



**SILVER FERN FARMS
CO - OPERATIVE
IS A STRONG
PARTNERSHIP OF
NEW ZEALAND
FARMERS**

ANNUAL REPORT 2017



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GROWING VALUE TOGETHER

The 2017 Annual Meeting of Silver Fern Farms Co-operative Limited Shareholders will be held at 11am on Wednesday 18 April 2018 in Dunedin at Silver Fern Farms Office 283 Princes Street Dunedin.

The Notice of Annual Meeting will be provided separately to Shareholders.



INVESTING IN OUR FUTURE TOGETHER

The 2016/17 financial year was the first year of a new era of partnership for your Co-operative.

CHAIRMAN REVIEW

WE ARE BUILDING A STRONG PARTNERSHIP



IT HAS BEEN A YEAR OF POSITIVE PROGRESS

On 6 December 2016, the transaction with Shanghai Maling Aquarius Ltd was completed and \$260m of new capital was invested into Silver Fern Farms Limited in return for an equal 50 percent share of Silver Fern Farms Limited. We now own and govern Silver Fern Farms Limited in partnership.

We have changed our balance date from September to December. This Annual Report therefore covers the performance of Silver Fern Farms Co-operative Limited over the full 15-month period from 1 September 2016 through to 31 December 2017.

Over this period we have made positive progress:

- We have built a good working relationship with Shanghai Maling at both a shareholder level and at a director level on Silver Fern Farms Limited. This working relationship continues to grow and evolve positively;
- At the same time, we have ensured compliance with the Shareholders Agreement and Co-operation Memorandum commitments made between the Co-operative and Shanghai Maling;

- We have developed and launched the Shareholder Benefits Programme in conjunction with Silver Fern Farms Limited to recognise and reward shared-up supply as a means of driving increased loyal supply over time;
- We have matured our future governors development programmes; and
- We have established a shareholder relations role, the only employee of the Co-operative, to ensure we manage efficiently the interface between the Co-operative, its shareholders and with Silver Fern Farms Limited.

While there is work still to be done, it has been pleasing that the performance of Silver Fern Farms Limited has improved on the prior challenging year, and we cover that in some detail further in this report.

CO-OPERATIVE FINANCIAL RESULT

YOUR CO - OPERATIVE HAS REPORTED A NET PROFIT AFTER TAX (AND BEFORE LOSSES FROM DISCONTINUED OPERATIONS) OF \$7.8M FOR THE 15 MONTHS ENDED 31 DECEMBER 2017.

The after tax result, including losses from discontinued operations, for the 15-month period was a net loss of \$5.6m

Our balance sheet is strong. At balance date, 31 December 2017, we had no debt, cash on hand of \$16.6m and Total Shareholder Equity of \$272.2m.

As the Co-operative completed the transaction with Shanghai Maling Aquarius during this period, there is some complexity to reporting the financial result. The financial result contains four abnormal factors related to the transaction, which we will not see in future years.

Firstly, the Co-operative has moved to a December 31 year-end, which necessitates a 15-month result for this period. Going forward, there will be 12-month reporting periods.

The second abnormal factor relates to the Co-operative accounting for 100% ownership of Silver Fern Farms Limited for the first two months of the result period, and then with the investment by Shanghai Maling in early December 2016, the Co-operative is required under accounting standards to move to equity accounting its 50% ownership for the subsequent 13 months to 31 December 2017. This change in accounting part way through the period driven by the change in ownership will not be repeated.

Thirdly, the after tax result for the 15-month period includes a trading loss from discontinued operations of \$18.7m from Silver Fern Farms Limited for the two-month loss-making period of October and November 2016 when Silver Fern Farms Limited was 100% owned by the Co-operative.

This was a particularly challenging period for the sheepmeats business with low industry volumes, and heightened competition for throughput having a negative impact on operating margins and processing efficiency. Much of this volume was held on farm as farmers sought to take advantage of positive growing conditions, and Silver Fern Farms Limited saw the benefits of that in increased volume in January and February.

Offsetting this to some degree was an accounting gain on deconsolidation of our 100% investment and re-accounting for our 50% investment, of \$5.3m. This non-cash accounting gain reflected the fact that the \$260m investment by Shanghai Maling was above the accounting value of our Shareholders Equity at the date of the investment.

The overhead for the Co-operative for the 15-month period was \$0.9m and is predominantly directors' fees for Directors serving on the Co-operative Board and for those Co-operative Directors serving on the Silver Fern Farms Limited Board. The balance of the Co-operative's operating costs were met by Silver Fern Farms Limited as provided for under the shareholder agreement with Shanghai Maling. These operating costs include shareholder registry management, shareholder relations and communications and the development of initiatives including the Shareholder Benefits Programme.

The overhead was largely offset by interest earned on cash on deposit.

It is the intention of the Board to minimise the ongoing overhead costs of the Co-operative.

During 2017 Silver Fern Farms Limited went to tender for the provision of auditing services. Following that process KPMG was appointed as the auditor of Silver Fern Farms Limited. Ernst & Young subsequently resigned as the auditor of the Co-operative. Based on operational and cost efficiencies, the Co-operative decided to also appoint KPMG as their auditor.

DIVIDEND AND PATRONAGE REWARD

THE BOARD HAS DECLARED A \$4.1M CASH DISTRIBUTION FOR THE PERIOD

This will comprise of a \$3.2m fully imputed dividend to all ordinary and rebate shareholders (2.8 cents per share fully imputed, 3.9 cents equivalent gross of imputation) and a \$0.9m patronage reward payment. For shareholders who are identified as eligible for the patronage reward as at 30 December 2017 and have an aligned shareholder supplier match, they will receive 2.9 cents per eligible share fully imputed (4.0 cents equivalent gross of imputation). There are a small number of shareholder suppliers who supplied through a related party. Their patronage reward will be paid to the supplier as a bonus.

The \$4.1m cash distribution will be funded by a \$6m taxable dividend from Silver Fern Farms Limited for the period ended 31 December 2017 (\$12m paid in total; 50% to Silver Fern Farms Co-operative and 50% to Shanghai Maling). Tax paid on this by the Co-operative comes back to shareholders in the form of imputation credits.

The \$4.1m in dividend and patronage rewards is in addition to the \$34.3m special dividend, which was paid in February 2017 to ordinary and rebate shareholders. This brings the total paid out to ordinary and rebate shareholders to \$38.4m following the completion of the partnership.

In addition, on 13 January 2017 we spent \$5.4m redeeming the old supplier investment shares at \$1.00 per share. This starts to simplify the share structure from three down to two classes of share, and allows us to concentrate dividends on fewer shares going forward.

The Board believes that the Shareholder Benefits Programme will enhance the long-term value of its investment in Silver Fern Farms Limited. Currently, 61% of the livestock processed by Silver Fern Farms Limited is supplied by shareholders of the Co-operative.

By providing additional value to shareholders who are suppliers we believe we will, over time, create more loyalty from them which will in-turn contribute to increasing consistency and volume of livestock supply, and it will encourage non-shareholder suppliers to become shareholders.

We believe helping improve the long-term profitability of Silver Fern Farms Limited (our single investment) will be to the benefit of all Co-operative shareholders.

The maximum size of the Patronage Reward Pool is limited to **35%** of total distributions paid by the Co-operative (with the corresponding minimum size of the dividend pool being 65%).

The maximum would apply should 100% of supply to Silver Fern Farms Limited come from shareholder suppliers. Currently **61%** of supply comes from shareholder suppliers.

2017 DIVIDEND AND PATRONAGE REWARDS

In terms of split between Dividend pool and Patronage Reward pool – this is based on % supplied by shareholders.

$$\begin{array}{ccccc}
 \mathbf{35\%} & \times & \mathbf{61} & = & \mathbf{21.4\%} \\
 \text{Maximum size of} & & \text{\% of supply from} & & \text{Patronage Reward from} \\
 \text{Patronage Reward pool} & & \text{Shareholders} & & \text{available cash distribution}
 \end{array}$$

For this period the Board has agreed to apply the Patronage Reward to all supply (whether direct or via 3rd party agents). Going forward the board intends to apply the Patronage Reward to direct supply only

21.4%

PATRONAGE REWARD

Based on calendar year supply – started 1 January 2017

Shareholding will be measured at the end of that period

Stock Units calculated over the course of the 12 month period

Same Share Standard as the constitution:

- 8 shares for first 5,000 SU, 3 shares thereafter
- 1 lamb/ewe = 1 SU
- 1 deer = 6 SU
- 1 cattle beast = 12 SU

Eligibility is subject to current minimum supply requirements set out in our constitution (400SU annually), and the patronage reward is paid on shares owned up to the share standard.

