Silver Fern Farms
ANNUAL REPORT 2016

“WE ARE COMMITTED TO PROFITABLY AND SUSTAINABLY ADDING VALUE TO NEW ZEALAND’S NATURAL GRASS-FED RED MEAT”

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WE ARE INVESTING IN OUR FUTURE TOGETHER

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Contents

ANNUAL MEETING OF SHAREHOLDERS

The 2016 Annual Meeting of Silver Fern Farms Co-operative Limited Shareholders will be held at 11am on 15 February 2017 in Dunedin at Silver Fern Farms Head office 283 Princes Street Dunedin.

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

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CONTINUED PROGRESS IN A CHALLENGING YEAR

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Chairman & Chief Executive Review

A REVIEW OF THE 2015/16 FINANCIAL YEAR

We set ourselves four key goals at the start of the year. The completion of our partnership with Shanghai Maling is the standout highlight of what proved to be a challenging year in terms of operating environment for Silver Fern Farms

Goal: Complete the Shanghai Maling investment

Over the course of this year a considerable amount of effort and time went into completing the process which was approved by shareholders in October 2015. We finally completed the $267m investment by Shanghai Maling on the 6th of December 2016. We thank all our shareholders and suppliers for their overwhelming support through this process.

It is pleasing to have delivered on our goal set in 2014 of achieving a sustainable capital structure for the company. Our Co-operative now owns 50% of a strong operating company, in an equal partnership with Shanghai Maling, with the resources to deliver on its value added strategy and generate sustainable returns over time for all shareholders.

In Shanghai Maling we have a partner that supports Silver Fern Farms' Plate to Pasture Value Added strategy and who can help accelerate the development of the company's value added products in the China market.

Goal: Deliver another material and sustainable improvement in our financial performance

The operating environment proved to be much more challenging than expected. The company managed its way through a tough year as a perfect storm hit with sharp falls in a number of end-markets in the first half, lower industry-wide volumes, unseasonal livestock flows which limited capacity utilisation, and a strengthening NZ currency through the year amplified in June by the Brexit event. It was one of the tougher environments we've been in for some time as events impacted both beef and sheep.

“There remains significant opportunity for further gains in performance.”

31% Growth in branded/ value add sales in New Zealand and overseas.

Most Trusted Red Meat Brand in Reader's Digest 2016 Most Trusted Brand Survey.

We made gains through a continued focus on increasing the consistency and value of yields and at the same time driving a greater proportion of sales as chilled and value-added products. These and other initiatives were however insufficient to offset our lower NZ dollar revenue in what remains a highly competitive market for livestock.

The combined impact was a disappointing financial performance.

For the financial year ended September 2016, the company achieved an operating earnings before interest, tax, depreciation and amortisation and impairment loss (EBITDA) of $32.1m on income of $2.2b. This was significantly down on the $90.5m and $2.5b respectively achieved in the prior year.

Revenue was down 12% due to a combination of lower in market prices (US beef prices being well off their 2015 highs and some of the lowest lamb prices in China and the Middle East for a number of years), a stronger currency and lower industry volumes. Across the industry, cattle volumes processed were down 5%, lamb down 5% and venison down over 20% as hind retention increased. Our share of livestock processed was very similar to the prior year.

After depreciation and interest, the company made a net operating loss before impairment and tax of $7.5m for the period, compared to a profit of $30.8m in the prior year.

The final result was impacted by a $22.4m non-cash accounting writedown related to the Shanghai Maling investment. As at balance date we had an unconditional, but at the time yet to be completed, investment by Shanghai Maling. The company was required under accounting standards to take a one-off non-cash accounting writedown in the value of the disposal group to reflect the value at which Shanghai Maling was investing at relative to our historical book values. Of the $30m writedown, $22.4m was taken through the P&L, and $7.3m through reserves to reflect the reversal of previous asset revaluations.

Whilst disappointing to substantially miss our profitability goals for the year, we continued to manage our working capital, risk and capital expenditure prudently and delivered a year end debt down $14m to $107m and with a lower average level of debt we halved our finance cost to $14.8m.

We also made substantial progress towards expanding our profit margins by driving more product into our value added product ranges. We achieved a 31% increase in our value added sales of Silver Fern Farms branded products through retail and food service channels in New Zealand and overseas.

In March we launched our Silver Fern Farms branded retail range in Germany, and are now stocked in over 1,000 stores across two of the country's leading supermarkets – Edeka and Rewe. Launching our brand into a large new international retail market is exciting but also requires commitment as we invest in people and marketing to build an awareness of our brand, and our premium, natural grass-fed New Zealand beef, lamb and venison.

In New Zealand we were named New Zealand's Most Trusted Meat Brand by consumers polled in the Reader's Digest 2016 Most Trusted Brand survey. Reader's Digest has conducted New Zealand's Most Trusted survey for the last 17 years, with the aim of uncovering New Zealanders' attitudes on the most trustworthy professions, people, and brands. It is great to see the company becoming firmly established in New Zealander's minds.

We also launched a new beef product in New Zealand – the Flat Iron steak – which has proven a strong seller and generated continued interest in our product range.

Our online presence has evolved through the creation of our new home – silverfernfarms.com – to better show the world our Silver Fern Farms story of our place, our people, and our passion. We looked for what the best food companies in the world were doing and we have designed silverfernfarms.com to be a global, brand leading website. It is a state of the art website, mobile friendly, and optimised for today's consumers and chefs who are after information on the go. Since launch our mobile traffic has almost doubled and now makes up 38% of all traffic to our website.

2015/16 Highlights

We processed and sold approximately 15 million stock units this year which was an enormous effort by our 7,000 passionate employees.

- **Completed the $267m Shanghai Maling investment**
- **Health & Safety – continued progress to Zero Harm – Total Recordable Incident Rate (TRIF) reduced from 10.0 to 7.6. Notifiable injuries decreased by 20%**
- **Year of strong growth (+31%) in our value added sales of branded products through retail and food service channels in New Zealand and overseas**
- **Progress in targeted value added markets – new product in NZ, retail launch into Germany, preparation for retail launch in China for late 2017**
- **Achieve an increase in the share of sales sold as chilled – over 40% of Prime Beef and 30% of lamb sold chilled**

In the food service area we have continued to grow customer acceptance of our Silver Fern Farms Premier Selection Reserve Beef and Angus product ranges in particular. The USA has continued to lead sales for our food service ranges, though China's growing restaurant trade has seen the country lead growth for these ranges.

We made the decision with the New Zealand Merino Company for them to take 100 per cent ownership of Alpine Origin Merino Limited and the SILERE alpine origin merino brand. After 5 years it was timely for both shareholders to consider the next phase of development for Silere. At Silver Fern Farms our focus today is on our Silver Fern Farms brand.

In addition to our value added sales, our focus on selling a greater proportion of product in chilled form led to positive results; with over 40% of our prime beef and over 30% of our lamb being sold chilled.

Mainstream market returns have been particularly hard hit by the relative strength of the New Zealand dollar over the last 12 months against our three main traded currencies of US dollar, Euro and the Pound. The most extreme has been against the Pound which has the most impact on lamb returns. At financial year-end last year the NZD bought around 43p, and it gradually climbed to be over 27% higher at 55p this financial year-end. With UK customers unable to pass on the currency impact in the form of higher retail prices to consumers, the currency impact was reflected in significantly reduced returns in New Zealand. The NZ dollar strength in relation to the Euro (up 12% from 0.57 to 0.64) and the USD (up 14% from 0.63 to 0.72) had a similar negative impact on returns in New Zealand.

Goal: Build operational excellence

We have continued to build toward operational excellence.

On Health & Safety we have again lifted our performance. Our Total Recordable Incident Frequency Rate (TRIF) reduced from 10.0 injuries per 200,000 hours worked to 7.6, a reduction of 24%. Notifiable injuries decreased by 20%. Our ORA programme is changing the culture among our people at Silver Fern Farms and real progress is being made; safe behaviour conversations, new enhanced protective clothing and equipment, common best practice standards across plants, and our own ORA review system have all contributed to the improvements being made and we are committed to achieving our goal of Zero Harm by 2020.

We have continued to focus on making sure we have the right plants in the right places and that we are investing in our core network. This has meant a combination of closures and new investment.

We are seeing more positive engagement, effort and connection between teams and a greater understanding of what needs to be done to deliver on our strategy.

Investment in modern Venison processing and expansion of cold chain at our Pareora Plant near Timaru.

7M$

Venison plants at Islington and Mossburn and the Canterbury Coldstore have been closed. Our small Wairoa mutton plant was also closed and we will consolidate all of our sheep processing in the region at our large Takapau plant.

We are very aware that closures impact our people, and in every case our people were given opportunities, and a number have taken them up, to transfer to our other sites.

We have built a brand new venison plant more central to our livestock supply at our existing Pareora site near Timaru and also invested in expanding our cold storage facilities at the site to allow for better regional consolidation and less use of external cold storage facilities. This investment at Pareora enables us to process all three species at the site which brings with it a number of benefits.

A $1m investment in a state of the art packaging line at our Pacific Beef plant in the Hawke's Bay is another move to support the growth of our value added beef food service ranges as well as creating efficiency gains in the plant.

We have invested at our Te Aroha, Hawera and Pacific beef plants to enable them to collect and process bovine blood for our partner Proliant's Bovine Serum Albumin pharmaceutical products being produced at their state of the art Fielding plant. The full year impact of this investment will be felt in the current season.

Goal: Deepen the confidence and engagement of employees and suppliers

Our 7,000 employees are our greatest asset. To perform to our potential we need an engaged group of people who are passionate about Silver Fern Farms and confident about our future. At least annually, we survey our teams to understand amongst other things how they are feeling about where they work, the teams they work in, and opportunities to make their workplace better. We are listening. This year every team has created their own action plan of 2 to 3 workplace improvement initiatives.

