SILVER FERN® FARMS

# ANNUAL REPORT

## 2013


100% MADE OF NEW ZEALAND

# Contents



# Annual Meeting of Shareholders

The 2013 Annual Meeting of Silver Fern Farms Limited shareholders will be held at 11am on 18 December 2013 in Dunedin at The Otago Golf Club, 125 Balmacewen Road, Maori Hill.

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

# OUR PLATE TO PASTURE MARKET FOCUSED STRATEGY DRIVES THE BUSINESS

The strategy embraces four key stakeholder groups within the meat sector value chain, working back from the plate of the consumers, to customers, Silver Fern Farms and then to our farmer partners.

In each of these areas we are investing in research and development to understand more about what consumers want, what customers need, how we can meet those needs through new products, and how we can support our farmer partners to produce quality products to consumer requirements. This strategy enables us to create value from our suppliers' production.

By doing this well we can create high value products in the marketplace and sell the story to consumers around our brands.

This is a long-term approach. We believe it is the right strategy to put your co-operative in a position to take advantage of opportunities to increase our wealth and improve sustainability in a world which needs our high quality food.

| CONSUMERS | CUSTOMERS | US | FARMER PARTNERS |
|---|---|---|---|
| **BUILD THE BRAND** | **STRATEGIC PARTNERSHIPS** | **INNOVATE** | **ENABLE** |
| • Consumer insights based on wants and needs | • Product range | • Investment in marketing and technology | • Productive capacity |
| • New product development | • Marketing support | • Enabling farmers with tools, products and services | • Genetic performance |
| • Brand preference and loyalty. | • New product development. | • Processing, logistics and support functions. | • Correct forage and pasture management |
| | | | • Animal health and performance |
| | | | • Procurement supply for sales. |

# CHAIRMAN AND CHIEF EXECUTIVE REVIEW

**THE IMPACT OF THE 2011 SHEEP MEAT MARKET CRASH CONTINUED TO HOLD BACK SILVER FERN FARMS' PERFORMANCE OVER THE PAST YEAR.**

The net operating loss after tax was $28.6 million for the year ended September 2013, from total revenue of $2 billion. The result is far from satisfactory, but it is manageable. The balance sheet is adequately robust to withstand this loss and it has not limited our ability to invest in our long-term strategy to achieve greater sustainability for our farmer-owned company in this industry. Nor has it diminished our resolve to progress options for industry reform.

**Eoin Garden**
Chairman

**Keith Cooper**
Chief Executive

## The 2013 Financial Year

The impact of the 2012 sheep meat market crash continued to hold back Silver Fern Farms' performance over the past year.

The net operating loss after tax was $28.6 million for the year ended September 2013, from total revenue of $2 billion. The result is far from satisfactory, but it is manageable. The balance sheet is adequately robust to withstand this loss and it has not limited our ability to invest in our long-term strategy to achieve greater sustainability for our farmer-owned company in this industry. Nor has it diminished our resolve to progress options for industry reform.

Beef, venison and co-products performed well over the period. The financial result is largely attributable to the company's sheep meat operations. The market spike and subsequent collapse dramatically impacted upon two financial years for businesses which had to manage large inventory positions over the September 2012 balance date. We faced the reality that it has taken us 18 months to carefully manage inventory into the market, in a manner which mitigated against continual price depreciation in market, which would have depressed procurement values at farm gate even further. Notwithstanding, consumption and market prices did continue to decrease in the first half of the 2012/13 year, so in the process we have had a significant write-down on balance date inventory we were holding.

## External Factors

One off external factors also impacted on profitability. We are acutely aware of how the regulatory environment can put us into situations we are unable to control and where we must manage our business as best we can to still meet our commitments. The well documented China holdups caught us hard and the flow-on materially affected our shipments pre-balance date. This severely impacted cashflow and required increased borrowing at year end until sales were consummated.

## Balance Sheet

Our debt levels include working capital requirements to fund inventory as well as a core debt component relating to the Richmond acquisition which was debt funded and is being paid down over time.

Over recent years we have built a healthy business platform which allows us to compete strongly both in market and in procurement.

## Structural Changes

Livestock procurement is now decentralised with a regional management structure more aligned to local plants' requirements. The regional teams are focused on being competitive in procurement and working with suppliers to optimise plant efficiency while delivering to our customer sales programmes.

We have also changed our sales structure from a species based model to a geographical model covering all species. This will enable us to build a closer understanding of different macroeconomic drivers within the six global market regions, as well as gaining a more intimate understanding of our customers' requirements and unique market conditions.

## Investing for the Future

Over the period the business had a continuing focus on investment in programmes necessary to deliver on the company's market focused plate to pasture strategy.

This year we invested a further $9 million in R&D to develop Farm$^{IQ}$ and we launched 'Pasture'– a new livestock booking and forecasting system.

We continued our investment into designing the brand detail and marketing infrastructure required to deliver a greater proportion of our revenue from premium value branded products. The $8.2 million in sales and marketing investment has seen the development of our retail range, the introduction of Premier Selection Reserve beef range for food service customers, as well as the investment in the Eating Quality (EQ) Grading System for beef. Plants have been reconfigured, these programmes are now operational and are set to deliver improved returns and efficiencies over this coming financial year.

These investments are about securing greater market returns for suppliers into the future. They have been made into key assets to help farmers deliver quality products to high end customers. Silver Fern Farms has little confidence that this industry can ever be competitive in the sector without such a serious commitment to on-going investment. Our future depends upon shareholders understanding and supporting that commitment.

# OUR CHALLENGE

## IS TO BUILD 10% OF REVENUE THROUGH INNOVATIVE VALUE CREATING PRODUCTS

SILVER FERN® FARMS

# PLAN FOR PROFITABILITY

## Our People

**Build the culture**

- Innovative
- Strategically aligned
- Recognise achievement
- Foster leadership

## Get More Stock

**Create value**

- Farming systems
- Customer relationship
- Supporting farmer network
- Co-operative advantage

## Game Changers

- Farm[IQ]
- Silver Fern Farms Eating Quality (EQ) system

# ENABLERS

## Marketing

- Build brand equity
- Develop insights into consumer thinking
- Achieve margin enhancement
- Bring new products to consumers

## Sales

- Build global market strategy, including emerging markets
- Understand customer/ product profitability
- Develop customer intimacy

## Production

- Build accurate supply forecasts
- Improve DIFOTIS (delivery in full, on time, in speāfication)
- Enable Lean Thinking
- Improve yield

## TURNING THE CORNER

investment progress in our market focused plate to pasture strategy

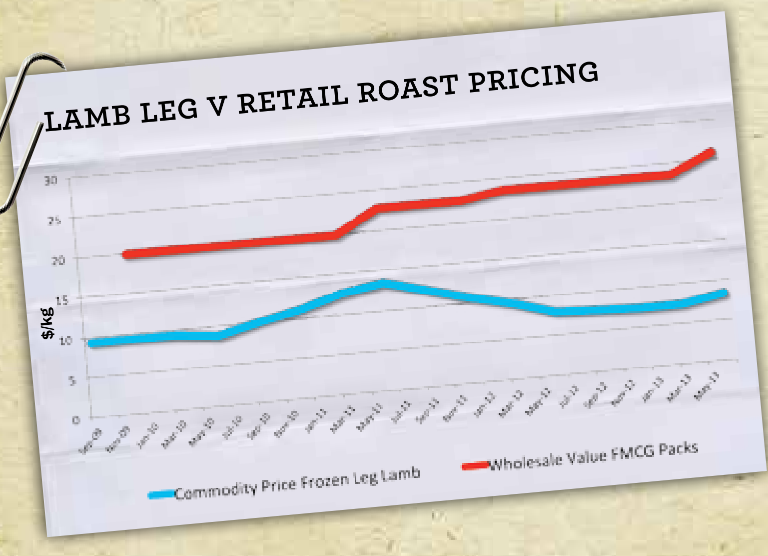
# CONSUMER: CONTINUED INVESTMENT IN THE MARKET FOCUSED PLATE TO PASTURE STRATEGY

### Insights, New Products and Building the Brand

Silver Fern Farms moved to the next phase of our brand development in April with the launch of a new brand communications platform and new product innovations. Grounded in a process of thorough consumer research, two new innovative cuts, Māhaki Valley Lamb Steaks and Haumako Hills Venison Steaks, were launched in conjunction with a new campaign. These high-end retail packs are hitting the mark with consumers and are proving to be a positive investment for the company.

This was supported by a major advertising campaign designed to drive category growth and incremental sales that told consumers the story of how we go to great lengths, so they don't have to.

The branded retail product approach is resilient to market fluctuations by proving consumers will continue to pay a premium regardless of market volatility for the commodity product. It is crucial to understand that New Zealand is a test-bed for our approach into export markets. We have more than 'green shoots' for this approach, with retail pack sales growth of 29% in volume and 30% in value per annum over the past three years since we embarked on our New Zealand retail range in 2009. This bodes well for our growing capability in key high-end markets in Asia, Europe and the USA.




Branded retail product pricing continued to increase during the period when commodity frozen leg value collapsed. Price differential continues to widen

### Integrated Value Chain and the Silver Fern Farms Eating Quality (EQ) System

The largest development to benefit consumers this past year is how we have responded to their eating quality preferences through the launch of the Silver Fern Farms Eating Quality (EQ) System.

13,700 consumer taste testers in the USA and New Zealand made history in the largest science investigation into red meat eating quality of New Zealand beef over the period. The Silver Fern Farms Eating Quality (EQ) System reached commercialisation stage, creating a new eating quality grading system for New Zealand beef. The Eating Quality (EQ) System underpins our new Premier Selection Reserve Beef branded range for food service customers, launched mid-year.

The Eating Quality (EQ) System is part of the Farm^IQ Primary Growth Partnership programme with Government. The research was carried out by a team of 38 scientists from Texas Tech University in the US and Otago University's Department of Food Sciences. It adds considerable weight to our integrated value chain model which offers premium ranges of beef to the high value food service and hotel, restaurant and catering sector.

No one else in New Zealand is focusing on how consumers taste red meat in such an aligned manner, or at this scale.

Farmers supplying prime beef to the co-operative will receive new grading reports indicating how their beef rates across a set of eating quality criteria. Detailed grading information which integrates into the Farm^IQ system is also being developed.

Farmers under various Backbone Programme contracts will be eligible to receive a premium for meeting the EQ Master Grade Standards, in a move to reward contracted farmers and encourage other farmers to join the co-operative.

It is an investment we have made on behalf of farmer shareholders and it is essential they get first advantage out of the premiums we will be able to attract from the market. We are in an industry which needs to innovate and invest in creating value and we see this as an investment which will set us up very well for the future.


SILVER
FERN
FARMS

EATING
QUALITY
SYSTEM™

# CUSTOMER: PRODUCT RANGE, MARKETING SUPPORT, PRODUCT DEVELOPMENT

## Marketing Supporting the Integrated Value Chain

The right market insights, matched with the right customers and the right product lines are critical links in the integrated value chain. In the United States the integrated approach is most advanced through our partnership with US food importer and marketer Marx Foods. In this market we are testing our premium food service programmes with SILERE® alpine origin merino and beef.

Using the approach tested in New Zealand, we worked with Marx Foods to engage with leading chefs in the United States at the Aspen Food & Wine Classic in June. This is the premier food and wine event in the United States and certainly one of the most important exhibitions in the world. Another partnership where they are developing this strategy with us was through the Waiheke Island Yacht Club at the America's Cup wharf in San Francisco. Again, we engaged leading chefs and food service customers of Marx Foods to promote our beef, venison and SILERE® alpine origin merino ranges.

Marx Foods have partnered with us effectively to test the story of grass-fed red meat to selected target markets. They understand the integrated nature of our strategy and see mutual benefit in growing customers who are more knowledgeable about our brand and see it as a premium product. Having a distribution partner engaged at this level has allowed us to gain deep understanding of how to communicate a premium New Zealand story in an international market.

## New Product Development

Another area where we have seen progress is our new product development process. New ideas for product and packaging are now regularly entering our innovation funnel for assessment by consumers for potential development. Consumer focus groups are regularly used to help test product prototypes. With our new Discovery & Development Team in place, this is now an ongoing process feeding into our premium-branded sales channels.

Good progress has been made in developing capability to identify and understand markets that are willing and able to pay a premium for quality products. Two new Market Development Managers servicing customers in key Asian markets and in the Middle East have been appointed to plan our value creation strategies in foodservice and branded retail lines which we are aiming to activate in the last quarter of 2013 and throughout 2014.

## Customer Focus

12 months ago we reported that we had taken steps to mitigate risk and exposure to factors we saw as contributing to that season's poor performance. This year we can report that several of those strategies which were implemented proved effective over the course of the past season despite our exposure to lamb markets.

One such step was to re-align our sales structure. It has enabled us to read specific markets better, create price tension between regions and has addressed an issue of continuity of skills with the establishment of a succession programme.

Changes include the creation of Global Product Manager roles to manage our sales strategies across Sheepmeats, Beef, Venison and our Ingredients product lines. They advise our sales teams on inventory and strategy. These sales teams have moved from a species grouping to a new regionally focused team structure. We expect an outcome of these changes is an increased understanding by our sales teams of individual and regional customer requirements.

Now we have moved beyond a period of inventory build it is clearer to see that this change is already proving effective. With a season where we are looking at sales into a rising market and one where we have our integrated programmes at a more mature level of development we are looking forward to realising some high returning opportunities.

## 'The Dragon is Hungry': Responding to China

The rise of demand for our products from China is undeniable. Only a couple of seasons ago the story was about low-end by-products and offals being taken up by China. This past season we have seen a significant broadening of what the market will accept with an increase in higher-value cuts. At the top end, our first order of SILERE alpine origin merino was sent to Top Cut, a member of the large international Simplot group of companies. Growth across the board has been significant. For the 8 months to May 2013, sales volumes increased well in excess of 100% and are steadily above the national growth increase of 80%.

There has been a large shift from supplying our traditional markets, to diversifying into China on the back of their economic growth and increasing middle-class wealth. China presents an opportunity to diversify our sales mix between commodity, branded, manufacturing and goods and service sectors.

## Premium Value Product Range

Our strategy of moving how we market a greater volume of product from large cuts – like heavy legs, sides and whole carcases – to modern consumer cuts has been tested by TESCO since we launched in 2011. In April TESCO moved from private brands to their own label across their protein range and we were presented with the opportunity to create a new TESCO range which grows the strategy around delivering modern premium lamb cuts to consumers. This range is co-branded with Silver Fern Farms, a first for TESCO in this category, and our retail range strategy was picked up at scale across a greater number of TESCO stores. We expect further positive developments as we progress this partnership with TESCO.

## Creating Value from Co-products

Our customers are not all food-focused, but they do value our quality focus. Co-products is an area which is performing strongly. We moved up the value chain with the announcement of a long-term bovine blood plasma products joint partnership with US-based company, Proliant Inc. – an innovator in applied protein sciences for food, health and nutrition. Proliant is the world's leading producer of bovine serum albumin (BSA) which is used in the production of diagnostic/medical kit manufacturing, biopharmaceuticals, veterinary medicines, vaccines and antibodies, nutraceuticals and life-science research. We are now dealing directly with the manufacturer through this partnership which has the potential for additional multi-million dollar revenue to our co-operative. Our quality processes and reputation for safety is an advantage to our business. Under the partnership new facilities to automate much of the closed-circuit capture of blood will be established at Silver Fern Farms' meat processing plants in the North and South Islands.

# US: TECHNOLOGY & MARKETING INVESTMENT; TOOLS, PRODUCT SERVICES TO REWARD FARMERS; PROCESSING LOGISTICS SUPPORT

## Plant Optimisation

We identified that we needed to be more flexible and responsive to market demands at an operations level. This season, processing plants have been reconfigured to meet demand and requirements for the growing China market. We are managing the counter risk of over-reliance on one market through good planning and knowledge of our customers.

Our Te Aroha plant in Waikato is through the commissioning stage and we are now focused on optimising performance and efficiencies from this significant investment in state of the art processing facilities. To build efficiency at Te Aroha our Waitoa plant has been placed on stand-by for beef processing and will operate for bobby calf processing only this coming 2013/2014 season. One management team now covers both plants removing the duplication and overhead. We have managed to make these changes without reducing capacity in the region.

## Toll Processing Agreement with Lowe Corporation

We have been looking through a variety of options to create efficiencies in the industry and in our business. With forecasted lower lamb numbers the approach by Lowe Corp to purchase our Shannon fellmongery presented a good opportunity to collaborate to mutual benefit. We believe this consolidation of pelt processing through Lowe Corporation's modern facilities at Tomoana will bring efficiencies to the sector and set us both up well for the future.

## Technology in Plant

On the technology front, our Pacific, Belfast and Finegand beef plants have been configured for EQ grading. Initial installations of the automated collection systems as part of our Proliant joint venture are being planned for our Te Aroha and Finegand plants.

After three years of development, we are close to completing much of the base infrastructure for the end-to-end tracking and yield measurement in processing plants. Systems for reading EID tags have been installed in all Silver Fern Farms processing plants. We are now installing more tag readers and weigh scales to build a full history for carcases between slaughter and boning.

Our lamb x-ray systems are all now operating well. It has taken a lot of effort to get all eight systems calibrated. The five newest ones can run at up to 30 carcases per minute, meaning the computer system is analysing an x-ray image every second to give the skeletal dimensions, number of ribs and estimated primal yields. For the next year, our focus will be on consolidating our work in traceability and measurement and putting more effort into meat quality improvement.

## Our People

Our vision is 'Inspirational Food Created by Passionate People'. We have worked through a year where we have challenged them to drive through our investment programme to get key initiatives to commercialisation stage. At the same time, in all areas of the business our people have been involved in the process of developing our culture to demonstrate the passion they have for their roles.

### Farm^IQ

The Farm^IQ programme continues to make very solid progress. It is now into year 4 of the 7 year $151m Primary Growth Partnership Programme. The Farm^IQ Farm Management System is designed as the enabler for farmers to make more informed decisions that create value from the plate to the paddock. It has been piloted by hundreds of farmers over the last three years. Those trialling it are reporting on-farm profitability gains through improved farm performance. This gives us good confidence in the approach we have taken to create the world's first fully integrated plate to pasture value chain.

The third release of the Farm^IQ Farm Management System software is scheduled for December 2013. The build of the Farm Management System will be substantially completed in the coming year with a commercial product ready for launch. We have invested heavily in Farm^IQ over the past 24 months. As we are now through the majority of the R&D stage where a significant proportion of that investment has occurred, our investment is forecast to reduce and we are now able to focus on implementation of the opportunities to capture greater gains for our farmer shareholders.

### Procurement Changes to Reward Shareholders

A considerable effort has been made to assess how we reward our farmer shareholders. In 2013 we used a variety of methods to listen to our farmer suppliers so we could make more informed decisions on our approach. The online supplier survey, Director focus groups, farmer reference groups, information from our people in the field and farmer meetings were used to better understand suppliers' views on our direction and performance. We made changes as a result.

A key issue which arose out of this process related to how shareholders are rewarded for their loyalty to, and financial investment in, the co-operative. We operate in an industry model which drives perverse behaviour where non-shareholders have at times received preference and price premiums in some cases in order to capture a supply of stock from them. While there is an underlying financial benefit to the shareholders with the co-operative being able to realise greater efficiencies in processing and also locking in supply to secure contracts with customers, it rankles with many that farmers who do not invest capital in our business are incentivised. We understand this.

To counter this we moved down a path of establishing a new Backbone supply plan with mechanisms designed deliberately to give advantages to farmer shareholders. First option on Backbone Programme supply contracts and preferable allocation of processing space for shareholders are key new elements of the revised approach.

Due to our investment in our new livestock booking system, 'Pasture', we can give shareholders preferential service, while realising greater business efficiencies, which the enhanced forecasting capability will bring to our business. This will have a beneficial impact on inventory management.

A crucial aspect of our supply plan is the committed supply form, which is filled in by our suppliers. 'Pasture' will integrate that supply information with a booking system for the first time as we head into this season. We are already gaining efficiencies and making better decisions in procurement, operations and sales from the readily accessible information we have in this system.

These changes are part of our determination to try to change the current industry model, as much as they are designed to reward shareholders for their commitment to supply the co-operative. By providing this opportunity we wish to encourage non-shareholder suppliers to invest in the co-operative and by doing so gain access to these advantages and have a stake in their industry post farm gate.

We are also facilitating that desire to access shareholder benefits and to commit to the co-operative with the proposed Co-operative Advantage Share Access System. Under the voluntary system suppliers will be able to go to a share broker and order Silver Fern Farms' shares without having to pay up front. The shares will be funded by a secured, interest free loan from Silver Fern Farms. Repayment will be by a deduction of $2 per stock unit supplied over a three year period.

The advantage for the co-operative is the potential to increase the number of supplier shareholders in the co-operative, but it also acts as an incentive for suppliers to commit the supply of their stock to a co-operative and gain a stake in their industry post-farm gate.

### Livestock Programmes

We are aware of the limitations some of our livestock supply programmes create. We will retain them as they give our business the advantage of having certainty of supply – a necessity for large scale customers who require product 52 weeks of the year. However, we are moving these programmes to run on short cycles and they are now backed with external funding. This is a critical change as our funding costs will be reduced and it will enable us to be more flexible should we need to reduce our exposure to long-term volatility.

### Industry Reform

It is clear change is needed and, as a farmer co-operative, it is incumbent on us to not only ascertain the appropriate path for our Silver Fern Farms shareholders, but also to determine how we can make a difference to the overall industry model. The company has commissioned PricewaterhouseCoopers to carry out a strategic review of the business, focusing on future options on the back of recently failed industry aggregation discussions. PricewaterhouseCoopers will report to the Board mid-way through the season.

# SUMMARY

The outlook for the year is favourable for Silver Fern Farms. We are confident the underlying business is sound. Our balance sheet remains adequately robust and can support further development of our strategy.

We are well set up to return our company to profit with a variety of initiatives to generate greater efficiency and a suite of investments such as Farm[IQ], the Silver Fern Farms Eating Quality System, our IT platform and brand investment, which will continue to create greater value and wealth. It is important farmer shareholders are rewarded by our performance. Privately owned businesses have a primary interest in only rewarding their own investors – and that is our major point of difference. We are proud of the investments we have made on behalf of our shareholders and of our determination to provide a choice to farmers of the industry they have for the future.

Finally, a co-operative is for the benefit of farmers. Ours was established in the 1940s on the back of overseas ownership of the processing and sales channels to market. At that time industry ownership was taking significant margins from both processing and sales and farmers did not have full transparency of the value of their livestock.

There is no doubt a co-operative establishes and captures the full value across the whole supply chain for its shareholders. The co-operative also ensures that the market value delivered to farmers has integrity and transparency.

If farmers wish to ensure that the full value benchmark is maintained and elusive margins are not taken by others, they must support the co-operative model with their livestock supply – it is that simple.

