas of focus, initiatives were aligned to our company strategy and goals for us to achieve by the end of 2020 were set. These material issues are:





- Engaged people, sustaining communities
- Sustainable future for farmers
- Food safety and quality
- Operational efficiency
- Wastewater management
- Animal treatment and welfare
- Market access; and
- Financial performance.



Our Sustainable Chain of Care – progress on our goals since 2016



2020 TARGET	2016 BASELINE	2020 RESULT	2020 COMMENTARY	5 YEAR VIEW	UN SDG
ENGAGED PEOPLE SUSTAINING COMMUNITIES					
<p>Trending improvement in engagement.</p> <p>Annual reduction in injury rates.</p> <p>Targeted regional sponsorship.</p>	7.6 TRIFR.	<p>New culture amp survey established - 85% participation.</p> <p>12.5 TRIFR.</p> <p>Largest capital investment in key health and safety Improvements.</p> <p>Meat the Need partnership established.</p> <p>\$574k in sponsorship.</p>	<p>Kept staff employed through COVID-19 restrictions</p> <p>Digital staff communication platform grows – over 3,200 users</p> <p>Our Ora approach to H&S has focused on changing culture to Identify and reduce serious harm, manage critical risk and encourage injury reporting.</p> <p>Founding partner for Meat the Need, an initiative that makes meat available to high need communities and families.</p>	<p>Development of People Strategy sees investment in leadership development.</p> <p>Deployed new measurement tool for gauging engagement.</p> <p>7.95 TRIFR 5-year average</p> <p>22% reduction in days off work due to injury over period.</p> <p>Total investment of over \$1.7m in regional community sponsorship since 2016.</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>	2301 suppliers in programmes.	<p>3370 registered suppliers to programmes.</p> <p>Over \$4.9M paid in programme premiums.</p> <p>Involvement in Industry response to development of government policy.</p>	<p>Growth In the 100% Lamb and Beef programmes to meet US market growth.</p> <p>Value-based procurement model including preference for fully-shared Co-operative members measured.</p> <p>Supplier survey Indicates highest value rating for service since 2011.</p> <p>Involved In Industry response to the Primary Sector’s He Waka Eeke Noa Climate Change Commitment through the MIA working group.</p>	<p>Over 30% growth in farmers involved in market-linked, value-added supply programmes (2301 baseline).</p> <p>67.8% increase in stock units in supply programmes since 2016.</p> <p>Over \$27m programme premiums paid to suppliers since 2016.</p> <p>8.9% increase in premium payments on 2016 baseline.</p> <p>28.5% increase in supplier loyalty since 2016 – measured through annual supplier survey.</p> <p>Industry leadership for on-farm sustainability issues.</p>	  

2020 TARGET	2016 BASELINE	2020 RESULT	2020 COMMENTARY	5 YEAR VIEW	UN SDG
FOOD SAFETY AND QUALITY					
Maintain our 100% record for food safety.	Zero public recall.	No public recalls in 2020.	Increasing investment in food safety training. Company Quality Reset programme.	Maintained our 100% record for food safety since 2016 with zero public recalls.	 
ANIMAL WELFARE					
100% of livestock in market-linked programmes accredited to the National Farm Assurance Standards	Baseline of zero at 2016	100% of animals supplied to programmes are from suppliers certified under the NZ Farm Assurance standard.	NZ Farm Assurance programme embedded into the way we work.	NZ Farm Assurance programme developed over the 5-year period and rolled out. The NZ Farm Assurance Plus Standard developed and agreed to by industry providing a deeper assurance on issues encompassing social and environmental sustainability.	 






ENVIRONMENTAL

2020 TARGET		2016 BASELINE	2020 RESULT	2020 COMMENTARY	5 YEAR VIEW	UN SDG
OPERATIONAL EFFICIENCY						
Water	10% reduction in water use per kg of product produced.	Baseline established.	7.7% reduction.	Sites adopted water reduction targets into operational plans Capital investment into water efficiency (such as sensor technology and infrastructure renewal).	30.1% reduction in water M3/kg production over 2016 baseline.	
Waste	10% reduction in waste to landfill per kg of product produced.	Zero baseline established.	Over 100 tonnes of plastic have been permanently removed from supply chain.	All sites have active recycling programmes. Pilot project with waste services partners established to measure and reduce waste to landfill now active across 3 sites.	Over the 5-year period we have not been able to develop an accurate measure of our total waste to track this goal. We have had a sustainable procurement focus and have developed long-term partnerships with key vendors together with our STREAMLINE programme to reduce inputs as a priority.	
Energy	10% reduction in energy use per kg product produced.	Baseline established.	1.1% reduction	STREAMLINE Programme maintains focus on energy reduction at sites Capital expenditure on energy efficiency projects delivers efficiency gains.	9.2% reduction in energy use Kw/kg production over 2016 baseline Over the 5-year period Silver Fern Farms was the largest participant in EECA's Energy Transition Accelerator programme to Identify energy efficiency options.	
Carbon	By 2030 we will reduce the GHG emissions intensity of our operations by tonne of product on 2005 levels by 30%.	Estimated 2005 emissions were between 180,000 and 200,000 tonnes of CO ₂ e - (Scope 1 & Scope 2 only).	2020 emissions 98,678 tonnes of CO ₂ equivalent (NB. provisional - pre-Toitū)	30% gross reduction on non-verified 2005 level achieved. Improvement In reporting and emissions reductions projects reduce gross emissions by 25,413 tonnes CO ₂ e from a 2018 base year. On farm pilot - carbon balance completed on 17 pilot farms, Carbon Lifecycle Analysis on beef programme complete.	In 2018 we joined the Toitū Envirocare CarbonReduce programme. We have also adopted a new science aligned target. By 2030 Silver Fern Farms aim is to reduce our combined scope 1 and scope 2 emissions by 42% from a 2020 base year. By 2030 Silver Fern Farms Ltd aim is to reduce our combined Scope 1 and Scope 2 emissions by 42%, from a 2020 base year.	
Wastewater	10% reduction in wastewater per kg of product produced.	Baseline established.	-7.60% reduction	Environmental Management System (EMS) – ISO standard Gold standard system achieved in 2020.	Over 14% decrease in wastewater volume in m3/kg product over 2016 baseline.	