One example of a successful programme that benefits our people is our Dargaville site's Learning for Life programme – Akoranga Mauri Ora, which won the Skills Highway Award at this year's New Zealand Diversity Awards, an event that celebrates workplaces that assist employees to reach their life skills potential.

Dargaville's literacy and numeracy programme is a supportive, site-led workplace training programme, supported by a Tertiary Education Commission fund. Classes focused on life skills, including budgeting, goal setting and financial security, with the programme led by dedicated and passionate mentors within the plant, the community and from our suppliers.

So far 45 of our people have gained national certificate of education achievement (NCEA) level one qualifications or higher.

Building the confidence and level of engagement of our farmer suppliers – particularly our shareholder farmer suppliers – has been at the forefront of a number of our initiatives this year.

A considerable effort continues to be placed on regularly and clearly communicating with our suppliers. Events such as A&P Shows and field days are particularly valuable occasions to meet with our farmer partners and share information on our company. Our Plate to Pasture Awards, which celebrate excellence in farming, have been running for 3 years now and they continue to recognise the effort of our farmer partners. Regular market updates, newsletters and visits to farms around the country continue to be well received by suppliers, however we are constantly looking to improve the way we communicate and engage.

A number of new activities this past year have proved to be valuable to the shareholder suppliers involved.

In May a group of 17 shareholders from across the country took part in the first 'To the Core' Governance and Leadership Development course.

As we develop value added ranges we aim to pass on opportunities like the Global Venison Retail Contract to shareholders first

Participants in our first Farmer Shareholder market tour to China.

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It was a chance for shareholders to learn about governance and leadership skills required in co-operatives and other businesses and to learn more about how Silver Fern Farms runs at a governance and operational level. The course was an initiative of the Burnside Hart Co-operative Education Trust and Silver Fern Farms to develop governance and leadership capabilities in agribusiness. Contributing to the development of future agri-sector leaders we believe will have a positive long-term impact on Silver Fern Farms and the communities in which we live and operate.

We also undertook our first market tour with a group of shareholder suppliers. A group of 27 farmer shareholders, including 2015 Plate to Pasture Award winner Neil Aicken, Chairman Rob Hewett, and Director Fiona Hancox visited Shanghai, Hohhot and Beijing to gain a better understanding of Chinese consumers, food retailers, red meat processors and farming systems.

Farming women in our co-operative have been involved in a number of food and marketing events again this year. The insights offered into their care for stock, land and people on farm, and how they promote Silver Fern Farms through their networks has been valuable.

Key events included the International Food Design Conference, and MindFood Magazine food events in Clyde, Dunedin and Auckland.

Our Global Venison Retail Contract was offered for the first time this year off the back of our New Zealand and German retail growth. It was offered on a preferential basis to shareholders – with the final result being that over 98% of contracted volume is from shareholders. As we continue to develop our value added ranges we aim to create similar opportunities.

As the co-operative enters a new era of financial strength it has the opportunity to reward shareholders for their investment and for their loyalty of supply.

Looking Ahead

2017 is the start of a new era for the Co-operative, one we believe holds much more promise for shareholders and suppliers than the prior position of capital constraint, limited ability to invest to drive improved outcomes, and financial uncertainty. The attributes of the industry make it a challenging one, and to be successful will require, amongst other things, both a differentiated strategy and capital.

Over the last 12 months, Silver Fern Farms has focused its strategy with a clear path forward. The company's core purpose is to profitably and sustainably add valued to New Zealand's natural grass-fed red meat. The company remains absolutely committed to New Zealand grass-fed product as a source of positive differentiation in markets around the world. The company's vision remains unchanged; "Inspirational Food Created by Passionate People".

The key strategic initiatives are four fold:

- **To build market leadership positions with differentiated products**
- **To differentiate livestock supply and gain loyalty**
- **Ensure we have the best chain of care in New Zealand**
- **To build a highly collaborative and engaged team.**

The Co-operative now owns 50% of a well-capitalised Silver Fern Farms Limited in partnership with Shanghai Maling.

Our role as a 50% shareholder will be to:

- **appoint governors to the Board of Silver Fern Farms Limited to monitor and oversee performance;**
- **build governance capability amongst shareholders;**
- **do what we reasonably can to maximise the value of our investment in Silver Fern Farms, including encouraging loyal supply from shareholders in the Co-operative;**
- **ensure compliance with the Shareholders Agreement and Co-operation Memorandum commitments made between the Co-operative and Shanghai Maling; and**
- **manage our own financial affairs in a prudent and sustainable manner.**

As committed to as part of the transaction, the Co-operative has post-completion redeemed the old Supplier Investment Shares (at $1.00 per share, or $5.5m) in order to simplify our share structure and announced a 30cps special dividend for ordinary and rebate shareholders payable in February 2017.

Post these payments, the Co-operative will have (in addition to its 50% ownership interest in Silver Fern Farms Limited) approximately $17m in cash on deposit.

Going forward the Co-operative anticipates that it will pay a dividend each year. The primary source of that dividend will be from the dividend it receives from Silver Fern Farms Limited. The latter has a stated target of paying out 50% of its profits each year as a dividend. The scale of any dividend paid by the Co-operative will be determined by the Board at the time.

The 2016 year was both a challenging year but also one of significant change. We would like to thank the Board of Directors, management and staff for their commitment and efforts throughout the year. We would also like to thank shareholders and suppliers for their continued and valued support.

We are confident that based on a more normal operating environment, the benefits from initiatives already completed and those planned, will see the performance of Silver Fern Farms Limited, and as a result our Co-operative, improve significantly in 2017.

We are investing in our future together.

Rob Hewett, Chairman

Dean Hamilton , Chief Executive

OUR VISION

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INSPIRATIONAL FOOD CREATED BY PASSIONATE PEOPLE

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OUR BELIEFS

We love food

At our heart we are food people, making it well, taking care of it and where it comes from.

We are passionate people

We are individually accountable and collectively responsible. Our passion drives us to collaborate and inspire as effective teams.

We do the right thing

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

We put ideas into action

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

WE ARE
100% MADE OF NEW ZEALAND

“

OUR GOAL IS TO BE SUSTAINABLY PROFITABLE OVER TIME

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Key strategies

We are focused on four key strategies:

BUILD MARKET LEADERSHIP POSITIONS WITH DIFFERENTIATED PRODUCTS

Grow consumer-led, branded, value added products

Focus distribution in a few attractive markets

Continue to grow branded chilled sales

BUILD A HIGHLY COLLABORATIVE AND ENGAGED TEAM

Invest in developing our people to create a collaborative, engaged and customer-oriented culture

Keep our people safe, healthy and well every day

DIFFERENTIATE LIVESTOCK SUPPLY AND GAIN LOYALTY

Build the scale of our value added supply programmes

Work with the Co-operative to reward shareholder supplier loyalty

ENSURE WE HAVE THE BEST CHAIN OF CARE IN NEW ZEALAND

Invest to create a highly efficient mainstream business

Operate at best food safety, animal welfare and environmental standards

Have highly effective systems to support decision making

Sustainability – integrated into strategy

We believe that sustainability across our business is a must have.

We need to ingrain sustainability into everything we do: our environmental footprint, our communities we operate in and in our financial performance. We need to be financially strong to be able to provide employment and support our communities, and to continue our progress on lowering our environmental footprint – these are inextricably linked.

Operating sustainably underpins our premium Silver Fern Farms brand.

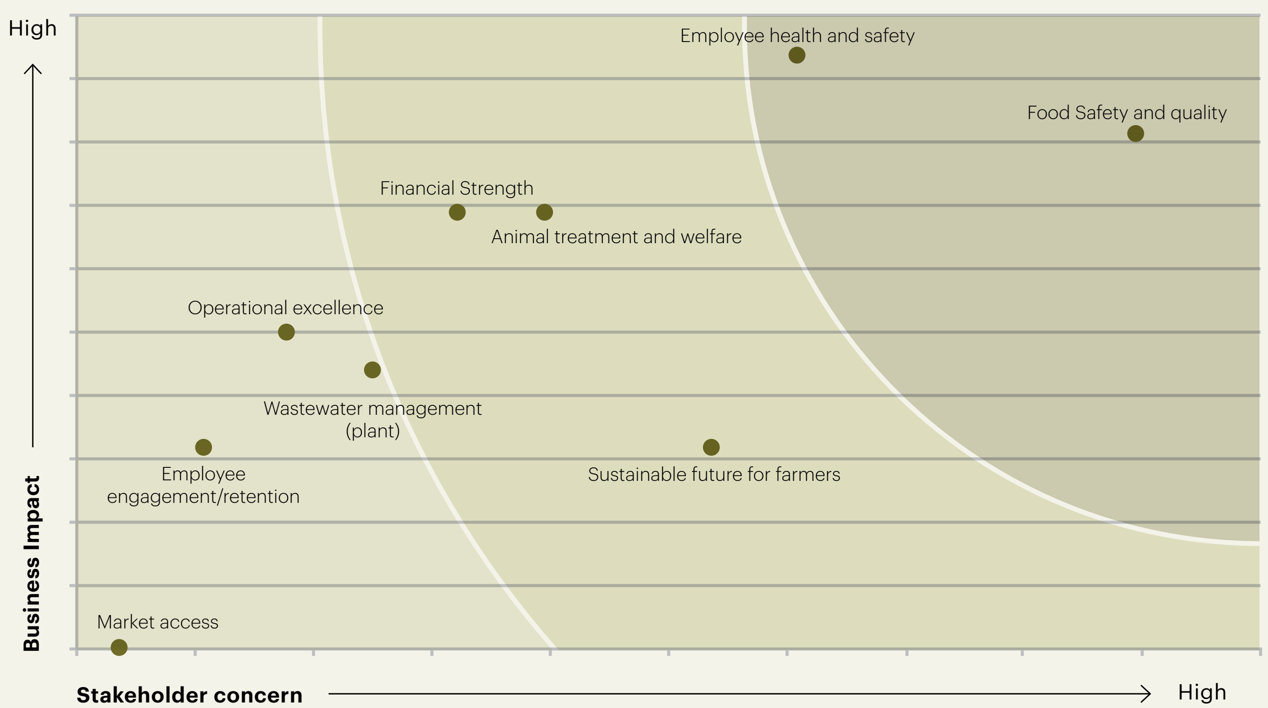
We are building a sustainability framework that is integrated with our business strategy and is focused on issues that are material to our stakeholders. We have a wide group of stakeholders from our consumers and customers, farmer suppliers and government regulators, through to service providers and our people who work for Silver Fern Farms.