**EOIN GARDEN**
**Chairman**

**KEITH COOPER**
**Chief Executive**

# MARKET OUTLOOK

## LAMB

Following Beef + Lamb New Zealand's annual livestock survey there is further clarity around the reduction in lamb and mutton numbers for the 2013/14 season. The export lamb slaughter is expected to reduce to 18.6 million head, a reduction of 8.5%. The export mutton slaughter is expected to reduce by 22% to 3.2 million head. The drought experienced across New Zealand at the end of the 2013 summer was a major factor affecting ewe condition at mating. It impacted on lambing percentages in the spring. A shortage of feed during the drought led to a higher number of mutton slaughtered during 2013, which will result in some farmers retaining stock next season to compensate. In addition to the reduction in kill all exporters are carrying significantly less stock in store than at this time last year, meaning that the effect on export volumes will be greater than the livestock figures indicate. These dynamics will see a strengthening of sheep meat prices in the new season and will result in a diversification of product volumes between markets depending on financial returns.

## VENISON

The past year has been a difficult one for venison in key European markets, with growing price competition and volumes from European hunted venison. While New Zealand venison sells at a premium to hunted, the increased profile of hunted venison through price and volumes continues to impact. The on-going economic recession in many European markets also remains a negative effect on consumer spending and restaurant trade.

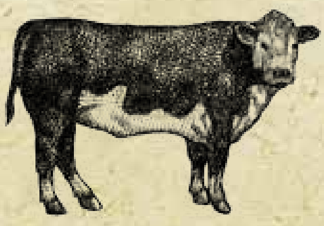
National production has been relatively steady at 427,000 head, up 2% on the previous 12 months, but more concerning is that 52.7% of the production has been hinds, translating to a reduction of the breeding herd and lower numbers longer-term.

Demand for deer skins remains positive and deer by-products have continued to perform very well over the last 12 months.

Looking forward to the coming year, the influence of hunted venison, economic conditions and currency are likely to continue. However we still firmly believe that the long-term outlook for venison remains positive, based on the inherent natural attributes of the products and the New Zealand farming systems and environment.

## BEEF

Beef markets look very positive for the 2013- 14 season. Global beef supplies will remain constrained for the next couple of years with no clear evidence of herd rebuild in the US. Lean grinding meat prices in the US are forecast to retrace 2012, supported by increasing demand from China and a likely reduction in exports from Australia. Australian beef volumes are likely to contract in 2014 due to heavy drought related kills in 2013. Additionally, with widespread drought over the past couple of years in the US, any significant rain would shift the supply balance reducing beef supplies and push prices higher. Middle East demand continues to grow for chilled as well as frozen round and steak cuts. Strong growth in demand and prices are forecast for Asian markets, in particular China and Indonesia – which has recently relaxed import quota restrictions. Market access continues to be a significant factor in movements in the international market.



# FAREWELL TO EOIN GARDEN

"I've had the privilege of working for my fellow farmer shareholders and I thank them for their support, encouragement and passion for their co-operative over the past 16 years."

In 16 years on the board of his farming co-operative Eoin Garden oversaw significant changes in the company's strategy. Under his leadership Silver Fern Farms developed from a traditional meat processing and trading company to a market focused food company.

Eoin became chairman in 2008 and oversaw the development of a plate to pasture strategy which saw increased focus on developing the Silver Fern Farms brand and premium value added revenue streams.

"I'm particularly pleased with the progress made to have a greater focus on consumers to drive long-term sustainability of the business and future higher returns for our suppliers."

"A highlight would be overseeing the creation of a strong trusted Silver Fern Farms brand which resonates with consumers around the world and with farmers alike."

Silver Fern Farms also partnered with Government through the Primary Growth Partnership to create FarmIQ in August 2010 – a seven year, $151 million investment in creating a demand-driven integrated value chain for red meat which links consumers with farmers.

Eoin Garden also oversaw a major governance restructuring which focused on delivering the skills and knowledge for a business of this size and also the transition to a new capital structure which relieved redemption risk to the co-operative.

Eoin was also a driver of industry reform throughout his tenure.

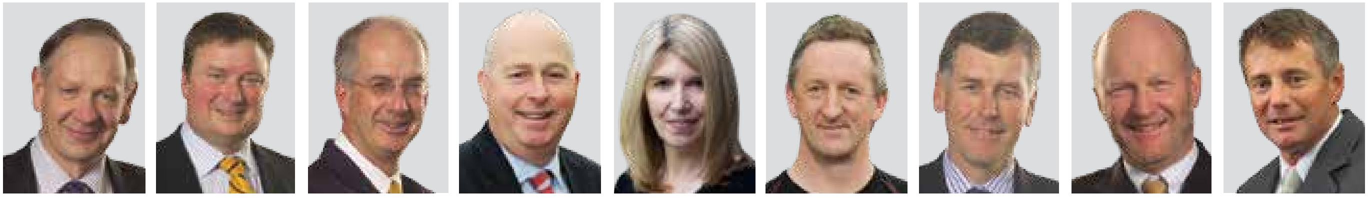
"We have come close to creating significant scale and efficiencies which could have changed many of the perverse dynamics and behaviours which are in the industry. Our industry's major challenge remains the erratic returns to farmers."

As part of the Board's succession plan Rob Hewett was previously appointed Deputy Chairman and takes over the role of Chairman at the conclusion of the 2013 Annual Meeting. Rob was elected to the Board in February 2008. He is a graduate of Lincoln University, holding an M Com in marketing and a B Com (Ag) in Economics. He farms sheep and beef in South Otago.

# INSPIRATIONAL FOOD

# CREATED BY PASSIONATE PEOPLE

# BOARD OF DIRECTORS



EOIN GARDEN | ROB HEWETT | RICHARD SOMERVILLE | TREVOR BURT | JANE TAYLOR | TONY BALFOUR | ANGUS MABIN | HERSTALL ULRICH | DAVID SHAW

## EOIN GARDEN

Chairman

Eoin joined the Board in 1998 after long experience representing farmers nationally in the primary sector. He was elected Chairman of Silver Fern Farms in 2008. With a strong background in farming, where he is recognised for having introduced progressive and innovative farming systems, Eoin brings to our Board valuable experience and extensive knowledge of the industry. He currently operates 2,500 ha of high country and finishing land at Millers Flat and another 290 ha in West Otago and 220 ha of forestry. His 16,000 stock include sheep, cattle and deer.

## ROB HEWETT

Chairman Elect

Rob not only runs his own farm but is also a director of Farm[IQ] Systems Ltd, and a number of private companies in New Zealand and Australia.

Elected to the Board in February 2008, Rob currently farms 9,250 stock units, on a 960 ha sheep and beef breeding and has a finishing unit in Manuka Gorge, South Otago. Rob is a Graduate of Lincoln University, holding an M Com in marketing and a B Com (Ag) in Economics. Rob was appointed Deputy Chairman following the retirement of Richard Sommerville in June 2013 and takes on the Chairmanship following Eoin's retirement at the 2013 Annual Meeting.

## RICHARD SOMERVILLE

Independent Deputy Chairman (retired June 2013)

Appointed to Board in 2004; Chairman of the Board's Audit, Risk Assessment and Mitigation Committee, Richard retired from the Board in June 2013. A chartered accountant and Chairman of Milford Asset Management Limited, Richard was also a Director of Southern Hemisphere Proving Ground Limited, Milford Dart Limited and a number of private companies.

## 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 and Lyttleton Port of Christchurch Ltd, Director of New Zealand Lamb Company Ltd, PGG Wrightson Ltd, MainPower NZ Ltd, Landpower NZ Ltd as well as a former member of the Executive Board of the Munich based Linde Group.

## 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 (chair) under the Resource Management Act are a valuable addition to the Directorate. Jane is a Governor of Radio New Zealand and a Director of the Institute of Geological and Nuclear Science (GNS Science), a member of the Institute of Directors and Global Women. She has a strong interest in both the primary sector and the food industry, and was previously a Director of Scion as well as the former Forestry Corporation of New Zealand Ltd.

## 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.

## ANGUS MABIN

Angus was appointed to the Board in September 2007. He farms bull-beef on a 1,000 ha property in Waipukurau, Central Hawke's Bay. Angus has held a number of positions in the deer industry during the 1990s. He is a graduate of Massey University.

## HERSTALL ULRICH

Herstall Farms 6,000 stock units near Cave in South Canterbury and is dedicated to raising happy, healthy livestock. Elected to the Board in February 2008 he was a participant in the Kellogg leadership course in 2008. He is a graduate of Lincoln University and former Chairman of the Northern South Island Sheep and Beef Council.

## DAVID SHAW

Elected to the Board in 2011, David farms an intensive bull beef and lamb finishing operation near Clinton. David is a graduate of Lincoln and Minnesota (USA) Universities. He is a Kellogg and FAME scholar and has been involved with the Strategic Leadership Programme and the NZ Cooperatives Association Council.

# YOUR LEADERSHIP TEAM

KEITH COOPER | KEVIN WINDERS | JAMIE ADAMSON | SHARON ANGUS | GRANT HOWIE | GRANT PEARSON | JEREMY ABSOLOM | WAYNE SHAW | PHIL BUCK

## KEITH COOPER

Chief Executive

Keith is passionate about creating and protecting a world leading brand for lamb, beef and venison. He has worked for Silver Fern Farms and its predecessors since 1989 and was appointed Chief Executive in 2007. Keith has completed management programmes at Mt Eliza University, Melbourne and the Harvard Business School. He is a Director of the Meat Industry Association, Farm Brands Ltd, Titan Meat Company, Farm$^{IQ}$ Systems Ltd and Robotic Technologies Ltd and is a member of the Institute of Directors. His previous roles in the company include Chief Operating Officer (2001 - 2007) and Chief Executive of UK operations (1999 - 2001). Keith also has farming interests as the owner of a 245 ha sheep and beef farm near Middlemarch.

## KEVIN WINDERS

Chief Operating Officer

Kevin is responsible for ensuring Silver Fern Farms runs smoothly and efficiently on a daily basis. He recognises that globally integrated value chains are Silver Fern Farms' future. Kevin was first appointed Chief Financial Officer in August 2009 and then Chief Operating Officer in 2011. Kevin has a strong financial and strategic skill set based on a wide exposure to a variety of sectors as a senior executive, including roles with PGG Wrightson, Contact and KPMG. He is also a past director of the NZ Merino Company.

## JAMIE ADAMSON

Chief Financial Officer

Jamie joined the company in 2009 and was appointed to the role of Chief Financial Officer in 2012. As Chief Financial Officer he is responsible for the finance and accounting functions, including all back office teams. He has a strong financial and compliance focus gained from previous roles with Deloitte and AMP. Jamie previously worked as a chartered accountant and holds a Bachelor of Commerce from the University of Otago.

## SHARON ANGUS

General Manager Marketing

Sharon is passionate about the Silver Fern Farms brand and works on developing products that consumers want. She is responsible for the growth and strategic development of the Silver Fern Farms brand. Sharon brings with her more than 20 years' experience in senior FMCG marketing roles. She joined the company in 2009 and was promoted to the role in 2010. Sharon has worked with Mainland Products Limited/Fonterra and has owned her own consultancy business, providing strategic marketing advice on significant projects to various divisions of Fonterra. Sharon holds a marketing management degree from the University of Otago.

## GRANT HOWIE

Group Category Manager

Grant leads the plate to pasture model Silver Fern Farms is implementing. He is responsible for taking an integrated value chain view of the business and connecting the links in the chain to market outcomes and true plate to pasture business models. This involves a broad range of new activities, including; developing new category management programmes with key global customers, leading our Discovery & Development team in creating differentiated products and connecting these market initiatives into our Farm$^{IQ}$ programmes. Grant joined the company in August 2008 after a sales and marketing career in a number of fast-moving consumer goods (FMCG) companies including Mainland Products, Fonterra and Cadbury Confectionery.

## GRANT PEARSON

Technical Innovation Manager

Grant is a long-standing team member of Silver Fern Farms having joined the company in 1986. He is responsible for the group R&D programme and cross-business innovation projects, with a current focus on delivering traceability and measurement systems for meat yield and quality for Farm$^{IQ}$. Grant has a range of experience in engineering, processing and planning roles and worked at The Canterbury Frozen Meat Co Ltd prior to joining Silver Fern Farms. Grant holds a Bachelor of Arts in Psychology, a Bachelor of Engineering in Chemical Engineering (Honours) and a Diploma in Business Administration. He is also a Member of Institute of Professional Engineers New Zealand

## JEREMY ABSOLOM

General Manager Livestock Farming

Jeremy is responsible for Silver Fern Farms' integrated livestock programmes. Jeremy joined the company in May 2009, with a broad range of experience in integrated value chain businesses locally and internationally, animal genetics and farm systems from his previous roles. He has various related directorships and on-going involvement in the family farm. Jeremy holds a Bachelor of Commerce from Otago University.

## WAYNE SHAW

Operations Manager – Sheepmeats & Venison

Wayne leads all processing operations for sheepmeats and venison. In July Wayne was made responsible for the South Island Livestock Field Representatives to create greater alignment between operations and procurement in the South Island. He has held a number of operations management roles since joining the company in 1991, including 10 years as Plant Manager of the Finegand plant. Wayne holds a Bachelor of Technology Degree in Biotechnology and Bioprocess Engineering (Honours) and a Master of Business Administration (Distinction).

## PHIL BUCK

Operations Manager – Beef

Phil Buck loves his beef and has over 27 years' of knowledge of the meat industry. As Operations Manager - Beef he is responsible for all beef operations across the group. Phil was appointed to the role in February 2011, having worked for Silver Fern Farms since 2007 both in the UK and New Zealand. In a move to create greater alignment between the company's plant operations and livestock procurement groups, Phil was also made responsible for the North Island Livestock Field Representatives in July. Phil's previous roles include running numerous sites and overseeing operations in the UK and Australia where he gained a broad understanding of processing beef, lamb, pork and chicken.

# GOVERNANCE

## SILVER FERN FARMS' GOVERNANCE POLICIES ARE REVIEWED TO ENSURE THEY ARE CONSISTENT WITH BEST PRACTICE.

Silver Fern Farms 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 company.

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.

Silver Fern Farms' Constitution 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 Chief Executive.

### POLICIES

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

### DIRECTOR INDEPENDENCE

Silver Fern Farms currently has three Independent Directors.

### BOARD COMPOSITION

The company's Constitution determines that:

a. Silver Fern Farms will have a Board of between six and eight directors;

b. up to five directors are to be elected by shareholders who are suppliers of livestock to the Company ('Farmer Elected Directors');

c. up to three directors may be appointed by the Board ('Board Appointed 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 30 September 2013 comprised, five supplier-elected Directors and three Board-appointed Independent Directors as follows:

| | |
|---|---|
| Eoin Garden | Chairman, shareholder-elected |
| Rob Hewett | Deputy Chairman, shareholder-elected |
| Tony Balfour | Independent |
| Trevor Burt | Independent |
| Angus Mabin | Shareholder-elected |
| David Shaw | Shareholder-elected |
| Jane Taylor | Independent |
| Herstall Ulrich | 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 will not be involved in the process, apart from establishing the framework and appointing the independent evaluator. The Directors believe in encouraging the creation of a pool of director capability relevant to the business.

In addition to working with organisations such as the NZ Co-operative Association and the Institute of Directors 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 Chief Executive, sets the remuneration of the Leadership Team and recommends remuneration of Directors to the shareholders. In addition, the Committee oversees the Elected Director process.

## OPERATION OF THE BOARD

The Silver Fern Farms Board meets formally eight 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 Chief Executive establish the agenda for each Board meeting. The Chief Executive prepares a monthly 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, Chief Executive and senior management team on the key strategic and operational business issues facing Silver Fern Farms. External training providers are also utilised.

## 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 $586,409 per annum.

## PUBLIC RELEASE OF MATERIAL INFORMATION

Silver Fern Farms 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 financial year ended 30 September 2013, the Board met 10 times (plus 6 telephone conferences) as follows:

| DIRECTOR | BOARD* | ANNUAL MEETING | BOARD SUB-COMMITTEE# |
|---|---|---|---|
| Tony Balfour | 7 | 1 | 1 |
| Trevor Burt | 10 | - | 4 |
| Eoin Garden | 10 | 1 | 3 |
| Rob Hewett | 10 | 1 | 3 |
| Angus Mabin | 10 | 1 | 2 |
| David Shaw | 10 | 1 | 2 |
| Richard Somerville | 7 | 1 | 3 |
| Jane Taylor | 2 | – | – |
| Herstall Ulrich | 9 | 1 | 2 |

* Six teleconference meetings were also held during the year

\# Sub-committee meetings include Audit, Risk Assessment & Mitigation / Remuneration & Appointments / Supplier Services / Innovation

# STATUTORY INFORMATION

## DIRECTORS

The Directors of Silver Fern Farms as at 30 September 2013 are:

- Eoin Reay Hamilton Garden (Chairman)
- Antony John Balfour
- Deborah Jane Taylor
- David Alfred Shaw
- Robert James Hewitt (Deputy Chairman)
- Trevor John Burt
- Angus Collis Mabin
- Peter Herstall Ulrich

## DIRECTORS' INTEREST IN TRANSACTIONS

For the year ended 30 September 2013, 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 12 November 2013:

"In the opinion of the Board, Silver Fern Farms Limited has throughout the year ended 30 September 2013 been a co-operative company under the Co-operative Companies Act 1996 for the following reasons:

a. 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;

b. The Company carries on a co-operative activity as set out in Section 3 of the said Act."

## INFORMATION DISCLOSURE

For the year ended 30 September 2013, no Director requested to use Company information received by them in their capacity as Directors.

## REMUNERATION AND APPOINTMENTS COMMITTEE

The Committee comprises T J Burt – Chairman, E R H Garden and D J Taylor.

## AUDIT, RISK ASSESSMENT AND MITIGATION COMMITTEE

The Committee comprises D J Taylor – Chairman, T J Burt, A C Mabin and R J Hewett.

## DIRECTORS' INSURANCE

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

## DONATIONS

During the financial year ended 30 September 2013, Silver Fern Farms made no donations (2012: $nil).

## AUDITOR

The amount payable by the Silver Fern Farms Group to Ernst & Young as audit fees in respect of the financial year ended 30 September 2013 was $268,000. Fees payable to Ernst & Young for tax advisory and other services in respect of the financial year ended 30 September 2013 were $90,000.

## DIRECTORS' INTERESTS IN SILVER FERN FARMS SHARES

The shares held in Silver Fern Farms by each director as at 30 September 2013 are set out in the following table.

| DIRECTOR | FULLY PAID NEW ORDINARY SHARES Holding as at 30 Sept 2013 |
|---|---:|
| Tony Balfour | – |
| Trevor Burt | – |
| Eoin Garden | 166,632 |
| Rob Hewett | 70,000 |
| Angus Mabin | 137,146 |
| David Shaw | 78,750 |
| Richard Somerville | 60,000 |
| Jane Taylor | – |
| Herstall Ulrich | 76,189 |

## DIRECTORS' FEES (NZD ($))

| DIRECTOR | POSITION | YEAR ENDED 30 SEPT 2013 |
|---|---|---|
| Tony Balfour | Director | 62,004 |
| Trevor Burt | Director and Chairman Remuneration and Appointments Committee | 68,199 |
| Eoin Garden | Director and Chairman | 139,993 |
| Rob Hewett | Director | 62,004 |
| Angus Mabin | Director | 62,004 |
| David Shaw | Director | 62,004 |
| Richard Somerville | Director and Chairman Audit, Risk Assessment and Mitigation Committee | 51,150 |
| Jane Taylor | Director and Chairman Audit, Risk Assessment and Mitigation Committee | 17,049 |
| Herstall Ulrich | Director | 62,004 |
| **Total Directors' fees** | | **586,409** |

No Director of the Company has, since the end of the previous financial year, received or become entitled to receive a benefit other than Directors' fees and insurances. Various Directors were remunerated for additional duties as directors included in the figures above. No Director of any of the company's subsidiaries received any fees or other remuneration arising from those directorships.
The total pool for directors' fees is $586,409 per year.

## REMUNERATION OF EMPLOYEES

The following table shows the number of Silver Fern Farms employees and former employees of Silver Fern Farms and its subsidiaries who in their capacity as employees received remuneration and other benefits or entitlements (including non-recurring payments to employees on leaving the Group) during the year ended 30 September 2013, the value of which was or exceeded $100,000. The Chief Executive's salary has been determined based on advice from an external consultant and has been set at the median of the market for the role. It contains an at-risk element which is not paid unless certain criteria have been met.

All directors' fees earned by the Chief Executive from external organisations are paid to Silver Fern Farms and are included in revenue.

| REMUNERATION RANGE | PARENT | SUBSIDIARIES | CESSATIONS | TOTAL |
|---|---|---|---|---|
| 100,000 - 110,000 | 20 | - | 1 | 21 |
| 110,001 - 120,000 | 20 | 1 | - | 21 |
| 120,001 - 130,000 | 19 | - | 3 | 22 |
| 130,001 - 140,000 | 12 | 3 | 1 | 16 |
| 140,001 - 150,000 | 11 | - | - | 11 |
| 150,001 - 160,000 | 7 | 1 | - | 8 |
| 160,001 - 170,000 | 6 | - | - | 6 |
| 170,001 - 180,000 | 6 | 1 | - | 7 |
| 180,001 - 190,000 | 8 | - | - | 8 |
| 190,001 - 200,000 | 2 | - | - | 2 |
| 200,001 - 210,000 | 2 | - | 1 | 3 |
| 210,001 - 220,000 | 4 | 2 | 1 | 7 |
| 220,001 - 230,000 | 4 | - | - | 4 |
| 230,001 - 240,000 | 1 | - | 1 | 2 |
| 240,001 - 250,000 | 1 | - | - | 1 |
| 250,001 - 260,000 | 1 | - | - | 1 |
| 260,001 - 270,000 | 1 | - | - | 1 |
| 310,001 - 320,000 | 1 | - | - | 1 |
| 490,001 - 500,000 | 1 | - | - | 1 |
| 970,001 - 980,000 | 1 | - | - | 1 |

## DIRECTORS' STATEMENT

This Annual Report is dated 25 November 2013 and is signed on behalf of the Board by

E R H GARDEN
Chairman

R J HEWETT
Deputy Chairman

# STATEMENT OF COMPREHENSIVE INCOME

for the year ended 30 September 2013

| | | PARENT | | CONSOLIDATED | |
|---|---|---|---|---|---|
| NZD IN THOUSANDS ($000) | Note | Year ended 30 Sept 13 | Year ended 30 Sept 12 | Year ended 30 Sept 13 | Year ended 30 Sept 12 |
| Sale of goods | | 1,977,289 | 2,003,753 | 1,993,236 | 2,015,720 |
| Other revenue | 5 | 1,475 | 2,883 | 398 | 1,657 |
| **Revenue** | | **1,978,764** | **2,006,636** | **1,993,634** | **2,017,377** |
| Other income | 6 | 7,938 | 13,526 | 7,578 | 17,543 |
| **Total income** | | **1,986,702** | **2,020,162** | **2,001,212** | **2,034,920** |
| Raw materials and consumables used | | 1,373,517 | 1,468,810 | 1,378,010 | 1,474,551 |
| Employee benefits expense | 7 | 312,196 | 286,795 | 315,130 | 290,194 |
| Depreciation and amortisation | | 29,731 | 24,951 | 30,500 | 25,178 |
| Finance costs | 7 | 27,964 | 26,014 | 28,019 | 26,061 |
| Other operational expenses | 7 | 289,050 | 257,688 | 292,210 | 260,530 |
| Share of loss/(profits) of associate | 27 | - | - | (6,135) | 657 |
| **Profit/(loss) from continuing operations before member distributions and income tax** | | **(45,756)** | **(44,096)** | **(36,522)** | **(42,251)** |
| Member distributions | 9 | - | 87 | - | 87 |
| **Profit/(loss) before income tax** | | **(45,756)** | **(44,183)** | **(36,522)** | **(42,338)** |
| Income tax expense/(benefit) | 8 | (8,309) | (11,734) | (7,971) | (11,217) |
| **Net profit/(loss) for the year** | | **(37,447)** | **(32,449)** | **(28,551)** | **(31,121)** |
| **Profit/(loss) attributable to shareholders of the parent** | | **(37,447)** | **(32,449)** | **(28,551)** | **(31,121)** |
| **Other comprehensive income** | | | | | |
| **Other comprehensive income to be recycled to profit or loss in subsequent periods** | | | | | |
| Foreign currency translation gain/(loss) | | - | - | 543 | (2,226) |
| Income tax on items of other comprehensive income - (charged)/credited | 8 | 157 | 290 | 157 | 290 |
| **Other comprehensive income for the year net of tax** | | **157** | **290** | **700** | **(1,936)** |
| **Total comprehensive income for the year attributable to shareholders of the parent** | | **(37,290)** | **(32,159)** | **(27,851)** | **(33,057)** |
| **Earnings/(loss) per share attributable to the shareholders of the parent** | | | | **Cents** | **Cents** |
| Basic earnings/(loss) per ordinary share | 10 | | | (28.44) | (31.21) |
| Diluted earnings/(loss) per ordinary share | 10 | | | (28.44) | (31.21) |

The above Statement of Comprehensive Income should be read in conjunction with the accompanying notes.