78.6%

DIVIDEND POOL

The dividend pool will pay an amount per share across all ordinary and rebate shares.

COMMENTARY ON THE FINANCIAL PERFORMANCE OF SILVER FERN FARMS LIMITED

The performance of our investment in Silver Fern Farms Limited under our new partnership is best represented by the most recent 12-month result for that company to 31 December 2017. That period is its new financial reporting year and does not include the distortion of the October to November 2016 period which is historically a loss making period.

The accounting results for the Co-operative for the period are somewhat complex for the reasons explained. We believe it is important to provide a clear picture of the performance of Silver Fern Farms Limited, our principal investment, and over the period consistent with how it will report going forward.

For the 12 months ended 31 December 2017, Silver Fern Farms Limited achieved \$2.2 billion of sales and \$50.9m of earnings before interest, tax, depreciation and amortisation (EBITDA), including share of associate earnings but excluding non-recurring items. This represents an increase of 45% on \$35.2m for the 12 months ended 30 September 2016.

It achieved a net profit after tax of \$15.4m, which was after non-recurring items of \$10.2m primarily related to the closure of meat processing operations at the Fairton sheepmeat plant in May 2017. Net profit for the period prior to non-recurring items was \$25.6m.

Net profit benefited from a material reduction in finance costs from \$14.8m to \$3.3m following the \$260m investment by Shanghai Maling – of which \$203m was used to reduce debt in the company, and the balance of \$57m was paid to the Co-operative.

The company invested over \$21m in capital expenditure for the period (the highest level in over 4 years). In the year prior to the announcement of the partnership, capital expenditure was less than \$7m. This significant investment has been made across the business in health and safety, ongoing compliance, asset replacement and operational improvement.

The 2017 result was achieved on similar levels of throughput to 2016, and reflected improved in-market conditions for sheep and venison, as well as a reduction in overhead costs following plant closures and management's ongoing focus on improving efficiencies.

The company achieved the improved result at the same time as paying out strong farm gate returns for all red meat species. Venison and mutton farm gate prices reached historical highs, lamb prices have only been bettered once before, in 2011, and on average, beef returns have only been bettered once before, and that was in 2015.

The sheepmeat business was a notable performer. In-market pricing and demand was more favourable than pre-season market forecasts predicted as demand from Europe, China, Middle East and North America all strengthened and global supplies (in particular from Australia) remained constrained.

The decision to close the company's sheepmeat operations at Fairton was a difficult one for all those involved. The reduction in sheep farming in the surrounding area over the last 10 years through land conversions had resulted in an ongoing reduction in lamb numbers and a shorter and shorter season for the plant and the people there. The plant was no longer viable, and the company took the decision to close operations and consolidate its volume at the nearby Pareora plant. The end result is a much more efficient sheepmeat business. The company worked closely with staff and the local community to minimise the impact, offering redundancy, offering roles at its other sites and supporting people into jobs with other organisations in the Ashburton community.

The venison business had another solid year.

The decisions taken in 2016 to close the Islington and Mossburn plants enabled better matching of processing to the lower industry availability of livestock. Processing was consolidated at a new venison plant on the Pareora plant site (opened in February 2017), which had the ability to efficiently process venison alongside our beef and sheepmeat operation.

Margins in the company's beef operations were constrained through most of the season with heightened competition for available livestock in both islands resulting in farm gate prices more than capturing the improved end-market conditions in chilled and frozen markets. The seasonal profile of cattle supply in the second half saw supply volumes belatedly build into December, which meant for the prior period processors were competing to maintain minimum capacity utilisation. Over the year, the company processed an increased percentage of prime beef under its value-added supply contracts.

The processing season ended with record volumes processed in December 2017. A combination of dry weather across the country, an expected weakening in prices into the new year and lamb chilled programme deadlines all contributed to large volumes in December and a record monthly spend of \$260m on livestock by the company.

The company's strong financial position following the investment by Shanghai Maling saw it finish September 2017 with \$52m of cash on hand, which then climbed to be \$127m of borrowings by the end of December due to the aforementioned record volumes and farm gate prices processed by the company.



The Goal and Key Strategies to 2020 OF SILVER FERN FARMS LIMITED

Silver Fern Farms Limited's goal is to deliver sustainable profitability over time with an aspirational 10% return on capital. To achieve this goal there are four key strategies for the business:

1	2	3	4
Build market leadership positions with differentiated products	Differentiate livestock supply by leading in service, brand and value-add programmes	Ensure we have the best chain of care in New Zealand	Build a highly collaborative, healthy and engaged team

SUSTAINABILITY

These four strategy pillars are underpinned by the development and implementation of a Sustainability framework across the whole business to communicate and improve our performance on our material sustainability issues.

Silver Fern Farms Limited has made good progress across these four strategy pillars.

1

Build market leadership positions with differentiated products

2017 was a mixed year for the company's value-added sales efforts across retail and food service.

In China, branded sales of differentiated beef products into food service customers continue to grow strongly. The company's grass-fed Reserve and Angus ranges are appealing to medium and high-end restaurants and our geographic penetration is growing as the company's distributors themselves expand beyond the tier 1 China cities. The company participated in the NZ and China Government sponsored chilled meat trial during the year, with two of the country's 10 trial plants (as currently NZ is able to only export frozen meat to China). The company successfully exported chilled beef and lamb to a range of existing and new customers in order to trial the chilled supply chain from plant to customer. The country trial was considered a success and the industry is awaiting full accreditation in 2018. This will provide opportunity in food service and retail to deliver premium fresh product as the company currently does to a number of countries around the world.

In Germany, the company rationalised its food service range the year before by removing the Hereford range to allow it to focus on Reserve and Angus over the longer term. It was pleasing that within 12 months the company has replaced those Hereford sales and is seeing continued growth. In retail, our frozen consumer ready range has not met our sales expectations to date. Whilst being well represented in a significant number of stores in Germany, the aged frozen format is proving challenging to build and the company is actively working with its retail partner to enhance the proposition. We continue to believe there is a meaningful consumer segment in Germany that will pay a premium for high-quality, ready to cook, grass fed, natural red meat.

In the USA, branded beef sales into food service continue to be significant. However, the company is facing increasing grass-fed competition from other countries. The company is very focused on building differentiation to drive top line revenue growth in this channel. In retail, the company has been focused on building attribute-based supply programmes across beef and lamb as well as preparing to launch a Silver Fern Farms branded consumer-ready range in the middle of 2018. Both of these developments have the potential to make a significant impact over time. The USA retail range will have product authentication and product traceability capability, which is the culmination of a number of years' work with third party partners to commercialise. USA consumers will be able to gain absolute surety the product is true to the Silver Fern Farms "100% Made of New Zealand" commitment.



2

Differentiate livestock supply by leading in service, brand and value-add programmes

One of the elements of this strategy is to grow livestock supply which is linked to value-added programmes. In 2017 the company offered programmes for Silver Fern Farms Reserve Beef, Angus Beef, Venison and an Antibiotic Free US Retail Lamb programme.

Over 1.2 million stock units were supplied across these programmes. This represented over 30 percent growth on the prior year. In excess of \$4m in programme premiums were paid to suppliers of this high quality product. The company is evolving these programmes further. The Silver Fern Farmers 100% standard programme has been introduced to support attribute-based sales programmes targeting customers who want and will pay a premium for a 100% guarantee of product which is grass-fed, antibiotic free, with no added hormones, is GMO free and has not been raised in a feedlot. We look forward to growing the scale of this programme in coming years.

Preferential access is being given to Shareholders who wish to supply these programmes.

At the same time, the company is investing in systems to improve the ease for farmers of dealing with Silver Fern Farms. Improvements to the supplier website and easier mobile accessibility are planned for introduction in 2018.