In 2015/16 we established our material issues. We did this by listening to a balanced and representative group of 30 of our stakeholders (internal and external) who shared their views on Silver Fern Farms and where they see the sustainability challenges and risks and opportunities for our company.

This materiality research defines our areas of focus. It was carried out independently using a robust process that follows the International Integrated Reporting Council <IR> Framework and the Global Reporting Initiative (GRII) G4 Guidelines. In future we will report on the benchmarks we have established, our goals and how we are working to achieve them.

Here are our material issues:

Silver Fern Farms 2016 materiality matrix



ONLY THE BEST MAKE THE CUT.

SILVER FERN FARMS
PREMIER SELECTION
AWARDS 2016

CONGRATULATIONS TO

AUCKLAND'S BOTSWANA BUTCHERY AND EXECUTIVE CHEF STUART ROGAN

WINNING DISH

Silver Fern Farms Reserve beef eye fillet, braised short rib with parsley, mustard and horseradish crust, carrot puree, asparagus, whipped garlic and cep jus.

Congratulations to all the restaurants and chefs who demonstrate their craft with our Silver Fern Farms red meat so consumers can experience inspirational food.

THE 2016 PREMIER MASTER OF FINE CUISINE

BEST METROPOLITAN & BEST BEEF DISH

EXECUTIVE CHEF STUART ROGAN

BOTSWANA BUTCHERY AUCKLAND

PLATE TO PASTURE
AWARDS 2016

CONGRATULATIONS TO

CHRIS & ANNE-MARIE ALLEN OF ANNADALE FARM
WINNERS 2016

The Plate to Pasture Awards recognise the great lengths our farmer partners go to, to meet the needs of consumers. Congratulations to all our farmer partners for the dedication and care they take in producing inspirational food.

Chris and Anne-Marie's consumer awareness is particularly evident in their approach to environmental management and monitoring systems, animal management and welfare and their strong work in their community to champion natural, grass-fed farming.

CONGRATULATIONS TO OUR REGIONAL WINNERS

PLATE TO PASTURE AWARD WINNERS AND UPPER SOUTH ISLAND REGIONAL WINNERS
Chris and Anne-Marie Allen (shown above)

UPPER NORTH ISLAND
Bruce and Pauline Sisam, Richard and Sue Sisam

WESTERN NORTH ISLAND
Cam and Rachel McKelvie

EASTERN NORTH ISLAND
Don and Cecily Syme

LOWER SOUTH ISLAND
Allan and Jean Hore, Richard and Abby Hore

Your Board of Directors

Rob Hewett
Chairman

Rob became the Chairman of Silver Fern Farms in December 2013. He was elected to the Board in February 2008. Rob farms 9,250 stock units, on a 960 hectare sheep and beef breeding and finishing unit in Manuka Gorge, South Otago. He is the Chairman of the Clutha Development Trust as well as a Director of Farmlands Co-operative and Hilton Haulage Limited. He is a chartered member of the Institute of Directors. Rob is a Graduate of Lincoln University, holding an M.Com in marketing and a B.Com (Ag) in Economics.

Jane Taylor
Deputy Chairman

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

Tony Balfour
Independent

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

Trevor Burt
Independent

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

Fiona Hancox

Fiona operates a 27,000 stock unit sheep and beef finishing operation in Tapanui, West Otago. Fiona has served on the Beef + Lamb NZ Southern South Island Farmers Council, and is a member of the Beef + Lamb NZ West Otago Farming for Profit Steering Group. She is a former South Island Farmer of the Year. Fiona is a Director of three farming companies and also holds a National Diploma in Ambulance Practice and is a Volunteer Ambulance Officer.

Dan Jex-Blake

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

Tony O'Boyle

Tony O'Boyle was elected to the Silver Fern Farms Board in December 2015. He is a Wairarapa sheep and beef farmer of a 1,000ha, 7,500 stock unit hill country property. A Member of the Institute of Directors, Tony is a current Director of Farmlands and is a past Chairman of the Fonterra Shareholders Council.

Richard Young

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

Your Leadership Team

Dean Hamilton
Chief Executive

Dean was appointed Chief Executive of Silver Fern Farms in November 2014. He is responsible for leading the company, the delivery of strategy and financial performance, and engaging with customers, staff, suppliers and shareholders.
Dean was formerly a Managing Director of investment banking for Deutsche Bank in Australia & New Zealand. Prior to this role Dean held a range of general management positions in manufacturing and retail. Dean brings a wealth of expertise and experience across both the New Zealand and Australian corporate landscapes and holds a Bachelor of Commerce from Victoria University.

Sharon Angus
General Manager Marketing

Sharon leads the team responsible for the growth and strategic development of the Silver Fern Farms brand communications and sustainability. Sharon brings with her more than 20 years' experience in senior FMCG marketing roles. She joined the company in 2009. 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.

Phil Buck
General Manager Plant Operations

Phil leads the operations team responsible for production across the group. He has over 30 years of knowledge of the meat industry. Phil has worked for Silver Fern Farms since 2007 both in the UK and New Zealand. 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.

Dean Fraser
Enterprise Program Manager

Dean oversees all of the material projects in the group from establishment through to completion and review. Dean has had extensive project management experience in NZ and, for the last 10 years overseas. He worked for Sinclair Knight Mertz for 6 years in Australia, Asia-Pacific and in North America (where he established their Canadian business). Following the takeover from SKM by Jacobs, Dean moved to Malaysia where he held senior regional and global project management roles, most recently as Director of Projects for Asia.

Grant Howie
General Manager Sales

Grant leads the sales team at Silver Fern Farms. He is responsible for customer focus, discovery and development, inventory management and sales of value added brands.
This involves a broad range of activities, including; developing new category management programmes with key global customers, leading our Discovery & Development team in creating differentiated products.
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. He is a Director of Kotahi Logistics Ltd.

Vicki McColl
Chief Financial Officer

Vicki leads the group's finance and accounting, treasury, customer service and IT functions. Vicki recently joined Silver Fern Farms after returning home to New Zealand after 15 years overseas, during which time she held a number of senior roles across Australia, London and South America for Rio Tinto.
Most recently she was the CFO for Dyno Nobel Asia Pacific. Vicki is a graduate of Otago University (Bachelor of Commerce).

Gary Williams
General Manager Food Quality, Environment and Assurance

Gary leads a team of specialists responsible for food safety and quality, technical compliance, market access, policy and regulation, quality systems and environmental management.
He has a Bachelor of Technology (biotechnology) and a Masterate in Business Administration from Massey University, and has held a number of leadership roles within the industry including technical, industrial relations, health and safety and general management. Gary is also a trustee for the Meat Industry Superannuation scheme since 2006.

Governance

Silver Fern Farms' governance policies are reviewed to ensure they are consistent with best practice.

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

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

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

Role of Board of Directors

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

Board Composition

The Co-operative's Constitution determines that:

a. Silver Fern Farms Co-operative Limited will have a Board of between six and eight directors;

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

c. up to three directors may be appointed by the Board ('Independent Directors').

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

The Board currently comprises, and at 30 September 2016 comprised, five supplier-elected Directors and three Board-appointed Independent Directors as follows:

Rob Hewett	Chairman, Shareholder-elected
Tony Balfour	Independent
Trevor Burt	Independent
Fiona Hancox	Shareholder-elected
Dan Jex-Blake	Shareholder-elected
Tony O'Boyle	Shareholder-elected
Jane Taylor	Independent
Richard Young	Shareholder-elected

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

Director Nominee Process

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

The Board 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, particularly among the share-holder-elected constituents. In addition to working with organisations such as the NZ Co-operative Association and the Institute of Directors and Fonterra to encourage director training, during 2008/2009 the company established the Burnside-Hart Co-operative Education Trust to further such an outcome. Applications for funding should be addressed to: The Trustees, Burnside-Hart Co-operative Education Trust, c/o General Counsel, PO Box 941, Dunedin 9054.

Committees

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

The Remuneration and Appointments Committee reviews the performance of the 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 and the process for appointment of Independent Directors.

Operation of the Board

The Silver Fern Farms Co-operative Board meets formally 12 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.

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

Auditor Independence

The company requires its Auditor to maintain independence in accordance with best practice. The Audit, Risk Assessment and Mitigation Committee reviews the independence and objectivity of the Auditor.

Directors' Fees

The current total Directors' fee pool is $725,688 per annum.

Public release of material information

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

Attendance at meetings

During the financial year ended 30 September 2016, the Board met 12 times (plus 2 telephone conferences) as follows:

Director	Board*	Annual Meeting	Board Committee#
A J Balfour	10	1	-
T J Burt	9	1	15
F M Hancox	12	1	-
R J Hewett	12	1	11
D C Jex-Blake	12	1	4
A C Mabin **	1	1	1
A M O'Boyle **	10	-	-
D J Taylor	12	1	18
R G Young	12	1	3

* Two teleconference meetings were also held during the year

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

** A M O'Boyle replaced A C Mabin in December 2015

Statutory Information

Directors' Statement

This Annual Report is dated 23 December 2016 and is signed on behalf of the Board by:

RJ Hewett
Chairman

DJ Taylor
Chairman – Audit, Risk Assessment and Mitigation Committee

Directors

The Directors of Silver Fern Farms Co-operative Ltd as at 30 September 2016 are:

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

Directors' Interest in Transactions

For the year ended 30 September 2016, 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:

"In the opinion of the Board, Silver Fern Farms Limited has throughout the year ended 30 September 2016 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 2016, 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, R J Hewett and D J Taylor.