For and on behalf of the Board, who authorised the issue of these financial statements on 25 November 2013.

E R H GARDEN
Chairman

R J HEWETT
Deputy Chairman

# STATEMENT OF CHANGES IN EQUITY

for the year ended 30 September 2013

| PARENT<br>NZD IN THOUSANDS ($000) | Share Capital | Retained Earnings | Asset Revaluation Reserve | Total Equity |
|---|---|---|---|---|
| **Opening balance at 1 October 2011** | **133,847** | **143,518** | **101,133** | **378,498** |
| Net profit/(loss) for the year | - | (32,449) | - | (32,449) |
| Other comprehensive income | - | 1,035 | (745) | 290 |
| **Total comprehensive income for the year** | **-** | **(31,414)** | **(745)** | **(32,159)** |
| **Transactions with owners in their capacity as owners** | | | | |
| Supplier investment shares exchanged | 1,175 | - | - | 1,175 |
| Members' ordinary shares exchanged | 1,473 | - | - | 1,473 |
| Ordinary dividends paid | - | (10,250) | - | (10,250) |
| **Closing balance at 30 September 2012** | **136,495** | **101,854** | **100,388** | **338,737** |
| **Opening balance at 1 October 2012** | **136,495** | **101,854** | **100,388** | **338,737** |
| Net profit/(loss) for the year | - | (37,447) | - | (37,447) |
| Other comprehensive income | - | 561 | (404) | 157 |
| **Total comprehensive income for the year** | **-** | **(36,886)** | **(404)** | **(37,290)** |
| **Transactions with owners in their capacity as owners** | | | | |
| Ordinary dividends paid | - | - | - | - |
| **Closing balance at 30 September 2013** | **136,495** | **64,968** | **99,984** | **301,447** |

| CONSOLIDATED<br>NZD IN THOUSANDS ($000) | Share Capital | Retained Earnings | Foreign Currency Reserve | Asset Revaluation Reserve | Total Equity |
|---|---|---|---|---|---|
| **Opening balance at 1 October 2011** | **133,847** | **140,833** | **(11,301)** | **103,048** | **366,427** |
| Net profit/(loss) for the year | - | (31,121) | - | - | (31,121) |
| Other comprehensive income | - | 1,035 | (2,226) | (745) | (1,936) |
| **Total comprehensive income for the year** | **-** | **(30,086)** | **(2,226)** | **(745)** | **(33,057)** |
| **Transactions with owners in their capacity as owners** | | | | | |
| Supplier investment shares exchanged | 1,175 | - | - | - | 1,175 |
| Members' ordinary rebate shares exchanged | 1,473 | - | - | - | 1,473 |
| Ordinary dividends paid | - | (10,250) | - | - | (10,250) |
| **Closing balance at 30 September 2012** | **136,495** | **100,497** | **(13,527)** | **102,303** | **325,768** |
| **Opening balance at 1 October 2012** | **136,495** | **100,497** | **(13,527)** | **102,303** | **325,768** |
| Net profit/(loss) for the year | - | (28,551) | - | - | (28,551) |
| Other comprehensive income | - | 561 | 543 | (404) | 700 |
| **Total comprehensive income for the year** | **-** | **(27,990)** | **543** | **(404)** | **(27,851)** |
| **Transactions with owners in their capacity as owners** | | | | | |
| Ordinary dividends paid | - | - | - | - | - |
| **Closing balance at 30 September 2013** | **136,495** | **72,507** | **(12,984)** | **101,899** | **297,917** |

The above Statement of Changes in Equity should be read in conjunction with the accompanying notes.

# BALANCE SHEET

as at 30 September 2013

| NZD IN THOUSANDS ($000) | NOTES | PARENT As at 30 Sept 13 | PARENT As at 30 Sept 12 | CONSOLIDATED As at 30 Sept 13 | CONSOLIDATED As at 30 Sept 12 |
|---|---|---|---|---|---|
| **ASSETS – Current Assets** | | | | | |
| Cash and cash equivalents | 22 | 56 | 1,820 | 1,068 | 3,222 |
| Derivative financial instruments | 24 | 10,244 | 14,037 | 10,244 | 14,037 |
| Trade and other receivables | 14 | 186,531 | 181,021 | 167,456 | 148,439 |
| Financial assets | 23 | 1,324 | 2,541 | 1,324 | 2,541 |
| Inventories | 12 | 133,879 | 141,798 | 165,379 | 180,125 |
| Livestock | 13 | 54,883 | 56,477 | 54,883 | 56,477 |
| Tax receivable | 8 | - | 1,393 | 72 | 1,658 |
| Assets held for sale | 16 | 3,557 | 658 | 3,557 | 658 |
| **Total Current Assets** | | **390,474** | **399,745** | **403,983** | **407,157** |
| **ASSETS – Non-current Assets** | | | | | |
| Available for sale financial assets | 15 | 82 | 78 | 82 | 78 |
| Trade and other receivables | 14 | 11,298 | 11,567 | 11,298 | 11,567 |
| Investments in subsidiaries | 28 | 56,026 | 56,026 | - | - |
| Investments in associates | 27 | 6,228 | 5,751 | 19,393 | 13,515 |
| Property, plant and equipment | 16 | 383,540 | 380,407 | 392,712 | 390,268 |
| Intangible assets | 26 | 1,271 | 1,284 | 5,811 | 5,891 |
| **Total Non-current Assets** | | **458,445** | **455,113** | **429,296** | **421,319** |
| **TOTAL ASSETS** | | **848,919** | **854,858** | **833,279** | **828,476** |
| **LIABILITIES – Current Liabilities** | | | | | |
| Bank overdraft | 18 | - | - | 1,495 | 1,954 |
| Derivative financial instruments | 24 | 953 | 747 | 953 | 747 |
| Trade and other payables | 17 | 101,849 | 99,746 | 95,895 | 91,774 |
| Provisions | 19 | 17,316 | 16,341 | 17,451 | 16,603 |
| Advances from subsidiaries | | 8,542 | 8,543 | - | - |
| Tax provision | 8 | - | - | 31 | 298 |
| Interest bearing loans and borrowings | 18 | 387,139 | 348,762 | 387,139 | 348,762 |
| **Total Current Liabilities** | | **515,799** | **474,139** | **502,964** | **460,138** |
| **LIABILITIES – Non-current Liabilities** | | | | | |
| Provisions | 19 | 9,314 | 10,094 | 9,314 | 10,094 |
| Interest bearing loans and borrowings | 18 | 37 | 176 | 37 | 176 |
| Deferred income tax | 8 | - | 8,466 | 725 | 9,054 |
| **Total Non-current liabilities excluding members' shares** | | **9,351** | **18,736** | **10,076** | **19,324** |
| **TOTAL LIABILITIES EXCLUDING MEMBERS' SHARES** | | **525,150** | **492,875** | **513,040** | **479,462** |
| **NET ASSETS EXCLUDING MEMBERS' SHARES** | | **323,769** | **361,983** | **320,239** | **349,014** |
| Supplier investment shares | 20 | 5,692 | 5,834 | 5,692 | 5,834 |
| Members' ordinary shares | 20 | 16,630 | 17,412 | 16,630 | 17,412 |
| **Total Members' Shares** | | **22,322** | **23,246** | **22,322** | **23,246** |
| **NET ASSETS** | | **301,447** | **338,737** | **297,917** | **325,768** |
| **EQUITY – Equity attributable to equity holders of the parent** | | | | | |
| New ordinary shares | 20 | 136,495 | 136,495 | 136,495 | 136,495 |
| Retained earnings | | 64,968 | 101,854 | 72,507 | 100,497 |
| Other reserves | 21 | 99,984 | 100,388 | 88,915 | 88,776 |
| **TOTAL EQUITY** | | **301,447** | **338,737** | **297,917** | **325,768** |

The above Balance Sheet should be read in conjunction with the accompanying notes.

# CASH FLOW STATEMENT

for the year ended 30 September 2013

| NZD IN THOUSANDS ($000) | NOTES | PARENT Year ended 30 Sept 13 | PARENT Year ended 30 Sept 12 | CONSOLIDATED Year ended 30 Sept 13 | CONSOLIDATED Year ended 30 Sept 12 |
|---|---|---|---|---|---|
| **Cash flows from operating activities** | | | | | |
| Receipts from customers | | 1,969,051 | 2,013,456 | 1,974,950 | 2,041,749 |
| Payments to suppliers and employees | | (1,951,836) | (2,094,852) | (1,957,222) | (2,121,694) |
| Interest received | | 447 | 860 | 294 | 861 |
| Dividends received | | 963 | 1,227 | 963 | 1,227 |
| Finance costs paid | | (25,119) | (24,305) | (25,174) | (24,352) |
| Tax refund received/(tax paid) | | 1,393 | (1,393) | 1,118 | (1,801) |
| **Net cash flows (used in)/from operating activities** | **11** | **(5,101)** | **(105,007)** | **(5,071)** | **(104,010)** |
| **Cash flows from investing activities** | | | | | |
| Proceeds from sale of property, plant and equipment | | 639 | 1,201 | 631 | 1,200 |
| Purchase of property, plant and equipment and intangibles | | (38,623) | (78,749) | (38,454) | (79,672) |
| Proceeds from/(advance to) associates | | 300 | (85) | 300 | (85) |
| Investment in associates | | (476) | (613) | (670) | (43) |
| Investment in subsidiaries | | - | (5,400) | - | (5,400) |
| **Net cash flows (used in)/from investing activities** | | **(38,160)** | **(83,646)** | **(38,193)** | **(84,000)** |
| **Cash flows from financing activities** | | | | | |
| Deferred proceeds from the issue of New ordinary shares | | 1,217 | 5,913 | 1,217 | 5,913 |
| Loans repaid | | 3,012 | - | 3,012 | - |
| Advance/(repayment) of borrowings | | 38,238 | 203,656 | 38,238 | 203,656 |
| Distributions paid | | - | (10,338) | - | (10,338) |
| Members' ordinary shares surrendered | | (782) | (716) | (782) | (716) |
| Supplier investment shares surrendered | | (143) | (145) | (143) | (145) |
| Convertible redeemable preference shares redeemed | | - | (1,584) | - | (1,584) |
| **Net cash flows (used in)/from financing activities** | | **41,542** | **196,786** | **41,542** | **196,786** |
| Net increase/(decrease) in cash and cash equivalents | | (1,719) | 8,133 | (1,722) | 8,776 |
| Effects of exchange rate changes on the balance of cash held in foreign currencies | | (45) | (47) | 27 | 26 |
| Cash acquired with subsidiary | | - | - | - | 406 |
| Cash and cash equivalents at the beginning of the year | | 1,820 | (6,266) | 1,268 | (7,940) |
| **Cash and cash equivalents at the end of the year** | | **56** | **1,820** | **(427)** | **1,268** |
| **Represented by:** | | | | | |
| Cash | 23 | 56 | 1,820 | 1,068 | 3,222 |
| Bank overdraft | 23 | - | - | (1,495) | (1,954 ) |
| **Cash at the end of the year** | | **56** | **1,820** | **(427)** | **1,268** |

The above Cash Flow Statement should be read in conjunction with the accompanying notes.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 SEPTEMBER 2013

## 1 CORPORATE INFORMATION

The financial statements of Silver Fern Farms Limited for the year ended 30 September 2013 were authorised for issue in accordance with a resolution of the directors on 25 November 2013.

Silver Fern Farms Limited (the Parent) is registered under the Companies Act 1993 and the Co-operative Companies Act 1996. Silver Fern Farms Limited is an issuer for the purposes of the Financial Reporting Act 1993. The company is domiciled in New Zealand.

The nature of the operations and principal activities of the Group are described in note 4.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### A BASIS OF PREPARATION

The financial statements have been prepared in accordance with generally accepted accounting practice in New Zealand (NZ GAAP) and the requirements of the Companies Act 1993 and the Financial Reporting Act 1993.

The financial statements have also been prepared on a historical cost basis, except for a number of balances including operational land and buildings, livestock inventory, derivative financial instruments and available for sale financial assets which are measured at fair value.

The financial statements are presented in New Zealand dollars and all values are rounded to the nearest thousand dollars ($'000).

### B STATEMENT OF COMPLIANCE

The financial statements comply with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) and other applicable Financial Reporting Standards, as appropriate for profit-oriented entities. These financial statements comply with International Financial Reporting Standards (IFRS).

### C NEW ACCOUNTING STANDARDS AND INTERPRETATIONS

#### i. Changes in accounting policy and disclosures

The accounting policies adopted are consistent with those of the previous financial year except as follows. The Group has adopted the following new and amended New Zealand Equivalents to International Financial Reporting Standards and interpretations as of 1 October 2013.

- Amendments to NZ IAS 12 Income Taxes - Deferred Tax: Recovery of Underlying Assets
- Amendments to NZ IAS 1 Presentation of Financial Statements - Presentation of Other Comprehensive Income.

The Group has not elected to early adopt any new standards or interpretations that are issued but not yet effective.

#### ii. Accounting standards and interpretations issued but not yet effective

The following standards and Interpretations have recently been issued or amended but are not yet effective and have not been adopted by the Group for the reporting year ended 30 September 2013.

**NZ IAS 19 Employee Benefits**

| | |
|---|---|
| *Summary of Policy:* | The standard revises the accounting for defined benefit plans and changes the distinction between short term and other long term benefits. |
| *Date standard becomes effective:* | Periods beginning on or after 1 January 2013. |
| *Impact on Group financial report:* | No impact is expected from the amendment. |
| *Application date for Group:* | 1 October 2013 |

**NZ IAS 27 Separate Financial Statements**

| | |
|---|---|
| *Summary of Policy:* | NZ IAS 27 removes the accounting and disclosure requirements for consolidated financial statements due to the introduction of NZ IFRS 10 Consolidated Financial Statements and NZ IFRS 12 Disclosures of interests in other entities which has established new consolidation and disclosure standards. |
| *Date standard becomes effective:* | Periods beginning on or after 1 January 2013. |
| *Impact on Group financial report:* | The Group has a number of investments that are classified as subsidiaries. The group will review its group accounting and disclosure requirements in more detail prior to the application date of NZ IFRS 10, 11 Joint Arrangements and 12 but significant impacts are not expected. |
| *Application date for Group:* | 1 October 2013 |

**NZ IAS 28 Investments in Associates and Joint Ventures**

| | |
|---|---|
| *Summary of Policy:* | The standard sets out the requirements for the application of the equity method. Disclosure requirements are now contained in NZ IFRS 12. |
| *Date standard becomes effective:* | Periods beginning on or after 1 January 2013. |
| *Impact on Group financial report:* | The Group has a number of investments which are classified as associates; currently these are equity accounted for therefore the amendment is not expected to have an impact on the Group. |
| *Application date for Group:* | 1 October 2013 |

**NZ IFRS 7 Financial Instruments: Disclosures**

| | |
|---|---|
| *Summary of Policy:* | Amendments to the standard introduce disclosures for offsetting financial assets and financial liabliities and changes to transition disclosures. |
| *Date standard becomes effective:* | Periods beginning on or after 1 January 2013. |
| *Impact on Group financial report:* | No material impact is expected from the amendment. |
| *Application date for Group:* | 1 October 2013 |

**NZ IFRS 10 Consolidated Financial Statements**

| | |
|---|---|
| *Summary of Policy:* | The standard establishes a new control model, which broadens the situations when an entity is considered to control another entity. |
| *Date standard becomes effective:* | Periods beginning on or after 1 January 2013. |
| *Impact on Group financial report:* | The Group has a number of investments that are classified as associates under current standards and will determine, at a time closer to the application date, whether the arrangements in place at that time constitute control and require a change in accounting treatment. |
| *Application date for Group:* | 1 October 2013 |

**NZ IFRS 11 Joint Arrangements**

| | |
|---|---|
| *Summary of Policy:* | NZ IFRS 11 replaces NZ IAS 1 Interests in Joint Ventures, applying the same principles of control as NZ IFRS 10 to define joint control, and therefore changing the determination of whether joint control exists. |
| *Date standard becomes effective:* | Periods beginning on or after 1 January 2013. |
| *Impact on Group financial report:* | No impact is expected from the new standard. |
| *Application date for Group:* | 1 October 2013 |

**NZ IFRS 12 Disclosure of Interests in Other Entities**

| | |
|---|---|
| *Summary of Policy:* | NZ IFRS 12 introduces new disclosure requirements relating to interests in subsidiaries, joint arrangements and associates, including judgements made by management to determine whether control exists and to require summarised information about certain entities or arrangements. |
| *Date standard becomes effective:* | Periods beginning on or after 1 January 2013. |
| *Impact on Group financial report:* | The new standard is expected to impact disclosures but will have no impact on the Group's accounting. |
| *Application date for Group:* | 1 October 2013 |

**NZ IFRS 13 Fair Value Measurement**

| | |
|---|---|
| *Summary of Policy:* | NZ IFRS 13 establishes a single source of guidance under NZ IFRS for determining the fair value of assets and liabilities. NZ IFRS 13 does not change when an entity is required to use fair value, but rather, provides guidance on how to determine fair value under NZ IFRS when fair value is required or permitted by NZ IFRS. NZ IFRS 13 also expands the disclosure requirements for all assets or liabilities carried at fair value. This includes information about the assumptions made and the qualitative impact of those assumptions on the fair value determined. |
| *Date standard becomes effective:* | Periods beginning on or after 1 January 2013. |
| *Impact on Group financial report:* | The Group applies fair values in accounting for a number of balances within the financial statements including operational land and buildings, business combinations, livestock inventory and certain financial instruments. Application of this guidance might result in different fair values being determined for the relevant balances and further disclosure within the financial statements. |
| *Application date for Group:* | 1 October 2013 |

**NZ IFRS 10, NZ IFRS 11 and NZ IFRS 12**

| | |
|---|---|
| *Summary of Policy:* | The amendments clarify initial application of NZ IFRS 10, control application changes and disclosure around comparatives. |
| *Date standard becomes effective:* | Periods beginning on or after 1 January 2013. |
| *Impact on Group financial report:* | The Group has a number of investments that are classified as associates and subsidiaries within the accounts. An assessment at a time closer to the application date will be carried out to ensure the Group is complying with the new standards. |
| *Application date for Group:* | 1 October 2013 |

**NZ IFRS 1 First-time Adoption of New Zealand Equivalents to International Financial Reporting Standards**

| | |
|---|---|
| *Summary of Policy:* | Amendments to the standard give first-time adopters the same relief as existing preparers of NZ IFRS financial statements regarding retrospective application of NZ IFRSs relating to government loans. |
| *Date standard becomes effective:* | Periods beginning on or after 1 January 2013. |
| *Impact on Group financial report:* | No impact is expected from the amendment. |
| *Application date for Group:* | 1 October 2013 |

**NZ IAS 32 Financial Instruments: Presentation**

| | |
|---|---|
| *Summary of Policy:* | Amendments clarify the meaning and application of NZ IAS 32 in relation to offsetting financial assets and financial liabilities. |
| *Date standard becomes effective:* | Periods beginning on or after 1 January 2014. |
| *Impact on Group financial report:* | An assessment at a time closer to the application date will be carried out to ensure the Group is complying with the new standards. |
| *Application date for Group:* | 1 October 2014 |

**NZ IFRIC 21 Levies**

| | |
|---|---|
| *Summary of Policy:* | The interpretation clarifies that an entity recognises a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. |
| *Date standard becomes effective:* | Periods beginning on or after 1 January 2014. |
| *Impact on Group financial report:* | No impact is expected from the amendment. |
| *Application date for Group:* | 1 October 2014 |

**NZ IAS 36 Impairment of Assets**

| | |
|---|---|
| *Summary of Policy:* | Amendments to the standard change disclosure requirements around the recoverable amount of non-financial assets, and specifically each cash generating unit. |
| *Date standard becomes effective:* | Periods beginning on or after 1 January 2014. |
| *Impact on Group financial report:* | An assessment at a time closer to the application date will be carried out to ensure the Group is complying with the new standards. |
| *Application date for Group:* | 1 October 2014 |

**NZ IAS 39 Financial Instruments: Recognition and Measurement**

| | |
|---|---|
| *Summary of Policy:* | Amendments to the standard provide an exception to the requirement to discontinue hedge accounting in certain circumstances, in which there is a change in counterparty to a hedging instrument in order to achieve clearing for that instrument. |
| *Date standard becomes effective:* | Periods beginning on or after 1 January 2014. |
| *Impact on Group financial report:* | No impact is expected from the amendment. |
| *Application date for Group:* | 1 October 2014 |

**NZ IFRS 9 (2009) Financial Instruments**

| | |
|---|---|
| *Summary of Policy:* | The revised standard introduces the following significant changes:<br>• Two categories for financial assets being amortised cost or fair value<br>• Removal of requirement to separate embedded derivatives in financial assets<br>• Strict requirements for determining amortised cost or fair value<br>• An option for investments in equity instruments which are not held for trading to recognise fair value changes through other comprehensive income with no impairment testing<br>• Reclassifications between amortised cost and fair value are not permitted unless there is a business model change<br>• Changes to accounting and disclosures for equity instruments classified through other comprehensive income |
| *Date standard becomes effective:* | Periods beginning on or after 1 January 2015. |
| *Impact on Group financial report:* | An assessment at a time closer to the application date will be carried out to ensure the Group is complying with the new standards. |
| *Application date for Group:* | 1 October 2015 |

**NZ IFRS 9 (2010) Financial Instruments**

| | |
|---|---|
| *Summary of Policy:* | There has been an amendment where the fair value option is used for financial liabilities. The change in fair value is now accounted for as follows. The change due to changes in credit risk is presented in other comprehensive income with the remaining change presented in profit and loss. If the approach creates or enlarges an accounting mismatch in profit and loss, the effect of changes in credit risk is also presented in profit and loss. |
| *Date standard becomes effective:* | Periods beginning on or after 1 January 2015. |
| *Impact on Group financial report:* | An assessment at a time closer to the application date will be carried out to ensure the Group is complying with the new standards. |
| *Application date for Group:* | 1 October 2015 |

## D BASIS OF CONSOLIDATION

The consolidated financial statements comprise the financial statements of Silver Fern Farms Limited and its subsidiaries and associates as at each period end ('the Group').