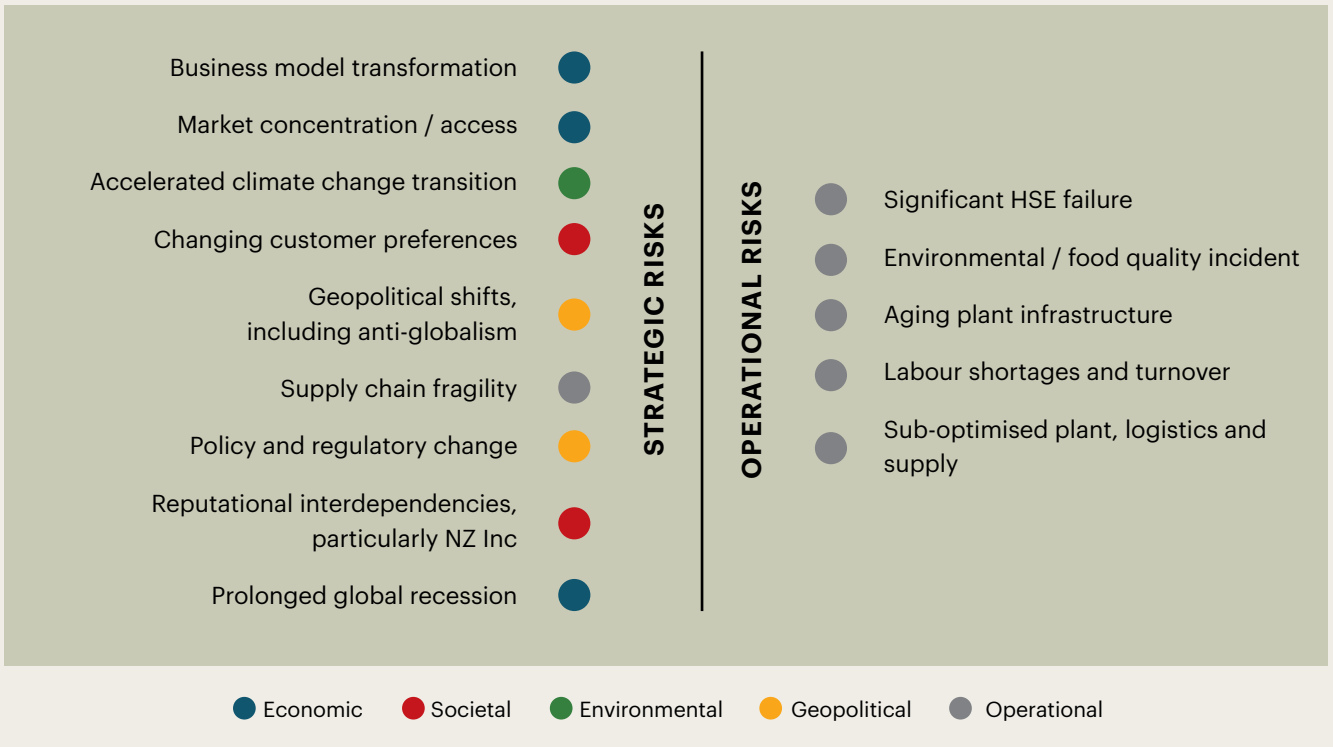
FINANCIAL

2020 TARGET	2016 BASELINE	2020 RESULT	2020 COMMENTARY	5 YEAR VIEW	UN SDG
MARKET ACCESS					
To be viewed as a trusted partner by Government and industry bodies through involvement in brokering trade agreements and involvement in trade visits.		Independent survey of key market access stakeholders carried out.	<p>Our focus in 2020 was on maintaining access to global markets through the COVID-related disruption to trade.</p> <p>A key input was In aligning production practices to the development of COVID-19 related protocols for markets.</p> <p>The report indicated there was a high level of trust and support for our activity and expertise in this area. Respondents rated Silver Fern Farms leadership and value of Input between 4/5 and 5/5.</p> <p>The findings from this survey will assist in the further development of our approach to market access.</p>	<p>In 2016 we had no reference point for our performance in this area.</p> <p>A market access plan was developed and resourced to address this material issue. To assess our contribution over the 5-year period we engaged with key market access experts from Government and industry via an independent survey of our involvement.</p> <p>We have also made a contribution on key Government policy across the areas of carbon, animal welfare, water and biodiversity.</p>	 
FINANCIAL PERFORMANCE					
Four years of profits and dividends.		<p>2020 Net Profit After Tax \$65.4m</p> <p>2020 dividend of \$26.5m paid to shareholders.</p>	Strong performance in dynamic market environment.	<p>Profits and dividends for four consecutive years*</p> <p>Total Net Profit After Tax: \$157.4m</p> <p>Total dividends declared: \$66.4m</p> <p>*NB. 2017 was for the twelve month equivalent period.</p>	

Material Risks

Alongside the evaluation of key operational challenges at a business unit level, we monitor the changing economic and societal landscape, assessing the influence of global macrotrends on our operating environment in order to identify our material and emerging risks (and opportunities).





Spotlight On . . .

STRATEGIC RISK

Climate-related risk

Silver Fern Farms is committed to reducing climate change related risks, building resilience, and capturing new opportunities. In 2020, we engaged KPMG to undertake a maturity assessment against leading practice in order to better understand our current decision-making processes and structures in relation to climate change. The conclusions from this maturity assessment are informing the development of a strategy and detailed roadmap to systematically identify, analyse and address climate-related risks and opportunities that may have a material financial impact on the business over the short, medium, or long term.

OPERATIONAL RISK

Ammonia management

We remain fully committed to rectifying the impact caused by the February 2020 ammonia incident at our Hawera site and have taken extensive action to reduce the risk of future events. We acknowledge and completely accept the ecological and social/cultural impact that was caused as a result of the accident.

An independent review into the guidance around appropriate and best practices for ammonia storage and use (including emergency practices) has resulted in changes to ammonia management. Our training programme and procedures across the business have been revised and we have established an internal Ammonia Reference Group to look at improvements that can be made at all Silver Fern Farms’ sites and to oversee the development of systems and procedures.

We formally extend our gratitude to Ngāti Ruanui in relation to their willingness to support us so that we can put this right in a way that respects the Taw’iti stream and the community.

Risk Management



Silver Fern Farms recognises the essential role of risk and opportunity management in ensuring long-term business performance and stability. To drive sustainable growth and resiliency, while enhancing stakeholder trust, we must anticipate, articulate, and respond to risks affecting both our strategic objectives and our operations.

We accept that risk is part of doing business. Through the application of robust risk management practices across our business, we seek to achieve an appropriate level of risk, commensurate with the returns expected.

Silver Fern Farms' is committed to maturing our risk management practices in order to deliver tangible benefits to the business and address key business risks. As such, the Board Risk and Sustainability Committee (RSC) was established in late 2020 to ensure a strategic and robust approach to risk management is firmly embedded within the business.

An enterprise risk management (ERM) maturity roadmap, covering a two-year period, has subsequently been endorsed and commenced. This roadmap is based on a strategic approach to risk management focusing on:

- **a customer led approach** – delivering a robust yet streamlined set of tools and processes that are simple to understand, easy to use, deliver value to the user, and enhance business performance.
- **leveraging risk management as a tool for creating and protecting value** – recognising that risk management creates value by driving sustainable growth via robust opportunity analysis and decision making and protects value through building a resilient organisation.
- **growing the maturity of both risk design and risk culture** – to enable a mature risk organisation there needs to be an equal focus on quality of design and consistency of behaviour/approach.

Effective risk and opportunity management is integral to the way we do business.



Our new ERM framework, developed under the roadmap, provides a valuable strategic tool aimed at allowing a single, company-wide view of risk. Based on the principles of the global risk management standard, ISO 31000:2018, it will enable Silver Fern Farms to effectively manage its risks by setting out the disciplines that can be embedded in day-to-day business operations and decision-making processes. Centred on both creating and protecting value, the framework is customised to reflect the nature of our operations.

At the framework's core is the process for promoting the effective identification, assessment, treatment, and reporting of risk. To support a consistent approach, reflecting the current context and complexities of our business, a re-design of Silver Fern Farms' risk assessment tools is a foundational activity under the roadmap. These tools (covering consequence definitions, risk evaluation heatmap, and risk escalation and reporting procedures) will be used to formally articulate the Board's risk appetite.

This approach ensures consideration of risk appetite is embedded into the regular decision making of the business each time a risk assessment is conducted.

An enterprise-wide opportunity matrix is also being progressed, ensuring we are assessing opportunities in a manner which prioritises delivery of our key strategic imperatives.

While responsibility for delivering the roadmap and embedding the ERM framework rests with the Chief Risk Officer (appointed in October 2020), all our people play a key role in managing risk across the organisation. Strengthening expertise through dedicated risk management roles at plant, training and guidance, and the establishment of a network of cross-functional risk champions is seen as critical to ensuring the successful implementation of this programme of work. To further promote accountability and transparency, each business area will be presenting their material risks to the RSC over the next 12 months.

Climate Change and Emissions

Our customer and consumer led approach is driving us faster to a low carbon future. Silver Fern Farms' vision to become the world's most successful and sustainable grass-fed red meat company has our response to the global issue of climate change at front and centre.

On-farm emissions

Sheep and beef farmers across New Zealand already host close to a quarter of New Zealand's indigenous vegetation on their farms, all of which is absorbing Greenhouse Gases. Collectively they have increased their efficiency, producing the same amount of red meat from a much smaller GHG footprint than they did in the early 90's.

By taking a whole of farm system approach to how we work with farmers to reduce carbon in our supply chain, we aim to enhance the natural, biodiverse, farming environments we have in New Zealand.

We have been proactively working with a group of 17 of our farmer suppliers from across the country to better understand their own carbon footprint and where their opportunities are to optimise carbon stored on their farms. We are looking to establish the foundations for a market proposition for low, or zero carbon red meat from New Zealand.

We have been supported by the Ministry for Primary Industries' Sustainable Food & Fibre Fund to conduct this work. It has also involved Toitū Enviromark, Overseer, Farm^{IQ} and farm systems and farm forestry, and ETS carbon trading expertise.

This work has strong alignment with the aims of He Waka Eke Noa – our industry's commitment, and we intend to use this process to inform our role in assisting on-farm extension of carbon management. We are also aligning our market programmes with the National Farm Assurance Programme and the Farm Assurance Plus Programme.

Separately, Toitū Envirocare and AgResearch are carrying out a carbon lifecycle assessment of one of our premium market offerings into the US retail channel to establish a pathway to marketing a verified on-package claim for a carbon neutral product.

- We intend to extend the learnings from this on-farm programme across our supplier-base to scale up the market offering.
- Silver Fern Farms will be driving uptake of the National Farm Assurance Programme and the Farm Assurance Plus Programme. They will underpin value creating market programmes to create market-led incentives for practice change and we welcome your support as we grow uptake of National Farm Assurance and associated digital tools.



Processing emissions

We are New Zealand's first red meat processing and marketing company to certify our carbon footprint, through Toitū Envirocare CarbonReduce programme – an internationally recognised carbon certification requiring public reporting of our emissions and the adoption of an emissions reduction plan.