Audit, Risk Assessment and Mitigation Committee

The Committee comprises D J Taylor – Chairman, T J Burt, D C Jex-Blake and R G Young.

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 2016, Silver Fern Farms made no donations (2015: $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 2016 was $377,000. Fees payable to Ernst & Young for tax advisory and other services in respect of the financial year ended 30 September 2016 were $464,000.

Directors' Interests in Silver Fern Farms Shares

The shares held in Silver Fern Farms Co-operative Limited by each director as at 30 September 2016 are set out in the following table.

Director	Holding as at 30 Sept 2016
A J Balfour	-
T J Burt	18,166
F M Hancox	212,646
R J Hewett	70,000
D C Jex-Blake	120,000
A M O'Boyle	24,000
D J Taylor	-
R G Young	30,768

Directors' Fees

Director	Position	Year Ended 30 Sept 2016
A J Balfour	Director	70,000
T J Burt	Director and Chairman Remuneration and Appointments Committee	82,917
F M Hancox	Director	70,000
R J Hewett	Director and Chairman	184,251
D C Jex-Blake	Director	75,000
A C Mabin	Director	18,750
A M O'Boyle	Director	52,500
D J Taylor	Director and Chairman Audit, Risk Assessment and Mitigation Committee	98,521
R G Young	Director	73,750
Total Directors' fees		**725,688**

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 was $725,688.

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 2016, the value of which was or exceeded $100,000 (NZD). All Directors' fees earned by the Chief Executive from external organisations where the Chief Executive represents Silver Fern Farms are paid to Silver Fern Farms and are included in revenue.

Remuneration Range	New Zealand	Overseas Subsidiaries	Cessations	Total
100,000 - 110,000	41	-	2	43
110,001 - 120,000	28	2	1	31
120,001 - 130,000	23	-	1	24
130,001 - 140,000	11	1	1	13
140,001 - 150,000	18	1	2	21
150,001 - 160,000	8	2	-	10
160,001 - 170,000	3	-	2	5
170,001 - 180,000	8	1	2	11
180,001 - 190,000	5	1	-	6
190,001 - 200,000	6	-	-	6
200,001 - 210,000	1	-	-	1
210,001 - 220,000	2	-	-	2
220,001 - 230,000	3	-	-	3
230,001 - 240,000	1	-	-	1
240,001 - 250,000	1	-	-	1
250,001 - 260,000	-	2	-	2
260,001 - 270,000	1	-	-	1
270,001 - 280,000	1	-	-	1
280,001 - 290,000	2	-	-	2
300,001 - 310,000	1	-	-	1
340,001 - 350,000	-	-	1	1
410,001 - 420,000	1	-	-	1
440,001 - 450,000	1	-	-	1
460,001 - 470,000	1	-	-	1
590,001 - 600,000	-	-	1	1
910,001 - 920,000	1	-	-	1
1,500,001 - 1,510,000	1	-	-	1

Consolidated Statement of Comprehensive Income

FOR THE YEAR ENDED 30 SEPTEMBER 2016

NZD IN THOUSANDS ($000)	Notes	2016	2015
Sale of goods		2,146,939	2,434,204
Interest revenue		271	213
Revenue		**2,147,210**	**2,434,417**
Other income	6	5,205	6,565
Share of profit of associates	12(j)	12,144	10,852
Total income		**2,164,559**	**2,451,834**
Raw materials and consumables used		1,548,344	1,749,473
Employee benefits expense	7	316,310	321,060
Depreciation and amortisation		24,768	28,880
Finance costs	7	14,765	30,828
Other operational expenses	7	267,853	290,805
Profit/(loss) before impairment and income tax		**(7,481)**	**30,788**
Impairment loss	4	22,399	3,621
Profit/(loss) before income tax		**(29,880)**	**27,167**
Income tax expense/(benefit)	8	689	2,263
Profit/(loss) attributable to shareholders of the parent		**(30,569)**	**24,904**
Other comprehensive income			
Foreign currency translation gain/(loss)		(8,070)	4,545
Property revaluation gain/(reversal due to impairment)	4	(7,252)	(1,176)
Other reserves movements		232	-
Income tax on items of other comprehensive income - (charged)/credited	8	2,095	(148)
Other comprehensive income for the year, net of tax		**(12,995)**	**3,221**
Total comprehensive income for the year attributable to shareholders of the parent		**(43,564)**	**28,125**
Earnings per share attributable to the shareholders of the parent		**cents**	**cents**
Basic earnings/(loss) per ordinary share	9	(31.48)	25.68
Diluted earnings/(loss) per ordinary share	9	(31.48)	24.81

The above Consolidated Statement of Comprehensive Income should be read in conjunction with the accompanying notes, particularly note 4 which describes the accounting impacts of the major capital transaction completed on 6 December 2016.

For and on behalf of the Board, who authorised the issue of these financial statements on 23 December 2016.

R J HEWETT
Chairman

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

Consolidated Statement of Changes in Equity

FOR THE YEAR ENDED 30 SEPTEMBER 2016

NZD IN THOUSANDS ($000)	Share Capital	Retained Earnings	Foreign Currency Reserve	Asset Revaluation Reserve	Total Equity
Opening balance at 1 October 2014	**136,495**	**82,831**	**(11,871)**	**111,801**	**319,256**
Net profit/(loss) for the year	-	24,904	-	-	24,904
Foreign currency translation gain/(loss)	-	-	4,545	-	4,545
Transfer on sale of assets	-	13,473	-	(13,473)	-
Other comprehensive income	-	-	-	(1,176)	(1,176)
Income tax on items of other comprehensive income - (charged)/credited	-	-	-	(148)	(148)
Total comprehensive income for the year	**-**	**38,377**	**4,545**	**(14,797)**	**28,125**
Closing balance at 30 September 2015	**136,495**	**121,208**	**(7,326)**	**97,004**	**347,381**
Opening balance at 1 October 2015	**136,495**	**121,208**	**(7,326)**	**97,004**	**347,381**
Net profit/(loss) for the year	-	(30,569)	-	-	(30,569)
Foreign currency translation gain/(loss)	-	-	(8,070)	-	(8,070)
Transfer on disposal of assets	-	27	-	(27)	-
Reversal of revaluation gains due to impairment	-		-	(7,252)	(7,252)
Release of excess revaluation reserve	-	1,300	-	(1,300)	-
Other reserves movements	-	68	-	164	232
Income tax on items of other comprehensive income - (charged)/credited	-	-	-	2,095	2,095
Total comprehensive income for the year	**-**	**(29,174)**	**(8,070)**	**(6,320)**	**(43,564)**
Closing balance at 30 September 2016	**136,495**	**92,034**	**(15,396)**	**90,684**	**303,817**

The above Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying notes, particularly note 4 which describes the accounting impacts of the major capital transaction completed on 6 December 2016.

Consolidated Balance Sheet

AS AT 30 SEPTEMBER 2016

NZD IN THOUSANDS ($000)	Notes	2016	2015
ASSETS – Current Assets			
Cash and cash equivalents	12	-	13,933
Derivative financial instruments	12(h)	-	1,182
Trade and other receivables	12(c)	-	162,988
Deferred major capital transaction costs	11	13,488	5,823
Financial assets	13	1,220	1,324
Inventories	12(a)	-	73,127
Livestock	12(b)	-	3,055
Tax receivable	8	-	82
Total Current Assets		**14,708**	**261,514**
Assets held for sale	12	526,490	-
ASSETS – Non-current Assets			
Available for sale financial assets		-	82
Trade and other receivables	12(c)	-	1,620
Investments in associates	12(j)	-	22,433
Property, plant and equipment	12(d)	-	334,310
Intangible assets	12(i)	-	7,122
Total Non-current Assets		**-**	**365,567**
TOTAL ASSETS		**541,198**	**627,081**
LIABILITIES – Current Liabilities			
Bank overdraft	12(f)	-	1,127
Derivative financial instruments	12(h)	-	4,034
Trade and other payables	12(e)	-	89,923
Provisions	12(g)	-	17,319
Tax provision	8	-	129
Interest bearing loans and borrowings	12(f)	-	133,707
Total Current Liabilities		**-**	**246,239**
Liabilities held for sale	12	216,778	-
LIABILITIES – Non-current Liabilities			
Provisions	12(g)	-	10,573
Interest bearing loans and borrowings	12(f)	-	38
Deferred income tax	8	-	1,834
Total Non-current liabilities excluding members' shares		**-**	**12,445**
TOTAL LIABILITIES EXCLUDING MEMBERS' SHARES		**216,778**	**258,684**
NET ASSETS EXCLUDING MEMBERS' SHARES		**324,420**	**368,397**
Supplier investment shares	13	5,387	5,478
Members' ordinary shares (rebate shares)	13	15,216	15,538
Total Members' Shares		**20,603**	**21,016**
NET ASSETS		**303,817**	**347,381**
EQUITY – Equity attributable to equity holders of the parent			
New ordinary shares	13	136,495	136,495
Retained earnings		92,034	121,208
Other reserves	14	75,288	89,678
TOTAL EQUITY		**303,817**	**347,381**

The above Consolidated Balance Sheet should be read in conjunction with the accompanying notes, particularly note 4 which describes the accounting impacts of the major capital transaction completed on 6 December 2016.