Interests in associates are equity accounted and are not part of the consolidated Group. Subsidiaries are all those entities over which the Group has the power to govern the financial and operating policies so as to obtain benefits from their activities. A list of subsidiaries appears in note 28 to the financial statements.

The financial statements of subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies.

In preparing the consolidated financial statements, all intercompany balances and transactions, income and expenses and profit and losses resulting from intra-group transactions have been eliminated in full. Investments in subsidiaries are accounted for at cost in the parent company financial statements.

Subsidiaries are consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group.

## E BUSINESS COMBINATIONS

Business combinations are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition date fair values of the assets transferred by the Group, the liabilities incurred by the Group to former owners of the acquiree, the equity issued by the Group, and the amount of any non-controlling interest in the acquiree. For each business combination, the Group measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic conditions, the Group's operating or accounting policies and other pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the Group's previously held equity interest in the acquiree is remeasured at fair value as at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognised in accordance with NZ IAS 39 either in profit or loss or in other comprehensive income. If the contingent consideration is classified as equity, it shall not be remeasured.

## F FOREIGN CURRENCY TRANSLATION

### i. Functional and presentation currency

Both the functional and presentation currency of Silver Fern Farms Limited and its New Zealand subsidiaries is New Zealand dollars ($). Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

### ii. Transactions and balances

Foreign currency transactions are initially recorded in the functional currency by applying the exchange rates ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rates of exchange ruling at the balance sheet date.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

All exchange differences noted above in the consolidated financial statements are taken to profit or loss for the year.

### iii. Foreign operations

On consolidation, the assets and the liabilities of the Group's overseas operations are translated into the presentation currency of Silver Fern Farms Limited at the exchange rates prevailing at the reporting date. Income and expense items are translated at the average exchange rates for the period. The exchange differences arising on the retranslation are taken directly to the foreign currency translation reserve, a separate component of other comprehensive income.

On disposal of a foreign entity, the deferred cumulative amount recognised in other comprehensive income relating to that particular foreign operation is recognised in profit or loss.

## G CASH AND CASH EQUIVALENTS

Cash and short-term deposits in the balance sheet comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Cash and bank balances are categorised as fair value through profit and loss assets.

For the purposes of the Cash Flow Statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

## H TRADE AND OTHER RECEIVABLES

Trade receivables, which generally have 30-90 day terms, are recognised and carried at original invoice amount less an allowance for any uncollectible amounts.

An allowance is made for estimated impairments when there is objective evidence that the Group will not be able to collect the receivable. This is determined by reference to past default experience and certain other indicators that the receivable may be impaired, such as financial difficulties of the debtor or default payments or debts more than 60 days overdue. Trade receivables are monitored on a weekly basis by sales account managers. Individual debts that are known to be uncollectible are written off when identified.

## I INVENTORIES

Inventories are valued at the lower of cost and net realisable value. Cost is calculated on a first-in-first-out basis. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

The cost of meat and associated products includes the price of livestock, plus processing and other expenses incurred to bring it to a saleable condition and location. Costs include direct and indirect overheads.

## J LIVESTOCK (BIOLOGICAL ASSETS)

Livestock consists of sheep and cattle. The group purchases sheep and cattle for the following purposes:

**Livestock programmes**

Lamb and cattle are purchased from breeders and are placed with growers/finishers until they reach optimal weights. Finishers are paid on a liveweight gain basis as livestock is delivered within specification for processing.

**Other**

Additional sheep and cattle are held on land owned or leased by Silver Fern Farms adjacent to processing facilities.

Livestock is valued at fair value less costs to sell and the resulting gains or losses are recognised in profit and loss. Point of sale costs include any necessary costs to dispose of livestock, excluding costs incurred to get the livestock to market. Fair values are determined by reference to published livestock purchase data at the balance date, using market prices appropriate to each category of livestock, considering age, weight, sex, grade, location and other relevant factors.

## K DERIVATIVE FINANCIAL INSTRUMENTS

The group enters into foreign currency forward exchange contracts and options to economically hedge trading transactions to reduce exposure to fluctuations in foreign currency exchange rates.

Derivatives are initially recognised at fair value on the date the derivative contract is entered into, and are subsequently remeasured to fair value. Derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative. Derivatives are classified as fair value through profit and loss financial assets or liabilities.

Any gains or losses arising from changes in the fair value of derivatives are taken directly to profit or loss for the year.

## L NON-CURRENT ASSETS HELD FOR SALE

Non-current assets and disposal groups are classified as held for sale and measured at the lower of their carrying amount and fair value less costs to sell if their carrying amount will be recovered principally through a sale transaction. They are not depreciated or amortised. For an asset or disposal group to be classified as held for sale at year end, it must be available for immediate sale in its present condition and its sale must be highly probable.

An impairment loss is recognised for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs to sell. A gain is recognised for any subsequent increases in fair value less costs to sell of an asset (or disposal group), but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale of the non-current asset (or disposal group) is recognised at the date of derecognition.

## M INVESTMENTS AND OTHER FINANCIAL ASSETS

Investments and financial assets are categorised as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available for sale financial assets. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group determines the classification of its financial assets after initial recognition and, when allowed and appropriate, re-evaluates this designation at each financial year end.

Financial assets are derecognised when the right to receive the cash flows from the financial assets have expired or been transferred.

### i. Financial assets at fair value through profit and loss

Financial assets classified as held for trading are included in the category ‘financial assets at fair value through profit or loss’. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term with the intention of making a profit. Derivatives are also classified as held for trading. Gains or losses on investments held for trading are recognised in profit or loss.

### ii. Loans and receivables

Loans and receivables, including deferred payments due from shareholders, are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

### iii. Available for sale-investments

Available for sale investments are those non-derivative financial assets that are designated as available for sale or are not classified as any of the two preceding categories. After initial recognition available for sale investments are measured at fair value with gains or losses being recognised as a separate component of other comprehensive income until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is recognised in profit or loss.

The fair value of investments that are actively traded in organised financial markets are determined by reference to quoted market bid prices at the close of business on the balance sheet date. For investments with no active market, fair values are determined using valuation techniques. Such techniques include: using recent arm's length market transactions; reference to the current market value of another instrument that is substantially the same; discounted cash flow analysis and option pricing models making as much use of available and supportable market data as possible and keeping judgemental inputs to a minimum.

## N INVESTMENT IN ASSOCIATES

The Group's investments in associates are accounted for using the equity method of accounting in the consolidated financial statements. Associates are entities in which the Group has significant influence and which are neither subsidiaries nor joint ventures.

Under the equity method, the investment in the associate is carried in the consolidated balance sheet at cost plus post-acquisition changes in the Group's share of net assets of the associates (in the parent balance sheet, investments in associates are carried at cost less any impairment write down). Goodwill relating to an associate is included in the carrying amount of the investment and is not amortised. After the application of the equity method, the Group determines whether it is necessary to recognise any impairment loss with respect to the Group's net investment in associates.

The Group's share of its associates post acquisition profits or losses is recognised in profit or loss, and its share of post acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. Dividends receivable from associates are recognised in the parent entity's profit or loss, while in the consolidated financial statements they reduce the carrying amount of the investment.

Where reporting dates of the associate and the Group are different, financial statements have been prepared by the associate for the same reporting dates as the Group. Both the group and its associates use consistent accounting policies.

Where there has been a change recognised directly in the associate's other comprehensive income, the Group recognises its share of any changes and discloses this, when applicable in other comprehensive income.

## O PROPERTY, PLANT AND EQUIPMENT

Plant and equipment is stated at historical cost less accumulated depreciation and any accumulated impairment losses. Such cost includes the cost of replacing parts that are eligible for capitalisation when the cost of replacing the parts is incurred. Similarly, when each major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement only if it is eligible for capitalisation. All other repairs and maintenance are recognised in profit or loss as incurred.

Operational land and buildings are measured at fair value, based on periodic but at least five yearly valuations by external independent valuers who apply the International Valuations Standards Committee International Valuation Standards, less accumulated depreciation on buildings and less any impairment losses recognised after the date of the revaluation.

Depreciation is calculated on a straight-line basis over the estimated useful life of the specific assets as follows:

- Land Improvements – 5 to 50 years
- Buildings – 5 to 50 years
- Plant and equipment – 3 to 25 years
- Motor Vehicles – 5 to 20 years

Certain assets are depreciated on a diminishing value basis.

**Revaluations**

Following initial recognition at cost, operational land and buildings are carried at a revalued amount which is the fair value at the date of the revaluation less any subsequent accumulated depreciation on buildings and accumulated impairment losses.

Revaluations are performed on a periodic but at least five yearly cycle. Therefore land and buildings purchased inside the revaluation cycle are recognised at cost until they are subsequently revalued.

Any revaluation increment is credited to the asset revaluation reserve included in other comprehensive income, except to the extent that it reverses a revaluation decrement for the same asset previously recognised in profit or loss, in which case the increment is recognised in profit or loss.

Any revaluation decrement is recognised in profit or loss, except to the extent that it offsets a previous revaluation increment for the same asset, in which case the decrement is debited directly to the asset revaluation reserve and included in other comprehensive income to the extent of the credit balance existing in the revaluation reserve for that asset.

Any accumulated depreciation as at the revaluation date is eliminated against the gross carrying amounts of the assets and the net amounts are restated to the revalued amounts of the assets.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These are included in profit or loss.

Upon disposal or derecognition, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

Fair value is determined by reference to market-based evidence, which is the amount for which the assets could be exchanged between a knowledgeable willing buyer and a knowledgeable willing seller in an arm's length transaction as at the valuation date.

#### Disposals

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset.

Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in profit or loss in the year the item is derecognised.

### P LEASES

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

#### Group as lessee

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments.

Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are included in the statement of comprehensive income as finance costs.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term. These assets are measured at cost.

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases.

Operating lease payments are recognised as an expense in the statement of comprehensive income on a straight-line basis over the lease term.

#### Group as lessor

Leases in which the Group retains substantially all the risks and benefits of ownership of the leased assets are classified as operating leases. Rental income is recognised over the life of the lease.

### Q IMPAIRMENT

At each balance sheet date, the group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

For an asset that does not generate largely independent inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

The recoverable amount is the greater of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

### R TRADE AND OTHER PAYABLES

Trade payables and other accounts payable and accrued expenses are recognised when the Group becomes obliged to make future payments resulting from the purchase of goods and services.

Trade payables and other payables are recognised at amortised cost. They represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group becomes obliged to make future payments in respect of the cost of goods and services. The amounts are unsecured and usually paid within 30 days of recognition.

### S INTANGIBLE ASSETS

Intangible assets acquired separately or in a business combination are initially measured at cost. The cost of an intangible asset acquired in a business combination is its fair value as at the date of acquisition. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is recognised in profit or loss in the year in which the expenditure is incurred. Following initial recognition, all intangible assets are carried at cost less accumulated amortisation and any accumulated impairment losses.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful life and tested for impairment whenever there is an indication that the intangible asset may be impaired.
The amortisation period and the amortisation method for an intangible asset with a finite useful life is reviewed at least at each financial year-end. Currently finite life intangible assets are amortised over a period of 3 to 4 years on a straight line basis. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for prospectively by changing the amortisation period or method, as appropriate, which is a change in accounting estimate. The amortisation expense on intangible assets with finite lives is recognised in profit or loss in the expense category consistent with the function of the intangible asset.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. Such intangibles are not amortised. The useful life of an intangible asset with an indefinite life is reviewed each reporting period to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for as a change in an accounting estimate and is thus accounted for on a prospective basis.

### i. Goodwill

Goodwill acquired in a business combination is initially measured at cost of the business combination being the excess of the consideration transferred over the fair value of the Group's net identifiable assets acquired and liabilities assumed. If this consideration transferred is lower than the fair value of the net identifiable assets of the subsidiary acquired, the difference is recognised in profit or loss.

After initial recognition, goodwill is measured at the amount recognised at acquisition date less any accumulated impairment losses.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination. Impairment is determined by assessing the recoverable amount of the cash-generating unit to which the goodwill relates. The Group performs its impairment testing as at 30 September each year using discounted cash flows under the value in use methodology. When the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. Impairment losses recognised for goodwill are not subsequently reversed.

### ii. Research and software development costs

Research costs are expensed as incurred. An intangible asset arising from development expenditure on an internal project is recognised only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the development and the ability to measure reliably the expenditure attributable to the intangible asset during its development. Following the initial recognition of the development expenditure, the cost model is applied requiring the asset to be carried at cost less any accumulated amortisation and accumulated impairment losses. Any expenditure so capitalised is amortised over the period of expected benefit from the related project. The carrying value of an intangible asset arising from development expenditure is tested for impairment annually when the asset is not yet available for use, or more frequently when an indication of impairment arises during the reporting period.

## T INTEREST-BEARING LOANS AND BORROWINGS

Loans and borrowings are measured initially at the fair value of the consideration received net of transaction costs. Subsequent to initial recognition, loans and borrowings are measured at amortised cost using the effective interest method which allocates the cost through the expected life of the loan or borrowing. Amortised cost is calculated taking into account any issue costs.

Bank loans are classified as current liabilities unless the group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Borrowing costs are expensed as incurred except when they are directly attributable to the acquisition or construction of a qualifying asset. When this is the case, they are capitalised as part of the cost of that asset.

## U PROVISIONS AND EMPLOYEE LEAVE BENEFITS

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

**Wages, salaries, annual leave and sick leave**

Liabilities for wages and salaries, annual leave and accumulating sick leave expected to be settled within 12 months of the reporting date are recognised in respect of employee's services up to the reporting date. They are measured at the amounts expected to be paid when liabilities are settled. Liabilities for non-accumulating sick leave are recognised when the leave is taken and are measured at the rates paid or payable.

**Long service leave**

The liability for long service leave is recognised and measured in the balance sheet at the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to the expected future wage and salary levels, experience of employee departures, and periods of service.

## V CONVERTIBLE REDEEMABLE PREFERENCE SHARES

The convertible preference shares exhibit characteristics of a liability, and are therefore recognised as a liability in the balance sheet.

The convertible redeemable preference shares are measured initially at cost, being the fair value of the consideration received net of issue costs associated with the borrowing. After initial recognition, these shares are subsequently measured at amortised cost using the effective interest method which allocates the cost through the expected life of the loan or borrowing. Amortised cost is calculated taking into account any issue costs.

## W MEMBERS' SHARES

### i. Members' ordinary shares

The Co-operative's share capital includes the amount of shares issued to the members of the Co-operative. From time to time, existing members leave the Co-operative and new members join the Co-operative. Members who leave the Co-operative are entitled, after a length of time, to have their share capital amounts repaid to them. New members are required to subscribe to shares in the Co-operative.

Silver Fern Farms Limited has two classes of Members' shares: Members' ordinary shares which are issued to suppliers who supply stock under the Silver Fern Farms rebate system and Supplier investment shares, which are issued to all suppliers of stock to Silver Fern Farms (subject to certain restrictions). All Members' shares have a nominal value of one dollar per share. Supplier investment shares are paid to ninety cents by the supplier with the balance of ten cents being paid by way of a dividend from retained earnings.

Members' ordinary shares carry full voting rights subject to the shareholder being a Current Supplier (as defined in Silver Fern Farms constitution) at the time of voting. Supplier investment shares carry voting rights in relation to director elections only. Members' shares participate equally on winding up.

The current maximum shareholdings for Members' ordinary shares and Supplier investment shares are 17,500 and 15,000 respectively.

Members' shares are eligible to receive a dividend subject to profitability, although any such dividend is likely to be restricted to fully paid Supplier investment shares. Members' ordinary shares shareholders are eligible to receive a rebate based on the profit earned from stock supplied.

Due to the obligations of the Co-operative set out above, the Co-operative share capital meets the definition of a financial liability as per NZ IAS 32: Financial Instruments Disclosure and Presentation, and hence, the issued and paid up capital is classified as a financial liability.

### ii. New ordinary shares

New ordinary shares are classified as equity. Incremental costs attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

## X SEGMENT REPORTING

An operating segment is a component of an entity that engages in business activities from which it may earn revenues and incur expenses, whose operating results are regularly reviewed by the entity's chief operating decision maker (CODM) to make decisions about resources to be allocated to the segment and assess its performance and for which discrete financial information is available. Management will also consider other factors in determining operating segments such as the existence of a line manager and the level of segment information presented to the board of directors.

Operating segments have been identified based on the information provided to the CODM – being the Chief Executive Officer. Since segment assets and liabilities are not included in measures used by the CODM, they are not reported within note 4.

"The group aggregates two or more operating segments when they have similar economic characteristics, and the segments are similar in each of the following respects:

- Nature of the products and services
- Nature of the production processes
- Type or class of customer for the products and services
- Methods used to distribute the products or provide the services and if applicable,
- Nature of the regulatory environment."

Operating segments that meet the quantitative criteria as prescribed by NZ IFRS 8 are reported separately. However, an operating segment that does not meet the quantitative criteria is still reported separately where information about the segment would be useful to users of the financial statements.

## Y REVENUE RECOGNITION

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

### i. Sale of goods

Revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and can be measured reliably. Risks and rewards are considered passed to the buyer at the time of shipment.

### ii Interest income

Revenue is recognised as the interest accrues (using the effective interest rate). This is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset.

### iii Dividends

Revenue is recognised when the shareholders' right to receive the payment is established.

## Z INCOME TAX AND OTHER TAXES

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities based on the current period's taxable income. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date.

Deferred income tax is provided on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences except:

- where the deferred income tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and when the taxable temporary differences are associated with investments in subsidiaries, associates or interests in joint ventures, and the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax assets and unused tax losses can be utilised except:

- when the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- when the deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, in which case a deferred tax asset is only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Unrecognised deferred income tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Income tax relating to items recognised directly in other comprehensive income are recognised in other comprehensive income and not in profit or loss.

Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority.

## AA OTHER TAXES

Revenues, expenses and assets are recognised net of the amount of GST except:

- When the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- Receivables and payables, which are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the balance sheet.

Cash flows are included in the Cash Flow Statement on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority as part of operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

## AB EARNINGS PER SHARE

Basic earnings per share is calculated as net profit attributable to members of the parent, adjusted to exclude any costs of servicing equity (other than dividends) and preference share dividends, divided by the weighted average number of ordinary shares, adjusted for any bonus element.

"Diluted earnings per share is calculated as net profit attributable to members of the parent, adjusted for:

- Costs of servicing equity (other than dividends) and preference share dividends
- The after tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses
- Other non-discretionary changes in revenues or expenses during the period that would result from the dilution of potential ordinary shares, divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element."

## AC COMPARATIVES

Comparatives have been restated to reflect a change in the accounting treatment of discounted bills of exchange. The effect of this change in the comparative year is to increase trade receivables within current assets by $32,111,000 and to increase interest bearing loans and borrowings within current liabilities by the same amount.

## 3 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

In applying the Group's accounting policies, management continually evaluates judgements, estimates and assumptions based on experience and other factors, including expectations of future events that may have an impact on the Group. All judgements, estimates and assumptions made are believed to be reasonable based on the most current set of circumstances available to management. Actual results may differ from the judgements, estimates and assumptions. Significant judgements, estimates and assumptions made by management in the preparation of these financial statements are outlined below:

### i Significant accounting judgements

**Going concern**

Management and the directors have considered the going concern assumption in the preparation of these financial statements and have concluded that the going concern basis of financial statements preparation remains appropriate.

**Recovery of deferred tax assets**

Deferred tax assets are recognised for deductible temporary differences as management considers that it is probable that future taxable profits will be available to utilise these temporary differences.

Deferred tax assets are recognised in respect of tax losses to the extent that it is probable that future taxable profits will be available against which the losses can be utilised. Significant judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the probability of future taxable profits and the timing of these profits. In exercising its judgment, management and the directors have considered future tax planning strategies. The Directors have estimated that the group will generate sufficient taxable income to utilise recognised tax losses.

**Impairment of non-financial assets**

The Group assesses impairment of all assets at each reporting date by evaluating conditions specific to the Group and to the particular asset that may lead to impairment. These include product performance, technology, economic and political environment and future product expectations. If an impairment trigger exists, the recoverable amount of the asset is determined. This involves value in use calculations which incorporate a number of key estimates and assumptions. Management have performed value in use impairment assessments for five plants where indicators of possible impairment existed at balance date, and have assessed that no impairment write downs are required.

### ii. Significant accounting estimates and assumptions

**Long service leave provision**

As discussed in note 2(u), the liability for the long service leave is recognised and measured at the present value of the estimated future cash flows to be made in respect of all employees at balance date. In determining the present value of the liability, attrition rates and pay increases through promotion and inflation have been taken into account.

**ACC provision**

The liability for the future costs of ACC claims outstanding is recognised and measured at the present value of the estimated future cash flows to be made in respect of all claims outstanding at balance date. In determining the present value of the liability, historical accident rates and average costs per accident and cost inflation assumptions have been taken into account.

**Estimate of useful lives of assets**

The estimation of useful lives of assets has been based on historical experience as well as manufacturer's warranties (for plant and equipment), lease terms (for leased equipment) and turnover policies (for motor vehicles). In addition, the condition of the assets is assessed at least once a year and considered against the remaining useful life. Adjustments to useful life are made when considered necessary.

**Stock margin calculation**

At each reporting date meat inventory is valued using the discounted selling price method. This method uses the last sales price, or committed sales price, and converts these factors back to New Zealand dollars, less expenses incurred to bring the inventory to a saleable location. A margin deduction is made from stock on hand based on the margin achieved on sales during the year.