As publicly reported, we have reduced our Greenhouse Gas emissions from our processing operations by 8% from our base year in 2019 and our fossil fuel use has dropped by 8.3% since 2017. Our pre-audited emissions for the 2020 year stand at 98,678 tonnes CO₂e.

We were early adopters of a target to reduce our GHG emissions to align with the Kyoto and subsequent Paris agreements and have achieved that early goal. We are now working to join the global science based target initiative by the end of 2021.

We are New Zealand's largest multi-site business to partner with EECA on the Emissions Transition Accelerator programme.

While the majority of our 14 processing sites still rely on some form of fossil fuel as an energy source, we are committed to an energy transformation process across

our business that will reduce our emissions and secure a sustainable energy future.

We have developed a plan for Silver Fern Farms to achieve a clean efficient energy strategy with zero coal usage. This will require approximately \$33.8 million capital investment over the next 10 years for demand reduction, heat pump projects and boiler replacements.

Our commitment to emissions reductions

In line with our commitment to the Climate Leaders Coalition, we are committed to the Paris Agreement target to keep warming below 2°C and to further pursue efforts to limit the temperature increase to 1.5°C. Our priority is to focus on decarbonising our energy use, we are therefore adopting an ambitious science-aligned target. By 2030, Silver Fern Farms Ltd aim is to reduce our combined Scope 1 and Scope 2 emissions by 42%, from a 2020 base year.

You can find our verified emissions reports on our website –

www.silverfernfarms.com/our-company/our-sustainable-chain-of-care/

Our Community

Listening to our stakeholders

In 2017 we carried out an exercise to identify our key stakeholders within our supply chain across our material sustainability issues. These stakeholders have an active interest in how Silver Fern Farms creates value, and interacts with our communities.

We have used a variety of approaches to listen to these stakeholders and respond to their views on our performance. On material issues we have worked in partnership with key stakeholder groups to achieve our targets.

MATERIAL ISSUES – A RENEWED FOCUS 2021 - 2025

Silver Fern Farms is in the process of reviewing its Material Sustainability Issues to reflect the changed importance and impact of issues on our ability to fulfil our strategy.

We are using a process following the International Integrated Reporting Council Framework and the Global Reporting Initiative (GRI) G4 Guidelines.

It includes workshops, surveys and stakeholder interviews with internal and external stakeholders. These people include our customers from around the world, our staff in roles responsible for significant areas of our business or technical expertise and people with expertise and interests in areas such as farming, tikanga Māori, animal welfare, energy, environment, food production and packaging and the communities in which we work.

External reports on global trends facing food producers, consumers and the red meat industry as well as local industry issues will also be considered.

Over the next 12 months we will be working across our business to align elements of our strategy to identify and address these issues. Our 2021 report will outline the new set of goals and initiatives we have put in place to achieve by 2025.



Stakeholder Groups



OUR PEOPLE

Weekly communication on company progress, daily STREAMLINE stand-up line meetings, @workplace social media platform, developed application of the CultureAmp staff survey tool, Union engagement.



PUBLIC

Research in key global markets, engagement in social media forums, presence at community events.



CONSUMERS

Consumer panels, consumer research programme, face-to-face interaction at food shows globally.

Silver Fern Farms engages with a wide range of stakeholders both domestically in New Zealand and globally.

OUR FOOD PRODUCING FARMERS

Annual supplier roadshows, regular newsletters, annual supplier value survey, sustainability issues survey 2020, Co-operative events, in-market tours and training programmes.

CUSTOMERS

Food show engagement, 2019 Sustainability Survey, face-to-face meetings, Roundtable meetings.

GOVERNMENT

Ministerial visits, meetings via industry associations, Aotearoa Circle, departmental forums and meetings, e.g. MFAT, NZTE, MPI, AssureQuality forums and in-market events.

SUPPLY CHAIN PARTNERS

Engagement via forums including Business New Zealand and the Sustainable Business Council, Aotearoa Circle, sustainable procurement relationship management initiatives, industry engagement with MIA, DINZ, B+LNZ.

LOCAL COMMUNITIES

Each of our sites supports activities in their local communities and engages with local iwi, community groups and neighbours, we have a strong social media presence, Customer Service centre and public engagement at local events.

FINANCIAL STAKEHOLDERS

We hold regular discussions on sustainability with our banking partners, and have provided input into the Aotearoa Circle's Sustainable Agriculture Finance Initiative.

RESEARCH PARTNERS

Since 2016 we have been involved in research with leading Universities and research institutes in New Zealand and overseas.

NGOs

Partnerships and ongoing dialogue with interest groups including; Trees for Bees, SPCA, Meat the Need.

Our contribution to our community – How we support regional New Zealand



Wayne Langford and Siobhan O'Malley with Zucchi Leonard from the Christchurch City Mission.

Image courtesy: Meat the Need

Silver Fern Farms operates 14 food production sites in regions across New Zealand. We support jobs in a variety of communities from Dargaville in the far-North, where we are a leading employer, to larger centres like Hastings and Christchurch, through to smaller communities in the South like Hokitika, and Gore.

Our national contribution is significant, but more so is the business we generate for small and medium sized goods and services companies in the communities where we work, and the returns back to farmers from the value we generate in-market for our food.



In May 2020 we supported the establishment of Meat the Need – a charitable organisation founded by farmers who wanted to give back to the community by making sure those in need have access to high-quality red-meat.

With many New Zealanders facing financial uncertainty, foodbanks across the country have been facing unprecedented demand. Meat the Need takes donations of cash and livestock from farmers across the country. Silver Fern Farms then provides high-quality beef mince for the charity to distribute to food banks and city missions.

Meat the Need received the 'Industry Champion' Award at the 2020 Primary Industry Awards, was a finalist in the New Zealand Food Heroes Awards and the Outstanding Collaboration category in the Sustainable Business Awards.

To support this cause, donate online at meattheneed.org, or talk to your Silver Fern Farms Livestock Representative.





15.4k
sheep, beef
and deer farmer
partners

\$574k
sponsorship to
support regional and
national causes

8.5 tonnes
mince to foodbanks
and city missions
across New Zealand
since May 2020

90.4%
of produce exported
to global consumers

15.0m
stock units processed
across our 14 sites

\$1.6b
livestock payments
to our Silver Fern
Farmers

120k
meals to hungry
kiwi families through
Meat the Need

\$411m
wages and salaries
for our 6,000+ staff

34.9k
vendors supporting
our business

\$283.9m
payments to
small and medium
businesses in
our regions

20.0k
containers of
produce exported

\$2.5b
value of produce

2020 Performance and Outlook for 2021



Simon Limmer
Chief Executive
Silver Fern Farms Limited

The importance of our deep relationships with our customers, our people, our farmer suppliers and our partners through the supply chain was underlined by the events of 2020.

Who would have anticipated the range of unexpected challenges this year has served up for us? We have worked through a lockdown, risks to the health wellbeing and safety of our people, drought, overflowing ports, shuttered restaurants, ongoing trade turmoil, Brexit negotiations, elections, and much more.

We have never gone this long without meeting face to face with our global customers and stakeholders, and that possibility is still some time away.

Despite all of that disruption, this has been a time when real character and resilience stands out. We have witnessed those traits time and again throughout our Silver Fern Farms community. Our people can feel very proud of what we have achieved as an organisation and the results we achieved in 2020. More importantly, the way we worked as a team, continuously finding solutions and looking out for each other was key to who we are.

That is not to suggest for a moment that 2021 will not also present significant challenges. However, there is a sense of optimism that our business is in really good health, having established the stability, strategy and capability to continue to build and seize the opportunities that lie ahead.

Through greater transparency we aim to grow community trust in the way we produce natural, 100% Made of New Zealand red meat.

Our financial performance lays the foundation for that optimism and fuels our ability to deliver on our commitment to our vision of being the world's most sustainable and successful grass-fed red meat company.

In 2018 we set a 2023 goal of achieving an aggregated profit over the 5-year period of over \$150m. Demonstrating performance through the market cycle is crucial to providing sustained value creation over time. At the time, given the company's financial history, this was an ambitious goal. While we are not there yet, we are pleased to report that our financial performance across the past two years sees us well on-track to achieve that target (NPAT: FY2019 \$70.7m, FY2020 \$65.4m).

This financial result, though down on 2019's record performance, is our second strongest result for the Company. It was delivered through a remarkably dynamic and disrupted trading environment.

We executed our opportunities well – through our operational management of the business and in the market with limited disruption as we operated as an essential service to our farmer suppliers and those in need of food globally.

This report on our performance looks at our progress through an integrated reporting lens. We intend to show our stakeholders a full picture of how we operate in a dynamic world so that we are able to live up to our vision.