Consolidated Cash Flow Statement

FOR THE YEAR ENDED 30 SEPTEMBER 2016

NZD IN THOUSANDS ($000)	Notes	2016	2015
Cash flows from operating activities			
Receipts from customers		2,196,253	2,467,305
Payments to suppliers and employees		(2,161,034)	(2,282,004)
Interest received		271	182
Dividends received		11,870	4,270
Finance costs paid		(14,776)	(32,042)
Tax refund received/(tax paid)		(204)	(891)
Net cash flows (used in)/from operating activities	10	**32,380**	**156,820**
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		2,734	12,108
Proceeds from sale of investments in associates		571	6,514
Purchase of property, plant and equipment and intangibles		(15,978)	(6,444)
Major capital transaction costs		(5,130)	(4,512)
Proceeds from/(advance to) associates		-	3,740
Investment in associates		(531)	(98)
Net cash flows (used in)/from investing activities		**(18,334)**	**11,308**
Cash flows from financing activities			
Deferred proceeds from the issue of New ordinary shares		108	6
Loans repaid		-	265
Repayment of borrowings		(25,131)	(152,267)
Members' ordinary shares (rebate shares) surrendered		(322)	(391)
Supplier investment shares surrendered		(91)	(70)
Net cash flows (used in)/from financing activities		**(25,436)**	**(152,457)**
Net increase/(decrease) in cash and cash equivalents		(11,390)	15,671
Effects of exchange rate changes on the balance of cash held in foreign currencies		(13)	(242)
Cash and cash equivalents at the beginning of the year		12,806	(2,623)
Cash and cash equivalents at the end of the year		**1,403**	**12,806**
Represented by:			
Cash	12	1,403	13,933
Bank overdraft	12(f)	-	(1,127)
Cash at the end of the year		**1,403**	**12,806**

The above Consolidated Cash Flow Statement should be read in conjunction with the accompanying notes, particularly note 4 which describes the accounting impacts of the major capital transaction completed on 6 December 2016.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 SEPTEMBER 2016

1 CORPORATE INFORMATION

The consolidated financial statements of Silver Fern Farms Co-operative Limited, formerly Silver Fern Farms Limited ('the Co-operative') for the year ended 30 September 2016 were authorised for issue in accordance with a resolution of the directors on 23 December 2016.

Silver Fern Farms Co-operative Limited (the Parent) is registered under the Companies Act 1993 and the Co-operative Companies Act 1996. Silver Fern Farms Co-operative Limited is a reporting entity under the Financial Markets Conduct Act 2013 for the purposes of the Financial Reporting Act 2013. The company is domiciled in New Zealand.

The nature of the operations and principal activities of the Group are described in note 5.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a Basis of preparation

The consolidated 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, the Financial Reporting Act 2013 and Financial Markets Conduct Act 2013 (FMC Act).

As of 30 September 2015, the company opted in as an FMC reporting entity under Clause 19 of Schedule 4 of the FMC Act. Under the FMC Act, parent company numbers are not required to be presented in the consolidated financial statements.

The consolidated financial statements have also been prepared on a historical cost basis, except for the accounting impacts of classifying the majority of the group's assets and liabilities as held for sale. At 30 September 2016, the disposal group is held at fair value less costs to sell. See note 4.

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

b Statement of compliance

The consolidated 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 also comply with International Financial Reporting Standards (IFRS).

c Non-current assets and disposal groups 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, 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.

d 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. No new standards or interpretations have had a significant impact in the year ended 30 September 2016.

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

Given the prospective accounting changes arising from the major capital transaction described in note 4, there are no new or amended standards that are issued but not yet effective that would be expected to have a material impact on the Group.

e Basis of consolidation

The consolidated financial statements comprise the financial statements of Silver Fern Farms Co-operative 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 significant subsidiaries appears in note 16 to the consolidated 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.

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.

f Foreign currency translation

i Functional and presentation currency

Both the functional and presentation currency of Silver Fern Farms Co-operative 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 Co-operative 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 on 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. The cost of inventories of meat and associated products is estimated using the retail method, as permitted by NZ IAS 2 Inventories. The cost of each item of inventory is calculated by deducting an estimated profit margin from the contracted selling price for committed inventory or the expected selling price for uncommitted inventory.

j Livestock (biological assets)

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

Livestock programmes

Lambs 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. No livestock was held on such programmes at 30 September 2016.

Other

Sheep and cattle are grazed on land adjacent to processing facilities for short term operational reasons.

Livestock is valued at fair value less costs to sell and the resulting gains or losses are recognised in profit and loss. 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 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 on the consolidated balance sheet at cost plus post-acquisition changes in the Group's share of net assets of the associates. 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.

m 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 15 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.

n 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.

o 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.

p 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.

q 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.

r 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.

s 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.

t 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 Co-operative 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. Holders of Members' ordinary shares 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.

u 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.

v 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.

w 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.

x 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 net of GST.

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

y 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, and assuming all partly paid shares have been proportionately paid for at the beginning of comparative financial period presented.

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.

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 consolidated financial statements are outlined below:

i Significant accounting judgements

Classification of assets and liabilities as held for sale

As described at note 4, the majority of the assets and liabilities of the group were identified as a disposal group and classified as held for sale at 30 September 2016, based upon the following accounting judgements. The board of the Co-operative has assessed that, under the terms of a substantial third party investment into the group, the Co-operative will cease to exercise control for accounting purposes, as defined by NZ IFRS 10, with effect from completion of the transaction on 6 December 2016. Accordingly, all subsidiaries of the Co-operative will be derecognised. At 30 September 2016, the board concluded that successful completion of the transaction was highly probable, since all material conditions had been satisfied.

ii Significant accounting estimates and assumptions

Fair value of disposal group and impairment

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

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.

Estimated net realisable value of inventory

Where inventory is expected to be realised at values below cost, those values are estimated based on year end and, where such information is available, post year end actual selling prices. Some inventory lines have limited markets and so estimating realisable values is based on a combination of both objective information and management judgement. A significant estimation of net realisable value has been made for one product type, resulting in the recognition in the current year of a $6.7m partial write up of a prior year net realisable value write down. The estimate is management's best estimate of expected selling price and is based on the most recent selling prices achieved, up to the date of signing these financial statements.

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 MAJOR CAPITAL TRANSACTION

On 6 December 2016, Shanghai Maling (Hong Kong) Limited, a wholly owned subsidiary of Shanghai Maling Aquarius Co. Limited (Maling) acquired new shares, representing 50% of the shares of Silver Fern Farms Beef Limited (the operating company), a subsidiary of Silver Fern Farms Limited (the Co-operative). The subscription price was $266.2m. Following completion of the transaction, Silver Fern Farms Limited was renamed Silver Fern Farms Co-operative Ltd and Silver Fern Farms Beef Limited was renamed Silver Fern Farms Limited.

As a condition of the Subscription Agreement, there was a significant internal reorganisation of the group's assets and liabilities. The remaining operating assets and liabilities previously held by the Co-operative were transferred to the operating company or one of its subsidiaries in return for 89,900 further shares in the operating company and a receivable from the operating company of $57m.

Under the terms of the transaction, the majority of decisions by the board of the operating company can be passed by a simple majority of the ten directors, five appointed by the Co-operative and five appointed by Maling. The board will be co-chaired by one representative of the Co-operative and one representative of Maling. However, in the event of board deadlock, there are certain casting vote matters where the Maling appointed Co-Chairperson will have a casting vote, including: approval of the annual business plan, approval of the annual budget, approval of the annual financial statements, appointment or dismissal of the Chief Executive and dividend policy. Due to the dilution of its shareholding to 50% and the effect of these casting vote matters, the Co-operative no longer controls the operating company, as defined by NZ IFRS 10 Consolidated Financial Statements, with effect from 6 December 2016. From that date, the operating company will cease to be a subsidiary of the Co-operative, and instead will be accounted for as an investment in an associate. Accordingly, the Co-operative will derecognise the assets and liabilities of its former subsidiary, the operating company, and the other group companies controlled by the operating company. In return, the Co-operative will recognise an investment in an associate plus $57m of cash received under the Subscription Agreement.

i. Assets and liabilities held for sale

At 30 September 2016, all material conditions of the Subscription Agreement had been satisfied, including Overseas Investment Office (OIO) and Ministerial approval in New Zealand, which was received on 20 September 2016. Since successful completion of the transaction was considered to be highly probable at that date, and since accounting control, as defined by NZ IFRS 10, would prospectively cease under the terms of the agreement, the board concluded that the assets and liabilities of the operating company constituted a disposal group, in the hands of the Co-operative, according to the group's accounting policy set out in note 2(c). This has two very material impacts on the consolidated financial statements of the Co-operative for the year ended 30 September 2016.

First, the assets and liabilities of the disposal group, which comprise most of the net assets of the group, have been separately disclosed in the balance sheet. However, the underlying asset and liability balances are disclosed in note 12.

Second, a disposal group must be measured at the lower of its carrying amount and fair value less costs to sell. At 30 September 2016, the carrying value of the disposal group prior to asset impairment assessment exceeded its fair value by $29.6m, determined by reference to the transaction with Maling. Accordingly, the Group recognised an impairment loss equal to this amount.

NZD IN THOUSANDS ($000)	2016
Fair value less costs to sell of disposal group	309,712
Carrying amount of net assets of disposal group before asset impairment	(339,363)
Impairment loss	**(29,651)**

The impairment loss was allocated first against goodwill and then, on a reasonable basis, against other intangibles, property, plant and equipment. It was recognised in profit and loss, except to the extent that it reversed previous revaluation gains in respect of the allocated assets, in which case that component of the loss was recognised in other comprehensive income.

NZD IN THOUSANDS ($000)	Goodwill	Intangible Assets	Property, plant & equipment	Total
Impairment loss through profit and loss	(4,775)	(293)	(17,331)	(22,399)
Impairment loss through other comprehensive income	-	-	(7,252)	(7,252)
Total impairment loss	**(4,775)**	**(293)**	**(24,583)**	**(29,651)**

ii. **Discontinued operations**

All of the items reported in profit and loss relate to the disposal group so they have been classified as discontinued operations, except for $726,000 of expenditure, being directors' fees, reported within other operational expenses. The tax benefit arising on continued operations amounted to $203,000. All of the cash flows reported in the Consolidated Cash Flow Statement relate to discontinued operations, except for operating cash outflows of $726,000, in respect of directors' fees, reported within payments to suppliers and employees.