The shareholder supplier benefits programme covered earlier is an important initiative to differentiate livestock supply by rewarding loyal supply from shareholders and to incentivise non-shareholder suppliers to become shared-up loyal suppliers. This is a long-term initiative to differentiate livestock supply.



3



Ensure we have the best chain of care in New Zealand

The initial priority in this area has been to get the company's plant network down to a size whereby they have the right plants in the right places for the changes that have occurred in livestock numbers. The company has reduced plant numbers from 21 to 14 over the last four years, with the most substantial change being the closure of meat processing operations at Fairton in 2017.

The focus has now turned to investing in the business to ensure this streamlined plant network is as efficient as it can be (by eliminating waste and investing capital to improve efficiency), investing in information systems across the business to make sure decisions can be as informed as possible, and investing in best in class processes for food quality, environmental stewardship and assurance.

The company invested over \$21m in capital expenditure 2017.

A highlight was the opening of the Pareora Venison plant. The company invested \$7m in venison processing and coldstores on the site, following the closure of the company's Islington and Mossburn sites, and exit of the lease on its Canterbury coldstores.

Pareora is the company's first site to process Sheepmeats, Beef and Venison, which has the advantage of sharing resources and a lengthened employment season for a number of people who are able to move between species, contributing to reduced staff turnover.



4

Build a highly collaborative, healthy and engaged team

2017 saw continued investment in the Silver Fern Farms people. The health, safety and wellbeing of the approximately 7,000 people employed by Silver Fern Farms remains paramount.

There has been considerable focus on identifying and putting in place controls around the company's critical health and safety hazards. This is an ongoing process and includes areas such as hazardous substances, on-site traffic management, operating at heights and machinery.

The company-wide Runanga health and safety leadership group continues to play a key role in promoting and supporting improvement.

In terms of lag indicators, the company achieved a further reduction in injury rates. Total Recordable Injury Frequency (TRIF) rate per 200,000 hours worked reduced from 7.5 in 2016 to 6.7 in 2017. Though this is a pleasing 11% reduction, the company has much more to do in this area and it remains an ongoing focus.

The company has invested in new on-boarding and training programmes to ensure people are aware of their surroundings and potential hazards on day one, and can develop their skills over time.

The company has made a significant investment in internal communications to enable people to understand the company's vision and strategy and help build around a common purpose.

A Sustainable Chain of Care

We believe Silver Fern Farms can contribute to positive change for our environment, our people, our communities and the economic success of New Zealand. Silver Fern Farms calls this Our Sustainable Chain of Care and it runs through the company's strategy. The sustainability framework is integrated with the business strategy and is focused on issues that are material to stakeholders.

The company is focused on measuring, improving and communicating performance on its material issues.

In 2016 the company spoke to a large number of internal and external stakeholders to gain their view on what were the key sustainability issues expected to impact the company. In 2017 the company established a Sustainability Leaders Group to take these issues and advise the business on how to set targets and prioritise initiatives to make progress on its sustainability issues. The company will be reporting publicly on its performance in 2018.

The company wants to show that it can work through complex sustainability challenges responsibly, and through this greater transparency grow trust in the way it produces natural, 100% Made of New Zealand red meat.

Our four strategy pillars are underpinned by the development and implementation of a Sustainability framework across the whole business to communicate and improve our performance on our material sustainability issues.

PROGRESS MADE BY YOUR CO-OPERATIVE

We have built a very positive working relationship with Shanghai Maling. Together at a shareholder level we have ensured compliance with the Shareholders Agreement and Co-operation Memorandum commitments over the course of the year. At a director level, we have a common goal of ensuring Silver Fern Farms Limited successfully delivers on its agreed strategy.

The Co-operative also established the Shareholder Supplier Benefits Programme to encourage loyal supply from shareholders in the Co-operative to maximise the value of our investment in Silver Fern Farms over-time.

A strong Silver Fern Farms with a stable and loyal livestock supply base is better able to grow value with customers in global markets. This generation of value is of benefit to our Co-operative as a sustainably profitable Silver Fern Farms returns dividends for our Co-operative to distribute to our shareholders.

The regular distribution of a dividend to Co-operative shareholders combined with a patronage reward to supplying shareholders is one element of the programme which we believe will encourage further loyal supply over time and has the potential to generate demand for shares from non-shareholder suppliers and under-shared suppliers.

Outside of the shareholder dividend and patronage reward the Shareholder Benefits Programme has other important benefits for shareholders, some of which we introduced in 2017. We have made progress on several of these areas.

Over the course of the year shareholders have been given preference to processing space and preferential access to Silver Fern Farms Limited's value added supply programmes, such as Venison Global Supply and Reserve Beef.

Shareholders have been given preferential access to events (e.g. plant open days, celebrity chef events, market trips), and we will continue to promote this preference.

Governance development is a core role for the Co-operative.

In 2017 we announced the Co-operative and the Burnside Hart Co-operative Development Trust would fully-fund up to two applicants to complete the Kellogg Rural Leadership Course. The Kellogg Rural Leadership Course has been active for over 30 years and is highly-regarded in New Zealand's agri-business sector for the networks people gain and the learning experience that is tailored to people wanting to develop their agribusiness capabilities.

Alongside the Burnside Hart Co-operative Development Trust we supported two shareholders through the Fonterra Governance Development Programme. The Burnside Hart Trust Silver Fern Farms Co-operative Scholarship is open to shareholders each year and provides subsidised course fees to assist applicants to take part in the Fonterra Governance Development Programme. Since the scholarship's inception in 2015, five shareholders have been supported to participate this course. We see it as an important avenue for director development. Two of our existing Co-operative directors have completed this programme.

The Co-operative will continue to provide options for shareholders to grow their understanding of agribusiness co-operatives and will support programmes that assist in building the capability of aspiring farmer directors and the pool of people willing to step up into governance roles.

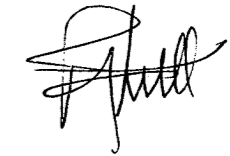
To ensure the Co-operative is communicating effectively with shareholders the Co-operative has its own separate website on the .coop domain. It is pleasing to note that we are the first agribusiness or food co-op in New Zealand to do so. www.silverfernfarms.coop holds information specific to Silver Fern Farms Co-operative including governance and investor information and the full detail on the Shareholder Benefits Programme.

We also employed Clark Taylor as the Co-operative's Shareholder Relations Manager. This role reports to the Board of the Co-operative and is a key link for shareholders on co-operative matters. Clark manages director elections process, the process of distributions and patronage rewards and the development of the Shareholder Benefits Programme.

I am confident that our Co-operative will see continued benefits from the performance of Silver Fern Farms Limited in 2018.

I would like to thank shareholders for their continued and valued support of our Co-operative. I would also like to extend my thanks to our Board of Directors, our partner Shanghai Maling, and Silver Fern Farms Limited management and staff for their commitment and efforts throughout the year.

TOGETHER WE ARE BUILDING STRONG PARTNERSHIPS.



Rob Hewett, Chairman



Stuart Rogan, Group Executive chef of the Good Group, Botswana Butchery with 2017 Plate to Pasture Award winners Leicester and Margaret Gray of Gray Bros, in Waipawa Hawke's Bay



LEADERSHIP - PASSING ON THE BATON

In July 2017 Chief Executive Dean Hamilton announced his intention to leave Silver Fern Farms Limited once a successor was found. Dean led Silver Fern Farms with rare skill and passion through a challenging and ultimately successful 3½ year period for the business. The Board of our Co-operative thanks him for his commitment to Silver Fern Farms and its people. Dean handed over the management of Silver Fern Farms Limited to new Chief Executive Simon Limmer in March 2018.

We welcome Simon to the role. We are confident he will be able to continue the company's development as a consumer-oriented food business. He has a clear affinity with New Zealand agriculture and what is required to successfully take our great products to consumers locally and around the world. One of Simon's clear strengths is his ability to lead people. Simon has led large teams, and has a strong affinity and understanding for farmer producers - which is a critical part of the ongoing success of Silver Fern Farms.

YOUR BOARD OF DIRECTORS



**Rob Hewett
Chairman**

Rob became Chairman of Silver Fern Farms in December 2013. 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 Co-chair of Silver Fern Farms Ltd, Chairman of the Clutha Development Trust as well as a Director of Farmlands Co-operative, Pioneer Energy and Hilton Haulage Limited. He is a chartered member 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.



