



**SILVER
FERN
FARMS**

CO-OPERATIVE LTD

ANNUAL REPORT 2018

Towards Sustained
Performance



Consolidated Financial Statements for
Year Ended 31 December 2018



ANNUAL MEETING

The 2018 Annual Meeting of Silver Fern Farms Co-operative Limited Shareholders will be held at 2pm on Wednesday 1 May 2019 in Dunedin at Silver Fern Farms Office, 283 Princes Street, Dunedin.

Prior to the Annual Meeting, Shareholders are welcome to a light lunch from 12.30pm followed by a presentation from Silver Fern Farms Limited Chief Executive Simon Limmer on the performance of Silver Fern Farms Limited.

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



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TOWARDS SUSTAINED PERFORMANCE





Chairman Review



The 2018 financial year was a successful year for your Co-operative and our investment Silver Fern Farms.

Over this period, we have made the following progress as a co-operative:

- We reviewed our constitution to ensure it was fit-for-purpose, and received strong shareholder support for the changes;
- Together with our partner Shanghai Maling we ensured Silver Fern Farms Limited's strategy is robust, so it can achieve its vision: to become the world's most successful and sustainable grass-fed red meat company;
- We have seen a growth in the number of shareholders who are suppliers of livestock, and in the amount of livestock supplied by shareholders, and;

- On our role in developing future leaders for the rural community, we were pleased to receive the recognition of an award for our leading governance development programme 'To The Core' that we run in partnership with Farmlands Co-operative.

Our investment in Silver Fern Farms Limited has delivered sustained performance in a challenging year – generating a back-to-back profit and notable advancements in the areas of sales, health & safety, capital investment and sustainability over the period.

A view from the Chief Executive of Silver Fern Farms, Simon Limmer covers the performance of Silver Fern Farms later in this report.

An aerial photograph of a coastal landscape. The top half shows a vibrant green field, possibly a golf course, bordered by a dense forest of dark green trees. Below the forest, the terrain drops to a rocky coastline with light-colored, layered rock formations. The bottom right corner shows the edge of a body of water with white foam from a wave. The text is overlaid on the left side of the image.

**THE 1.7M DIVIDEND
MARKS THE FIRST
TIME THAT SILVER
FERN FARMS LIMITED
HAS BEEN IN A
POSITION TO PAY
BACK-TO-BACK
DISTRIBUTIONS OUT
OF OPERATING PROFIT
TO ITS SHAREHOLDERS.**



CO-OPERATIVE FINANCIAL RESULT

This is the first Annual Report of Silver Fern Farms Co-operative Limited which covers the performance of the Co-operative over the 12-month period from 1 January 2017 through to 31 December 2018.

Your Co-operative has reported a net profit before tax of \$2.4m for the year ended 31 December 2018.

The after-tax result for the period was a net profit of \$0.9m.

Our balance sheet strength was maintained. At balance date, 31 December 2018, we remained free of debt, and had cash and short-term deposits of \$18.1m, up from \$16.6m in 2017, and Total Shareholder Equity of \$283.3m, including rebate shares.

The cost-base for the Co-operative remains low. The administrative overhead for the Co-operative for the year was \$0.7m, of which \$0.5m is met by Silver Fern Farms Limited as agreed under the terms of our partnership.

Additional costs for this past financial year are largely due to the constitutional review process. This involved extensive consultation with shareholders, information materials, as well as specialist constitutional and legal advice to ensure it was robust, together with an additional voting process for our shareholders.

We believe the investment in this process was fundamental to ensure we had a thorough consultation with shareholders that led to a constitution which met the needs of the Co-operative's members.

The strong engagement and support we received suggests this outcome was met.

The result reversed an after-tax loss of \$5.6m in 2017 – albeit that result was over a 15-month period which included losses from discontinued operations arising from the Shanghai Maling transaction.

Post balance date, Silver Fern Farms Limited announced an unimputed dividend of \$1.7m which will be equally distributed between the two shareholders, Silver Fern Farms Co-operative and Shanghai Maling Aquarius Co. Limited. This is in-line with the Company's dividend policy of paying a minimum dividend of 30% of the Company's net profit after tax. The Co-operative's share will be \$874k.

While down on last year's \$6.0m dividend, we are pleased that Silver Fern Farms Limited was in a position to pay a dividend to its two shareholders.

The dividend marks the first time that Silver Fern Farms Limited has been in a position to pay back-to-back distributions out of operating profit to its shareholders, our Co-operative and our partner Shanghai Maling.

While Silver Fern Farms Limited's result is covered in detail in their review later in this report, it should be noted that our investment is undergoing a process of consolidation. The company is in a period of intensive capital investment across infrastructure, and systems to ensure it can sustain a high level of performance. While the current level of profitability is lower than what we consider to be appropriate we have an expectation that we will be in a position to derive significant future value from our equal share in the company. Supplying shareholders also benefit from the additional commitment to a preferential level of service.