**Livestock valuation**

Livestock fair values at balance date are determined by reference to published livestock purchase data at the balance date, using market prices appropriate to each category of livestock, considering age, estimated weight, sex, grade, location and other relevant factors.

**Land and buildings revaluation**

Operational land and buildings are periodically revalued to fair value by an independent valuer. As there is no active market for the buildings held by the Group, Depreciated Replacement Cost (DRC) is used to establish a fair value; this fair value is then optimised via economic adjustments. Certain economic adjustments are applied to a buildings DRC to allow for any idle capacity included in the operation of the building. If any economic adjustments are required, these are completed by the independent valuer and included in the final valuation.

## 4 SEGMENT INFORMATION

The group has identified its operating segments based on the internal reports that are reviewed and used by the Chief Executive Officer (CODM) in assessing performance and in determining the allocation of resources.

The operating segments are identified by management based on the nature and use of the end product(s).

Discrete financial information about each operating segment is reported to the Chief Executive Officer on at least a monthly basis. The reportable segments are based on aggregated operating segments determined by the similarity of the products produced and sold and their channels to market, as these are the sources of the Group's major risks and have the most effect on the rates of return.

**Types of products and services**

*Food*

The Food business segment incorporates all meat production and sales (both domestic and international). It includes, amongst other things, all sales to independent meat wholesalers and distributors, and all sales to retailers and food service industry participants.

*Associated Products*

The Associated Products business segment incorporates all non-meat by-products that are sold locally and internationally. It includes amongst other things skins, hides, wool, tallow and meal.

**Accounting policies**

The accounting policies used by the Group in reporting segments internally are the same as those contained in note 2 to the accounts and in the prior period except as detailed below.

The following items are not allocated to operating segments as they are not considered part of the core operations of any segment:

- Dividend revenue
- Interest revenue
- Fair value gains/losses on financial instruments
- Net gains on disposal of available-for-sale investments
- Finance costs - including adjustments on provisions due to discounting

Assets and liabilities are not allocated to segments for reporting purposes.

### Major customers

No individual external customer represented greater than 10% of group revenue in either the year ended 30 September 2013 or year ended 30 September 2012.

### Business segments

The following tables present revenue and profit information for reportable segments for the year ended 30 September 2013 and year ended 30 September 2012

| NZD IN THOUSANDS ($000) | Food | Associated Products | Unallocated Items | Year ended 30 Sept 13 Total | Food | Associated Products | Unallocated Items | Year ended 30 Sept 12 Total |
|---|---|---|---|---|---|---|---|---|
| **Revenue** | | | | | | | | |
| Sales to external customers | 1,704,773 | 288,463 | - | 1,993,236 | 1,710,126 | 305,594 | - | 2,015,720 |
| **Total segment revenue** | | | | **1,993,236** | | | | **2,015,720** |
| **Segment net operating (loss)/profit before tax** | **(14,133)** | **(2,391)** | **-** | **(16,524)** | **(30,256)** | **(5,407)** | **-** | **(35,663)** |
| Interest revenue | - | - | 360 | 360 | - | - | 1,657 | 1,657 |
| Interest expense | - | - | (20,391) | (20,391) | - | - | (17,469) | (17,469) |
| Depreciation and amortisation | (26,086) | (4,414) | - | (30,500) | (21,361) | (3,817) | - | (25,178) |
| Share of profit/(loss) of associates | 1,300 | 4,835 | - | 6,135 | 15 | (672) | - | (657) |

### i. Segment revenue reconciliation to the statement of comprehensive income

| CONSOLIDATED<br>NZD IN THOUSANDS ($000) | Year ended 30 Sept 13 | Year ended 30 Sept 12 |
|---|---|---|
| Total segment revenue | 1,993,236 | 2,015,720 |
| Other revenue from continuing activities | 398 | 1,657 |
| **Total revenue** | **1,993,634** | **2,017,377** |

Revenue from external customers by geographical locations is detailed below. Revenue is attributed to geographic location based on the location of the customers. The company does not have any material external revenues from external customers that are attributable to any foreign country other than as shown.

| CONSOLIDATED<br>NZD IN THOUSANDS ($000) | Year ended<br>30 Sept 13 | Year ended<br>30 Sept 12 |
|---|---|---|
| China | 332,376 | 190,315 |
| USA | 263,873 | 292,551 |
| New Zealand | 228,967 | 282,034 |
| United Kingdom | 172,346 | 150,779 |
| Australia | 135,396 | 113,995 |
| Germany | 132,865 | 154,170 |
| Japan | 92,600 | 114,957 |
| Italy | 74,041 | 86,407 |
| Korea | 53,910 | 62,274 |
| Canada | 41,514 | 54,259 |
| Other - Asia / Middle East | 230,100 | 260,868 |
| Other - Europe | 194,144 | 204,869 |
| Other - Rest of World | 41,502 | 49,899 |
| **Total revenue** | **1,993,634** | **2,017,377** |

ii. Segment net operating profit/(loss) before tax reconciliation to the statement of comprehensive income

The Leadership team meets on a monthly basis to assess the performance of each segment by analysing the segment's net operating profit/(loss) before tax. A segment's net operating profit/(loss) before tax excludes non operating income and expense such as dividends received, fair value gains and losses, gains and losses on disposal of assets and impairment charges.

**Reconciliation of segment net operating profit / (loss) after tax to net profit/(loss) before tax:**

| CONSOLIDATED<br>NZD IN THOUSANDS ($000) | Year ended<br>30 Sept 13 | Year ended<br>30 Sept 12 |
|---|---|---|
| Segment net operating profit/(loss) before tax | (16,524) | (35,663) |
| Other revenue | 398 | 1,657 |
| Other income (excluding foreign exchange gains) | 7,578 | 17,543 |
| Fair value gain/(loss) on financial instruments | 45 | 273 |
| Finance costs | (28,019) | (26,061) |
| Member distributions | - | (87) |
| **Net profit/(loss) before tax per the statement of comprehensive income** | **(36,522)** | **(42,338)** |

## 5 OTHER REVENUE

| NZD IN THOUSANDS ($000) | PARENT<br>Year ended<br>30 Sept 13 | <br>Year ended<br>30 Sept 12 | CONSOLIDATED<br>Year ended<br>30 Sept 13 | <br>Year ended<br>30 Sept 12 |
|---|---|---|---|---|
| Interest revenue | 513 | 1,656 | 360 | 1,657 |
| Dividend revenue | 962 | 1,227 | 38 | - |
| **Total other revenue** | **1,475** | **2,883** | **398** | **1,657** |

## 6 OTHER INCOME

| NZD IN THOUSANDS ($000) | PARENT<br>Year ended<br>30 Sept 13 | <br>Year ended<br>30 Sept 12 | CONSOLIDATED<br>Year ended<br>30 Sept 13 | <br>Year ended<br>30 Sept 12 |
|---|---|---|---|---|
| Rental revenue | 1,045 | 1,216 | 984 | 1,216 |
| Gain on sale of property, plant and equipment | 199 | 80 | 199 | 80 |
| Sundry income | 6,694 | 12,230 | 6,395 | 16,247 |
| **Total other income** | **7,938** | **13,526** | **7,578** | **17,543** |

## 7 EXPENSES

| NZD IN THOUSANDS ($000) | PARENT Year ended 30 Sept 13 | Year ended 30 Sept 12 | CONSOLIDATED Year ended 30 Sept 13 | Year ended 30 Sept 12 |
|---|---|---|---|---|
| **Employee benefits expense** | | | | |
| Wages and salaries | 299,647 | 276,930 | 302,331 | 279,832 |
| Wages and salaries capitalised | (730) | (1,550) | (730) | (1,550) |
| Workers' compensation costs | 6,355 | 5,925 | 6,473 | 6,150 |
| Superannuation costs | 6,924 | 5,490 | 7,056 | 5,762 |
| **Total employee benefits expense** | **312,196** | **286,795** | **315,130** | **290,194** |
| **Finance costs** | | | | |
| Bank facility fees | 7,628 | 8,592 | 7,628 | 8,592 |
| Bank interest cost | 20,083 | 17,782 | 20,128 | 17,829 |
| Other interest cost | 253 | 270 | 263 | 270 |
| Borrowing costs capitalised | - | (630) | - | (630) |
| **Total finance costs** | **27,964** | **26,014** | **28,019** | **26,061** |
| **Other expenses** | | | | |
| Audit fees | 190 | 190 | 268 | 293 |
| Bad debt expense/(recovery) | (244) | 898 | (259) | 916 |
| Energy costs | 33,818 | 32,194 | 33,841 | 32,217 |
| Internal freight | 8,229 | 6,895 | 11,964 | 9,470 |
| Leasing costs | 6,390 | 5,605 | 6,614 | 5,785 |
| Loss on sale of plant, property and equipment | 1,306 | 391 | 1,315 | 392 |
| Loss/(gain) on fair value of financial instruments | (45) | (273) | (45) | (273) |
| Restructuring costs | 461 | (927) | 461 | (927) |
| Impairment of advance to subsidiaries | 3,623 | - | - | - |
| Impairment of investment in associates | - | 3,800 | - | - |
| Impairment of goodwill | - | - | - | 1,262 |
| Rental costs | 2,669 | 2,727 | 2,755 | 2,870 |
| Other operating costs | 232,653 | 206,188 | 235,296 | 208,525 |
| **Total other expenses** | **289,050** | **257,688** | **292,210** | **260,530** |

An advance to a subsidiary, Titan Meat Company Limited, was impaired during the year. The advance was impaired so that the balance represents the net assets of the subsidiary. Accordingly, an impairment expense was recognised in the current year.

## 8 INCOME TAX

The major components of income tax expense are current income tax, deferred income tax and amounts charged or credited directly to other comprehensive income.

| NZD IN THOUSANDS ($000) | PARENT Year ended 30 Sept 13 | Year ended 30 Sept 12 | CONSOLIDATED Year ended 30 Sept 13 | Year ended 30 Sept 12 |
|---|---|---|---|---|
| **Income tax expense** | | | | |
| Current income tax charge | - | 233 | 197 | 664 |
| **Deferred income tax** | | | | |
| Adjustments in respect of deferred income tax of previous years | 721 | (31) | 814 | 77 |
| Relating to origination and reversal of temporary differences | (9,030) | (11,936) | (8,982) | (11,958) |
| **Income tax expense/(benefit) reported in profit or loss** | **(8,309)** | **(11,734)** | **(7,971)** | **(11,217)** |
| **Amounts charged or credited directly to other comprehensive income** | | | | |
| Revaluation of buildings – charged/(credited) | (157) | (290) | (157) | (290) |
| **Income tax expense/(benefit) reported in other comprehensive income** | **(157)** | **(290)** | **(157)** | **(290)** |

### Numerical reconciliation between aggregate tax expense recognised in profit or loss and tax expense calculated per the statutory income tax rate

A reconciliation between the tax expense and the product of accounting profit before income tax multiplied by the Group's applicable income tax rate is as follows:

| NZD IN THOUSANDS ($000) | PARENT Year ended 30 Sept 13 | PARENT Year ended 30 Sept 12 | CONSOLIDATED Year ended 30 Sept 13 | CONSOLIDATED Year ended 30 Sept 12 |
|---|---|---|---|---|
| **Total accounting profit/(loss) before income tax** | **(45,756)** | **(44,183)** | **(36,522)** | **(42,338)** |
| At the parent entity's statutory income tax rate of 28% | (12,812) | (12,372) | (10,227) | (11,934) |
| Adjustments in respect of current/deferred income tax of previous years | 721 | (31) | 813 | 77 |
| Non-deductible impairment of advances/investments | 1,014 | 1,064 | - | - |
| Non-deductible loss on sale of buildings | - | 32 | - | 32 |
| Non-deductible entertainment expenditure, legal expense and rebates | 150 | 188 | 150 | 188 |
| Non-deductible impairment of goodwill | - | - | - | 353 |
| Other non-deductibles/non-taxables | - | (344) | - | (344) |
| Partnership profits/(losses) | 158 | (548) | 158 | (548) |
| Write off of foreign withholding tax | - | 233 | - | 233 |
| Losses not recognised for deferred tax | 2,371 | - | 2,371 | - |
| Other differences | 89 | 44 | (1,236) | 726 |
| **Aggregate income tax expense/(benefit)** | **(8,309)** | **(11,734)** | **(7,971)** | **(11,217)** |

### Recognised current/deferred tax assets and liabilities

| NZD IN THOUSANDS ($000) | PARENT As at 30 Sept 13 Current Income Tax | PARENT As at 30 Sept 13 Deferred Income Tax | PARENT As at 30 Sept 12 Current Income Tax | PARENT As at 30 Sept 12 Deferred Income Tax | CONSOLIDATED As at 30 Sept 13 Current Income Tax | CONSOLIDATED As at 30 Sept 13 Deferred Income Tax | CONSOLIDATED As at 30 Sept 12 Current Income Tax | CONSOLIDATED As at 30 Sept 12 Deferred Income Tax |
|---|---|---|---|---|---|---|---|---|
| Opening asset/(liability) | 1,393 | (8,466) | - | (20,724) | 1,360 | (9,054) | (358) | (21,225) |
| Charged to income | - | 8,309 | (233) | 11,968 | (196) | 8,172 | (664) | 11,881 |
| (Charged)/ credited to other comprehensive income | - | 157 | - | 290 | - | 157 | - | 290 |
| Other payments/movements | (1,393) | - | 1,626 | - | (1,123) | - | 2,382 | - |
| **Closing asset/(liability)** | **-** | **-** | **1,393** | **(8,466)** | **41** | **(725)** | **1,360** | **(9,054)** |
| Tax expense/(benefit) in statement of comprehensive income | - | (8,309) | - | (11,734) | - | (7,971) | - | (11,217) |
| *Amounts recognised in the balance sheet:* | | | | | | | | |
| Current/deferred tax asset | - | 34,775 | 1,393 | 27,616 | 72 | 34,775 | 1,658 | 27,616 |
| Current/deferred tax liability | - | (34,775) | - | (36,082) | (31) | (35,500) | (298) | (36,670) |
| **Current/deferred tax assets/ (liabilities)** | **-** | **-** | **1,393** | **(8,466)** | **41** | **(725)** | **1,360** | **(9,054)** |

This deferred taxation balance has been calculated at the corporate tax rate of 28%.

### Deferred income tax at balance date

| BALANCE SHEET<br>NZD IN THOUSANDS ($000) | PARENT<br>As at<br>30 Sept 13 | <br>As at<br>30 Sept 12 | CONSOLIDATED<br>As at<br>30 Sept 13 | <br>As at<br>30 Sept 12 |
|---|---|---|---|---|
| i **Deferred tax liabilities** | | | | |
| Fixed assets | 34,775 | 36,082 | 35,500 | 36,670 |
| **Gross deferred tax liabilities** | **34,775** | **36,082** | **35,500** | **36,670** |
| Set-off of deferred tax assets | (34,775) | (27,616) | (34,775) | (27,616) |
| **Net deferred tax liabilities** | **-** | **8,466** | **725** | **9,054** |
| ii **Deferred tax assets** | | | | |
| ACC provision | 1,003 | 1,945 | 1,003 | 1,945 |
| Annual/long service leave | 4,425 | 4,505 | 4,425 | 4,505 |
| Bad debts provision | 192 | 317 | 192 | 317 |
| Bonus adjustment/admin provision | (205) | - | (205) | - |
| IRD investigation adjustments | 80 | 104 | 80 | 104 |
| Livestock procurement provision | 502 | 414 | 502 | 414 |
| Livestock revaluation | (231) | (624) | (231) | (624) |
| Losses carried forward | 28,827 | 20,652 | 28,827 | 20,652 |
| Other accruals | (1) | (23) | (1) | (23) |
| Quota | 83 | 223 | 83 | 223 |
| Restructure accruals | 103 | 102 | 103 | 102 |
| Other | (16) | - | (16) | - |
| Stock provision | 13 | 1 | 13 | 1 |
| **Gross deferred tax assets** | **34,775** | **27,616** | **34,775** | **27,616** |
| Set-off of deferred tax liabilities | (34,775) | (27,616) | (34,775) | (27,616) |
| **Net deferred tax assets** | **-** | **-** | **-** | **-** |

### Unrecognised temporary difference

At balance date there are no unrecognised temporary differences associated with the Group's investments in subsidiaries or associates, as the Group has no liability for additional taxation should unremitted earnings be remitted (2012: $nil). The company has tax losses carried forward of $111,421,000 (2012: $70,957,000) of which $8,469,000 (2012: $nil) are not recognised.

### Imputation credit balance

| PARENT<br>NZD IN THOUSANDS ($000) | Year ended<br>30 Sept 13 | Year ended<br>30 Sept 12 |
|---|---|---|
| **Balance at beginning of the year** | **1,442** | **4,118** |
| Other adjustments | (1,393) | 1,310 |
| Imputation credits attached to taxable bonus issue | - | (3,986) |
| **Balance at end of the year** | **49** | **1,442** |

At balance date the imputation credits available to the shareholders of the parent were:

| PARENT<br>NZD IN THOUSANDS ($000) | Year ended<br>30 Sept 13 | Year ended<br>30 Sept 12 |
|---|---|---|
| Through direct shareholding in the parent | 49 | 1,442 |
| Through indirect interest in subsidiaries | 186 | 186 |

## 9 MEMBERS' DISTRIBUTIONS PAID AND PROPOSED

| PARENT AND CONSOLIDATED<br>NZD IN THOUSANDS ($000) | Year ended<br>30 Sept 13 | Year ended<br>30 Sept 12 |
|---|---|---|
| **Recognised amounts** | | |
| *Declared and paid during the year:* | | |
| Dividends on convertible redeemable preference shares | - | 87 |
| **Total members' distributions paid and proposed** | **-** | **87** |

## 10 EARNINGS PER SHARE

The following reflects the income used in the basic and diluted earnings per share computations:

| CONSOLIDATED<br>NZD IN THOUSANDS ($000) | Year ended<br>30 Sept 13 | Year ended<br>30 Sept 12 |
|---|---|---|
| **a Earnings used in calculating earnings per share** | | |
| *For basic earnings per share:* | | |
| Profit/(loss) attributable to new ordinary shareholders of the parent | (28,551) | (31,121) |
| *For diluted earnings per share:* | | |
| Profit/(loss) attributable to new ordinary shareholders of the parent (from basic EPS) | (28,551) | (31,121) |

| CONSOLIDATED<br>NZD IN THOUSANDS ($000) | Year ended<br>30 Sept 13 | Year ended<br>30 Sept 12 |
|---|---|---|
| **b Weighted average number of shares** | | |
| Weighted average number of new ordinary shares for basic earnings per share | 100,379 | 99,717 |
| *Effect of dilution:* | | |
| Partly paid new ordinary shares | - | - |
| **Weighted average number of new ordinary shares adjusted for the effect of dilution** | **100,379** | **99,717** |

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.

## 11 CASH FLOW STATEMENT RECONCILIATION

Reconciliation of net profit/(loss) after tax to net cash flows from operations

| | | PARENT | | CONSOLIDATED |
|---|---|---|---|---|
| NZD IN THOUSANDS ($000) | Year ended<br>30 Sept 13 | Year ended<br>30 Sept 12 | Year ended<br>30 Sept 13 | Year ended<br>30 Sept 12 |
| Net profit/(loss) | (37,447) | (32,449) | (28,551) | (31,121) |
| *Adjustments for:* | | | | |
| Depreciation and amortisation | 29,731 | 24,951 | 30,500 | 25,178 |
| Foreign exchange movements in cash | - | - | 181 | 742 |
| Impairment of Investments | - | 3,659 | - | 3,659 |
| Interest accrual | - | (152) | - | (152) |
| Net (gain)/loss on disposal of property, plant and equipment | 107 | 311 | 116 | 312 |
| Net (gain)/loss on changes in fair market value of derivatives | 4,000 | (16,196) | 4,000 | (16,196) |
| Accrued interest on Shareholder advance | - | (367) | - | (367) |
| Associate dividends eliminated | - | - | 924 | 1,226 |
| Dividend Income classified as investing activity | 253 | 5,877 | - | - |
| Trade and other receivables movement classified as investing activities | (1,367) | 5,394 | (1,548) | (5,210) |
| Share of associate (income)/loss | - | - | (6,135) | 657 |
| Members' distribution | - | 87 | - | 87 |
| Other items | 157 | 332 | 157 | 290 |
| | **(4,566)** | **(8,553)** | **(356)** | **(20,895)** |
| *Changes in assets and liabilities:* | | | | |
| (Increase)/decrease in inventories | 9,514 | (69,387) | 16,341 | (82,905) |
| (Increase)/decrease in trade and other receivables | (5,272) | 1,585 | (18,779) | 22,706 |
| (Decrease)/increase in tax balance | (7,073) | (13,651) | (7,010) | (13,890) |
| (Decrease)/increase in provisions, trade and other payables | 2,296 | (15,001) | 4,733 | *(9,026)* |
| | **(535)** | **(96,454)** | **(4,715)** | **(83,115)** |
| **Net cash flows (used in)/ from operating activities** | **(5,101)** | **(105,007)** | **(5,071)** | **(104,010)** |

## 12 INVENTORIES

| NZD IN THOUSANDS ($000) | PARENT As at 30 Sept 13 | PARENT As at 30 Sept 12 | CONSOLIDATED As at 30 Sept 13 | CONSOLIDATED As at 30 Sept 12 |
|---|---|---|---|---|
| Meat and associated product inventory | 124,507 | 132,472 | 156,007 | 170,439 |
| Consumables and packaging | 9,372 | 9,326 | 9,372 | 9,686 |
| **Total inventories** | **133,879** | **141,798** | **165,379** | **180,125** |

The amount expensed in other operating costs for obsolete packaging was $47,500 (2012: $2,500) for the Parent and Group.

## 13 LIVESTOCK

| PARENT AND CONSOLIDATED<br>NZD IN THOUSANDS ($000) | As at 30 Sept 13 | As at 30 Sept 12 |
|---|---|---|
| **Opening balance** | **56,477** | **42,160** |
| Net movements in livestock | (4,313) | 14,127 |
| Changes in livestock fair value less estimated selling cost | 2,719 | 190 |
| **Closing balance** | **54,883** | **56,477** |

Livestock consists of sheep and cattle.

The Group purchases sheep and cattle through Lambplan, Beefplan and other procurement plans, as part of its normal operations, and also carries livestock on its own works' farms. Sheep and cattle are valued at fair value according to the accounting policy for livestock at note 2(j). At the end of the year the group held 75,068 head of cattle (2012: 55,284) and 54,018 head of sheep (2012: 113,407).