**Tony Balfour
Independent**

Tony joined the Silver Fern Farms' Board in August 2009. He is a globally experienced senior executive in a wide range of industries and categories with a strong track record of success leading innovation and market/category development. His experience across various industries ensures Silver Fern Farms has a diverse knowledge base across the board. Tony is also a Director of The Warehouse Group Ltd, Real Journeys Ltd, Les Mills International, Methven Ltd, Mt Difficulty Wines and is Chair of Boosted (the digital wing of the NZ Arts Foundation).



**Trevor Burt
Independent**

Trevor joined the Board in August 2009 and is Chairman of the Remuneration and Appointments Committee. Trevor has high-level experience in the strategic leadership of large and complex corporate organisations and a proven record of implementing change and achieving results. Trevor is currently Chairman of Ngai Tahu Holdings Corporation Ltd, Ngai Tahu Capital Ltd, Lyttelton Port of Christchurch Ltd and New Zealand Lamb Company Ltd, Deputy Chair of PGG Wrightson Ltd, Market Gardeners Ltd, Landpower NZ Ltd, Silver Fern Farms Ltd and Agria Asia Investments Ltd. He is a former member of the Executive Board of the Munich based Linde Group.



Fiona Hancox

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



Dan Jex-Blake

Dan was elected to the Board in 2013. He is the Managing Director of Mangapoike Ltd, a 24,000 stock unit pastoral farming company near Gisborne. He was invited to take part in the 2014 Rabobank Global Farmers Masterclass and has completed the 2014/15 Fonterra Governance Development Programme. He sits on the recently formed Farm^o Systems Ltd board and Silver Fern Farms Ltd.



Tony O'Boyle

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



**Jane Taylor
Independent**

Jane was appointed to the Board in June 2013 and is the Chair of the Board's Audit, Risk Assessment and Mitigation Committee. Her experience as a barrister, chartered accountant and as an independent hearings commissioner under the Resource Management Act are a valuable addition to the Directorate. Jane is currently Chair of NZ Post Ltd, Landcare Research New Zealand Ltd and Predator Free 2050 Ltd. She is Deputy Chair of Radio New Zealand Ltd, and a Director Kiwibank Ltd, Silver Fern Farms Ltd and OTPP New Zealand Forest Investments Ltd. She is also a Board Member of the External Reporting Board, the Crown Entity responsible for developing and issuing accounting and auditing & assurance standards in New Zealand.



Richard Young

Richard operates a 300ha sheep and cropping property at Tapanui, West Otago. He was elected to the Board in 2013. He has a Bachelor of Commerce in Economics from Otago University. He is a 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. He is a director of Silver Fern Farms Ltd.



GROWING VALUE TOGETHER FROM PLATE TO PASTURE

Silver Fern Farms Co-operative represents more than 6,200 Ordinary Shareholders and 15,800 Rebate Shareholders throughout New Zealand who together supply sheep, beef and deer to Silver Fern Farms Limited.

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 Unlisted. Unlisted 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 three Independent Directors.

BOARD COMPOSITION

The Co-operative's Constitution determines that:

- Silver Fern Farms Co-operative Limited will have a Board of between six and eight directors;
- up to five directors are to be elected by shareholders who are suppliers of livestock to the Company ('Shareholder-elected Directors');
- up to three directors may be appointed by the Board ('Independent Directors').

To qualify for election or appointment, a director need only not be an employee of Silver Fern Farms or any of its subsidiaries.

The Board currently comprises, and at 31 December 2017 comprised, five supplier-elected Directors and three Board-appointed Independent Directors as follows:

Rob Hewett	Chairman, Shareholder-elected
Tony Balfour	Independent
Trevor Burt	Independent
Fiona Hancox	Shareholder-elected
Dan Jex-Blake	Shareholder-elected
Tony O'Boyle	Shareholder-elected
Jane Taylor	Independent
Richard Young	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 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 General Counsel, 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 quarterly 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 \$677,400 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 15 months ended 31 December 2017, the Board met 8 times (plus 1 telephone conference) as follows:

Director	Board*	Annual Meeting	Board Committee*
Tony Balfour	6	1	-
Trevor Burt	5	1	-
Fiona Hancox	5	1	-
Rob Hewett	7	1	-
Dan Jex-Blake	7	1	-
Tony O'Boyle	7	1	1
Jane Taylor	7	1	1
Richard Young	7	1	-

* One teleconference meeting was also held during the period

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

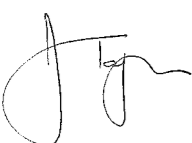
STATUTORY INFORMATION

DIRECTORS' STATEMENT

This Annual Report is dated 29 March 2018 and is signed on behalf of the Board by:



RJ Hewett
Chairman



DJ Taylor
Chairman – Audit, Risk Assessment
and Mitigation Committee

DIRECTORS

The Directors of Silver Fern Farms Co-operative Ltd as at 31 December 2017 are:

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

DIRECTORS' INTEREST IN TRANSACTIONS

For the period ended 31 December 2017, 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 26 January 2018:

"In the opinion of the Board, Silver Fern Farms Co-operative Limited has throughout the period ended 31 December 2017 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 2017, no Director requested to use Company information received by them in their capacity as Directors.

REMUNERATION AND APPOINTMENTS COMMITTEE

The Committee comprises Trevor Burt – Chair, Fiona Hancox and Tony O'Boyle.

AUDIT, RISK ASSESSMENT AND MITIGATION COMMITTEE

The Committee comprises Jane Taylor – Chair, Fiona Hancox, Dan Jex-Blake, Tony O'Boyle.

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 2017, Silver Fern Farms Co-operative made no donations (2016: \$nil).

AUDITOR

During 2017, Ernst & Young resigned as auditors. 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 2017 are set out in the following table.

Director	Holding as at 31 December 2017
Tony Balfour	-
Trevor Burt	18,166
Fiona Hancox	212,646
Rob Hewett	70,000
Dan Jex-Blake	120,000
Tony O'Boyle	24,000
Jane Taylor	-
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 \$849,725.

Director	Positions	Co-operative Year ended 31 December 2017	Operating Company Year ended 31 December 2017	Combined 3 mths ended 31 December 2016	Combined Total fees 15 mths ended 31 December 2017
Rob Hewett	Director of the Co-operative and operating company, Chair of the Co-operative, Co-chair of the operating company	43,000	175,000	47,875	265,875
Tony Balfour	Director of the Co-operative	21,500	-	13,458	34,958
Trevor Burt	Director of the Co-operative and operating company, Chair of Remuneration and Appointments Committees of the Co-operative and the operating company	21,500	76,000	21,625	119,125
Fiona Hancox	Director of the Co-operative	25,800	-	13,817	39,617
Dan Jex-Blake	Director of the Co-operative and operating company	23,650	75,000	-	119,371
Tony O'Boyle	Director of the Co-operative	25,800	-	13,817	39,617
Jane Taylor	Director of the Co-operative and operating company, Chair of Audit, Risk Assessment and Mitigation Committee of the Co-operative	23,650	75,000	20,888	119,538
Richard Young	Director of the Co-operative and operating company	21,500	70,000	20,125	111,625
Total Directors' fees		206,400	471,000	172,325	849,725

REMUNERATION OF EMPLOYEES

No employees or former employees of Silver Fern Farms Co-operative Limited received remuneration and other benefits or entitlements during the period ended 31 December 2017, the value of which was or exceeded \$100,000.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE 15 MONTHS ENDED 31 DECEMBER 2017

NZD IN THOUSANDS (\$000)	Notes	15 months ended 31 December 2017	12 months ended 30 September 2016
Share of earnings of Silver Fern Farms Limited	4b	8,028	-
Interest income		741	-
Total earnings		8,769	-
Operating expenditure		(930)	(726)
Profit/(loss) before tax		7,839	(726)
Tax expense	2	-	-
Profit/(loss) after tax from continuing operations		7,839	(726)
Loss from discontinued operations	3a	(13,421)	(29,843)
Loss for the period/year		(5,582)	(30,569)
Other comprehensive income			
Other comprehensive income from discontinued operations		467	(12,995)
Share of foreign currency translation reserve movement of Silver Fern Farms Limited	4b	799	-
Total other comprehensive income/(loss)		1,266	(12,995)
Total comprehensive loss		(4,316)	(43,564)
Earnings per share attributable to the shareholders of the parent		Cents	Cents
Attributable to continuing operations:			
Basic earnings/(loss) per ordinary share	7	7.96	(0.75)
Diluted earnings/(loss) per ordinary share	7	7.81	(0.75)
Attributable to discontinued operations:			
Basic earnings/(loss) per ordinary share	7	(13.63)	(30.73)
Diluted earnings/(loss) per ordinary share	7	(13.63)	(30.73)