Simon Limmer
Chief Executive

YEAR	2020	2019	MOVEMENT
Revenue	\$2.5bn	\$2.6bn	(\$0.1bn)
EBITDA	\$125.7m	\$124.3m	\$1.4m
Net Profit before tax	\$90.2m	\$89.6m	\$0.6m
Net Profit after tax	\$65.4m	\$70.7m	(\$5.3m)
Dividends Paid	\$26.5m	\$1.7m	\$24.8m
Total equity	\$609.5m	\$571.0m	\$38.5m
Return on equity	10.7%	13.2%	-2.5%

The following sections outline key parts of our model to deliver on our strategy:

- 50 A Plate to Pasture
Market-led Organisation
- 54 Integrated Supply Base
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Operations
- 58 Functional Enablement
- 60 Outlook

A Plate to Pasture

Market-led Organisation

Our approach to the markets

The way people eat food has undergone several significant changes. The pandemic and the lockdowns in-place to protect people around the world have fundamentally changed consumer behaviour.

We came into 2020 with significant demand for protein off the back of the continued lag in the rebuild of global pork stocks following the African Swine Fever disease.

Domestic supply of livestock was also subdued due to flooding in parts of the South Island and drought in the North Island.

Bushfires, floods, drought and herd rebuild in Australia also constrained supply to key Asian and US beef markets. We were on-track for favorable market conditions.

COVID-19's impact on markets was profound. 50% of our lamb supply was destined for China in December at market-leading premiums as they prepared for their Chinese New Year celebrations. As the realities of the virus became rapidly known and the country entered into a lock-down our volumes reduced to less than 10% of our production in February. Beef saw similar changes dropping from 50% of our production to 25% percent over the same period.

Having market optionality and established, trusted relationships with customers globally saw us rapidly swing our production to alternative markets. Europe and the UK saw lamb volumes lift from 10% of our pre-Christmas production to over 35% of production in February

Customers in the USA came in for beef with levels lifting from 25% pre-Christmas 50% following the China Shutdown. Beef shipments to North Asia doubled post-February.

As the pandemic conditions spread to the US and Europe we were able to switch sales back to the China market as China had pulled through and demand came back strongly with over 60% of our production through the May to June period meeting that renewed demand.

This example of market flexibility belies the complexity of managing sales forecasts, export documentation, logistics, container access and operational processing plans to meet the seasonal peak demand for processing space on-farm.



We have needed to be customer focused and agile to take advantage of this market disruption and realise every opportunity presented to us.

Whilst market returns for Lamb and Beef remained in-line with the 5-year averages throughout the year, the same cannot be said for Venison which, though stabilising now, was particularly exposed to the collapse in the restaurant trade globally.

Venison is a high-value protein due to the way it has been promoted as a luxury food on menus of the world's restaurants. It traditionally commands a premium as a result. When restaurant doors shut, our sales and marketing, and operational teams developed a Venison Market Recovery plan to manage the dramatic decline in the fine-dining, food service sectors.

Through 2020 we managed sales to the market to maintain production, whilst innovating with new cuts and marketing campaigns to stimulate demand in traditional and emerging markets, and in on-line channels. A new ground venison retail offering into Albertson's retail stores in the USA, complemented two new cuts (cutlets, and minute steaks) which were made available to New Zealand retailers. This extensive programme is ongoing and is having a positive effect on demand, and has assisted in stabilising the decline in market returns. We are prepared for when the food service and high-end restaurant trade recovers, and we will have a wider range of consumers and channels to create greater resilience for venison.

This effort was a good example of the focus we need on creating a deep, commercially intimate, relationship with our customers.



The importance of a China-based team was crucial in maintaining relationships with our customers and regulatory authorities as the market responded to COVID-19.

We continue to grow our Sales and Marketing capability and have made a deliberate investment in innovation and new product development.

The importance of a China-based team was crucial in maintaining relationships with our customers and regulatory authorities as the market responded to COVID-19. Our team was able to secure additional cool storage in-market, giving us speed to service our customers' demand when the lockdown was lifted. Their contact with customers and their consumers was enhanced through the launch of our China website which contains detailed information on our product range, cuts, recipes and other product information, in Mandarin. It also features a collection of highly engaging marketing and brand videos – invaluable tools for engaging with customers remotely.

In the USA our marketing and sales team responded to our customers who moved from servicing the food service trade to new online click and collect channels. Innovative online marketing campaigns targeting consumers cooking at home were rolled out in collaboration with B+LNZ's Taste Pure Nature initiative.

Digital campaigns have also highlighted Silver Fern Farms' commitment to 'Our Sustainable Chain of Care', and the achievements and partnerships that we have formed over the past four years. It is clear our customers and consumers care about how their food is produced.

In an on-line world where the consumer is able to look back through the supply chain, from their order to the farm, it is increasingly important that we have facts that we can trace back through our chain of care.

We are informed of their needs and interests in global food systems through our extensive consumer research programme. We use global research partners to inform our marketing and sales approach.

We are acutely aware of the growth in grass-fed market claims. These claims are valued by consumers for the natural benefits these systems provide to health, animal welfare, biodiversity and the environment.

Increasingly it is a market position which is being achieved by competitors, with a proliferation of new grass-fed brands in the important US market.

A higher market claim, and one we believe is harder for competitors to emulate, is emerging. It centres around consumer demand for the concept of food that is produced regeneratively – and in doing so gives back to the planet. Significant global players in the food and finance sectors, researchers and government are working to unlock this market opportunity.

It is a genuine market trend and one we need to understand and unlock value from. Aotearoa New Zealand has food production systems with unique advantages over those in the countries where this trend comes from, and we must be open to leveraging the advantage in front of us.

Through 2020 our innovation, sales, marketing and operations and food quality and assurance teams kept working cohesively to develop opportunities. The work carried out saw the launch of a new online store partnership in New Zealand with Gourmet Direct, and the development of our new retail burger range in early 2021.

To lift Silver Fern Farms brand awareness with consumers we continued to develop the Delicious Starts Here brand campaign and in-market marketing PR campaigns in the US and China markets, all of which ran through the year and took consumers back to the source of where their red meat comes from.



Integrated Supply Base

The COVID-19 alert-level operating environment had a significant impact on traditional supply volumes for processing. However, while it spread the timing of processing, volumes processed were largely in-line with 2019 levels.

Through this period we prioritised our fully-shared, loyal shareholders and suppliers. During the peak processing periods shareholders received preference for processing space compared to non-peak supply periods. Shareholders also received preferential access to premium supply programmes with shareholder stock making up 77% of beef programmes and 87% allocation of the 100% lamb programme.

As a result of the service offered by Silver Fern Farms Livestock Representatives and our position on priority for direct supply we also saw a marked lift in direct supply saving the company around \$600,000 in 3rd party fees.

Market-led Programmes continue to grow. In 2020 Beef programmes grew by 17% and our Lamb programme grew by 4% and is nearing 10% of our total lamb supply. Given the market conditions this was an excellent result.

Offering a service that can serve up data in an easily accessible way has been a focus. Our digital experience saw a refreshed supplier website and the Silver Fern Farmer app rolled out and taken up by over 4,500 active users – the equivalent of 10 million stock units. We are living in a digital world and are committed to providing an easy to use and informative platform for supply chain integrations, including traceability, and communications.

An example of how quickly farmers are turning to digital tools is the 300% lift in uptake of e-ASD users during Alert Level 4 restrictions.



2020 saw a continued shift from a volume to a value -based approach to our supply strategy, and record favourability ratings in our annual supplier survey.

Investment in digital tools will help us deliver our customer promise through data and integrity of our product claims. Farm Assurance protects market access, and lifts consumer confidence in food safety, food security, food fraud, and environmental performance and animal care. Our aim is to provide digital technology to improve compliance and assurance through smart investment and partnerships to digitally connect our supply chain and deliver our traceability promises to our customers and consumers.

We continued to invest in our people. Our Silver Fern Farms Livestock team hold relationships that are central to providing the services that our farmer partners value. Over 2020 we supported them with training in their leadership, safety, and support with digital tools so they could perform at their best.

This was a significantly challenging environment for our team who had to do their best to match on-farm demands with reduced and fluctuating processing capacity as plants managed through essential service processing restrictions.

They also had an important role communicating market signals back to farmers. The venison market recovery plan is an example of how the team engaged in extensive communications with our farmer suppliers so they could respond to the market signals. It was also backed by an alternative 'shared-risk and reward' procurement model which saw suppliers receive top-ups to their processing payments which were derived from



lifts in market sales. The approach saw suppliers work with us to supply sufficient in-specification stock to meet our commitments to chilled orders – a critical period for securing market value.