## 14 TRADE AND OTHER RECEIVABLES

| NZD IN THOUSANDS ($000) | PARENT As at 30 Sept 13 | PARENT As at 30 Sept 12 | CONSOLIDATED As at 30 Sept 13 | CONSOLIDATED As at 30 Sept 12 |
|---|---|---|---|---|
| Trade receivables | 116,158 | 110,796 | 138,794 | 131,927 |
| Allowance for impairment loss | (686) | (1,133) | (718) | (1,178) |
| **Total trade receivables excluding related parties** | **115,472** | **109,663** | **138,076** | **130,749** |
| **Related party receivables** | | | | |
| Trade receivables due from Associates | 7,515 | 146 | 7,515 | 146 |
| Trade receivables due from Subsidiaries | 41,879 | 50,678 | - | - |
| **Total related party receivables** | **49,394** | **50,824** | **7,515** | **146** |
| **Total trade receivables** | **164,866** | **160,487** | **145,591** | **130,895** |
| **Other receivables** | | | | |
| Advances due from Associates | 5,467 | 5,497 | 5,467 | 5,497 |
| Other prepayments and receivables | 27,496 | 26,604 | 27,696 | 23,614 |
| **Total other receivables** | **32,963** | **32,101** | **33,163** | **29,111** |
| **Total trade and other receivables** | **197,829** | **192,588** | **178,754** | **160,006** |
| Current | 186,531 | 181,021 | 167,456 | 148,439 |
| Non-Current | 11,298 | 11,567 | 11,298 | 11,567 |
| **Total trade and other receivables** | **197,829** | **192,588** | **178,754** | **160,006** |

Trade receivables are non-interest bearing and are generally on 30-90 day terms. An allowance has been made for estimated impairments from the sale of goods, determined by reference to past default experience.

The carrying amount of trade receivables disclosed above is a reasonable approximation of fair value.

For terms and conditions relating to related party receivables, refer to note 28.

a Allowance for impairment loss

Movements in the provision for impairment loss were as follows:

| NZD IN THOUSANDS ($000) | As at 30 Sept 13 | PARENT As at 30 Sept 12 | As at 30 Sept 13 | CONSOLIDATED As at 30 Sept 12 |
|---|---|---|---|---|
| **Opening balance** | **1,133** | **745** | **1,178** | **825** |
| Charge for the year | 24 | 898 | 35 | 916 |
| Utilised | (203) | (510) | (201) | (563) |
| Unused amounts reversed | (268) | - | (294) | - |
| **Closing balance** | **686** | **1,133** | **718** | **1,178** |

At balance date the aging analysis of trade receivables is as follows:

| NZD IN THOUSANDS ($000) | Total | 0 – 30 Days | 31 – 60 Days | 61 – 90 Days PDNI* | 91+ Days PDNI* |
|---|---|---|---|---|---|
| **As at 30 Sept 13** | | | | | |
| Consolidated | 145,591 | 109,752 | 29,898 | 5,842 | 99 |
| Parent | 164,866 | 107,095 | 35,607 | 15,303 | 6,861 |
| **As at 30 Sept 12** | | | | | |
| Consolidated | 130,895 | 121,013 | 9,529 | 353 | - |
| Parent | 160,487 | 125,551 | 17,075 | 17,861 | - |

* Past due not impaired ('PDNI').

Receivables past due but not considered impaired are: Consolidated $5,941,000 (2012: $353,000);
Parent $22,164,000 (2012: $17,861,000).

Other balances within trade and other receivables do not contain impaired assets and are not past due. It is expected that these other balances will be received when due.

The maximum exposure to credit risk is the fair value of receivables. Collateral is not held as security, nor is it the Group's policy to transfer (on sell) receivables to special purpose entities.

Detail regarding foreign exchange exposure and interest rate risk exposure is disclosed in note 24 and note 22.

## 15 AVAILABLE FOR SALE FINANCIAL ASSETS

| PARENT AND CONSOLIDATED<br>NZD IN THOUSANDS ($000) | As at 30 Sept 13 | As at 30 Sept 12 |
|---|---|---|
| **At fair value:** | | |
| Shares – New Zealand unlisted | 82 | 78 |
| **Total available for sale financial assets** | **82** | **78** |
| Current | - | - |
| Non-Current | 82 | 78 |
| **Total available for sale financial assets** | **82** | **78** |

Available for sale financial assets consist of investments in ordinary shares, and therefore have no fixed maturity date or coupon rate.

The fair value of unlisted available for sale investments has been estimated based upon an assessment of the underlying net asset value of the company and its future prospects. The fair value of listed available for sale investments has been determined directly by reference to published price quotations in an active market.

## 16 PROPERTY, PLANT AND EQUIPMENT

a Reconciliation of the carrying amounts at the beginning and end of the year

| PARENT<br>NZD IN THOUSANDS ($000) | Land | Buildings | Plant and Equipment | Vehicles | Work in progress | Total |
|---|---|---|---|---|---|---|
| **Year ended 30 Sept 2013** | | | | | | |
| At 1 October 2012, net of accumulated depreciation | 61,804 | 152,666 | 86,328 | 492 | 79,117 | 380,407 |
| Additions | 83 | 6,965 | 16,446 | 60 | 13,689 | 37,243 |
| Disposals | (658) | (468) | (1,555) | (341) | - | (3,022) |
| Reclassification of assets | 207 | 23,546 | 54,854 | - | (78,607) | - |
| Transfers (to)/from assets held for sale | (1,696) | (458) | (746) | - | - | (2,900) |
| Depreciation charge for the year | (167) | (10,638) | (17,352) | (80) | (977) | (29,214) |
| Depreciation on disposals | - | 35 | 656 | 335 | - | 1,026 |
| **At 30 Sept 2013, net of accumulated depreciation** | **59,573** | **171,648** | **138,631** | **466** | **13,222** | **383,540** |
| Cost or fair value | 60,019 | 202,801 | 441,387 | 3,979 | 14,199 | 722,385 |
| Accumulated depreciation and impairment | (446) | (31,153) | (302,756) | (3,513) | (977) | (338,845) |
| **Net carrying value** | **59,573** | **171,648** | **138,631** | **466** | **13,222** | **383,540** |

b Reconciliation of the carrying amounts at the beginning and end of the year

| CONSOLIDATED<br>NZD IN THOUSANDS ($000) | Land | Buildings | Plant and Equipment | Vehicles | Work in progress | Total |
|---|---|---|---|---|---|---|
| **Year ended 30 Sept 2013** | | | | | | |
| At 1 October 2012, net of accumulated depreciation | 62,522 | 158,248 | 89,888 | 493 | 79,117 | 390,268 |
| Additions | 83 | 6,965 | 16,484 | 60 | 13,689 | 37,281 |
| Disposals | (667) | (160) | (2,062) | (342) | - | (3,231) |
| Reclassification of assets | 207 | 23,546 | 54,854 | - | (78,607) | - |
| Transfers (to)/from assets held for sale | (1,696) | (458) | (746) | - | - | (2,900) |
| Depreciation charge for the year | (168) | (10,856) | (17,836) | (80) | (977) | (29,917) |
| Depreciation on disposals | - | 35 | 795 | 335 | - | 1,165 |
| Exchange adjustment | - | 19 | 27 | - | - | 46 |
| **At 30 Sept 2013, net of accumulated depreciation** | **60,281** | **177,339** | **141,404** | **466** | **13,222** | **392,712** |
| Cost or fair value | 60,727 | 208,735 | 444,628 | 4,028 | 14,199 | 732,317 |
| Accumulated depreciation and impairment | (446) | (31,396) | (303,224) | (3,562) | (977) | (339,605) |
| **Net carrying value** | **60,281** | **177,339** | **141,404** | **466** | **13,222** | **392,712** |

c Reconciliation of the carrying amounts at the beginning and end of the year

| PARENT<br>NZD IN THOUSANDS ($000) | Land | Buildings | Plant and Equipment | Vehicles | Work in progress | Total |
|---|---|---|---|---|---|---|
| **Year ended 30 Sept 2012** | | | | | | |
| At 1 October 2011, net of accumulated depreciation | 63,518 | 159,504 | 87,694 | 587 | 16,929 | 328,232 |
| Additions | 336 | 1,059 | 12,061 | 23 | 63,727 | 77,206 |
| Disposals | - | (443) | (4,819) | (1,808) | 11 | (7,059) |
| Impairment of assets | (1,248) | 2,371 | - | - | (1,123) | - |
| Transfers (to)/from assets held for sale | (658) | - | - | - | - | (658) |
| Depreciation charge for the year | (144) | (9,953) | (13,349) | (90) | (427) | (23,963) |
| Depreciation on disposals | - | 128 | 4,741 | 1,780 | - | 6,649 |
| **At 30 Sept 2012, net of accumulated depreciation** | **61,804** | **152,666** | **86,328** | **492** | **79,117** | **380,407** |
| Cost or fair value | 62,083 | 172,986 | 371,623 | 4,260 | 79,544 | 690,496 |
| Accumulated depreciation and impairment | (279) | (20,320) | (285,295) | (3,768) | (427) | (310,089) |
| **Net carrying value** | **61,804** | **152,666** | **86,328** | **492** | **79,117** | **380,407** |

d Reconciliation of the carrying amounts at the beginning and end of the year

| CONSOLIDATED<br>NZD IN THOUSANDS ($000) | Land | Buildings | Plant and Equipment | Vehicles | Work in progress | Total |
|---|---|---|---|---|---|---|
| **Year ended 30 Sept 2012** | | | | | | |
| At 1 October 2011, net of accumulated depreciation | 64,166 | 163,049 | 88,499 | 598 | 16,929 | 333,241 |
| Additions | 406 | 3,256 | 14,920 | 23 | 63,727 | 82,332 |
| Disposals | - | (443) | (4,858) | (1,829) | 11 | (7,119) |
| Reclassification of assets | (1,248) | 2,371 | - | - | (1,123) | - |
| Transfers (to)/from assets held for sale | (658) | - | - | - | - | (658) |
| Depreciation charge for the year | (144) | (10,072) | (13,417) | (100) | (427) | (24,160) |
| Depreciation on disposals | - | 127 | 4,780 | 1,801 | - | 6,708 |
| Exchange adjustment | - | (40) | (36) | - | - | (76) |
| **At 30 Sept 2012, net of accumulated depreciation** | **62,522** | **158,248** | **89,888** | **493** | **79,117** | **390,268** |
| Cost or fair value | 62,802 | 178,823 | 376,072 | 4,309 | 79,544 | 701,550 |
| Accumulated depreciation and impairment | (280) | (20,575) | (286,184) | (3,816) | (427) | (311,282) |
| **Net carrying value** | **62,522** | **158,248** | **89,888** | **493** | **79,117** | **390,268** |

e Revaluation of operational land and buildings

The Group engaged Darroch Limited, an accredited independent valuer that uses the International Valuation Standards Committee, International Valuation Standards as a reference, to determine the fair value of its operational land and buildings at 30 September 2010.

Fair value is the amount for which the assets could be exchanged between a knowledgeable willing buyer and a knowledgeable willing seller in an arm's length transaction as at the valuation date. Fair value is determined by direct reference to recent market transactions on arm's length terms for land and buildings comparable in size and location to those held by the Group, and to market based yields for comparable properties. Where there is limited information available relating to specialised assets that are rarely, if ever, sold on the open market, the Depreciated Replacement Cost (DRC) method is normally applied. DRC is based on an estimate of current gross replacement (or reproduction) cost less allowances for physical deterioration and all relevant forms of obsolescence.

The effective date of the revaluation was 30 September 2010. Additions since that date of $92,210,000 have been initially recorded at cost.

If operational land and buildings were measured using the cost model the carrying amounts would be as follows:

| NZD IN THOUSANDS ($000) | PARENT<br>As at<br>30 Sept 13 | <br>As at<br>30 Sept 12 | CONSOLIDATED<br>As at<br>30 Sept 13 | <br>As at<br>30 Sept 12 |
|---|---|---|---|---|
| Cost | 201,477 | 171,295 | 203,362 | 173,180 |
| Accumulated depreciation | (78,857) | (75,060) | (79,569) | (75,817) |
| **Net carrying amount** | **122,620** | **96,235** | **123,793** | **97,363** |

f Assets held for sale

| PARENT AND CONSOLIDATED<br>NZD IN THOUSANDS ($000) | As at 30 Sept 13<br>Cost/ Valuation | <br>Accum. Deprec. | <br>Writedown | <br>Book Value | As at 30 Sept 12<br>Cost/ Valuation | <br>Accum. Deprec. | <br>Writedown | <br>Book Value |
|---|---|---|---|---|---|---|---|---|
| Freehold land (at valuation) | 2,382 | (29) | - | 2,353 | 658 | - | - | 658 |
| Freehold buildings (at valuation) | 693 | (183) | (52) | 458 | - | - | - | - |
| Plant and equipment | 7,537 | (6,791) | - | 746 | - | - | - | - |
| **Total assets held for sale** | **10,612** | **(7,003)** | **(52)** | **3,557** | **658** | **-** | **-** | **658** |

g Carrying value of plant and equipment under finance leases

The carrying value of plant and equipment held under finance leases and hire purchase contracts at 30 September 2013 is $178,000 (2012: $330,000).

h Expenditure recognised in the course of construction

Work in Progress at 30 September 2013 relates to buildings and site developments currently under construction.

## 17 TRADE AND OTHER PAYABLES

| NZD IN THOUSANDS ($000) | PARENT As at 30 Sept 13 | As at 30 Sept 12 | CONSOLIDATED As at 30 Sept 13 | As at 30 Sept 12 |
|---|---|---|---|---|
| Trade payables | 63,546 | 68,920 | 66,050 | 68,670 |
| Other payables | 24,540 | 22,370 | 24,673 | 23,009 |
| Subsidiaries | 8,591 | 8,361 | - | - |
| Associates | 5,172 | 95 | 5,172 | 95 |
| **Total trade and other payables** | **101,849** | **99,746** | **95,895** | **91,774** |

Trade payables are non-interest bearing and are normally settled on 30 day terms. Livestock purchases are paid in 6-14 days, except for 10% of the purchase price under the retention system which is paid up to 120 days after purchase. Other payables are non-interest bearing and have an average term of 3 months.

## 18 INTEREST BEARING LOANS AND BORROWINGS

| NZD IN THOUSANDS ($000) | Average Effective Interest Rate (%) | Maturity | PARENT As at 30 Sept 13 | As at 30 Sept 12 | CONSOLIDATED As at 30 Sept 13 | As at 30 Sept 12 |
|---|---|---|---|---|---|---|
| **Current** | | | | | | |
| NZ bank overdraft (9.5m) | 10.45% | On demand | - | - | - | - |
| GBP bank overdraft (GBP 1.5m) | 2.65% | On demand | - | - | 1,495 | 1,954 |
| **Total overdrafts** | | | **-** | **-** | **1,495** | **1,954** |
| Obligations under finance leases | 10.75% | Current | 139 | 151 | 139 | 151 |
| Discounted bills of exchange | 2.07% | Current | 37,500 | 32,111 | 37,500 | 32,111 |
| Secured loan | 4.48% | Current | 349,500 | 316,500 | 349,500 | 316,500 |
| **Total interest bearing loans and borrowings – current** | | | **387,139** | **348,762** | **387,139** | **348,762** |
| **Non-current** | | | | | | |
| Obligations under finance leases | 10.75% | | 37 | 176 | 37 | 176 |
| Secured loan | 4.48% | | - | - | - | - |
| **Total interest bearing loans and borrowings – non-current** | | | **37** | **176** | **37** | **176** |

All secured loans are classified as current liabilities at balance date, under the banking facilities in place at 30 September 2013. The banking facility that was due to expire on 31 December 2013 was renegotiated at year end, and on 5 November 2013 a new banking agreement with the existing banking syndicate was entered into for a 2 year term ending 31 October 2015.

The facility provides the company with core debt funding of $200m, reducing to $160m by 1 October 2014.

The facility also provides additional 2013/14 seasonal funding of up to $409m at season peak, reducing to $129m at 30 September 2014. Total facilities available at peak for the 2013/14 season amount to $609m.

The company will negotiate the seasonal funding facility requirements for the 2014/15 season with the banking syndicate based on the 2014/2015 budget before 30 September 2014.

The company has appointed PricewaterhouseCoopers to undertake a strategic review of the business. The review work streams will focus on all aspects of the business, including business restructuring, and the identification of longer term strategic capital structure options. The company has also commenced strategies to reduce working capital and to undertake a number of minor asset sales.

### a Fair values and security

The carrying amount of the Group's current and non-current borrowings approximate their fair value. For interest rate, foreign exchange and liquidity risk, refer note 22.

The Group grants to Westpac Banking Corporation, as security agent for the banking syndicate, a security interest in all of its personal property and a fixed charge over all of its non-personal property, as security for the due payment of the secured money and for the due performance and observance of, and compliance with, the secured obligations.

| NZD IN THOUSANDS ($000) | As at 30 Sept 13 | PARENT As at 30 Sept 12 | As at 30 Sept 13 | CONSOLIDATED As at 30 Sept 12 |
|---|---|---|---|---|
| Current assets | 390,474 | 399,745 | 403,983 | 407,157 |
| Non-current assets | 458,445 | 455,113 | 429,296 | 421,319 |
| **Total assets pledged as security** | **848,919** | **854,858** | **833,279** | **828,476** |

The security interest and the fixed charge created by the deed are each first ranking charges except where the security agent otherwise consents in writing.

Each group company jointly and severally guarantees to the security agent unconditionally and irrevocably the due payment of the secured money, and the due performance of, and compliance with, the secured obligations.

Each group company acknowledges and agrees with the provisions set out in the terms of the General Security deed.

b Defaults and breaches

There were no breaches of covenants as at 30 September 2013 (30 September 2012: nil).

## 19 PROVISIONS

| PARENT<br>NZD IN THOUSANDS ($000) | Accident Future Costs | Livestock Procurement Provision | Employee Entitlements | Restructuring | Total |
|---|---|---|---|---|---|
| **At 1 October 2012** | **3,270** | **1,472** | **21,329** | **364** | **26,435** |
| Arising during the year | 934 | 2,025 | 23,377 | 366 | 26,702 |
| Utilised | (1,324) | (722) | (23,116) | (162) | (25,324) |
| Excess provision released | - | (981) | - | (202) | (1,183) |
| **At 30 September 2013** | **2,880** | **1,794** | **21,590** | **366** | **26,630** |
| Current 2013 | 1,841 | 1,794 | 13,315 | 366 | 17,316 |
| Non-Current 2013 | 1,039 | - | 8,275 | - | 9,314 |
| | **2,880** | **1,794** | **21,590** | **366** | **26,630** |
| Current 2012 | 2,133 | 1,472 | 12,372 | 364 | 16,341 |
| Non-Current 2012 | 1,137 | - | 8,957 | - | 10,094 |
| | **3,270** | **1,472** | **21,329** | **364** | **26,435** |

| CONSOLIDATED<br>NZD IN THOUSANDS ($000) | Accident Future Costs | Livestock Procurement Provision | Employee Entitlements | Restructuring | Total |
|---|---|---|---|---|---|
| **At 1 October 2012** | **3,270** | **1,473** | **21,590** | **364** | **26,697** |
| Arising during the year | 934 | 2,025 | 23,379 | 366 | 26,704 |
| Utilised | (1,324) | (722) | (23,244) | (162) | (25,453) |
| Excess provision released | - | (981) | - | (202) | (1,183) |
| **At 30 September 2013** | **2,880** | **1,795** | **21,724** | **366** | **26,765** |
| Current 2013 | 1,841 | 1,795 | 13,449 | 366 | 17,451 |
| Non-Current 2013 | 1,039 | - | 8,275 | - | 9,314 |
| | **2,880** | **1,795** | **21,724** | **366** | **26,765** |
| Current 2012 | 2,133 | 1,473 | 12,633 | 364 | 16,603 |
| Non-Current 2012 | 1,137 | - | 8,957 | - | 10,094 |
| | **3,270** | **1,473** | **21,590** | **364** | **26,697** |

a Accident future cost provision

The group participates in the ACC Partnership Programme, Full Self Cover Plan. The provision for the future cost of accidents related to the estimated future cost of accidents incurred by employees that the Group will have to bear. These payments are ongoing throughout the lifetime of the rehabilitation period.

## ACC PARTNERSHIP PROGRAMME: OVERVIEW

### Responsibilities and Accountabilities

The General Manager Human Resources is responsible for the development and ongoing review of injury management policy and procedures in consultation with relevant parties. This includes the establishment and monitoring of the partnership programme contract with ACC and notification to them of changes in the Silver Fern Farms Limited injury management operations or personnel.

Risks are managed by ensuring the manager has a working knowledge of the relevant legislation and information and communication requirements. Rehabilitation is managed as soon as practicable through liaising with treatment providers, claims administrators and the claimant.

### Assumptions and methodology used

The chain ladder is used to project the ultimate number of claims expected from each accident period using historic cumulative ratios of claims. An approach called the Payments Per Claim Incurred (PPCI) Method has been used to determine suitable expected claim payment patterns for the average claim.

In the development of Claim Payment Patterns and projecting claim payment liabilities the following economic assumptions have been made:

Pre valuation date claim inflation has been taken as 50% (2012: 50%) of movements in the Consumer Price Index (CPI) and 50% (2012: 50%) of the movements in the Average Weekly Earnings (AWE) Index. This assumes that increases in claim costs are equally affected by general price increases and by wage increases.

Post valuation date claim inflation has been taken as 2.2% (2012: 3.5%) pa. Most claims are of a short to medium term duration and we are currently in an environment where inflation and wage increases are likely to run above the norm in the short to medium term.

The Discount Rate used is 2.6% (2012: 3.5%) pa. This is approximately the average gross yield on Government Bonds of short to medium term duration consistent with the duration of the liabilities.

The actuarial assessment of the provision for future claims was prepared by Marcelo Lardies (BSc Hons) of AON New Zealand Limited, effective 30 September 2013. The assessment is dated 7 October 2013 (2012: 10 October 2012).

### b Employee entitlements

Included in employee entitlements is wages and salaries payable, annual leave due and long service leave payable. Wages, salaries and annual leave are measured at the amounts expected to be paid when liabilities are settled. Long service leave is recognised at the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. These provisions will reduce as the entitlements fall due.

An independent actuarial valuation was undertaken as at 30 September 2013 to estimate the present value of long service leave.

The present value of the long service leave obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. Two key assumptions used in calculating the liability include the discount rate and the salary inflation factor. Any changes in these assumptions will impact on the carrying amount of the liability.

The weighted average yields on NZ Government stock with terms of maturity that match closely to the estimated future cash outflows have been used in determining the discount rate. The discount rates applied to the anticipated annual future cashflows range from 2.8% to 5.5% (2012: 2.4% to 6.0%).

The historical salary and wage growth patterns have been used in determining the salary and wage inflation factor after obtaining advice from an independent actuary. The growth rates applied to salary and wages costs range from 0.0% to 3.0% (2012: 1.5% to 3.0%).

The actuarial assessment of the provision for the long service leave liability was prepared by Marcelo Lardies (BSc Hons) of AON New Zealand Limited, effective 30 September 2013. The assessment is dated 23 October 2013 (2012: 9 November 2012).