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

CONSOLIDATED BALANCE SHEET

AS AT 31 DECEMBER 2017

NZD IN THOUSANDS (\$000)	Notes	As at 31 December 2017	As at 30 September 2016 Restated
ASSETS			
Current assets			
Cash and cash equivalents		16,641	-
Trade and other receivables	5	28,979	-
Equity receivable	9	1,200	1,221
Deferred major capital transaction costs	8	-	13,488
Total current assets		46,820	14,709
Assets held for sale	8	-	526,489
Non-current assets			
Equity-accounted investment in Silver Fern Farms Limited	4a	268,859	-
Total non-current assets		268,859	-
TOTAL ASSETS		315,679	541,198
LIABILITIES			
Trade and other payables	6	28,729	-
Total current liabilities		28,729	-
Liabilities held for sale	8	-	216,778
TOTAL LIABILITIES EXCLUDING MEMBERS' SHARES		28,729	216,778
NET ASSETS EXCLUDING MEMBERS' SHARES		286,950	324,420
Members' shares			
Supplier investment shares	9	-	5,387
Members' ordinary shares (rebate shares)	9	14,711	15,216
Total members' shares		14,711	20,603
NET ASSETS		272,239	303,817
EQUITY			
New ordinary shares	9	136,495	136,495
Foreign currency translation reserve	10	799	(7,478)
Asset revaluation reserve		-	90,684
Retained earnings	10	134,945	84,116
TOTAL EQUITY		272,239	303,817

The foreign currency translation reserve and retained earnings balances at 30 September 2016 have been restated, as disclosed in note 10. The consolidated balance sheet above should be read in conjunction with the accompanying notes.
For and on behalf of the Board.



ROB HEWETT
Chair
25 March 2018



JANE TAYLOR
Chair - Audit, Risk Assessment and Mitigation Committee
25 March 2018

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2017

NZD IN THOUSANDS (\$000)	Notes	Share Capital	Asset revaluation reserve	Foreign currency translation reserve	Retained Earnings	Total Equity
Balance as at 1 October 2015 (restated)	10	136,495	97,004	592	113,290	347,381
Loss for the year		-	-	-	(30,569)	(30,569)
Other comprehensive income						
Foreign currency translation loss		-	-	(8,070)	-	(8,070)
Transfer on disposal of assets		-	(27)	-	27	-
Reversal of revaluation gains due to impairment		-	(7,252)	-	-	(7,252)
Release of excess revaluation reserve		-	(1,300)	-	1,300	-
Other reserves movements		-	164	-	68	232
Income tax on items of other comprehensive income credited		-	2,095	-	-	2,095
Total other comprehensive income		-	(6,320)	(8,070)	1,395	(12,995)
Total comprehensive income		-	(6,320)	(8,070)	(29,174)	(43,564)
Balance as at 30 September 2016 (restated)	10	136,495	90,684	(7,478)	84,116	303,817
Balance as at 1 October 2016 (restated)	10	136,495	90,684	(7,478)	84,116	303,817
Loss for the period		-	-	-	(5,582)	(5,582)
Other comprehensive income						
Other comprehensive income from discontinued operations		-	-	467	-	467
Share of Silver Fern Farms Limited other comprehensive income		-	-	799	-	799
Total other comprehensive income		-	-	1,266	-	1,266
Total comprehensive income		-	-	1,266	(5,582)	(4,316)
Transfer of foreign currency translation reserve to profit and loss for the period	3d	-	-	7,011	-	7,011
Transfer of asset revaluation reserve to retained earnings		-	(90,684)	-	90,684	-
Total transfers on derecognition of subsidiary		-	(90,684)	7,011	90,684	7,011
Dividends paid	9	-	-	-	(34,273)	(34,273)
Balance as at 31 December 2017		136,495	-	799	134,945	272,239

The foreign currency translation reserve and retained earnings balances brought forward have been restated, as disclosed in note 10.

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

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE 15 MONTHS ENDED 31 DECEMBER 2017

NZD IN THOUSANDS (\$000)	Notes	15 months ended 31 December 2017	12 months ended 30 September 2016
Cash flows (used in)/from operating activities			
Receipts from customers		210,688	2,196,253
Payments to suppliers and employees		(269,334)	(2,161,034)
Dividends received		-	11,870
Interest received		741	271
Finance costs paid		(1,989)	(14,776)
Income taxes paid		(166)	(204)
Net cash flows (used in)/from operating activities	11	(60,060)	32,380
Cash flows from/(used in) investing activities			
Purchase of property, plant and equipment and intangibles		(3,415)	(15,978)
Cash received on completion of Maling transaction	3	57,000	-
Proceeds from sale of property, plant and equipment		4	2,734
Proceeds from sale of investments in associates		-	571
Major capital transaction costs		-	(5,130)
Investment in associates		-	(531)
Net cash flows from/(used in) investing activities		53,589	(18,334)
Cash flows from/(used in) financing activities			
Dividends paid		(34,272)	-
Proceeds from borrowings		68,820	-
Repayment of borrowings		-	(25,131)
Deferred proceeds from issue of new ordinary shares		-	108
Supplier investment shares redeemed	9	(5,387)	(91)
Members' ordinary shares (rebate shares) redeemed	9	(505)	(322)
Net cash from/(used in) financing activities		28,656	(25,436)
Net increase/(decrease) in cash and cash equivalents		22,185	(11,390)
Cash and cash equivalents at the beginning of the financial period/year		1,403	12,806
Effects of exchange rate changes on cash and cash equivalents		-	(13)
Loss of accounting control of cash on derecognition of subsidiary		(6,947)	-
Cash and cash equivalents at the end of the period/year		16,641	1,403

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements of Silver Fern Farms Co-operative Limited (the Co-operative), formerly known as Silver Fern Farms Limited, for the 15 months ended 31 December 2017, comprise the Co-operative, its subsidiary and its equity-accounted investment in Silver Fern Farms Limited (the operating company), formerly known as Silver Fern Farms Beef Limited. 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.

The new ordinary shares of the Co-operative are traded on unlisted.co.nz.

The consolidated financial statements were authorised for issue by the directors on 25 March 2018.

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 consolidated 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.

Critical accounting judgements

The preparation of financial statements in conformity with NZ IFRS requires management to exercise its judgement in the process of applying the Co-operative's accounting policies. The areas involving a higher degree of judgement or complexity are disclosed below.

Fair value of disposal group and impairment

NZ IFRS 5 Assets held for sale requires a disposal group to be measured at fair value less costs to sell at the date of designation. The board of the Co-operative assessed the fair value of the disposal group by reference to the Subscription Agreement in respect of the third party investment, and concluded the subscription amount represented the most reliable estimate of the fair value of the disposal group, having considered the Subscription Agreement date, and whether a premium for control may have been included in the subscription amount. The difference between the estimated fair value less costs to sell and the carrying value of the assets and liabilities comprising the disposal group resulted in an impairment loss being recorded in Silver Fern Farms Limited, the operating company in the 2016 year. The Co-operative also determined, on a reasonable basis, the allocation of the impairment to goodwill, other intangibles, and specific assets within property, plant and equipment.

Fair value upon recognition of investment in Silver Fern Farms Limited

As described in note 3, the Co-operative has derecognised the operating company as a subsidiary, and recorded its investment in the operating company as an equity accounted associate. The investment in Silver Fern Farms Limited has been recorded at its fair value at initial recognition. Fair value has been determined by reference to the Subscription Agreement.