5. SEGMENT INFORMATION

The Group has assessed that it has one reporting segment, being 'Red meat and related products'. The Chief Executive makes resource allocation decisions based on the business performance of the Group's operations as a whole.

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.

	2016		2015	
NZD IN THOUSANDS ($000)	Amount	% Total revenue	Amount	% Total revenue
New Zealand	372,908	17%	403,060	17%
USA	360,723	17%	424,947	17%
China	316,023	15%	361,890	15%
Australia	179,064	8%	236,281	10%
Germany	141,939	7%	135,443	6%
United Kingdom	136,987	6%	155,296	6%
Japan	79,150	4%	93,189	4%
Canada	65,304	3%	55,812	2%
Korea	60,596	3%	51,356	2%
Saudi Arabia	26,132	1%	74,962	3%
Other - Europe	189,832	9%	211,491	9%
Other - Asia / Middle East	193,310	9%	203,770	8%
Other - Rest of World	24,971	1%	26,707	1%
Total revenue	**2,146,939**	**100%**	**2,434,204**	**100%**

6 OTHER INCOME

NZD IN THOUSANDS ($000)	2016	2015
Rental revenue	844	948
Gain on sale of property, plant and equipment, net of related costs	197	83
Sundry income	4,164	5,534
Total other income	**5,205**	**6,565**

7 EXPENSES

NZD IN THOUSANDS ($000)	2016	2015
Employee benefits expense		
Wages and salaries	304,133	305,050
Workers' compensation costs	3,722	7,598
Superannuation costs	8,455	8,412
Total employee benefits expense	**316,310**	**321,060**
Finance costs		
Bank facility fees	4,805	8,840
Bank interest cost	9,819	21,748
Other interest cost	141	240
Total finance costs	**14,765**	**30,828**
Other expenses		
Audit fees	377	520
Bad debt expense/(recovery)	(16)	30
Energy costs	27,242	28,781
Leasing costs	5,913	6,134
Loss on sale of plant, property and equipment	90	3,676
Restructuring costs	1,815	1,657
Rental costs	2,196	2,761
Other operating costs	230,236	247,246
Total other expenses	**267,853**	**290,805**

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)	2016	2015
Income tax expense		
Current income tax charge	428	576
Deferred income tax		
Adjustments in respect of deferred income tax of previous years	(498)	(1,470)
Relating to origination and reversal of temporary differences	759	3,157
Income tax expense/(benefit) reported in profit or loss	**689**	**2,263**
Amounts charged or credited directly to other comprehensive income		
Revaluation/impairment of buildings - charged/ (credited)	(2,095)	148
Income tax expense/(benefit) reported in other comprehensive income	**(2,095)**	**148**

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)	2016	2015
Total accounting profit/(loss) before income tax	**(29,880)**	**27,167**
At the parent entity's statutory income tax rate of 28%	(8,367)	7,607
Adjustments in respect of current/deferred income tax of previous years	(498)	(1,470)
Permanent differences relating to assets	9	(1,548)
Non-deductible impairment of advances/investments	1,556	444
Non-deductible entertainment expenditure, legal expense and rebates	148	755
Dividends and partnership profits/(losses)	(2,222)	726
Write off of foreign withholding tax	95	332
Losses (recognised)/not recognised	8,281	(3,531)
Other differences	1,687	(1,051)
Aggregate income tax expense	**689**	**2,264**

Recognised deferred tax assets and liabilities

		2016		2015
NZD IN THOUSANDS ($000)	Current income tax	Deferred income tax	Current income tax	Deferred income tax
Opening asset/(liability)	(46)	(1,834)	(14)	-
Charged to income	(428)	(261)	(576)	(1,687)
(Charged)/ credited to other comprehensive income	-	2,095	-	(148)
Other payments/movements	203	-	543	-
Closing asset/(liability)	**(271)**	**-**	**(47)**	**(1,835)**
Amounts recognised in the balance sheet:				
Tax asset	27	19,614	82	26,141
Tax liability	(298)	(19,614)	(129)	(27,976)
Closing asset/(liability)	**(271)**	**-**	**(47)**	**(1,835)**

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

Deferred income tax at balance date

NZD IN THOUSANDS ($000)	2016	2015
i Deferred tax liabilities		
Fixed assets	19,614	27,976
Gross deferred tax liabilities	**19,614**	**27,976**
Set-off of deferred tax assets	(19,614)	(26,141)
Net deferred tax liabilities	**-**	**1,835**
ii Deferred tax assets		
ACC provision	803	900
Annual/long service leave	4,499	4,126
Bad debts provision	(159)	29
Bonus adjustment/admin provision	-	(342)
Other adjustments	22	41
Livestock procurement provision	555	561
Livestock revaluation	-	(131)
Losses recognised	13,892	20,871
Restructuring accruals	-	84
Stock provision	2	2
Gross deferred tax assets	**19,614**	**26,141**
Set-off of deferred tax liabilities	(19,614)	(26,141)
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 taxes should unremitted earnings be remitted (2015: $nil). The company has tax losses carried forward of $79,189,000 (2015: $74,538,000). $49,614,000 of these losses are recognised (2015: $74,538,000), which give rise to a deferred tax asset of $13,892,000, disclosed above. $29,575,000 of tax losses are unrecognised at 30 September 2016 (2015: $nil). The amount of tax losses is subject to confirmation by Inland Revenue and the losses will continue to be carried forward subject to meeting the minimum shareholding continuity requirements.

Imputation credit balance

NZD IN THOUSANDS ($000)	2016	2015
Balance at beginning of the year	**390**	**49**
Other adjustments	684	341
Balance at end of the year	**1,074**	**390**

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

NZD IN THOUSANDS ($000)	2016	2015
Through direct shareholding in the parent	1,074	390
Through indirect interest in subsidiaries	186	186

9 EARNINGS PER SHARE

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

NZD IN THOUSANDS ($000)	2016	2015
a Earnings used in calculating earnings per share		
For basic earnings per share:		
Profit/(loss) attributable to New ordinary shareholders of the parent	(30,569)	24,904
For diluted earnings per share:		
Profit/(loss) attributable to New ordinary shareholders of the parent (from basic EPS)	(30,569)	24,904
b Weighted average number of shares		
Weighted average number of new ordinary shares for basic earnings per share	97,111	96,993
Effect of dilution:		
Partly paid New ordinary shares	3,268	3,386
Weighted average number of new ordinary shares adjusted for the effect of dilution	**100,379**	**100,379**

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

10 CASH FLOW STATEMENT RECONCILIATION

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

NZD IN THOUSANDS ($000)	2016	2015
Net profit/(loss)	**(30,569)**	**24,904**
Adjustments for:		
Depreciation and amortisation	24,768	28,880
Foreign exchange movements in cash	13	248
Net (gain)/loss on disposal of property, plant and equipment	(107)	3,593
Net movement on changes in fair market value of derivatives	(4,787)	(7,056)
Impairment writedowns	22,399	3,501
Associate dividends	11,869	6,841
Dividend Income classified as investing activity	-	(2,571)
Trade and other receivables movement classified as investing activities	(4,886)	2,067
Provisions, trade and other payables movement classified as investing activities	(134)	(2,466)
Share of associate income	(12,144)	(10,852)
Other items	1,506	(39)
	7,928	**47,050**
Changes in assets and liabilities:		
(Increase)/decrease in inventories and livestock	(5,662)	78,692
(Increase)/decrease in trade and other receivables	49,768	25,849
(Decrease)/increase in tax balance	(1,019)	1,719
(Decrease)/increase in provisions, trade and other payables	(18,635)	3,510
	24,452	**109,770**
Net cash flows (used in)/ from operating activities	**32,380**	**156,820**

11 DEFERRED MAJOR CAPITAL TRANSACTION COSTS

The group has incurred costs of $13,488,000 (2015: $5,823,000) in connection with the major capital transaction. On completion of the transaction, it is expected that these costs will be taken to profit and loss as part of any gain or loss on disposal. These costs are not considered to be part of the disposal group. Note 4 includes further detail around accounting for the transaction.

12 ASSETS AND LIABILITIES HELD FOR SALE

Further to the facts described at note 4, the following assets and liabilities of the group are classified as assets held for sale at 30 September 2016:

NZD IN THOUSANDS ($000)	Notes	2016	2015
Cash and cash equivalents		1,403	-
Derivative financial instruments	12(h)	2,551	-
Trade and other receivables	12(c)	114,851	-
Dividend receivable		7,562	-
Inventories	12(a)	81,561	-
Livestock	12(b)	283	-
Tax receivable	8	27	-
Shares in unlisted Companies		81	-
Investments in associates	12(j)	15,497	-
Property, plant and equipment	12(d)	301,132	-
Intangible assets	12(i)	1,542	-
Total assets held for sale		**526,490**	**-**
Bank overdraft	12(f)	-	-
Derivative financial instruments	12(h)	616	-
Trade and other payables	12(e)	80,281	-
Provisions	12(g)	26,969	-
Tax provision	8	298	-
Interest bearing loans and borrowings	12(f)	108,614	-
Deferred income tax	8	-	-
Total liabilities held for sale		**216,778**	**-**
Total net assets held for sale		**309,712**	**-**

Notes 12(a) to 12(j) below show the component balances within assets held for sale and liabilities held for sale. The comparatives stated refer to the 2015 balance sheet equivalent values, noting that these were not held for sale at 30 September 2015.

12a INVENTORIES

NZD IN THOUSANDS ($000)	2016	2015
Meat and associated product inventory	71,944	64,474
Consumables and packaging	9,617	8,653
Total inventories	**81,561**	**73,127**

12b LIVESTOCK

NZD IN THOUSANDS ($000)	2016	2015
Opening balance	**3,055**	**55,597**
Net movements in livestock	(2,772)	(45,846)
Changes in livestock fair value less estimated selling cost	-	(6,696)
Closing balance	**283**	**3,055**

Livestock consists of sheep and cattle.