In our annual supplier value survey conducted by Kantar TNS in July we received our highest performance rating since the survey commenced in 2011. Through the survey we know you value our financial stability, the performance of our operational teams, marketing expertise, communications and our sustainability performance.

We also appreciate the high regard in which you hold our team of Livestock Representatives, and the benefit they bring to your businesses. We are particularly proud of how they are viewed, and thank suppliers for this valued feedback.



This was a year where we fully realised the benefits of our logistics partnerships. The strength of our logistics partners is ensuring Silver Fern Farms is prioritised within the supply chain.

Our ability to get product to market was severely threatened by the pandemic's effect on port congestion and the continuity of shipping services globally. Our joint-venture partnership in Kotahi proved invaluable. We received priority access to shipping space and refrigerated containers which enabled us to maintain processing continuity. The intel on global port congestion was relayed to us in good detail so we could form our sales and production plans with the best information at hand. This continues to be an asset and competitive advantage.

Livestock transport is a critical part of our business and a key point of interaction with suppliers. Silver Fern Farms currently partners with over 160 rural carriers across the country to coordinate the transport of animals from farm to our processing facilities.

Historically this has been a complex process, managed at a local level with little visibility over the process as a whole, meaning there were frequent journeys for only small number of animals, which is inefficient for both the carriers and Silver Fern Farms.

Over the past 2 years, Silver Fern Farms has been working with a technology partner Market2x (M2X) to improve how we organise our livestock transport. M2X is a company that specialises in livestock transport management technology for rural carriers and businesses across New Zealand.

Effective dispatching of livestock trucks can be very challenging with the many different factors that need to be considered. M2X has built a market leading technology platform that enables the interaction between Silver Fern Farms and its rural carriers to digitally optimise livestock flows and unlock efficiency gains in real time.

The visibility this provides will allow us to help our rural carriers to increase their capacity utilisation, meaning we can identify and combine bookings on similar routes to run fuller livestock trucks as much as practically possible. With the goal to significantly reduce empty or partially loaded running distances as a result.

Since the M2X technology was introduced in late 2018, Silver Fern Farms has realised efficiency gains and improved the timeliness and accuracy of the bookings process with our rural carriers. This is an exciting step change for the industry that Silver Fern Farms is proud to be part of.



Digital access in regional New Zealand

Digital verification of practices is becoming essential given the growing impracticality of face-to-face audits, and the growing volume of data being required by the market.

We are heavily promoting the following tools as part of Silver Fern Farms' digital eco-system and are working to integrate them into our market verification programmes – Osprey's Electronic Animal Status Declaration (e-ASD), NAIT, Overseer, and Farm^{IQ}, Market2X, Digital Farm Assurance.

While we are encouraging farmers to take up new digital apps to manage their day-to-day activities while they are on the go, we are still hearing digital access is challenging due to rural internet infrastructure which does not support mobile digital tools. While this can be managed through off-line app functionality, it does limit the ease of usability for farm business. This is an issue we will continue to champion.



Best in Class Operations



We responded to the New Zealand Government's declaration that Silver Fern Farms, our critical supply chain and our farmer suppliers were 'essential services' critical to New Zealand during the Alert Level 4 response.

Our primary responsibility was the protection and wellbeing of our people and the community. We implemented highly robust and effective working practices with the support of our people, and importantly our Unions, which prevented further spread of COVID-19.

We wish to acknowledge the wage subsidy, a mechanism which provided us with the confidence to retain our full workforce through a period of extreme uncertainty. We were very grateful to have had this assurance, but were delighted that in our case we were able to successfully manage through the period without the 30% drop in revenue, and repay the subsidy so its redistribution could support the broader rebuild process.

The changes at our 14 sites were significant for our 6,160 production staff. Through implementation of protective guarding, changes to shifts, and product mix, we lifted our production levels from 50% of normal operating capacity back up to 90%.

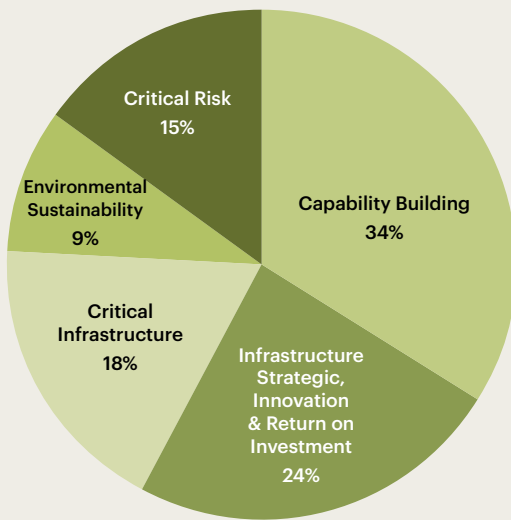
While immensely challenging, we built goodwill between our people, and the farmers they supported through performing their service during the drought.

How we responded to COVID-19 – an essential service

Some key decisions:

- Deferred a shareholder dividend from the prior-2019 Financial Year to provide the company with additional operating capital
 - Invested over \$10m in COVID-19 response including; personal protective equipment, guarding, additional hygiene controls
 - Applied for the Government's Wage Subsidy to retain all staff
 - Implemented new policies to ensure staff were protected, vulnerable staff stayed home, and no one was financially disadvantaged by lower production
 - Managed significant shifts in global market sales demand and port access
 - Repaid the Government Wage Subsidy in full.
-





Prioritising our capital expenditure

The strong profitability of the business has seen us accelerate our capital re-investment programme in our operations and systems. The company invested over \$51.5m in capital expenditure for the period, an increase of more than \$20m over 2019’s programme.

Our capital investment is spread across our strategic priorities to enable us to deliver on our strategy.

Over the last 2 years STREAMLINE has become an integral part of the way we work and delivered many wins and will continue to do so as we embed the tools and behaviours to support ‘Production done safely to a high standard’.

This continuous improvement programme is making gains across all of our 14 processing sites. The programme is leading to processing efficiencies, operational innovation, increased staff communication and engagement and product quality.

Over 2020 STREAMLINE delivered \$7.9m benefits to the business.

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 continue to invest in programmes and process improvement and systems to lift product quality.

To support market-focus we invested \$10m to increase our vacuum packing capacity and boning room throughput at our Finegand and Takapau sites. This will enable us to lift our value added programme capacity across the country.

An headline example of our customer focus being brought to our investment in our operations was delivered in July when we confirmed a \$17 million capital infrastructure upgrade to our Pacific Hawke’s Bay beef processing site. The Pacific site will see the build of a new marshalling chiller and upgraded packaging process at the site.

The increased production of these premium beef products will lift our export earnings and returns to the Hawke’s Bay farming community through premium payments to suppliers and dividends to Co-operative shareholders and suppliers. Annually we returned over \$230m to farmers supplying the site and over \$25m to companies that support the ongoing operation of the site. The flow benefits created for rural businesses providing goods and services will be significant

Importantly it will also see ongoing benefits to staff in the region. The Pacific plant employs 600 people at its seasonal peak, injecting over \$31m in wages and salaries to staff.



The upgrade will also have ongoing employment benefits for 60 staff who are currently employed seasonally for 3 months. This change will extend their employment to 9-months annually. This should provide an annual distribution of \$1.5m in additional wages to staff.

Environmental sustainability of our plants is a focus for us. We invested over \$13m in activity which lift our performance across areas including; our water use and treatment, energy, waste reduction, and sustainable packaging.

To drive our performance forward we embarked on a process to develop our Environmental Management System to meet the international best practice ISO 14001 standard through achieving the requirements of Toitū's independently verified Enviromark gold certification.

To reach the Toitū Enviromark® gold certified standard we had to prove we have the basis of a robust environmental management system in place. This includes a comprehensive plan to help us achieve our goals outlined in our environmental policy, and that we are measuring our impacts so that we can better manage them.

Our capital investment is spread across our strategic priorities to enable us to deliver on our strategy.

Functional Enablement

People, Processes, Systems

Ora Health & Safety remains a core programme for Silver Fern Farms. In 2020 the company invested \$12m in Health & Safety capital expenditure to reduce critical risks.

Ammonia management has been an area where we are fully committed to becoming an industry leader following an incident at our Hawera plant in February where we had an uncontrolled release of ammonia which caused environmental harm and put our people at risk.

We have taken the event very seriously, involved stakeholders and above all else have done everything possible to make sure we learn from the events, and put right as best we can what has occurred and keep our people safe.

We commissioned an independent review into the guidance around appropriate and best practices for ammonia storage and use (including emergency practices) available to the New Zealand refrigeration industry. This has informed changes to ammonia management across the business and we have shared our findings and learnings with others in the refrigeration industry.

Despite the disruptions of COVID-19, we made significant improvements to traffic management safety, fall from height risks, and the Guardian safety stop bandsaw replacement, as well as a number of site-specific safety improvement projects.