### c Other provisions

The livestock procurement provision relates to incentive payments made in addition to schedule payments for certain classes of livestock. Payments are made on a six monthly basis and annual basis. The restructuring provision was established for obligations at year end relating to the reconfiguration of operations. The residual in the restructuring provision will be utilised during the 2013/2014 financial year.

## 20 Members' Shares and New Ordinary Shares

| PARENT AND CONSOLIDATED<br>NZD IN THOUSANDS ($000) | Redeemable Preference Shares | Supplier Investment Shares | Members' Ordinary Shares | New Ordinary Shares | Total |
|---|---|---|---|---|---|
| **Balance as at 1 October 2011** | **1,584** | **7,155** | **19,601** | **133,847** | **162,187** |
| Supplier investment shares exchanged for New ordinary shares | - | (1,175) | - | 1,175 | - |
| Members' rebate ordinary shares exchanged for New ordinary shares | - | - | (1,473) | 1,473 | - |
| **Total of transactions associated with Exchange offer** | **-** | **(1,175)** | **(1,473)** | **2,648** | **-** |
| Shares issued/(repaid) during the year | (1,584) | - | - | - | (1,584) |
| Shares surrendered | - | (146) | (716) | - | (862) |
| **Balance as at 30 September 2012** | **-** | **5,834** | **17,412** | **136,495** | **159,741** |
| Shares surrendered | - | (142) | (782) | - | (924) |
| **Balance as at 30 September 2013** | **-** | **5,692** | **16,630** | **136,495** | **158,817** |
| **Called / Uncalled** | | | | | |
| 16.630m Members' ordinary shares of $1 each | - | - | 16,630 | - | 16,630 |
| 98.075m New ordinary shares - fully paid | - | - | - | 112,033 | 112,033 |
| 2.304m New ordinary shares - partly paid | - | - | - | 24,462 | 24,462 |
| **Issued and fully paid** | **-** | **-** | **16,630** | **136,495** | **153,125** |

a Members' shares

Silver Fern Farms Limited has two classes of Members' shares: Members' ordinary shares which are issued to suppliers who supply stock under Silver Fern Farms Limited's rebate system and Supplier investment shares, which are issued to all suppliers of stock to Silver Fern Farms (subject to certain restrictions). All Members' shares have a nominal value of one dollar per share. Supplier investment shares are paid to ninety cents by the supplier with the balance of ten cents being paid by way of a dividend from retained earnings. Members' shares are currently classified as a financial liability as Silver Fern Farms does not have the unconditional right to refuse redemption

Members' ordinary shares carry full voting rights subject to the shareholder being a Current Supplier (as defined in the constitution of Silver Fern Farms Limited) at the time of voting. Supplier investment shares carry voting rights in relation to director elections only. Ordinary Shares participate equally on winding up.

The maximum shareholding for Members' ordinary shares and Supplier investment shares is 17,500 (2012: 17,500) and 15,000 (2012: 15,000) respectively.

Silver Fern Farms Limited's Members' shares are eligible to receive a dividend subject to profitability, although any such dividend is likely to be restricted to fully paid Supplier investment shares. Members' ordinary shares shareholders are eligible to receive a rebate based on the profit earned from stock supplied.

b New ordinary shares issued

As part of the change in the capital structure, shareholders could elect to exchange Members' ordinary 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.

| PARENT AND CONSOLIDATED<br>NZD IN THOUSANDS ($000) | As at 30 Sept 13 | As at 30 Sept 12 |
|---|---|---|
| Deferred payments due within 12 months | 1,324 | 2,541 |
| **Total deferred payments** | **1,324** | **2,541** |

## 21 RESERVES

### Nature and purpose of reserves

The asset revaluation reserve is used to record increments and decrements in the fair value of operational land and buildings to the extent that they offset one another.

The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries.

## 22 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments, other than derivatives, comprise trade debtors, trade creditors, bank loans, redeemable preference shares, finance leases, and cash. The Group also enters into derivative transactions consisting principally of forward currency contracts and options. The purpose is to manage the foreign currency risks arising from the Group's operations.

It is, and has been throughout the period under review, the Group's policy that no trading in financial instruments shall be undertaken.

The main risks arising from the Group's financial instruments are interest rate risk, liquidity risk, foreign currency risk and credit risk. The board reviews and agrees policies for managing each of these risks and they are summarised below.

The Group also monitors the market price risk arising from all financial instruments. The Group's accounting policies in relation to derivatives are set out in note 2k.

### Interest rate risk management

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The Group's exposure to market risk for changes in interest rates relates primarily to the Group's long-term debt obligations. The Group's policy is to manage its interest cost using a mix of fixed and variable rate debt. Interest rate swaps have not been used to manage interest rate risk. The Group's policy is to keep between 0% and 100% of its borrowings at fixed rates of interest. At 30 September 2013, none of the Group's borrowings were at a fixed rate of interest (2012: 0%). If interest rates on borrowings at balance date had fluctuated by plus or minus 0.5%, the effect would have been to increase or decrease the surplus after tax and equity for both the parent and group by $1,748,000 (2012: $1,583,000).

At balance date, the Group had the following mix of financial assets and liabilities exposed to New Zealand interest rate risk:

| NZD IN THOUSANDS ($000) | PARENT<br>As at<br>30 Sept 13 | <br>As at<br>30 Sept 12 | CONSOLIDATED<br>As at<br>30 Sept 13 | <br>As at<br>30 Sept 12 |
|---|---|---|---|---|
| **Financial Assets** | | | | |
| Cash and cash equivalents | 56 | 1,820 | 1,068 | 3,222 |
| **Financial Liabilities** | | | | |
| Bank overdrafts | - | - | (1,495) | (1,954) |
| Discounted bills of exchange | (37,500) | (32,111) | (37,500) | (32,111) |
| Bank loans | (349,500) | (316,500) | (349,500) | (316,500) |
| Advance from subsidiary | (8,542) | (8,543) | - | - |
| **Net exposure to interest rate risk** | **(395,486)** | **(355,334)** | **(387,427)** | **(347,343)** |

### Foreign currency risk management

Currency Risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group has exposure to foreign currency risk as a result of transactions denominated in foreign currencies arising from normal trading activities. Where exposures are certain, or able to be forecast with reasonable accuracy, it is Group's policy to economically hedge these risks as they arise. The Group uses foreign exchange contracts to manage these exposures. If exchange rates at balance date had fluctuated by plus or minus 5%, the effect would have been to increase or decrease the profit or loss by $5,400,000 (2012: $5,400,000) for both the Parent and the Group and other comprehensive income by $5,400,000 (2012: $5,400,000) for the Group.

The net exposures of other financial instruments is detailed below:

| CONSOLIDATED<br>NZD IN THOUSANDS ($000) | AUD | CAD | EUR | GBP | JPY | SGD | USD |
|---|---|---|---|---|---|---|---|
| **As at 30 September 2013** | | | | | | | |
| Cash at bank/(overdraft) | 32 | 6 | 1 | (929) | - | 185 | 32 |
| Debtors | 60 | 2,981 | 25,977 | 22,577 | - | 631 | 76,645 |
| Foreign payables - marine freight and commission | - | - | (1,251) | - | - | - | (2,302) |
| **Net exposure to currency risk** | **92** | **2,987** | **24,727** | **21,648** | **-** | **816** | **74,375** |
| **Foreign exchange cover** | **-** | **4,000** | **74,002** | **41,016** | **-** | **-** | **206,810** |
| **As at 30 September 2012** | | | | | | | |
| Cash at bank/(overdraft) | (17) | 1 | 52 | (1,122) | 8 | 143 | 300 |
| Debtors | 336 | 3,898 | 36,577 | 17,571 | - | 1,474 | 49,385 |
| Foreign payables - marine freight and commission | - | - | (1,080) | - | - | - | (2,289) |
| **Net exposure to currency risk** | **319** | **3,899** | **35,549** | **16,449** | **8** | **1,617** | **47,396** |
| **Foreign exchange cover** | **-** | **7,495** | **72,125** | **43,525** | **-** | **-** | **155,535** |

As part of Silver Fern Farms Limited's normal business operations the company engages in forward exchange cover. This cover also manages the company's foreign currency risk in relation to inventory and livestock.

### Credit risk management

Credit risk is the risk that a third party will default on its obligation to the Group, causing the Group to incur a loss. Financial instruments which potentially subject the Group to credit risk consist of bank balances, accounts receivable, foreign exchange contracts and other instruments.

The Group manages this risk by only trading with recognised, creditworthy third parties.

It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, trade and other receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant. There are no significant concentrations of credit risk within the Group. The carrying amount of financial assets that would otherwise be past due or impaired, whose terms have been negotiated is $nil (2012: $nil). No collateral is held on the above amounts.

At balance date, the Group had the following financial assets exposed to credit risk.

| | | PARENT | | CONSOLIDATED |
|---|---|---|---|---|
| NZD IN THOUSANDS ($000) | As at 30 Sept 13 | As at 30 Sept 12 | As at 30 Sept 13 | As at 30 Sept 12 |
| **Assets** | | | | |
| Cash and cash equivalents | 56 | 1,820 | 1,068 | 3,222 |
| Accounts receivable | 197,829 | 192,588 | 178,754 | 160,006 |
| Financial assets | 1,324 | 2,541 | 1,324 | 2,541 |
| Derivative financial instruments | 10,244 | 14,037 | 10,244 | 14,037 |
| **Maximum exposure to credit risk** | **209,453** | **210,986** | **191,390** | **179,806** |
| **Liabilities** | | | | |
| Bank overdraft | - | - | (1,495) | (1,954) |
| Derivative financial instruments | (953) | (747) | (953) | (747) |
| **Net exposure to credit risk** | **208,500** | **210,239** | **188,942** | **177,105** |

### Liquidity risk management

Liquidity risk is the risk that Silver Fern Farms will encounter difficulty raising liquid funds to meet commitments as they fall due.

Liquidity risk is managed to meet known and reasonable unforeseen funding requirements by arranging and structuring long term funding for the company from debt lenders and optimising flexibility and spread of debt maturity within the funding risk limits established by the treasury policy statement.

Refer to note 23(b) for a contractual analysis of financial liabilities.

### Price risk

The Group is exposed to equity price risks arising from equity investments. Equity investments are held for strategic rather than trading purposes. The Group does not actively trade these investments.

If equity prices had been 5% higher or lower the effect would have been to increase or decrease other comprehensive income by $nil (2012: $nil).

### Capital management

The company recognises its corporate and financial governance responsibilities for the efficient and prudent management of capital to ensure sufficient cashflow (internal or external) is available to execute business strategy and plans, despite potential periods of unfavourable cashflow movement whilst maximising shareholder returns and profitability of the business. Capital management includes consideration of appropriate levels of issued ordinary, rebate, supplier investment and redeemable preference shares, retained earnings and reserves together with bank and other borrowing initiatives.

Capital optimisation is considered in light of Industry best practices for a company the size and business type of Silver Fern Farms and the risk bearing ability and tolerance levels of the underlying business, shareholders and lenders. Financial risk management actions are undertaken to minimise the cost of funds through proactive interest rate risk management within approved treasury policy risk control limits that meet debt lender(s) and shareholder requirements.

The company has agreed to certain capital requirements with the banking syndicate. Minimum Shareholder Funds and Debt to Equity ratios are regularly monitored. There was a breach of the debt to equity ratio during the year and the breach was waived by the banking syndicate during the year.

## 23 FINANCIAL INSTRUMENTS

Detail of the significant accounting policies and methods adopted, including the criteria for recognition and the basis in which income and expenses are recognised, in respect of each class of financial asset and financial liability instrument, are disclosed in the Statement of Accounting Policies.

### a Categories of Financial Instruments

| NZD IN THOUSANDS ($000) | | PARENT As at 30 Sept 13 | PARENT As at 30 Sept 12 | CONSOLIDATED As at 30 Sept 13 | CONSOLIDATED As at 30 Sept 12 |
|---|---|---|---|---|---|
| **Financial Assets** | **Category** | | | | |
| Cash and bank | Fair value through profit and loss | 56 | 1,820 | 1,068 | 3,222 |
| Derivatives | Fair value through profit and loss | 10,244 | 14,037 | 10,244 | 14,037 |
| Financial assets | Loans and receivables | 1,324 | 2,541 | 1,324 | 2,541 |
| Trade & other receivables | Loans and receivables | 186,531 | 181,021 | 167,456 | 148,439 |
| Trade and other receivables (non-current) | Loans and receivables | 11,298 | 11,567 | 11,298 | 11,567 |
| Tax receivable | Loans and receivables | - | 1,393 | - | 1,658 |
| Available for sale financial assets | Available for sale financial assets | 82 | 78 | 82 | 78 |
| **Total financial assets** | | **209,535** | **212,457** | **191,472** | **181,542** |
| **Financial Liabilities** | | | | | |
| Bank overdraft | Fair value through profit and loss | - | - | 1,495 | 1,954 |
| Derivatives | Fair value through profit and loss | 953 | 747 | 953 | 747 |
| Trade and other payables | Recorded at amortised cost | 101,849 | 99,746 | 95,895 | 91,774 |
| Members' shares | Recorded at amortised cost | 22,322 | 23,246 | 22,322 | 23,246 |
| Interest bearing loans and borrowings | Recorded at amortised cost | 387,139 | 348,762 | 387,139 | 348,762 |
| Interest bearing loans and borrowings (non-current) | Recorded at amortised cost | 37 | 176 | 37 | 176 |
| **Total financial liabilities** | | **512,300** | **472,677** | **507,841** | **466,659** |
| **Net Exposure** | | **(302,765)** | **(260,220)** | **(316,369)** | **(285,117)** |

### b Maturity Profile in Contractual Cashflow Order

| PARENT<br>NZD IN THOUSANDS ($000) | 6 months or less | Between 6 – 12 months | Between 1 – 5 years | >5 years | Total |
|---|---|---|---|---|---|
| **As at 30 September 2013** | | | | | |
| **Financial Assets** | | | | | |
| Cash and cash equivalents | 56 | - | - | - | 56 |
| Derivatives | 10,244 | - | - | - | 10,244 |
| Financial assets | 1,324 | - | - | - | 1,324 |
| Trade and other receivables | 186,406 | 124 | 9,021 | 2,278 | 197,829 |
| Available for sale financial assets | - | - | 82 | - | 82 |
| | **198,030** | **124** | **9,103** | **2,278** | **209,535** |
| **Financial Liabilities** | | | | | |
| Derivatives | 953 | - | - | - | 953 |
| Trade and other payables | 101,849 | - | - | - | 101,849 |
| Interest bearing loans and borrowings | 387,176 | - | | - | 387,176 |
| Supplier investment shares | - | - | - | 5,692 | 5,692 |
| Members' ordinary shares | - | - | - | 16,630 | 16,630 |
| | **489,978** | **-** | **-** | **22,322** | **512,300** |
| **Net maturity** | **(291,948)** | **124** | **9,103** | **(20,044)** | **(302,765)** |

| CONSOLIDATED<br>NZD IN THOUSANDS ($000) | 6 months or less | Between 6 – 12 months | Between 1 – 5 years | >5 years | Total |
|---|---|---|---|---|---|
| **As at 30 September 2013** | | | | | |
| **Financial Assets** | | | | | |
| Cash and cash equivalents | 1,068 | - | - | - | 1,068 |
| Derivatives | 10,244 | - | - | - | 10,244 |
| Financial assets | 1,324 | - | - | - | 1,324 |
| Trade and other receivables | 167,332 | 124 | 9,021 | 2,278 | 178,754 |
| Available for sale financial assets | - | - | 82 | - | 82 |
| **Total financial assets** | **179,968** | **124** | **9,103** | **2,278** | **191,472** |
| **Financial Liabilities** | | | | | |
| Bank overdraft | 1,495 | - | - | - | 1,495 |
| Derivatives | 953 | - | - | - | 953 |
| Trade and other payables | 95,895 | - | - | - | 95,895 |
| Interest bearing loans and borrowings | 387,176 | - | - | - | 387,176 |
| Supplier investment shares | - | - | - | 5,692 | 5,692 |
| Members' ordinary shares | - | - | - | 16,630 | 16,630 |
| **Total financial liabilities** | **485,519** | **-** | **-** | **22,322** | **507,841** |
| **Net maturity** | **(305,551)** | **124** | **9,103** | **(20,044)** | **(316,369)** |

| PARENT<br>NZD IN THOUSANDS ($000) | 6 months or less | Between 6 – 12 months | Between 1 – 5 years | >5 years | Total |
|---|---|---|---|---|---|
| **As at 30 September 2012** | | | | | |
| **Financial Assets** | | | | | |
| Cash and cash equivalents | 1,820 | - | - | - | 1,820 |
| Derivatives | 14,037 | - | - | - | 14,037 |
| Financial assets | 2,541 | - | - | - | 2,541 |
| Trade and other receivables | 180,897 | 124 | 7,469 | 4,097 | 192,588 |
| Tax Receivable | 1,393 | - | - | - | 1,393 |
| Available for sale financial assets | - | - | - | 78 | 78 |
| **Total financial assets** | **200,688** | **124** | **7,469** | **4,175** | **212,457** |
| **Financial Liabilities** | | | | | |
| Derivatives | 747 | - | - | - | 747 |
| Trade and other payables | 99,746 | - | - | - | 99,746 |
| Interest bearing loans and borrowings | 316,651 | - | 176 | - | 316,827 |
| Supplier investment shares | - | - | - | 5,834 | 5,834 |
| Members' ordinary shares | - | - | - | 17,412 | 17,412 |
| **Total financial liabilities** | **417,144** | **-** | **176** | **23,246** | **440,566** |
| **Net maturity** | **(216,456)** | **124** | **7,293** | **(19,071)** | **(228,109)** |

| CONSOLIDATED<br>NZD IN THOUSANDS ($000) | 6 months or less | Between 6 – 12 months | Between 1 – 5 years | >5 years | Total |
|---|---|---|---|---|---|
| **As at 30 September 2012** | | | | | |
| **Financial Assets** | | | | | |
| Cash and cash equivalents | 3,222 | - | - | - | 3,222 |
| Derivatives | 14,037 | - | - | - | 14,037 |
| Financial assets | 2,541 | - | - | - | 2,541 |
| Trade and other receivables | 148,316 | 124 | 7,469 | 4,097 | 160,006 |
| Tax Receivable | 1,658 | - | - | - | 1,658 |
| Available for sale financial assets | - | - | - | 78 | 78 |
| **Total financial assets** | **169,774** | **124** | **7,469** | **4,175** | **181,542** |
| **Financial Liabilities** | | | | | |
| Bank overdraft | 1,954 | - | - | - | 1,954 |
| Derivatives | 747 | - | - | - | 747 |
| Trade and other payables | 91,774 | - | - | - | 91,774 |
| Secured loans | 316,651 | - | 176 | - | 316,827 |
| Supplier investment shares | - | - | - | 5,834 | 5,834 |
| Members' ordinary shares | - | - | - | 17,412 | 17,412 |
| **Total financial liabilities** | **411,126** | **-** | **176** | **23,246** | **434,548** |
| **Net maturity** | **(241,352)** | **124** | **7,293** | **(19,071)** | **(253,006)** |

As at 30 September 2013 the Parent and Group each report financial liabilities in excess of financial assets. Over time, inventory that is not recorded as a financial asset will convert to trade receivables. Bank funding facilities were renegotiated on 5 November 2013. Longer term members' ordinary shares, classified as financial liabilities by virtue of their terms of issue will remain on issue, convert to ordinary shares or be redeemed and replaced based on a shareholders livestock supply.

The financial instruments in the table above are prioritised in order of payment.

Members who leave the Co-operative are entitled, after a length of time, to have their share capital amounts repaid to them. This requires the recognition of the outstanding shares as a financial liability. Due to the uncertain timing of the surrender of shares, and the small levels of redemption each year, Members' Ordinary Shares have been classified as having a maturity date of over five years.

## c Fair values of financial instruments

Set out below is a comparison of carrying amounts and fair values of all of the Group's financial instruments that are carried in the financial statements at other than fair values.

The fair value for members' ordinary shares has been calculated by applying a discount factor of 10% (2012: 10%), with an estimated repayment date of 10 years (2012: 10 years).

The carrying values of all other financial assets and financial liabilities recorded in the financial statements approximates their fair values.

| PARENT AND CONSOLIDATED<br>NZD IN THOUSANDS ($000) | Carrying amount<br>As at 30 Sept 13 | As at 30 Sept 12 | Fair value<br>As at 30 Sept 13 | As at 30 Sept 12 |
|---|---|---|---|---|
| **Financial liabilities** | | | | |
| Members' ordinary shares | 16,630 | 17,412 | 6,412 | 6,713 |

## d Fair values of financial assets and financial liabilities

The fair values of the Group's financial instruments are disclosed in hierarchy levels depending on the nature of the inputs used in determining the fair values as follows:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: Inputs other than quoted prices included within level 1, that are observable for the asset or liability, either directly or indirectly.
- Level 3: Inputs for the asset or liability that are not based on observable market data.

The Group measures the fair value of foreign currency forward exchange contract based on dealer quotes of market forward rates and reflects the amount that the Group would receive or pay at their maturity dates for contracts involving the same currencies and maturity dates.

The Group does not have any significant financial assets or liabilities measured at fair value using Level 3 inputs as of 30 September 2013 or 30 September 2012.

| PARENT AND CONSOLIDATED<br>NZD IN THOUSANDS ($000) | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| **As at 30 September 2013** | | | | |
| **Financial Assets** | | | | |
| Forward currency contracts | - | 10,244 | - | 10,244 |
| **Financial Liabilities** | | | | |
| Forward currency contracts | - | (953) | - | (953) |
| **Net fair values of financial assets and financial liabilities** | **-** | **9,291** | **-** | **9,291** |

| PARENT AND CONSOLIDATED<br>NZD IN THOUSANDS ($000) | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| **As at 30 September 2012** | | | | |
| **Financial Assets** | | | | |
| Forward currency contracts | - | 14,037 | - | 14,037 |
| **Financial Liabilities** | | | | |
| Forward currency contracts | - | (747) | - | (747) |
| **Net fair values of financial assets and financial liabilities** | **-** | **13,290** | **-** | **13,290** |

## 24 DERIVATIVE FINANCIAL INSTRUMENTS

| PARENT AND CONSOLIDATED<br>NZD IN THOUSANDS ($000) | As at<br>30 Sept 13 | As at<br>30 Sept 12 |
|---|---|---|
| **Current Assets** | | |
| Forward currency contracts | 10,244 | 14,037 |
| **Current Liabilities** | | |
| Forward currency contracts | (953) | (747) |
| **Net Derivative financial instruments** | **9,291** | **13,290** |

Derivative financial instruments are used by the Group in the normal course of business in order to mitigate exposure to foreign exchange rates arising from the sale of food and associated products in foreign currencies. The Group has entered into forward exchange contracts and options which are economic hedges but are not hedge accounted. During the year net foreign exchange gains arising from all foreign exchange transactions included in the net loss for the year totalled $5.3m (2012: $28.5m).