12c TRADE AND OTHER RECEIVABLES

NZD IN THOUSANDS ($000)	2016	2015
Trade receivables	96,414	137,371
Allowance for impairment loss	(67)	(103)
Total trade receivables excluding related parties	**96,347**	**137,268**
Related party receivables		
Trade receivables due from associates	4,565	7,392
Total related party receivables	**4,565**	**7,392**
Total trade receivables	**100,912**	**144,660**
Other receivables		
Advances due from associates	1,631	1,620
Other prepayments and receivables	12,308	24,151
Total other receivables	**13,939**	**25,771**
Total trade and other receivables	**114,851**	**170,431**

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.

12d PROPERTY, PLANT AND EQUIPMENT

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

NZD IN THOUSANDS ($000)	Land	Buildings	Plant and equipment	Vehicles	Work in progress	Total
Year ended 30 September 2016						
At 1 October 2015, net of accumulated depreciation	58,057	150,855	123,608	393	1,397	334,310
Additions	62	806	11,564	153	2,842	15,427
Disposals	(98)	(386)	(3,537)	(479)	-	(4,500)
Revaluations	-	-	-	-	-	-
Impairment of assets	(198)	(14,395)	(9,095)	(16)	(880)	(24,584)
Reclassification of assets	(150)	387	200	(0)	(436)	-
Reclassification from WIP to Intangibles	-	-	-	-	(3)	(3)
Depreciation charge for the year	(102)	(7,286)	(16,081)	(74)	24	(23,519)
Accumulated Depreciation on disposals	9	200	3,313	479	-	4,001
At 30 September 2016, net of accumulated depreciation	**57,580**	**130,181**	**109,972**	**456**	**2,943**	**301,132**
Cost or fair value	57,871	151,690	409,175	3,336	3,970	626,042
Accumulated depreciation and impairment	(291)	(21,509)	(299,203)	(2,880)	(1,027)	(324,910)
Net carrying value	**57,580**	**130,181**	**109,972**	**456**	**2,943**	**301,132**

ii Revaluation of operational land and buildings

The Group engaged Colliers International to determine the fair value of land and building at 30 September 2016. Colliers International is an accredited independent valuer that uses the International Valuation Standards Committee and International Valuation Standards as a reference.

The revalued land and buildings consist of operational land and buildings in New Zealand. Based on the method of valuation used for these assets, the inputs in the fair value calculation are classified as level 2 for land and level 3 for buildings in accordance with the the classification hierarchy under NZ IFRS 13.

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 comparable in size and location to those held by the Group, and to market based yields for comparable properties. QV Cost Builder and The New Zealand Building Economist have also been used as a reference when determining fair value of buildings. 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. Economic adjustments have been applied when using the DRC method to revalue buildings. The adjustment rates range from (60%) to 0%.

The effective date of the land and buildings revaluation was 30 September 2015.

(iii) 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 2016 is nil (2015: nil).

12e TRADE AND OTHER PAYABLES

NZD IN THOUSANDS ($000)	2016	2015
Trade payables	55,209	55,494
Other payables	24,564	32,391
Associates	508	2,038
Total trade and other payables	**80,281**	**89,923**

12f INTEREST BEARING LOANS AND BORROWINGS

NZD IN THOUSANDS ($000)	Average Effective Interest Rate (%)	Maturity	2016	2015
Current				
GBP bank overdraft (GBP 1.5m)	3.43%	On demand	-	1,127
Total overdrafts			**-**	**1,127**
Obligations under finance leases	1.38%		38	486
Secured loans	4.61%		108,576	133,259
Total interest bearing loans and borrowings			**108,614**	**133,745**

The borrowing facilities in place at balance date expired on 6 December 2016, on completion of the major capital transaction described in note 4. All outstanding borrowings were repaid at that date. New working capital, overdraft and seasonal facilities have been agreed by the operating companies, covering the period from completion to 30 September 2017. Certain covenants under the facility in place at balance date were breached during the reporting period; these breaches were waived on 10 October 2016.

12g PROVISIONS

NZD IN THOUSANDS ($000)	Accident Future Costs	Livestock Procurement Provision	Employee Entitlements	Restructuring	Total
At 1 October 2015	**3,214**	**2,003**	**22,455**	**220**	**27,892**
Arising during the year	1,152	2,208	125,102	-	128,462
Utilised	(1,499)	(2,230)	(125,436)	(220)	(129,385)
Excess provision released	-	-	-	-	-
At 30 September 2016	**2,867**	**1,981**	**22,121**	**-**	**26,969**

i 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.

ii Employee entitlements

Included in employee entitlements are 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.

iii 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.

12h DERIVATIVE FINANCIAL INSTRUMENTS

NZD IN THOUSANDS ($000)	2016	2015
Current Assets - forward currency contracts	2,551	1,182
Current Liabilities - forward currency contracts	(616)	(4,034)
Net Derivative financial instruments	**1,935**	**(2,852)**

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 red meat and associated products in foreign currencies. The Group has entered into forward exchange contracts which are economic hedges but are not hedge accounted. Economic exposures, which impact on operating margins, arise from movements in foreign exchange rates between the point of entering into livestock procurement contracts and the ultimate receipt of foreign currency in respect of sales of goods produced from livestock procured under those contracts. Net gains in the current year offset operating margin losses arising from unfavourable movements in foreign exchange rates. During the year, net foreign exchange gains arising from all foreign exchange transactions totalled $24.1m (2015: $15.0m loss). 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.

12i INTANGIBLE ASSETS AND GOODWILL

NZD IN THOUSANDS ($000)	Software	Goodwill	2016 Total	Software	Goodwill	2015 Total
Opening balance net of accumulated amortisation and impairment	**2,347**	**4,775**	**7,122**	**2,813**	**4,775**	**7,588**
Additions - including internal development	736	-	736	172	-	172
Disposals	(27)	-	(27)	-	-	-
Impairment	(293)	(4,775)	(5,068)	-	-	-
Reclassification between asset categories	3	-	3	543	-	543
Amortisation	(1,250)	-	(1,250)	(1,181)	-	(1,181)
Amortisation on disposals	26	-	26	-	-	-
Closing balance of net accumulated amortisation and impairment	**1,542**	**-**	**1,542**	**2,347**	**4,775**	**7,122**
Cost (gross carrying amount)	12,502	-	12,502	11,791	4,775	16,566
Accumulated amortisation and impairment	(10,960)	-	(10,960)	(9,444)	-	(9,444)
Net carrying amount	**1,542**	**-**	**1,542**	**2,347**	**4,775**	**7,122**

The carrying value of intangible assets held under finance leases and hire purchase contracts at 30 September 2016 is $nil (2015: $27,000).

12j INVESTMENTS IN ASSOCIATES

i The Group's interests in associates

	Principal activity	Place of incorporation	2016	2015
NZ Lamb Group				
New Zealand and Australian Lamb Company Limited	Sale of lamb	Canada	21%	22%
The Lamb Co-Operative, Inc	Sale of lamb	USA	24%	25%
Other Associates				
Robotic Technologies Limited	Manufacturing	New Zealand	50%	50%
Livestock Logistics Nationwide Limited	Transport	New Zealand	50%	50%
Kotahi Logistics LP (i)	Export Logistics	New Zealand	10%	10%
Ovine Automation Limited	R&D ovine systems	New Zealand	29%	29%
Farm[IQ] Systems Limited (ii)	Information technology	New Zealand	82%	82%
Farm[IQ] PGP Limited (ii)	R&D red meat IVC	New Zealand	82%	82%
Alpine Origin Merino Limited	Marketing	New Zealand	0%	50%
Primary Collaboration NZ Limited (iii)	Marketing	New Zealand	17%	17%
Red Meat Profit Partnership LP (iii)	Marketing	New Zealand	5%	5%

On 21 September 2016, the Group reached agreement with the New Zealand Merino Company (NZM) for NZM to take 100 per cent ownership of Alpine Origin Merino Limited, previously owned jointly.

All of the above associates are accounted for using the equity method in the Group's consolidated financial statements because the Group considers that it has significant influence over, but does not control, those entities. The following factors are relevant to this conclusion.

i. The Group's beneficial interest in Kotahi Logistics LP is based upon freight volumes put through the entity but it owns 50% of the shares in Kotahi GP Ltd, the general partner which is charged with managing the entity, and has board representation.

ii. The Group owns 82% of the issued shares in Farm[IQ] Systems Ltd and Farm[IQ] PGP Ltd but does not control these entities, since, under the terms of the Shareholders' Agreement, the Group does not have a controlling majority of the board and certain decisions require the approval of all participants.

iii. Primary Collaboration NZ Ltd and Red Meat Profit Partnership LP are collaborative enterprises, giving rights to all participants.

ii Movements in the carrying amount of the Group's investment in associates

NZD IN THOUSANDS ($000)	2016	2015
Opening balance	**22,433**	**20,700**
Share of profits of associates	12,144	10,852
Exchange revaluations	(2,400)	1,580
Share of dividends received/receivable	(19,435)	(4,270)
Increase/(decrease) in ownership	2,755	(6,429)
Closing balance	**15,497**	**22,433**

The Group's share of profits of associates is recognised in profit and loss. Dividends received by group companies are eliminated against the carrying value of investments on consolidation.

13 MEMBERS' SHARES AND NEW ORDINARY SHARES

NZD IN THOUSANDS ($000)	Supplier Investment Shares	Members' Ordinary shares	New Ordinary Shares	Total
Balance as at 1 October 2014	**5,548**	**15,907**	**136,495**	**157,950**
Shares surrendered	(70)	(369)	-	(439)
Balance as at 30 September 2015	**5,478**	**15,538**	**136,495**	**157,511**
Shares surrendered	(91)	(322)	-	(413)
Balance as at 30 September 2016	**5,387**	**15,216**	**136,495**	**157,098**
Called / Uncalled				
15.216m Members' ordinary shares (rebate shares) of $1 each	-	15,216	-	15,216
5.387m Supplier Investment Shares of $1 each	5,387			5,387
98.220m New ordinary shares - fully paid	-	-	133,559	133,559
2.159m New ordinary shares - partly paid	-	-	2,936	2,936
Issued and fully paid	**5,387**	**15,216**	**136,495**	**157,098**

i Members shares

Silver Fern Farms Limited has two classes of Members' shares: Members' Ordinary Shares (rebate 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. Under the Co-operative Companies Act 1996, the Co-operative has a right to defer redemption but not to withhold payment.