While our overall injury rates have lifted, as a result of our efforts in 2020 we continued to see reductions in our most severe injuries, with High Severity Injuries decreasing by 13%. The reduced High Severity Injury rate is a byproduct of a greater investment in critical risk and controls. We have revised plant structures to support our strategy and have established Risk and People and Capability Managers who will support the range of activity we have to reduce risks across our sites.

We operate in regional New Zealand, in an environment where labour shortages are commonplace and we need to become an employer of choice. We have programmes in our business to ensure that we attract skilled people, develop them and retain them.

We launched our first Code of Conduct in May 2020 – a key development under our People Strategy designed to help communicate how we work at Silver Fern Farms.

Other activity includes the continuation of the Frontline Leaders development programme. More than 800 leaders having attended the training programme which supports people with the skills and behaviours they need in their supervisory and leadership roles.



COVID-19 also changed the way we work. The New Frontiers project addresses the ongoing disruption to the business and ways of working around the world. It is about delivery of more agile, flexible and future-focused work places, as well as the platforms and people programmes that enable us to be successful. As the pandemic remains at large, New Frontiers continues to be a key strategic project for us.

Silver Fern Farms has a diverse culture across its 7,000 staff. As part of understanding our cultural richness across Silver Fern Farms we took the time to reflect on the diversity of our people.

We started with the aim of gathering a deeper understanding of our current connections and activity in a te ao Māori context. We followed a process of whakarongo me te ako – listening & learning from our people.

We are learning from this sharing of knowledge so we can become a better company – and understand what it means to be 100% made of New Zealand – that includes knowing who we are. This process will help us address diversity in its many forms and will feed into the People Strategy diversity workstream.

Our Digital Transformation has seen the establishment of a team which has been making progress on several areas of work fundamental to our role of enabling strategy.

They are supporting the business cases for Human Capital Management and Workforce Management solutions, our farmer facing digital tools and systems required to provide seamless service for our customers. This investment in our digital systems is important so we can support the business to deeply connect with our customers. This work is all part of assembling our 'portfolio' – an all-of-company view on the investments needed and the value they generate as we transform to the market led sustainable company we are all building.



Outlook

The external environment

COVID-19 has created unprecedented levels of uncertainty.

OBSERVATIONS

New Zealand's COVID-19 second wave has been controlled – **New Zealand reputation**, and that of its meat industry, to safely navigate COVID-19, and to continue to produce safe, quality goods to world markets is very strong. However, another COVID-19 wave, with a link to production facilities, could jeopardise access to critical markets.

COVID-19 is a very mixed situation globally. Our largest market China continues to remain in control of its numbers with a manageable number of border cases. The US continues to have significant numbers of daily cases. Europe and the UK are seeing the deepest impacts with second and third waves, and China the least. This impacts Silver Fern Farms through **supply chain failure**, disrupted market channels (food service), supply chain and logistics, labour markets and economies.

Global GDP to recover to pre-COVID-19 levels in 2021 Q3 (a 7 quarter impact). The recovery is projected to be more gradual than previously forecast. In 2021 global growth is projected at 5.4 percent.

Restrictions on US-China **free trade** may increase demand from China for New Zealand product, but also may lead to other markets (including the US itself) being over-supplied with US product. Brexit remains uncertain. Agility and options required.

Protein demand remains strong. Growth in consumption of meat over the next decade is projected to increase by 12% by 2029. Chinese and other pork production continues to be impacted by ASF - opportunities for New Zealand produced beef, sheepmeat and even venison.

Global Beef production is forecast to grow 0.8% in FY21 – led by the US up 1% with growing grain fed numbers as overall breeding cattle stabilises at the top of the cycle, and Australian production back sharply by 14% as they enter a herd rebuilding phase after a multi-year drought event, as well as losing China access at four large plants. South American beef impacted by plant restrictions based on China access and COVID-19.

Total global meat production (beef, pork, poultry and sheep) will recover 1.4% in FY21 – as pork production recovers from ASF and as poultry (the main value substitute for pork in China) continues strong growth.

Opportunities and uncertainties from changing consumer behaviour:

- a trading up to “Better for You” options and premium cuts as ‘treats’ in the absence of eating out.
- a shift from mid-range options to value items and private label with attributes – safety, natural, healthy.
- increased optionality for protein, including investment in plant-based alternatives creating choice for consumers.

Channel trends – retail growth will continue to strengthen, e-commerce to grow exponentially offsetting some of the challenges in the food service sector.



Your Board of Directors



Richard Young

Chairman, Shareholder
elected Director

Richard operates a 300ha sheep and cropping property at Tapanui, West Otago. He was elected to the Board in 2013. He is also a Director of the Primary Wool Co-operative and Carrfields Primary Wool. 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 committees course in 2016. He also completed the Kellogg Rural Leaders Programme in 2011 and the Leading Board cooperative governance course in 2013.



Tim Gibson

Independent

Tim Gibson joined the board April 2020 and is a current Director on the Boards of Livestock Improvement Corporation (LIC), Miraka Limited, and Port Otago Limited. He is also a Director on the Board of Skills International, the international subsidiary of Skills Consulting Group Limited and ManageMyHealth Global Limited. Tim has had extensive international experience at a senior executive level with a strong focus on agriculture.



Fiona Hancox

Shareholder elected
Director

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. She is a former South Island Farmer of the Year. Fiona is a Director of three farming companies.



Rob Hewett

Shareholder elected
Director

Rob became the Chairman of Silver Fern Farms Ltd in December 2013. He is the current Co-Chair of Silver Fern Farms Ltd. He was elected to the Board in February 2008. Rob currently farms 9,250 stock units, on a 960 hectare sheep and beef breeding and finishing unit in Manuka Gorge, South Otago. He is the Chairman of Farmlands Co-operative, Pioneer Energy, as well as a Director of T&G Global, Pulse Energy and the Strong Wool Action Group. He is a member of the Lincoln University Council. A chartered fellow of the Institute of Directors, Rob is a Graduate of Lincoln University, holding an M.Com in marketing and a B.Com (Ag) in Economics.



Dan Jex-Blake
Shareholder elected
Director

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 Farm^{IQ} Systems Ltd.



Tony O'Boyle
Shareholder elected
Director

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. Tony is also Co-operative Chairman of the Remuneration and Appointments Committee.



Jane Taylor
Independent

Jane was appointed to the Board in June 2013 and is Chair of the Audit, Risk Assessment and Mitigation Committee. She is a professional director with strong commercial, legal, regulatory and governance experience. Jane chairs Orion New Zealand and Manaaki Whenua Landcare Research and is currently a director of Port Otago and Ontario Teachers' Pension Plan Forest Investments. She is also Deputy Chair of the External Reporting Board (XRB) and a Guardian of the Aotearoa Circle.



Gabrielle Thompson
Board Appointed Farmer
Director

Gabrielle graduated from Massey University with a Veterinary degree in 2000. Gabrielle developed her own companion animal clinic in 2004, growing to five clinics around the lower South Island over a 10-year period before selling these clinics to a nationwide company.

Gabrielle and her family, own and operate a 530ha arable and store lamb farm at Dorie, Mid Canterbury. She is a chartered member of the Institute of Directors. She is a Director on RuralCo and is a member of the Lincoln University Council.

Your Shareholder Relations Manager



Clark Taylor

Clark ensures all aspects of the Co-operative's business requirements are fulfilled. One of his critical functions is to work closely with the Board and the Silver Fern Farms Executive Team to ensure that our fully shared suppliers are receiving the level of access to our Shareholder Benefits Programme they deserve.

Clark joined the Co-operative in August 2017, following a 37 year career with Bank of New Zealand, in senior leadership roles including leading the agribusiness, commercial banking and private banking sectors across the Otago/Southland region.

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 2020 comprised, five supplier-elected Directors, two Board-appointed Independent Directors and one Board-appointed farmer Director as follows:

Tim Gibson	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
Richard Young	Chairman, Shareholder-elected

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 the Co-operative Business New Zealand and the 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 4 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 \$743,072.50 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 2020, the Board met seven times as follows:

Director	Board	Annual	Committee#
Trevor Burt*	5	1	1
Tim Gibson*	2	-	2
Fiona Hancox	7	1	2
Rob Hewett	7	1	3
Dan Jex-Blake	7	1	2
Tony O'Boyle	7	1	2
Jane Taylor	7	1	2
Gabrielle Thompson	7	1	2
Richard Young	7	1	5

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

* Trevor Burt retired and Tim Gibson was appointed on 30 April 2020

Statutory Information

Directors

The Directors of Silver Fern Farms Co-operative Ltd as at 31 December 2020 are:

- Richard George Young (Chairman)
- Timothy Dunlop Gibson
- 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 2020, 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 17 February 2021:

"In the opinion of the Board, Silver Fern Farms Co-operative Limited has throughout the period ended 31 December 2020 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 2020, no Director requested to use Company information received by them in their capacity as Directors.