Consideration of impairment of investment in Silver Fern Farms Limited

The Co-operative has at year end assessed whether there is objective evidence of impairment in respect of its investment in its associate, Silver Fern Farms Limited. 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 has been recognised by the Co-operative upon initial recognition of its associate, Silver Fern Farms Limited.

b. Principles of consolidation

As described in note 3, as at 6 December 2016, the Co-operative lost accounting control of the operating company and derecognised its assets and liabilities. Accordingly, the Co-operative no longer consolidates the financial statements of the operating company.

c. Interest income

Interest income is recognised using the effective interest method.

d. Income tax

The income tax expense or credit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in foreign operations where the company is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

e. 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.

f. Trade receivables

Receivables are amounts due from customers in the ordinary course of business.

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

g. Cash and cash equivalents

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

h. Equity accounted investment

The Co-operative has accounted for its investment in its associate, Silver Fern Farms Limited, using the equity method. The investment is initially recognised at fair value, implied by the subscription price paid by Maling. Subsequent to initial recognition, the consolidated financial statements include the Co-operative's share of the profit or loss and other comprehensive income. The directors have concluded that the Co-operative has significant influence over the operating company, due to its appointment of five of the ten directors, including a co-chairperson.

i. Trade payables

These amounts represent liabilities for goods and services provided to the Co-operative prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition. Trade and other payables are presented as current liabilities unless payment is not due within 12 months after the reporting period. They are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.

j. Operating segments

The directors have assessed that the Co-operative has one operating segment, being the management of its investment in Silver Fern Farms Limited.

2. INCOME TAX

NZD IN THOUSANDS (\$000)	15 months ended 31 December 2017	12 months ended 30 September 2016
Numerical reconciliation of prima facie tax payable to tax expense		
Profit from continuing operations before income tax expense	7,839	(726)
Income tax @ 28%	2,195	(203)
Tax effects of:		
• Non-assessable earnings from associate	(2,247)	-
• Tax losses not recognised	52	203
Tax expense recognised in profit or loss	-	-

3. DISCONTINUED OPERATIONS

On 6 December 2016, Shanghai Maling (Hong Kong) Limited, a wholly owned subsidiary of Shanghai Maling Aquarius Co. Limited (Maling) acquired new shares, representing 50% of the shares of the operating company, a former subsidiary of the Co-operative. The final subscription price was \$260m, which was settled in cash; this was lower than the provisional subscription price of \$266.2m disclosed in the prior period financial statements due to components of the subscription price calculation which were unknown at the time of issue of the financial statements. Following completion of the transaction, Silver Fern Farms Limited was renamed Silver Fern Farms Co-operative Ltd and Silver Fern Farms Beef Limited was renamed Silver Fern Farms Limited.

Under the terms of the transaction, the majority of decisions by the board of the operating company can be passed by a simple majority of the ten directors, five appointed by the Co-operative and five appointed by Maling. The board is co-chaired by one representative of the Co-operative and one representative of Maling. However, in the event of board deadlock, there are certain casting vote matters where the Maling appointed Co-Chairperson will have a casting vote, including: approval of the annual business plan, approval of the annual budget, approval of the annual financial statements, appointment or dismissal of the Chief Executive and dividend policy. Due to the dilution of its shareholding to 50% and the effect of these casting vote matters, the Co-operative no longer has accounting control of the operating company, as defined by NZ IFRS 10 Consolidated Financial Statements, with effect from 6 December 2016. From that date, the operating company ceased to be a subsidiary of the Co-operative, and instead is equity accounted as an investment in an associate refer note 4. Accordingly, the Co-operative has derecognised the assets and liabilities of its former subsidiary, the operating company, and the other group companies controlled by the operating company.

As a condition of the Subscription Agreement, there was a significant internal reorganisation of the group's assets and liabilities in the year ended 30 September 2016. All the operating assets and liabilities previously held by the Co-operative were transferred to the operating company or one of its subsidiaries in return for 89,900 further shares in the operating company and a receivable from the operating company of \$57m. Note that the receivable represented a permitted retention of profits in the Co-operative and was not a component of the subscription price. Immediately following completion of the transaction, the operating company paid cash of \$57m to the Co-operative, settling this receivable.

All of the items in the comparative period profit and loss (excluding \$726,000 of directors' fees) and up to 6 December 2016 are associated with the disposal group. Accordingly, they have been classified as discontinued operations, except for directors' fees, reported within operating expenditure. The Co-operative and Maling agreed that each investor should be responsible for payment of directors' fees in respect of its own appointees on the board of Silver Fern Farms Limited.

a. Loss from discontinued operations

NZD IN THOUSANDS (\$000)	Notes	1 October 2016 - 6 December 2016	12 months ended 30 September 2016
Revenue		249,493	2,164,556
Expenses		(268,210)	(2,171,311)
Loss before impairment and income tax		(18,717)	(6,755)
Impairment		-	(22,399)
Loss before income tax		(18,717)	(29,154)
Income tax expense		12	(689)
Loss after income tax from discontinued operations		(18,705)	(29,843)
Gain on derecognition of subsidiary	3d	5,284	-
Loss from discontinued operations		(13,421)	(29,843)
Foreign currency translation reserve movements in discontinued operations		467	(8,070)
Revaluation reserve movements in discontinued operations		-	(4,925)
Total comprehensive loss from discontinued operations		(12,954)	(42,838)

b. Cash flows from/(used in) discontinued operations

NZD IN THOUSANDS (\$000)	1 October 2016 - 6 December 2016	12 months ended 30 September 2016
Operating cash flows	(59,611)	33,106
Investing cash flows	(3,665)	(18,334)
Financing cash flows	68,820	(25,436)
Total cash flows	5,544	(10,664)

c. Effect of derecognition of subsidiary on the financial position of the Co-operative group

The carrying amounts of assets and liabilities derecognised on loss of accounting control as at 6 December 2016 were as follows:

NZD IN THOUSANDS (\$000)	Notes	6 December 2016
Assets		
Property, plant, equipment and intangibles		306,807
Investment in associates		17,419
Inventories		103,583
Trade and other receivables		165,034
Prepaid costs of raising equity		13,465
Cash and cash equivalents		6,947
Total assets		613,255
Liabilities		
Provisions		(28,779)
Derivatives		(1,167)
Interest bearing loans and borrowings		(191,104)
Trade and other payables		(87,468)
Payable by Silver Fern Farms Ltd to the Co-operative		(57,000)
Total liabilities		(365,518)
Net assets derecognised on loss of accounting control	3d	247,737

d. Calculation of gain on derecognition of subsidiary

NZD IN THOUSANDS (\$000)	Notes	6 December 2016
Initial recognition of equity accounted investment in Silver Fern Farms Limited (as an associate) at fair value	4a	260,032
Net assets derecognised on loss of accounting control of Silver Fern Farms Limited	3c	(247,737)
Foreign currency translation reserve of Silver Fern Farms Limited reclassified to profit and loss on derecognition of subsidiary		(7,011)
Gain on derecognition of subsidiary		5,284

The fair value on initial recognition of Silver Fern Farms Limited as an associate has been determined by reference to the subscription price paid by Maling. Maling invested cash in the amount of \$260m into the operating company to acquire a 50% shareholding; the Co-operative contributed the net operating assets of the operating company, whilst retaining a 50% shareholding. The directors consider, therefore, that the fair value of the Co-operative's 50% shareholding equals the subscription price paid by Maling.

The gain on derecognition of subsidiary has been calculated as the difference between the carrying value of assets and liabilities derecognised and the fair value of the Co-operatives' 50% shareholding, less accumulated foreign currency losses previously recognised in reserves of the operating company in connection with foreign operations. NZ IAS 21 The Effect of Changes in Foreign Exchange Rates requires such differences to be reclassified from equity to profit and loss on derecognition.

4. EQUITY ACCOUNTED INVESTMENT IN SILVER FERN FARMS LIMITED

a. Carrying amount of investment in Silver Fern Farms Limited

The Co-operative equity accounts for its 50% investment in Silver Fern Farms Limited as an associate. The Co-operative holds no other investments in associates.