DISTRIBUTION OF PATRONAGE REWARD

While it is a back-to-back dividend for the Co-operative, the \$874k dividend is not of a sufficiently significant scale to enable both the payment of a distribution to shareholders as a dividend on all Ordinary and Rebate shares as well as a patronage reward payment of any meaningful value.

The Board have decided to not make a distribution by way of a dividend to all Ordinary and Rebate Shareholders, given the low value of this distribution, which would be under 0.4 cents per share fully imputed.

After consideration the Board has also decided there is no compelling case to retain the dividend from Silver Fern Farms Limited. This option was considered, however as yet, the Co-operative has no additional requirement for funds at this stage.

We recognise the need to grow long-term value in the investment for the benefit of all shareholders, and to encourage suppliers of livestock to become shareholders, so shareholders can realise the value of their shares should they wish.

We believe we can contribute to creating this enduring value by encouraging commitment of livestock supply through the Patronage Reward. This was one of the fundamentals behind the establishment of the Co-operative's Patronage Reward mechanism.

The Board have decided to distribute \$874k as a Patronage Reward to shareholder-suppliers who are identified as eligible as at 31 December 2018 and who have an aligned shareholder-supplier match. This will represent an unimputed Patronage Reward (on qualifying shares) of 3.0 cents per share.

The distribution will be funded by the \$874k dividend from Silver Fern Farms Limited.



CONSTITUTIONAL REVIEW

In June 2018 we began the process of consulting with Shareholders on the review of the Constitution of the Co-operative.

Key amendments to the constitution include:

- the addition of one Board appointed Farmer Director to the Board,
- limits on the tenure of directors,
- the requirement that director candidates elected by shareholder suppliers are active shareholder suppliers in the Co-operative; and
- continuity of voting rights for shareholder suppliers who may have restructured their family estate, trust or corporate structure to enable farm succession.

Additional amendments were made to reflect that most operational activities are now predominantly undertaken via the Co-operative's 50% shareholding in Silver Fern Farms Limited, and technical updates were included to bring it in-line with current practice and legislation.

A strong majority of 92% of votes cast were in favour of the amendments. This positive result followed an extensive consultation process with shareholders. We discussed the proposal in detail with shareholders and suppliers at 17 events through June and July. Some 500 people attended these events. We know this opportunity for wide engagement was viewed positively and are heartened by the response. The Board would like to thank shareholders for their participation in the consultation roadshow meetings and for the feedback and formal responses provided during this process.

We believe this refreshed constitution sets a foundation of sustainable success for our Co-operative. In particular, the amendments ensure the Co-operative has a process that ensures constructive rejuvenation of its governors.

The revisions made to the make-up of our appointed Directors will ensure the Co-operative has a sound succession plan in place to ensure active farmer elected directors are well equipped and gain governance experience and insight ahead of appointment to the Board of Directors of Silver Fern Farms Limited – which is a large complex business. We will announce our first Board-appointed farmer Director in 2019 at the Company's Annual Meeting.

The Co-operative sees that it has a vital role in developing future leaders for the rural community – not just within Silver Fern Farms but the many organisations that support our farmers. Being able to create a pipeline for constructive renewal in our Co-operative will assist in achieving that.





SILVER FERN FARMS LIMITED'S STRATEGY REVIEW

One of the Co-operative's roles is to work with our partner Shanghai Maling to agree on the strategy of Silver Fern Farms Limited.

Over the course of 2018 Silver Fern Farms reviewed its strategy to ensure it could create sustainable long-term value. The review was led by the Chief Executive Simon Limmer and his management team and involved consultation with staff and the Board. The conclusion was that Silver Fern Farms' Plate to Pasture Strategy is the right one, and the focus is to execute accurately and with urgency. The business must be market-led, with a strong customer focus, essential if we are to respond with pace to changes in consumer preference.

Importantly, Silver Fern Farms has a clear new vision:

**TO BECOME THE
WORLD'S MOST
SUCCESSFUL AND
SUSTAINABLE
GRASS-FED RED
MEAT COMPANY.**

The Board firmly believes this vision is what Silver Fern Farms Limited should aspire to. Our grass-fed products, including the attributes of our sustainable chain of care, must reach those conscious consumers who are willing to pay a premium for Silver Fern Farms quality. It will create a legacy for future generations of red meat producing farmers.

Out of the strategy review Silver Fern Farms Limited has revised its operating model to deliver its goals. There is confidence the changes being made under the new operating model will lead to greater collaboration, innovation and performance across the business.

There is strong agreement from both shareholders that this refreshed strategy, clear vision, and operational model is robust, and will help drive improved profitability from our investment. The relationship between ourselves and Shanghai Maling has matured significantly through this process as we have worked together on Silver Fern Farms' strategy.