Remuneration and Appointments Committee

The Committee comprises Tony O'Boyle - Chair, Rob Hewett and Tim Gibson.

Audit, Risk Assessment and Mitigation Committee

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

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 2020, Silver Fern Farms Co-operative made no donations (2019: \$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 2020 are set out in the following table.

Director	Holding as at 31 December 2020
Tim Gibson	-
Fiona Hancox	212,646
Rob Hewett	70,000
Dan Jex-Blake	120,000
Tony O'Boyle	24,000
Jane Taylor	-
Gabrielle Thompson	65,031
Richard Young	30,768

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 \$743,073.

		Co-operative	Operating Company	Total
Director	Positions	Year ended 31 December 2020	Year ended 31 December 2020	Year ended 31 December 2020
Richard Young	Director of the Co-operative and operating company, Chair of the Co-operative	46,648	80,922	127,570
Trevor Burt (retired 30/4/2020)	Director of the Co-operative and operating company	14,781	48,393	63,174
Tim Gibson	Director of the Co-operative and operating company	9,886	35,529	45,415
Fiona Hancox	Director of the Co-operative	23,324	-	23,324
Rob Hewett	Director of the Co-operative and operating company, Co-chair of the operating company	23,324	197,805	221,129
Dan Jex-Blake	Director of the Co-operative and operating company	23,324	82,922	106,246
Tony O'Boyle	Director of the Co-operative, Chair of Remuneration and Appointments Committee of the Co-operative	24,312	-	24,312
Jane Taylor	Director of the Co-operative and operating company, Chair of Audit, Risk Assessment and Mitigation Committee of the Co-operative	25,656	82,922	108,578
Gabrielle Thompson	Director of the Co-operative	23,324	-	23,324
Total Directors' fees		214,579	528,494	743,073

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 2020 (\$140,000 – \$150,000).

Directors' Statement

This Annual Report is dated 13 April 2021 and is signed on behalf of the Board by:



R G Young
Chairman



D J Taylor
Chairman – Audit, Risk Assessment and Mitigation Committee

Financial Statements

Consolidated Statement of Comprehensive Income

As at 31 December 2020

NZD IN THOUSANDS (\$000)	Notes	Year ended 31 December 2020	Year ended 31 December 2019
Share of earnings of Silver Fern Farms Limited	2(b)	32,717	35,373
Interest income		430	413
Total income		33,147	35,786
Operating expenditure		(744)	(727)
Total expenses		(744)	(727)
Profit before tax		32,403	35,059
Tax expense	3	(773)	(146)
Profit after tax		31,630	34,913
Other comprehensive income			
Share of Silver Fern Farms Limited other comprehensive income	2(b)	(226)	639
Total comprehensive income		31,404	35,552
Earnings per share attributable to shareholders of the parent		Cents	Cents
Basic earnings per share	4	31.99	35.37
Diluted earnings per share	4	31.51	34.78

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

Consolidated Balance Sheet

As at 31 December 2020

NZD IN THOUSANDS (\$000)	Notes	2020	2019
ASSETS			
Current assets			
Cash and cash equivalents	8	365	683
Short term deposits	8	21,970	16,970
Trade and other receivables	5	54,476	51,157
Equity receivable	7(b)	902	1,099
Total current assets		77,713	69,909
Non-current assets			
Equity-accounted investment in Silver Fern Farms Limited	2	320,173	300,932
Total non-current assets		320,173	300,932
TOTAL ASSETS		397,886	370,841
LIABILITIES			
Current liabilities			
Trade and other payables	6	56,303	53,024
Current tax payable	3	663	86
Total current liabilities		56,966	53,110
Members' rebate shares	7(a)	13,562	13,910
TOTAL LIABILITIES		70,528	67,020
NET ASSETS		327,358	303,821
EQUITY			
Ordinary share capital	7(b)	136,495	136,495
Foreign currency translation reserve		1,231	1,457
Retained earnings		189,632	165,869
TOTAL EQUITY		327,358	303,821

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

For and on behalf of the Board



Richard Young
Chair

23 March 2021



Jane Taylor
Chair – Audit, Risk Assessment and Mitigation Committee

23 March 2021

Consolidated Statement of Changes in Equity

For the year ended 31 December 2020

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 profit		-	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

NZD IN THOUSANDS (\$000)	Notes	Share capital	Foreign currency translation reserve	Retained earnings	Total equity
Balance as at 1 January 2020		136,495	1,457	165,869	303,821
Profit for the year		-	-	31,630	31,630
Other comprehensive income					
Share of Silver Fern Farms Limited other comprehensive income		-	(226)	-	(226)
Total comprehensive income		-	(226)	31,630	31,404
Transactions with owners in their capacity as owners:					
Dividends paid	7(c)	-	-	(7,867)	(7,867)
Balance as at 31 December 2020		136,495	1,231	189,632	327,358

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 2020

NZD IN THOUSANDS (\$000)	Notes	2020	2019
Cash flows from/(used in) operating activities			
Payments to suppliers and directors		(800)	(974)
Dividends received from Silver Fern Farms Limited	2	13,250	870
Interest received		446	366
Income taxes paid		(196)	(1,600)
Net cash flows from/(used in) operating activities	9	12,700	(1,338)
Cash flows from/(used in) investing activities			
Proceeds from short term deposits		-	15,000
Investment in short term deposits		(5,000)	(16,970)
Net cash flows from investing activities		(5,000)	(1,970)
Cash flows from/(used in) financing activities			
Dividends paid	7(c)	(7,867)	(870)
Deferred proceeds from issue of ordinary shares	7(b)	197	80
Cash returned from unclaimed dividends and share redemptions	6	-	1,970
Members' rebate shares redeemed	7	(348)	(302)
Net cash from/(used in) financing activities		(8,018)	878
Net (decrease) in cash and cash equivalents		(318)	(2,430)
Cash and cash equivalents at the beginning of the financial year		683	3,113
Cash and cash equivalents at end of year		365	683

In addition to cash and cash equivalents, the Co-operative held short term deposits of \$21,970,000 at balance date (2019: \$16,970,000).

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

Notes to the Financial Statements

GENERAL INFORMATION AND SUMMARY OF ACCOUNTING POLICIES

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 2020, 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 2020, 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 23 March 2021.

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 2020.

Impact of COVID-19

On 11 March 2020 the World Health Organisation declared a global pandemic as a result of the outbreak and spread of COVID-19. The pandemic led New Zealand and many countries to whom the Operating Company exports into a series of lockdowns and enforced trade restrictions, impacting on the Operating Company's ability to trade with its customers. The Operating Company is deemed to be a provider of an essential service. The additional requirements for plants to have social distancing and protective equipment for workers led to increased costs of production, and having production spread over a longer time period. The Operating Company exports products into over 60 countries from a network of 14 operating plants, and as the impact of COVID-19 impacted different markets, operating plants, supply chains and customers at different times over the course of 2020 the Operating Company was able to leverage this network and market spread to optimise returns.

No impact has been identified for the Co-Operative. However the Operating Company has identified an impact on inventory, holding a provision to ensure any remaining inventory on hand is appropriately valued.

As the pandemic continues to cause widespread disruption to many countries and global supply chains, it is acknowledged that there is uncertainty as to how the global pandemic will impact the New Zealand and global economies in the future.

c. Standards, amendments and interpretations effective in 2020

Management has assessed the new standards implementation and have assessed that there is no impact of the implementation of new standards, amendments or IFRIC interpretations that apply to the Co-operative for the year ended 31 December 2020 or in the future.

FINANCIAL PERFORMANCE

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 Acquarius 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	2020	2019
Opening balance		300,932	265,790
Share of profit after tax	2(b)	32,717	35,373
Share of other comprehensive income	2(b)	(226)	639
Dividend received		(13,250)	(870)
Closing balance		320,173	300,932

The directors have assessed that there are no objective indicators of impairment at 31 December 2020, noting the strong financial performance of the Operating Company in 2020 despite the challenges created by the COVID-19 pandemic. 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 grass fed red meat.