NZD IN THOUSANDS (\$000)	Notes	15 months ended 31 December 2017
Initial recognition at fair value as at 6 December 2016	3d	260,032
Share of profit after tax	4b	8,028
Share of other comprehensive income	4b	799
Balance at 31 December 2017		268,859

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

NZD IN THOUSANDS (\$000)	6 December 2016 – 31 December 2017
Total comprehensive income of Silver Fern Farms Limited (100%)	
Revenue	2,457,731
Share of profit of associates	9,181
Interest income	371
Raw materials and consumables used	(1,788,853)
Employee benefits expense	(369,812)
Finance costs	(3,853)
Other operating expenses	(264,497)
Depreciation and amortisation	(23,616)
Profit before tax (100%)	16,652
Income tax expense	(597)
Profit after tax (100%)	16,055
Other comprehensive income (100%)	1,598
Total comprehensive income (100%)	17,653

Co-operative's share (50%)

NZD IN THOUSANDS (\$000)	6 December 2016 – 31 December 2017
Co-operative's share of profit after tax (50%)	8,028
Co-operative's share of other comprehensive income (50%)	799
Co-operative's share of total comprehensive income (50%)	8,827

The Co-operative's share of total comprehensive income of Silver Fern Farms Limited is reported for the period from 6 December 2016, the date of initial recognition, to 31 December 2017.

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)	As at 31 December 2017
ASSETS	
Current assets	
Cash and cash equivalents	4,174
Trade and other receivables	243,451
Derivative financial instruments	7,675
Inventories	202,775
Total current assets	458,075
Non-current assets	
Property, plant and equipment	302,884
Intangible assets	580
Investments in associates	18,811
Shares in unlisted companies	81
Total non-current assets	322,356
Total assets	780,431
LIABILITIES	
Current liabilities	
Trade and other payables	129,782
Interest bearing loans and borrowings	126,720
Tax provision	58
Provisions	4,679
Derivative financial instruments	2,111
Total current liabilities	263,350
Non-current liabilities	
Long term payables	603
Interest bearing liabilities	55
Provisions	9,547
Total non-current liabilities	10,205
Total liabilities	273,555
Net assets of Silver Fern Farms Limited (100%)	506,876
Co-operative's share of net assets (50%)	253,438
Goodwill on initial recognition	15,421
Equity accounted investment in Silver Fern Farms Ltd	268,859

A copy of the financial statements of Silver Fern Farms Limited can be obtained from the Companies Register in New Zealand. The directors have considered whether any indicators of impairment exist in relation to its investment in Silver Fern Farms Limited, by reference to NZ IAS 39 Financial Instruments: Recognition and Measurement, and they have concluded that there are no indicators of impairment.

5. TRADE AND OTHER RECEIVABLES

NZD IN THOUSANDS (\$000)	Notes	As at 31 December 2017	As at 30 September 2016
Livestock receivables from Silver Fern Farms Limited	14	28,697	-
Other receivables from Silver Fern Farms Limited		185	-
Other receivables		97	-
Total trade and other receivables		28,979	-

The Co-operative is exposed to credit risk in respect of livestock receivables from Silver Fern Farms Limited. The Co-operative is able to manage this risk 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 board.

6. TRADE AND OTHER PAYABLES

NZD IN THOUSANDS (\$000)	Notes	As at 31 December 2017	As at 30 September 2016
Livestock payables to shareholder suppliers	14	28,697	-
Other payables		32	-
Total trade and other payables		28,729	-

7. EARNINGS PER SHARE

a. Earnings used in calculating earnings per share

NZD IN THOUSANDS (\$000)	15 months ended 31 December 2017	12 months ended 30 September 2016
Profit/(loss) from continuing operations	7,839	(726)
Loss from discontinued operations	(13,421)	(29,843)
Loss attributable to the ordinary equity holders of the Co-operative used in calculating basic and diluted earnings per share	(5,582)	(30,569)

b. Weighted average number of shares

THOUSANDS	2017 Number	2016 Number
Weighted average number of new ordinary shares for basic earnings per share	98,445	97,111
Effect of dilution – partly paid new ordinary shares	1,934	3,268
Weighted average number of ordinary shares for diluted earnings per share	100,379	100,379

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

8. ASSETS AND LIABILITIES HELD FOR SALE

NZD IN THOUSANDS (\$000)	As at 30 September 2016
Assets held for sale	
Cash and cash equivalents	1,403
Trade and other receivables	125,072
Inventories	81,843
Investment in associates	15,497
Property plant and equipment	301,132
Intangible assets	1,542
Total assets held for sale	526,489
Liabilities held for sale	
Trade and other payables	81,195
Provisions	26,969
Interest bearing loans and borrowings	108,614
Total liabilities held for sale	216,778

Note 3 describes the transaction with Maling, which resulted in the Co-operative losing accounting control over the operating company, its assets and its liabilities. At 30 September 2016, as all material conditions were satisfied and the transaction was considered to be highly probable, the board concluded that the assets and liabilities of the operating company constituted a disposal group, in the hands of the Co-operative.

At September 2016, the Co-operative also recognised a current asset in respect of deferred major capital transaction costs of \$13,488,000, which represented the accumulated costs of raising capital in the operating company. Immediately following the loss of accounting control, the Co-operative derecognised this asset. These costs were debited to equity in the operating company.

9. MEMBERS' SHARES AND NEW ORDINARY SHARES

NZD IN THOUSANDS (\$000)	Supplier Investment Shares	Rebate Shares	New Ordinary Shares
At 1 October 2015	5,478	15,538	136,495
Shares redeemed	(91)	(322)	-
At 30 September 2016	5,387	15,216	136,495
Shares redeemed	(5,387)	(505)	-
At 31 December 2017	-	14,711	136,495

i. Members shares

The Co-operative has two classes of members' shares: members' ordinary shares (rebate shares) and supplier investment shares. All members' shares have a nominal value of one dollar per share. Members' shares are currently classified as a financial liability as the Co-operative does not have the unconditional right to refuse redemption. Under the Co-operative Companies Act 1996, the Co-operative has a right to defer redemption but not to withhold payment. All supplier investment shares were redeemed in full in January 2017.

Members' ordinary 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. Ordinary shares participate equally on winding up.

The maximum shareholding for rebate shares is 17,500 (2016:17,500).

ii. New ordinary shares

As part of a change in capital structure in 2009, shareholders could elect to exchange rebate shares and supplier investment shares for new 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 new ordinary shares for every one new ordinary share issued to them under the exchange offer.

The rights issue price per new ordinary share of \$1.00 was payable either in full on application or under a deferred payment option, over a period of approximately three years by way of deduction from proceeds of the sale of livestock. Some shares remain partly paid and the balance receivable is \$1,200,000 (2016: \$1,221,000).

At 31 December 2017, there were 100,378,874 authorised and issued shares (2016: 100,378,874 shares).

During the period a dividend of 34.1 cents per share (2016: nil) was paid.

10. PRIOR PERIOD ADJUSTMENT

In preparing the financial statements for the 15 months ended 31 December 2017, it was discovered that \$7,918,000 of accumulated foreign exchange losses brought forward (within the Foreign Currency Translation Reserve) related to subsidiaries which had been liquidated in prior periods. B. Brooks Norwich Limited (a UK company), PPCS USA, PPCS France and Waitotara Europe BV (Netherlands) were wound up many years ago. In accordance with NZ IAS 21 The Effects of Changes in Foreign Exchange Rates, these exchange losses should have been reclassified from equity to profit or loss in the period in which the gain or loss on disposal was recognised. This prior period error has been corrected retrospectively by restating the amounts of the Foreign Currency Translation Reserve and Retained Earnings brought forward in the Consolidated Statement of Changes in Equity and the Consolidated Balance Sheet, for which details are provided below. There has been no restatement of profit or loss, other comprehensive income, earnings per share or cash flows for the year ended 30 September 2016.

	Foreign currency translation reserve	Retained earnings
NZD IN THOUSANDS (\$000)		
Balance at 1 October 2015 as previously stated	(7,326)	121,208
Correction of error	7,918	(7,918)
Balance at 1 October 2015 restated	592	113,290
Balance at 30 September 2016 as previously stated	(15,396)	92,034
Correction of error	7,918	(7,918)
Balance at 30 September 2016 restated	(7,478)	84,116

11. RECONCILIATION OF PROFIT AFTER INCOME TAX TO NET CASH FLOW FROM OPERATING ACTIVITIES

	15 months ended 31 December 2017	12 months ended 30 September 2016
NZD IN THOUSANDS (\$000)		
Loss for the period	(5,582)	(30,569)
Share of earnings of Silver Fern Farms Limited	(8,028)	-
Gain on derecognition of subsidiary	(5,284)	-
(Increase)/decrease in receivables	(28,989)	-
(Decrease)/increase in payables	28,729	-
Trading loss from discontinued operations	18,705	29,843
Operating cash (used in)/from discontinued operations	(59,611)	33,106
Net cash (outflow)/inflow from operating activities	(60,060)	32,380

12. CONTINGENCIES

As at 31 December 2017, the Co-operative had no contingent liabilities or assets (2016:\$Nil).