### Foreign currency risk

Information regarding foreign currency risk exposure is set out in note 22.

### Credit risk

Credit risk arises from the potential failure of counterparties to meet their obligations at maturity of contracts. This arises on derivative financial instruments with unrealised gains.

| PARENT AND CONSOLIDATED | | Notional Amounts | | Average forward exchange rate | |
|---|---|---|---|---|---|
| NZD IN THOUSANDS ($000) | | As at<br>30 Sept 13 | As at<br>30 Sept 12 | As at<br>30 Sept 13 | As at<br>30 Sept 12 |
| Sell USD / Buy NZD | Maturity 0 - 12 months | 206,810 | 155,535 | 0.7915 | 0.7826 |
| Sell GBP / Buy NZD | Maturity 0 - 12 months | 41,016 | 43,525 | 0.5067 | 0.4971 |
| Sell CAD / Buy NZD | Maturity 0 - 12 months | 4,000 | 7,495 | 0.8484 | 0.7977 |
| Sell EUR / Buy NZD | Maturity 0 - 12 months | 74,002 | 72,125 | 0.5984 | 0.6238 |

These contracts are fair valued by comparing the contracted rate to the market rates for contracts with the same length of maturity. All movements in fair value are recognised in profit or loss in the period they occur.

## 25 COMMITMENTS AND CONTINGENCIES

### Operating lease commitments – Group as lessee

The Group has entered into commercial leases on certain motor vehicles and items of machinery, office space, processing and coolstore facilities where it is not in the best interest of the Group to purchase these assets. These leases have an average life of between 1 and 16 years with renewal terms included in the contracts. Renewals are at the option of the specific entity that holds the lease. There are no restrictions placed upon the lessee by entering into these leases. Future minimum rentals payable under non-cancellable operating leases at balance date are as follows:

| NZD IN THOUSANDS ($000) | PARENT<br>As at<br>30 Sept 13 | <br>As at<br>30 Sept 12 | CONSOLIDATED<br>As at<br>30 Sept 13 | <br>As at<br>30 Sept 12 |
|---|---|---|---|---|
| **Operating leases** | | | | |
| Within one year | 6,966 | 7,619 | 7,052 | 7,700 |
| After one year but not more than five years | 12,557 | 12,198 | 12,718 | 12,290 |
| More than five years | 7,766 | 9,175 | 7,766 | 9,263 |
| **Total operating lease commitments** | **27,289** | **28,992** | **27,536** | **29,253** |

### Finance lease and hire purchase commitments

The Group has finance leases for various items of plant and machinery, these leases have no terms of renewal or purchase options and escalation clauses. Future minimum lease payments under finance leases and hire purchase contracts together with the present value of the net minimum lease payments are as follows:

| PARENT AND CONSOLIDATED<br>NZD IN THOUSANDS ($000) | As at 30 Sept 13<br>Minimum payments | As at 30 Sept 12<br>Minimum payments |
|---|---|---|
| **Finance lease and hire purchase commitments** | | |
| Within one year | 154 | 177 |
| After one year but not more than five years | 38 | 192 |
| **Total minimum lease payments** | **192** | **369** |
| Less amounts representing finance charges | (16) | (42) |
| **Present value of minimum payments** | **176** | **327** |

### Operating lease commitments – Group as lessor

The Group has entered into commercial property leases of the Group's surplus office and manufacturing buildings. These properties held under operating leases are measured under the fair value model as the properties are held to earn rentals. These non-cancellable leases have remaining non-cancellable lease terms of between one and six years. Future minimum rentals receivable under non-cancellable operating leases at balance date are as follows:

| NZD IN THOUSANDS ($000) | PARENT<br>As at<br>30 Sept 13 | <br>As at<br>30 Sept 12 | CONSOLIDATED<br>As at<br>30 Sept 13 | <br>As at<br>30 Sept 12 |
|---|---|---|---|---|
| Within one year | 322 | 298 | 322 | 298 |
| **Total operating lease commitments (as lessor)** | **322** | **298** | **322** | **298** |

### Contingent asset

At 30 September 2013 the Parent and Group had no contingent assets (30 September 2012: nil).

### Capital commitments

As at 30 September 2013 the Parent and Group has capital commitments of $948,000 (30 September 2012: $5,135,000).

### Contingent liabilities

Silver Fern Farms Limited has the following contingent liabilities at 30 September 2013:

At the end of the year the company had received various ACC claims which the company disputes. If the claims are pursued and are successful then the company will be liable, though the sum is currently non-quantifiable and has therefore not been provided for.

### Guarantees

The Group has the following bank guarantees at 30 September 2013:

| Details | Entity | In favour of | Amount |
|---|---|---|---|
| Import guarantee | Subsidiary | RP Agency | GBP 210,000 |
| Import guarantee | Subsidiary | RP Agency | EUR 36,000 |

## 26 NON-CURRENT ASSETS – INTANGIBLE ASSETS & GOODWILL

| PARENT | | As at 30 Sept 13 | | | As at 30 Sept 12 | |
|---|---|---|---|---|---|---|
| NZD IN THOUSANDS ($000) | Software | Goodwill | Total | Software | Goodwill | Total |
| **Opening balance net of accumulated amortisation and impairment** | **1,012** | **272** | **1,284** | **1,414** | **272** | **1,686** |
| Additions - including internal development | 503 | - | 503 | 586 | - | 586 |
| Disposals | - | - | - | (26) | - | (26) |
| Amortisation | (516) | - | (516) | (988) | - | (988) |
| Amortisation on disposals | - | - | - | 26 | - | 26 |
| **Closing balance of net accumulated amortisation and impairment** | **999** | **272** | **1,271** | **1,012** | **272** | **1,284** |
| Cost (gross carrying amount) | 14,784 | 272 | 15,056 | 14,280 | 272 | 14,552 |
| Accumulated amortisation and impairment | (13,785) | - | (13,785) | (13,268) | - | (13,268) |
| **Net carrying amount** | **999** | **272** | **1,271** | **1,012** | **272** | **1,284** |

| CONSOLIDATED | | As at 30 Sept 13 | | | As at 30 Sept 12 | |
|---|---|---|---|---|---|---|
| NZD IN THOUSANDS ($000) | Software | Goodwill | Total | Software | Goodwill | Total |
| **Opening balance net of accumulated amortisation and impairment** | **1,116** | **4,775** | **5,891** | **1,487** | **4,588** | **6,075** |
| Additions - including internal development | 503 | - | 503 | 647 | 1,449 | 2,096 |
| Disposals | - | - | - | (26) | - | (26) |
| Impairment | - | - | - | - | (1,262) | (1,262) |
| Amortisation | (583) | - | (583) | (1,018) | - | (1,018) |
| Amortisation on disposals | - | - | - | 26 | - | 26 |
| **Closing balance of net accumulated amortisation and impairment** | **1,036** | **4,775** | **5,811** | **1,116** | **4,775** | **5,891** |
| Cost (gross carrying amount) | 14,950 | 4,775 | 19,725 | 14,446 | 4,775 | 19,221 |
| Accumulated amortisation and impairment | (13,914) | - | (13,914) | (13,330) | - | (13,330) |
| **Net carrying amount** | **1,036** | **4,775** | **5,811** | **1,116** | **4,775** | **5,891** |

## 27 NON-CURRENT ASSETS – INVESTMENTS IN ASSOCIATES

The Group has ownership in the following entities:

| CONSOLIDATED | Principal Activity | Place of Incorporation | As at 30 Sept 13 | As at 30 Sept 12 |
|---|---|---|---|---|
| **NZ Lamb Group** | | | | |
| New Zealand Lamb Holdings Limited | Holding company | Canada | 31.5% | 31.5% |
| New Zealand and Australian Lamb Company Limited | Sale of lamb | Canada | 22.3% | 21.6% |
| The Lamb Co-Operative, Inc | Sale of lamb | USA | 24.5% | 24.1% |
| **Other Associates** | | | | |
| Robotic Technologies Limited | Manufacturing | New Zealand | 50.0% | 50.0% |
| Livestock Logistics Nationwide Limited | Transport | New Zealand | 50.0% | 50.0% |
| Farm Brands Limited | Processing | New Zealand | 50.0% | 50.0% |
| Kotahi Logistics LP | Export Logistics | New Zealand | 11.6% | 7.2% |
| Ovine Automation Limited | R&D ovine systems | New Zealand | 28.8% | 28.8% |
| Farm^IQ Systems Limited | R&D red meat IVC | New Zealand | 82.0% | 82.0% |
| Alpine Origin Merino Limited | Marketing | New Zealand | 50.0% | 0.0% |

### a Investment details

| NZD IN THOUSANDS ($000) | PARENT As at 30 Sept 13 | As at 30 Sept 12 | CONSOLIDATED As at 30 Sept 13 | As at 30 Sept 12 |
|---|---|---|---|---|
| **Unlisted** | | | | |
| NZ Lamb Group | 991 | 991 | 6,731 | 5,239 |
| Robotic Technologies Limited | 10 | 10 | 436 | 259 |
| Livestock Logistics Nationwide Limited | - | - | 1,254 | 1,015 |
| Farm Brands Limited | 4,500 | 4,500 | 6,445 | 5,728 |
| Kotahi Logistics LP | - | - | 2,513 | 917 |
| Ovine Automation Limited | 381 | 4 | (76) | (42) |
| Farm^IQ Systems Limited | 246 | 246 | 1,906 | 399 |
| Alpine Origin Merino Limited | 100 | - | 184 | - |
| **Total investments in associates** | **6,228** | **5,751** | **19,393** | **13,515** |

### b Movements in the carrying amount of the Group's investment in associates

| CONSOLIDATED NZD IN THOUSANDS ($000) | As at 30 Sept 13 | As at 30 Sept 12 |
|---|---|---|
| **Opening balance** | **13,515** | **14,072** |
| Share of profits / (losses) of associates | 6,135 | (657) |
| New investments | 100 | - |
| Exchange revaluations | (90) | (591) |
| Share of dividends | (924) | (1,227) |
| Increase/(decrease) in shareholding | 657 | 634 |
| Derecognition of investment on acquisition of remaining 50% share | - | 1,284 |
| **Closing balance** | **19,393** | **13,515** |

c Summarised financial information

The following table illustrates summarised financial information relating to the Group's associates:

| CONSOLIDATED<br>NZD IN THOUSANDS ($000) | As at<br>30 Sept 13 | As at<br>30 Sept 12 |
|---|---|---|
| *Extract from associates' balance sheets:* | | |
| Current assets | 114,157 | 98,266 |
| Non-current assets | 44,431 | 42,359 |
| **Total assets** | **158,588** | **140,625** |
| Current liabilities | 83,127 | 70,794 |
| Non-current liabilities | 25,849 | 35,066 |
| **Total Liabilities** | **108,976** | **105,860** |
| **Net assets** | **49,612** | **34,765** |
| Share of associates' net assets | 21,925 | 16,047 |
| Less impairments | (2,532) | (2,532) |
| **Total investment in associates** | **19,393** | **13,515** |
| *Extract from the associates' income statements:* | | |
| Revenue | 1,197,294 | 1,127,470 |
| Net Profit | 30,111 | 13,283 |
| **Share of profits/(losses) of associates** | **6,135** | **(657)** |

## 28 RELATED PARTY DISCLOSURE

a Subsidiaries

The consolidated financial statements include the financial statements of Silver Fern Farms Limited (the parent entity) and the significant subsidiaries listed in the following table:

| NAME | Country of Incorporation | % EQUITY INTEREST<br>As at 30 Sept 13 | % EQUITY INTEREST<br>As at 30 Sept 12 |
|---|---|---|---|
| Richmond Group Holdings | New Zealand | 100% | 100% |
| Richmond (NZ) Singapore Pte Ltd | Singapore | 100% | 100% |
| Richmond New Zealand Ltd | UK | 100% | 100% |
| Silver Fern Farms NV | Belgium | 100% | 100% |
| Silver Fern Farms GmbH | Germany | 100% | 100% |
| Venison Rotorua Limited | New Zealand | 100% | 100% |
| Farm Enterprises | New Zealand | 100% | 100% |
| Waitotara Europe BV | New Zealand | 100% | 100% |
| Silver Fern Farms (UK) Limited | UK | 100% | 100% |
| B. Brooks (Norwich) Limited | UK | 100% | 100% |
| PPCS USA Inc | USA | 100% | 100% |
| Global Technologies Limited | New Zealand | 100% | 100% |
| Frasertown Meat Co Ltd | New Zealand | 100% | 100% |
| Titan Meat LP | New Zealand | 100% | 100% |

b Ultimate Parent

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

c Transactions with related parties

The following table provides the total amount of transactions that were entered into with related parties for the relevant financial year (for information regarding outstanding balances on related party trade receivables and payables at year-end, refer to notes 14 and 17 respectively):

| PARENT | Year ended 30 Sept 13 | | | Year ended 30 Sept 12 | | |
|---|---|---|---|---|---|---|
| NZD IN THOUSANDS ($000) | Sales to related parties | Purchases from related parties | Other transactions | Sales to related parties | Purchases from related parties | Other transactions |
| **Parent entity:** | | | | | | |
| Subsidiaries | 201,823 | 5,559 | 515 | 196,012 | - | 4,954 |
| Directors | - | 4,583 | - | - | 5,836 | - |
| Associates | 89,849 | 125,799 | 1,077 | 146,324 | 94,965 | 1,227 |
| Key Management Personnel | - | 909 | - | - | 451 | - |

The company purchased livestock and made other livestock related payments to the farming businesses of directors and key management personnel on the same terms and conditions as all other suppliers.

Terms and conditions of transactions with related parties

Sales to and purchases from related parties are made in arm's length transactions at both normal market prices and normal commercial terms. There have been no guarantees provided or received for any related party receivables. Related party receivables are non interest bearing. There have been no related party bad debts throughout the year.

## 29 KEY MANAGEMENT PERSONNEL

| PARENT AND CONSOLIDATED<br>NZD IN THOUSANDS ($000) | Year ended 30 Sept 13 | Year ended 30 Sept 12 |
|---|---|---|
| Short-term employee benefits | 3,085 | 3,369 |
| Directors' fees | 585 | 543 |
| Contributions to defined contribution plans | 71 | 60 |

## 30 EVENTS AFTER THE BALANCE SHEET DATE

On 21 October 2013, the company sold land and buildings, plant and equipment associated with the Shannon fellmongery plant. The financial effect of this transaction has yet to be finalised.

The company's banking facilities have been renewed, as outlined in note 18.

## 31 AUDITOR'S REMUNERATION

| | | PARENT | | CONSOLIDATED |
|---|---|---|---|---|
| NZD IN THOUSANDS ($000) | Year ended 30 Sept 13 | Year ended 30 Sept 12 | Year ended 30 Sept 13 | Year ended 30 Sept 12 |
| Ernst & Young New Zealand: Audit of consolidated entities | 190 | 190 | 268 | 293 |
| Ernst & Young New Zealand: Tax advisory | 37 | 112 | 85 | 193 |
| Ernst & Young New Zealand: Risk management advice | - | 28 | - | 28 |
| Ernst & Young New Zealand: Other services | 5 | - | 5 | - |
| **Total remuneration to Ernst & Young** | **232** | **330** | **358** | **514** |
| **Total remuneration to auditors other than Ernst & Young** | **-** | **-** | **-** | **-** |

Chartered Accountants

## Independent Auditor's Report

## To the Shareholders of Silver Fern Farms Limited

## Report on the Financial Statements

We have audited the financial statements of Silver Fern Farms Limited and its subsidiaries on pages 24 to 64, which comprise the balance sheet of Silver Fern Farms Limited and the group as at 30 September 2013, and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended of the company and group, and a summary of significant accounting policies and other explanatory information.

This report is made solely to the company's shareholders, as a body, in accordance with section 205(1) of the Companies Act 1993. Our audit has been undertaken so that we might state to the company's shareholders those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's shareholders as a body, for our audit work, for this report, or for the opinions we have formed.

### Directors' Responsibility for the Financial Statements

The directors are responsible for the preparation of the financial statements in accordance with generally accepted accounting practice in New Zealand and that give a true and fair view of the matters to which they relate, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (New Zealand). These auditing standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we have considered the internal control relevant to the entity's preparation of the financial statements that give a true and fair view of the matters to which they relate in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, as well as evaluating the overall presentation of the financial statements.

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

Ernst and Young provide taxation and other assurance services to the group.

### Opinion

In our opinion, the financial statements on pages 24 to 64:

- comply with generally accepted accounting practice in New Zealand;
- comply with International Financial Reporting Standards; and
- give a true and fair view of the financial position of Silver Fern Farms Limited and the group as at 30 September 2013 and the financial performance and cash flows of the company and group for the year then ended.

## Report on Other Legal and Regulatory Requirements

In accordance with the Financial Reporting Act 1993, we report that:

- We have obtained all the information and explanations that we have required.
- In our opinion proper accounting records have been kept by Silver Fern Farms Limited as far as appears from our examination of those records.

Ernst + Young

25 November 2013
Christchurch

# FIVE YEAR HISTORICAL SUMMARY

as at 30 September 2013

| NZD IN MILLIONS ($M) | NOTES | Year ended 30 Sept 13 | Year ended 30 Sept 12 | Year ended 30 Sept 11 | 13 months ended 30 Sept 10 | Year ended 31 Aug 09 |
|---|---|---|---|---|---|---|
| **Income Statement** | | | | | | |
| **Total income** | | **2,001.2** | **2,034.9** | **2,110.9** | **1,878.7** | **2,014.6** |
| Operating earnings before interest and tax (EBIT) | | (8.5) | (16.2) | 60.9 | 14.4 | 37.9 |
| Net operating profit before tax | | (36.5) | (42.3) | 40.7 | (8.4) | 5.2 |
| Non-recurring items | | - | - | - | (6.9) | 38.4 |
| Income tax benefit/(expense) | | 8.0 | 11.2 | (9.8) | 1.4 | 0.3 |
| **Net profit after tax** | | **(28.6)** | **(31.0)** | **30.9** | **(13.9)** | **43.8** |
| Less member distributions | | - | (0.1) | (0.1) | (0.1) | (0.2) |
| **Net profit after member distributions** | | **(28.6)** | **(31.1)** | **30.8** | **(14.0)** | **43.6** |
| **Financial Position** | | | | | | |
| Total assets | | 833.3 | 828.5 | 708.2 | 613.5 | 630.7 |
| Net working capital | 1 | 288.6 | 294.5 | 213.6 | 147.9 | 245.7 |
| Net debt | 2 | 387.6 | 347.7 | 153.2 | 130.2 | 210.9 |
| Total equity including members' shares | | 320.2 | 349.0 | 394.8 | 367.8 | 316.3 |
| **Cash Flow** | | | | | | |
| Net cash flows (used in)/from operating activities | | (5.1) | (104.0) | 12.9 | 58.6 | 91.4 |
| **Key Ratios** | | | | | | |
| EBIT to total income | 3 | -0.4% | -0.8% | 2.9% | 0.8% | 1.9% |
| Return on assets | 4 | -1.0% | -2.0% | 8.6% | 2.3% | 6.0% |
| Return on equity | 5 | -8.9% | -8.9% | 7.8% | -3.8% | 13.8% |
| Equity ratio | 6 | 38.7% | 42.4% | 56.2% | 60.2% | 50.4% |

NOTES:

1 Current assets less current liabilities (exclusive of net debt items)

2 Total interest bearing debt less cash and cash equivalents

3 EBIT / total income

4 EBIT / total assets

5 Net profit after tax / closing equity (including members' shares)

6 Equity (including members' shares) / total assets excluding intangibles

Certain comparatives within the five year historical summary have been restated for comparative purposes, to ensure consistency with the current year.

# DIRECTORY

## BOARD OF DIRECTORS

- **Eoin Garden**
  Chairman
- **Rob Hewett**
  Deputy Chairman
- **Tony Balfour**
- **Trevor Burt**
- **Angus Mabin**
- **David Shaw**
- **Jane Taylor**
- **Herstall Ulrich**

## LEADERSHIP TEAM

- **Keith Cooper**
  Chief Executive
- **Kevin Winders**
  Chief Operating Officer
- **Jamie Adamson**
  Chief Financial Officer
- **Sharon Angus**
  General Manager Marketing
- **Grant Howie**
  Group Category Manager
- **Grant Pearson**
  Technical Innovation Manager
- **Jeremy Absolom**
  General Manager Livestock Farming
- **Wayne Shaw**
  Operations Manager –
  Sheepmeats & Venison
- **Phil Buck**
  Operations Manager – Beef

## HEAD OFFICE

**Silver Fern Farms Limited**

218 George Street, PO Box 941,
Dunedin 9054, New Zealand

T: +64 3 477 3980
F: +64 3 474 1087
E: info@silverfernfarms.co.nz

## WEBSITE

www.silverfernfarms.com

## REGIONAL OFFICE

**Silver Fern Farms Hastings**

Plunket Street, PO Box 940,
Hastings 4156, New Zealand

T: +64 6 872 6660
F: +64 6 872 6715

## INNOVATION CENTRE

**Silver Fern Farms Christchurch**

34 Branston Street,
PO Box 283, Christchurch 8140,
New Zealand

T: +64 3 379 6900
F: +64 3 366 4412

## COMMUNICATIONS

**Justin Courtney**
Communications Manager

T: +64 3 477 3980
E: justin.courtney@silverfernfarms.co.nz

## INTERNATIONAL OFFICES

Silver Fern Farms has an international marketing network including offices or representatives in Belgium, Germany, Greece, Hong Kong, Italy, Japan, Korea, Middle East and UK. Contact details are available on the company's website www.silverfernfarms.com

## SHAREHOLDER ENQUIRIES

For enquiries regarding new Ordinary Shares, Members' Ordinary Shares and Supplier Investment Shares, contact:

Silver Fern Farms Limited
PO Box 941, Dunedin 9054,
New Zealand

T: 0800 362 362
F: +64 3 474 1087
E: shares@silverfernfarms.com

## LISTED SECURITIES

Unlisted
PO Box 5422
Lambton Quay
Wellington 6145

T: 0508 UNLISTED (0508 865478)

## SHARE REGISTRAR

Link Market Services
PO Box 91976
Auckland 1142

T: +64 9 375 5993
F: +64 9 375 5990

## BANKERS

- The Hongkong and Shanghai Banking Corporation Limited
- Westpac New Zealand Limited
- Rabobank New Zealand Branch
- Commonwealth Bank of Australia

## AUDITOR

Ernst & Young

## TAX ADVISORS

PWC

## LEGAL ADVISORS

Harmos Horton Lusk


100% MADE OF


NEW ZEALAND

SILVER FERN® FARMS

# 100% MADE OF NEW ZEALAND

Silver Fern Farms Limited
**P** +64 3 477 3980
**F** +64 3 474 1087
www.silverfernfarms.com

Head Office
Harvest Court
218 George Street
PO Box 941
Dunedin 9054
New Zealand