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

NZD IN THOUSANDS (\$000)	2020	2019
Revenue	2,496,803	2,561,298
Share of profit of associates	3,139	6,101
Interest income	284	459
Raw materials and consumables used	(1,782,160)	(1,886,456)
Employee benefits expense	(411,245)	(389,473)
Finance costs	(3,607)	(4,380)
Other operating expenses	(181,151)	(167,653)
Depreciation and amortisation	(31,838)	(30,323)
Profit before tax (100%)	90,225	89,573
Income tax expense	(24,792)	(18,828)
Profit after tax (100%)	65,433	70,745
Other comprehensive income (100%)	(452)	1,279
Total comprehensive income (100%)	64,981	72,024
Co-operative's share (50%)		
Co-operative's share of profit after tax (50%)	32,717	35,373
Co-operative's share of other comprehensive income (50%)	(226)	639
Co-operative's share of total comprehensive income (50%)	32,491	36,012

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)	2020	2019
ASSETS		
Current assets		
Cash and cash equivalents	11,038	2,897
Trade and other receivables	245,712	287,780
Derivative financial instruments	14,364	17,109
Inventories	254,489	228,630
Tax receivable	12	-
Non-current assets classified as held for sale	-	18,130
Total current assets	525,615	554,546
Non-current assets		
Property, plant and equipment	320,319	295,088
Intangible assets	3,787	3,628
Investments in associates	21,881	17,483
Shares in unlisted companies	101	81
Right-of-use assets	18,059	14,316
Total non-current assets	364,147	330,596
TOTAL ASSETS	889,762	885,142
LIABILITIES		
Current liabilities		
Trade and other payables	141,415	134,032
Interest bearing loans and borrowings	64,392	130,773
Tax provision	26,617	6,037
Provisions	6,888	5,962
Derivative financial instruments	156	48
Lease liabilities	6,577	4,474
Total current liabilities	246,045	281,326
Non-current liabilities		
Provisions	12,392	10,020
Deferred tax liabilities	9,848	12,653
Lease liabilities	11,973	10,120
Total non-current liabilities	34,213	32,793
TOTAL LIABILITIES	280,258	314,119
Net assets of Silver Fern Farms Limited (100%)	609,504	571,023
Co-operative's share of net assets (50%)	304,752	285,511
Goodwill on initial recognition	15,421	15,421
Equity accounted investment in Silver Fern Farms Limited	320,173	300,932

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 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.

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.

NZD IN THOUSANDS (\$000)	2020	2019
INCOME TAX EXPENSE		
Current tax:		
Current tax on profits for the year	773	146
Income tax expense	773	146
Numerical reconciliation of prima facie tax payable to tax expense		
Profit before income tax expense	32,403	35,059
Income tax @ 28%	9,073	9,817
Tax effects of:		
• Non-assessable earnings from Silver Fern Farms Limited	(9,161)	(9,904)
• Dividends from Silver Fern Farms Limited	4,818	243
• Imputation credits attached	(3,957)	-
• Adjustment in respect of prior years	-	(9)
• Non-deductible permanent differences	-	(1)
Tax expense recognised in profit or loss	773	146

The Co-operative has an imputation credit balance as at 31 December 2020 of \$1,590,000 (2019: \$585,000).

4. Earnings per share

a. Earnings used in calculating earnings per share

NZD IN THOUSANDS (\$000)	2020	2019
Profit attributable to the ordinary equity holders of the Co-operative used in calculating basic and diluted earnings per share	31,630	34,913

b. Weighted average number of shares

NUMBER OF SHARES IN THOUSANDS (000)	2020	2019
Weighted average number of ordinary shares for basic earnings per share	98,869	98,699
Effect of dilution - partly paid ordinary shares	1,510	1,680
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

OPERATING ASSETS AND LIABILITIES

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 the expected future credit losses.

NZD IN THOUSANDS (\$000)	Notes	2020	2019
Livestock receivables from the Operating Company	14	54,303	50,950
Other receivables from the Operating Company	14	7	20
Other receivables		166	187
Total trade and other receivables		54,476	51,157

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	2020	2019
Livestock payables to shareholder suppliers	14	54,303	50,950
Other payables		2,000	2,074
Total trade and other payables		56,303	53,024

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 2020, other payables include amounts owed to shareholders of \$1,995,000 (2019: \$2,020,000). This represents \$1,293,000 (2019: \$1,293,000) of dividends and \$702,000 (2019: \$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.

FUNDING

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 \$13,562,000 (2019: 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 2018	14,212	36,495
Shares redeemed	(302)	-
At 31 December 2019	13,910	136,495
Shares redeemed	(348)	-
At 31 December 2020	13,562	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 (2019:17,500).

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 \$902,000 (2019: \$1,099,000). During the year, \$197,000 was received in respect of partly paid shares (2019: \$80,000).

(ii) Authorised and issued shares

At 31 December 2020, there were 100,378,874 authorised and issued shares. The average issue price per share was \$1.36 (2019: \$1.36) and the total carrying value of issued share capital was \$136,495,000 (2019: \$136,495,000).

c. Dividends

During the year ended 31 December 2020, a fully imputed ordinary dividend was paid of 5.4 cents per share to shareholders (2019: nil). This year, eligible shareholder suppliers were rewarded with a fully imputed patronage reward of 6.0 cents per share (2019: 3.0 cents per share), with the total distributed amounting to \$7,867,000 (2019: \$870,000).

OTHER DISCLOSURES**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 maturity dates of between three months and one year 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)	2020	2019
Profit for the period	31,630	34,913
Share of earnings of Silver Fern Farms Limited	(32,717)	(35,373)
Dividends received from Silver Fern Farms Limited	13,250	870
Movement in working capital		
Increase in receivables	(3,319)	(19,876)
Increase/(decrease) in tax payable	577	(1,454)
Increase in payables	3,279	19,582
Net cash (outflow)/inflow from operating activities	12,700	(1,338)

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. All trade receivables are settled within 30 days.

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. Approved banks are all New Zealand Registered Banks with a Standard and Poors credit rating of A- or better.

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 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 2020, the Co-operative had no contingent liabilities or assets (2019: \$Nil).

12. Commitments

As at 31 December 2020, the Co-operative had no capital commitments (2019: \$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 2020. The Co-operative expects to receive a fully imputed dividend of \$13,100,000.

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 \$1,010,547,000 (2019: \$1,074,927,000) was invoiced to the Operating Company in respect of livestock. \$1,010,547,000 (2019: \$1,074,927,000) was invoiced from shareholder suppliers in connection with livestock supplied for the year.
- At 31 December 2020 \$54,303,000 (2019: \$50,950,000) was receivable from the Operating Company and \$54,303,000 (2019: \$50,950,000) was payable to shareholder suppliers in connection with livestock supplied.
- Other receivables from the Operating Company amounted to \$7,000 as at 31 December 2020 (2019: \$20,000 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 both shareholders by the Operating Company. Administrative services provided to the Co-operative 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 paid by the Operating Company totalled \$500,000 in the year ended 31 December 2020 (2019: \$428,000).

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 \$9,420,000 (2019: 8,787,000).
- At 31 December 2020, \$272,000 was payable to directors and their trading entities (2019: \$353,000).

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 \$743,000 (2019: 725,000).

15. Auditor's remuneration

In accordance with the Shareholders' Agreement described in note 14, audit fees in respect of the Co-operative are paid by the Operating Company. The fee agreed by the Directors is as follows:

NZD IN THOUSANDS (\$000)	2020	2019
Audit fees	35	20



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 72 to 85:

- i. present fairly in all material respects the group's financial position as at 31 December 2020 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 2020;
- 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 International Code of Ethics for Assurance Practitioners (Including International Independence Standards) (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) ('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, audit related and other services in relation to climate change & sustainability, and business reporting 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 \$3.8 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 movement in this investment are the most important indicators of the group'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 in order 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 consolidated financial statements, the company holds an equity accounted investment for its 50% share in Silver Fern Farms Limited. The investment is carried at \$320.2 million having accounted for the company's share of profits made during the year of \$32.7 million and distributions received of \$13.3 million.

The equity accounted investment is a Key Audit Matter because:

- The investment is significant to the group's position and performance (representing 80% 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 assessing whether any indicators of impairment exists.

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 consolidated financial statements.

The group provides farmer shareholders with a channel to sell their livestock to Silver Fern 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 maintained its significant 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 outlines the business interests of Directors, their close family members and dependents;
- 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 dependents;
- 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

A handwritten signature of the KPMG firm, written in blue ink.

KPMG
Auckland

23 March 2021

Directory

Board of Directors

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

Management

Clark Taylor – Shareholder Relations Manager

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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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 T: 0800 362 362
 F: +64 3 474 1087

Listed Securities

Unlisted
 PO Box 5422
 Lambton Quay
 Wellington 6145
 T: 0508 UNLISTED (0508 865478)

Share Registrar

Link Market Services
 PO Box 91976
 Auckland 1142
 T: +64 9 375 5993
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Bankers

- Kiwibank Limited
- Westpac New Zealand Limited

Auditor

KPMG

Tax Advisors

PwC

Legal Advisors

Harmos Horton Lusk







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