13. COMMITMENTS

As at 31 December 2017, the Co-operative had no capital commitments (2016:\$Nil).

14. RELATED PARTY DISCLOSURES

a. Parent entities

Silver Fern Farms Co-operative Limited is the ultimate New Zealand parent entity and the ultimate parent of the Group. Silver Fern Farms Co-operative Limited is incorporated in New Zealand.

At December 2017, the Co-operative had one dormant subsidiary, SFFC Sub Limited.

Prior to derecognition on loss of accounting control, the consolidated financial statements of Silver Fern Farms Co-operative Limited included the following significant subsidiaries.

Name	Place of incorporation	Ownership Interest	
		2017	2016
Silver Fern Farms Limited (formerly Silver Fern Farms Beef Limited)	New Zealand	-%	100%
Silver Fern Farms Venison Limited	New Zealand	-%	100%
Silver Fern Farms Sheepmeat Limited	New Zealand	-%	100%
Richmond (NZ) Singapore Pte Limited	Singapore	-%	100%
Silver Fern Farms Management Limited	New Zealand	-%	100%
Silver Fern Farms Joint Ventures Limited	New Zealand	-%	100%
Silver Fern Farms Holdings Limited	New Zealand	-%	100%
Silver Fern Farms GmbH	Germany	-%	100%
Silver Fern Farms (UK) Limited	United Kingdom	-%	100%

b. Related party transactions

The Co-operative purchased livestock and made other livestock related payments to the farming businesses of directors on the same terms and conditions as other suppliers. At 31 December 2017, \$139,000 was payable (2016: \$99,000).

	15 months ended 31 December 2017	12 months ended 30 September 2016
NZD IN THOUSANDS (\$000)		
Purchases from directors and their trading entities	6,313	4,501
Net income	6,313	4,501

With effect from 6 December 2016, 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. However, the Co-operative purchases no livestock from non-shareholder suppliers. All prices for both shareholder and non-shareholder supply are determined by the operating company. No revenue is recognised by the Co-operative in connection with these transactions but the total amount of purchases from shareholder suppliers and the total amount invoiced to the operating company are disclosed below. At 31 December 2017, \$28,697,000 was receivable from the operating company and \$28,697,000 was payable to shareholder suppliers in connection with livestock supplied. Other receivables from the operating company amounted to \$185,000.

	15 months ended 31 December 2017	12 months ended 30 September 2016
NZD IN THOUSANDS (\$000)		
Livestock invoiced to Silver Fern Farms Limited, the operating company	1,037,278	-
Livestock invoiced from shareholder suppliers (including directors)	(1,037,278)	-
Net income	-	-

In accordance with the Shareholders' Agreement between the Co-operative, Maling and the operating company, administrative services are provided to the Co-operative by the operating company. Administrative services include the maintenance of records, the preparation and audit of financial statements, taxation returns, the maintenance of bank accounts, share registry services, the conduct of shareholder meetings and director elections and the payment of dividends. The operating company undertakes to pay all reasonable costs of the Co-operative that relate to its governance and administration, excluding directors' fees, and all reasonable costs of engagement with its shareholders, up to a maximum of \$500,000 in any accounting period. Costs totalled \$454,000 in the period ended 31 December 2017.

Payments to key management personnel (directors only) during the 15 month period amounted to \$850,000 (12 months ended 30 September 2016: \$726,000).

15 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 period ended 31 December 2017. The Co-operative expects to receive an unimputed dividend of \$6m in April 2018.

The board of the Co-operative declared a distribution of \$4.1m in the form of a dividend of \$3.2m to all shareholders and a patronage reward pool of \$0.9m to those shareholders who have met the livestock supply criteria set out in the shareholder benefits programme. Payment date for the dividend and patronage reward will be 27 April 2018.

16 AUDITOR'S REMUNERATION

NZD IN THOUSANDS (\$000)	15 months ended 31 December 2017	12 months ended 30 September 2016
Audit fees - current auditors	20	-
Audit fees - previous auditors	-	377
Non audit services - loan of non managerial staff	41	-
Tax advisory	-	222
Risk management and other assurance services	-	165
Independent quality assurance	-	77
Total remuneration to auditors	61	841

During the period, KPMG was appointed as auditor of Silver Fern Farms Co-operative Limited in place of EY. KPMG has audited the financial statements for the 15 months ended 31 December 2017. Note that the current period fees reported above relate to the audit of the financial statements of the Co-operative only and do not include audit fees in respect of the operating company. For the 12 months ended 30 September 2016, the Co-operative fully consolidated the results of the operating company, which is reflected in much higher audit fees. In accordance with the Shareholders' Agreement described in note 14, audit fees in respect of the Co-operative will be paid by the operating company.



Independent Auditor's Report

To the shareholders of Silver Fern Farms Co-operative Limited

Report on the consolidated financial statements

Opinion

In our opinion, the accompanying consolidated financial statements of Silver Fern Farms Co-operative Limited (the company) and its subsidiaries (the group) on pages 24 to 38:

- i. present fairly in all material respects the group's financial position as at 31 December 2017 and its financial performance and cash flows for the 15 month period ended on that date; and
- ii. comply with New Zealand Equivalents to International Financial Reporting Standards.

We have audited the accompanying consolidated financial statements which comprise:

- the consolidated balance sheet as at 31 December 2017;
- the consolidated statements of comprehensive income and changes in equity for the 15 month period then ended; and
- notes, including a summary of significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) ('ISAs (NZ)'). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

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

Our firm has also provided other services to the company relating to the loan of non-managerial staff. In relation to the associate of the company, we have also provided audit services and certain agreed upon procedure engagements. 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.



Emphasis of matter

We draw attention to Note 10 to the consolidated financial statements which describes the restatement of the comparative consolidated balance sheet following the identification of a material error relating to the accumulated foreign currency translation reserve. Our opinion is not modified in respect of this matter.

As part of our audit of the financial statements for the 15 month period ended 31 December 2017, we also audited the adjustment described in Note 10 that was applied to correct the consolidated balance sheet as at 30 September 2016. In our opinion, such adjustment is appropriate and has been properly applied. Other than auditing this corrected adjustment, we were not engaged and have not performed an audit, review, or have performed any other procedures relating to the consolidated balance sheet as at 30 September 2016, the statements of other comprehensive income or changes in equity or associated notes for the year ended 30 September 2016. Accordingly, we do not express an opinion or any other form of assurance on the financial statements for the year ended 30 September 2016 taken as a whole.



Other matter

The consolidated financial statements of the group, for the year ended 30 September 2016, was audited by another auditor who expressed an unmodified opinion on those statements on 23 December 2017. The previous auditor issued their unmodified audit opinion before the restatement to the accumulated foreign currency translation reserve described in Note 10 was made.



Other information

The Directors, on behalf of the company, 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 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 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);
- 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-5/>

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

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

For and on behalf of

KPMG
Auckland

25 March 2018

DIRECTORY

BOARD OF DIRECTORS

Rob Hewett – Chairman
Tony Balfour
Trevor Burt
Fiona Hancox
Dan Jex-Blake
Tony O’Boyle
Jane Taylor
Richard Young

MANAGEMENT

Clark Taylor – Shareholder Relations
Manager

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BANKERS

- Kiwibank Limited
- Westpac New Zealand Limited

AUDITOR

KPMG

TAX ADVISORS

PwC

LEGAL ADVISORS

Harmos Horton Lusk



By using Cocoon Silk rather than a non-recycled
paper to produce this annual report, the environmental
impact was reduced by:

- **115kg of landfill**
- **15kg CO₂ and greenhouse gases**
- **155km travel in the average car**
- **4,491 litres of water**
- **264 kWh of energy; and**
- **187kg of wood.**



WE ARE

**INVESTING IN
OUR FUTURE
TOGETHER**





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