I am confident that our Co-operative will see continued benefits from the performance of Silver Fern Farms Limited in 2019 as it delivers on its strategy.



SHAREHOLDER BENEFITS

We welcomed 179 new shareholders to the Co-operative in 2018. This is up on 104 new shareholders in 2017, and 70 in 2016. This is a positive trend reflecting a growing perception of the value in our Co-operative and its strategy.

Importantly, we have seen a growth in shareholders who are suppliers of livestock. Of the new shareholders signed up in 2018, 84% of them have a supply relationship of sufficient significance to enable them to participate in the Patronage Reward programme.

The Shareholder Rewards Programme provides fully shared suppliers with preference for processing space, and preferential access to supply programmes. Throughout 2018 the Co-operative worked alongside Silver Fern Farms' livestock team to monitor this preferential access.

During 2018 supply from shareholders was broadly consistent with 2017. We are seeing growth (84.2% up from 82.9%) in these shareholders supplying consistent volumes year-on-year.

Our shareholder benefits programme also included our third overseas market tour – this year to North America. Shareholders have preference for these tours, which are an opportunity for farmers to gain a deeper understanding of the markets and customers for our grass-fed, natural red meat products.

We also released a publication charting the first 70 years of our Co-operative. The book, which was written by agricultural business journalist Neal Wallace, *'From a place like no other; the first 70 years of Silver Fern Farms'* was made available to all fully-shared supplying shareholders.

The Shareholder Benefits Programme is being further developed with the addition of an on-line shop for the purchase of Silver Fern Farms red meat on the Co-operative's website in 2019. This initiative is one we are confident Shareholders will see benefit in.



GOVERNANCE DEVELOPMENT

At the Annual Co-operative Business NZ Awards, Silver Fern Farms Co-operative received the "Co-operation amongst Co-operatives" Award alongside Farmlands Co-operative. We were recognised for the successful 'To The Core' Governance and Leadership programme which we ran in partnership with Farmlands during May 2018.

We established the programme with the Burnside Hart Co-operative Education Trust in 2015, and involved Farmlands in 2018 to broaden the programme. 'To The Core' is a 3-day programme which introduces our shareholders to governance and leadership of co-operatives, and gives them access to experienced New Zealand directors and senior company executives to develop their skills. We are running this programme again in partnership with Farmlands in 2019.

The Co-operative offers two additional governance and leadership development opportunities. Each year, in partnership with the Burnside Hart Co-operative Education Trust we support up-to two shareholders to take part in the Fonterra Governance Development Course, and up-to two shareholders to take part in the Kellogg Rural Leaders Course. Both of these opportunities have received strong interest.

Growing the next generation of governors for our Co-operative and for the broader rural community is very important to us and a core objective of Your Co-operative.

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



**Rob Hewett –
Chairman**
Silver Fern Farms Co-operative Limited



A SUSTAINABLE CHAIN OF CARE

In September 2018 Silver Fern Farms released its first sustainability report - Our Sustainable Chain of Care. The report is a first for a New Zealand red meat company. It tracks progress on 8 material sustainability issues which have been identified by internal and external stakeholders.

It shows how Silver Fern Farms can contribute to positive change for our environment, our people, our communities and the economic success of New Zealand. The company is focused on measuring, improving and communicating performance on its material issues.

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

While all 8 areas are material to the sustainability of Silver Fern Farms Limited, one area falls clearly into the remit of the Co-operative – Sustainable Future for Farmers.

You can read the full report here at:

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

THE UNITED NATIONS SUSTAINABLE DEVELOPMENT GOALS (SDGS)

As a food producer of scale who sends food to consumers around the globe, we recognise we have both a responsibility and an opportunity to contribute to achieving the United Nations Sustainability Goals.

These 17 goals aim to transform our world and were adopted in 2015. You can learn more about them here:

un.org/sustainabledevelopment/

In our Sustainability Report we have mapped our material issues to the 17 UN SDGs so we can better understand where we can make our greatest contribution.

AS REPORTED IN THE OUR
CHAIN OF CARE SUSTAINABILITY
REPORT, AT THE END OF 2017:

SUSTAINABILITY GOAL - SUSTAINABLE FUTURE FOR FARMERS

To be a sustainable food producer we need strong partnerships with our Silver Fern Farmers.

Silver Fern Farms has the following goal – Partnering with farmers to be successful for generations to come – where they see our success as an extension of their own.

To achieve this Silver Fern Farms strives to provide market leading service, competitive livestock payments and market-linked value added supply programmes to achieve this goal.

Silver Fern Farms Co-operative's shareholder supplier benefits programme is an important initiative to differentiate livestock supply by rewarding loyal supply from Co-operative shareholders and to incentivise non-shareholder suppliers to become shared-up loyal suppliers. This is an important, long-term initiative to differentiate livestock supply.