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 (2015: 17,500) and 15,000 (2015: 15,000) respectively.

ii New ordinary shares

As part of the change in capital structure in 2009, shareholders could elect to exchange Members' Ordinary Shares (Rebate Shares) and Supplier Investment Shares for New Ordinary Shares on a one for one basis; no cash was payable on exchange. In addition to the exchange of shares, shareholders could elect to participate in a two for one right issue. Under the terms of the rights issue, shareholders were entitled to subscribe in cash for two New Ordinary Shares for every one New Ordinary Share issued to them under the exchange offer.

The rights issue price per New Ordinary Share of $1.00 was payable either in full on application or under a deferred payment option, over a period of approximately three years by way of deduction from proceeds of the sale of livestock. Some shares remain partly paid and the balance receivable is disclosed below. These amounts are overdue for payment.

NZD IN THOUSANDS ($000)	2016	2015
Deferred payments due within 12 months	1,220	1,324
Total deferred payments	**1,220**	**1,324**

14 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 investments.

15 COMMITMENTS AND CONTINGENCIES

Contingent asset

At 30 September 2016 the Group had no contingent assets (2015: nil).

Capital commitments

At 30 September 2016 the Group had no capital commitments (2015: nil).

Contingent liabilities

The group has no significiant contingent liabilities as at 30 September 2016 (2015: nil).

16 RELATED PARTY DISCLOSURES

a Subsidiaries

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

NZD IN THOUSANDS ($000)	Country of Incorporation	2016 % Equity Interest	2015 % Equity Interest
Silver Fern Farms Ltd (formerly Silver Fern Farms Beef Ltd)	New Zealand	100%	100%
Silver Fern Farms Venison Ltd	New Zealand	100%	100%
Silver Fern Farms Sheepmeat Ltd	New Zealand	100%	100%
Richmond (NZ) Singapore Pte Ltd	Singapore	100%	100%
Silver Fern Farms Management Ltd	New Zealand	100%	100%
Silver Fern Farms Joint Ventures Ltd	New Zealand	100%	100%
Silver Fern Farms Holdings Ltd	New Zealand	100%	100%
Silver Fern Farms GmbH	Germany	100%	100%
Silver Fern Farms (UK) Limited	UK	100%	100%

b Ultimate Parent

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

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 12(c) and 12(e) respectively):

			2016			2015
NZD IN THOUSANDS ($000)	Sales to related parties	Purchases from related parties	Other transactions	Sales to related parties	Purchases from related parties	Other transactions
Directors	-	4,501	-	-	5,695	-
Associates	56,180	115,715	19,434	99,559	127,974	6,841
Key Management Personnel	-	-	-	-	35	-

The Group purchased livestock and made other livestock related payments to the farming businesses of directors 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.

17 KEY MANAGEMENT PERSONNEL

NZD IN THOUSANDS ($000)	2016	2015
Short-term employee benefits	4,597	3,853
Directors' fees	726	673
Contributions to defined contribution plans	78	88

18 EVENTS AFTER THE BALANCE SHEET DATE

As disclosed in note 4, on 6 December 2016, Shanghai Maling (Hong Kong) Limited, a wholly owned subsidiary of Shanghai Maling AquariusCo. Limited (Maling) acquired new shares representing 50% of the shares of Silver Fern Farms Beef Limited (the operating company), a subsidiary of Silver Fern Farms Limited (the Co-operative). The subscription price was $266.2m. Following completion of the transaction, Silver Fern Farms Limited was renamed Silver Fern Farms Co-operative Ltd and Silver Fern Farms Beef Limited was renamed Silver Fern Farms Limited.

On completion of the capital transaction, all borrowings under the facilities in place at balance date were repaid, as described at note 12(f). New working capital, overdraft and seasonal facilities have been agreed by the operating companies, covering the period from completion to 30 September 2017.

Following completion of the investment, and the distribution to the Co-operative of $57m from that process, the Board of the Co-operative has resolved to progress the redemption of all Supplier Investment Shares issued by the Co-operative. The Board's intention to effect this redemption was referred to in the materials provided to shareholders calling the Special Meetings held on 16 October 2015 and 12 August 2016. Notices to shareholders holding Supplier Investment Shares have been sent advising that their Supplier Investment Shares will be surrendered to the Co-operative and then redeemed and cancelled with effect on Friday 13 January 2017.

19 AUDITOR'S REMUNERATION

NZD IN THOUSANDS ($000)	2016	2015
Costs incurred in respect of the prior financial year	-	120
Costs incurred in respect of the current year	377	400
Ernst & Young: Audit of consolidated entities	**377**	**520**
Ernst & Young: Tax advisory	222	90
Ernst & Young: Risk management and other assurance services	165	32
Ernst & Young: Independent QA services	77	56
Total remuneration to Ernst & Young	**841**	**698**
Total remuneration to auditors other than Ernst & Young	**-**	**-**

Five Year Historical Summary

AS AT 30 SEPTEMBER 2016

NZD IN THOUSANDS ($000)	Notes	2016	2015	2014	2013	2012
Consolidated Statement of Comprehensive Income						
Total income		**2,164.6**	**2,451.8**	**2,328.1**	**2,007.3**	**2,035.6**
Operating earnings before interest, tax, depreciation and amortisation (EBITDA)	1	32.1	90.5	68.5	25.6	12.6
Operating earnings before interest, impairment loss and tax (EBIT)		7.3	61.6	39.6	(4.9)	(12.5)
Net operating profit/(loss) before impairment and tax		(7.5)	30.8	2.2	(32.9)	(38.6)
Impairment loss		(22.4)	(3.6)	(0.4)	(3.6)	(3.7)
Income tax benefit/(expense)		(0.7)	(2.3)	(1.3)	8.0	11.2
Net profit/(loss) after tax		**(30.6)**	**24.9**	**0.5**	**(28.5)**	**(31.1)**
Less member distributions		-	-	-	-	(0.1)
Net profit/(loss) after member distributions		**(30.6)**	**24.9**	**0.5**	**(28.5)**	**(31.2)**
Financial Position						
Total assets		541.2	627.1	760.8	833.3	828.5
Net working capital	3	98.7	136.2	233.7	288.6	294.5
Net debt	4	107.2	120.9	288.6	387.6	347.7
Total equity including members' shares		324.4	368.4	340.7	320.2	349.0
Cash Flow						
Net cash flows (used in)/from operating activities		32.4	156.8	91.5	(5.1)	(104.0)
Key Ratios						
EBIT to total income	5	0.3%	2.5%	1.7%	-0.4%	-0.8%
Return on equity	6	-9.4%	6.8%	0.1%	-8.9%	-8.9%
Equity ratio	7	59.9%	59.4%	45.2%	38.7%	42.4%

Notes

1. EBITDA excludes impairment losses and includes share of profits/losses of associates
2. Net operating profit/(loss) before impairment losses
3. Current assets less current liabilities (exclusive of net debt items)
4. Total interest bearing debt less cash and cash equivalents
5. EBIT / total income
6. Net profit after tax / closing equity (including members' shares)
7. Equity (including members' shares) / total assets excluding intangibles

Chartered Accountants

Independent Auditor's Report

To the Shareholders of Silver Fern Farms Co-operative Limited (formerly Silver Fern Farms Limited)

Report on the Financial Statements

We have audited the group financial statements of Silver Fern Farms Co-operative Limited and its subsidiaries ("the Group") on pages 24 to 49, which comprise the balance sheet of the Group as at 30 September 2016, and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended of the 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. 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 on behalf of the company for the preparation and fair presentation of the financial statements in accordance with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards, 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 and fair presentation of the financial statements 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 & Young provide taxation and other risk management and assurance related services to the Group.

Opinion

In our opinion, the financial statements on pages 24 to 49 present fairly, in all material respects, the financial position of the Group as at 30 September 2016 and the financial performance and cash flows of the Group for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

Ernst + Young

23 December 2016
Christchurch

Directory

BOARD OF DIRECTORS

Rob Hewett – Chairman

Tony Balfour

Trevor Burt

Fiona Hancox

Dan Jex-Blake

Tony O'Boyle

Jane Taylor

Richard Young

LEADERSHIP TEAM

Dean Hamilton
– Chief Executive

Sharon Angus
– General Manager Marketing

Phil Buck
– General Manager Operations

Dean Fraser
– Enterprise Program Manager

Grant Howie
– General Manager Sales

Vicki McColl
– Chief Financial Officer

Gary Williams
– General Manager Food Quality, Environment and Assurance

HEAD OFFICE

Silver Fern Farms Limited

283 Princes Street
PO Box 941, Dunedin 9054
New Zealand

T: +64 3 477 3980

F: +64 3 474 1087

E: info@silverfernfarms.com

www.silverfernfarms.com

REGIONAL OFFICES

Silver Fern Farms Hastings

Plunket Street
PO Box 940, Hastings 4156
New Zealand

T: +64 6 872 6660

F: +64 6 872 6715

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
– Head of Communications and Sustainability

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 China, Germany, Hong Kong, Japan, Middle East and UK. Contact details are available on www.silverfernfarms.com

SHAREHOLDER ENQUIRIES

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

Silver Fern Farms Co-operative 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

- Rabobank New Zealand Branch
- Westpac New Zealand Limited

AUDITOR

Ernst & Young

TAX ADVISORS

PWC

LEGAL ADVISORS

Harmos Horton Lusk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