1,153

farmers involved in
market-linked, value-added
supply programmes

— that's a —

29%

increase on 2016 levels

1.2+

MILLION

stock units were supplied
across market-linked value added
supply programmes

— that's a —

13%

increase on 2016 levels







**SILVER
FERN
FARMS**

100% MADE OF NEW ZEALAND

Commentary on the performance of Silver Fern Farms Limited

SIMON LIMMER CHIEF EXECUTIVE

For the year ended 31 December 2018, Silver Fern Farms achieved:

- sales of \$2.4 billion
- EBITDA* of \$32.4m
- net profit before tax of \$6.3m and a net profit after tax of \$5.8m.

The 2018 after-tax result, while it represented a back-to-back profit for the business, is not at the level we are aiming to achieve for the company.

It is acknowledged we must lift the profitability of the business in order to sustain our aggressive capital re-investment programme, and to more actively progress our in-market investment in sales and marketing capability and programmes to grow value in the market.

The company invested over \$29m in capital expenditure for the period (up from \$21m the prior year). In the past two years the company has invested over \$50m in capital expenditure.

This investment has been made in health and safety, ongoing compliance, asset replacement, operational improvement, IT systems and sustainability improvements.

However, alongside the significant capital investment in Silver Fern Farms, the company continued to pay out strong farm gate pricing across all species.

Low processing volumes at two crucial periods, the first early in 2018, and the second at the end of the year impacted on our operational efficiency. Lower volumes mean that plants are unable to leverage economies of scale and therefore become less profitable. This effect is exacerbated when volumes change suddenly due to unanticipated seasonal shifts. Plants recruit and train seasonal staff, based on previous livestock flows and expectations, however if the volumes do not materialise collective employment agreements require us to continue to make minimum payments even when there is insufficient work. The impact erodes margins and overall profitability.

November and December 2017 were very dry, leading to drought conditions in parts of New Zealand. Accordingly, stock flows were very high, especially for beef volumes which were pulled forward from planned finishing dates in early 2018.

By contrast, heavy rain in the second half of November and early December 2018 led to farmers holding back stock, with available volumes significantly down on the previous season. The strong grass growth, and cooler temperatures saw lamb volumes and weights down in particular. December 2018 was the worst December result for the company in the last ten years.

Volumes processed were above 2017 levels for beef, with a slight gain in market share, and slightly back for sheepmeat and venison although market share for those species remained the same as 2017.

On the market front, the US-China trade barriers created uncertainty and changes to the global flows of protein. Tariffs on US pork impacted beef pricing. UK and European markets were steady, despite the unease created through multiple set-backs, and regulatory uncertainty during Brexit negotiations which are ongoing.

* EBITDA = Earnings before interest, tax, depreciation and amortisation – includes share of associate earnings.

In 2018 the company achieved a 30% year-on-year reduction in injury rates.

Disease also played a part in demand and pricing, with Swine Flu in China assisting demand for imported beef and lamb, and here at home the Mycoplasma Bovis eradication programme had a minor impact on the beef market.

There were also in-market opportunities which we took in order to maximise returns for our beef, lamb, and venison product. One example is China's ongoing demand for protein, with the company achieving over \$500m in sales in that market for the first time. A second example was the lift in demand from pet food manufacturers for Venison trim, especially from the United States market where there is an apparent trend towards premium pet food. This held up pricing to some extent following the softening in demand from European consumers.

We have needed to be agile to take advantage of these opportunities.

We have an extensive operational network which requires maintenance and investment to ensure operational continuity, quality, efficiency and market access. Capital expenditure has been a focus for 2018. We are developing a 10-year capital investment plan to enable us to stage renewal of plant and equipment at our sites. In 2018 the company invested over \$29m in capital expenditure projects. This investment is aimed at securing sustainable progress for Silver Fern Farms.

The strength of our balance sheet has meant we could maintain the speed of investment in the business, while achieving a profit, notwithstanding livestock supply conditions, and the conditions in the market.

Health & Safety is a priority area for investment. Our Ora health & safety programme, and Runanga leadership group, combined with capital investment in areas including; guarding of equipment, safety bandsaws, and traffic management, as well as additional Personal Protective Equipment, has helped create a culture of continuous improvement when it comes to safety.

In 2018 the company achieved a 30% year-on-year reduction in injury rates. Total Recordable Injury Frequency (TRIF) rate per 200,000 hours worked reduced from 6.7 in 2017 to 4.6 in 2018. This reduction has a positive effect on our ACC claims liability. Further reductions will lower the cost to the business. We will continue this positive trend towards a safer and healthier workplace for our people.

Continuous improvement to processing efficiencies and quality is being driven through our STREAMLINE business improvement programme. We began this pilot of efficient manufacturing methods in late 2017 and are beginning to see results through its implementation at Hawera, and now at Dargaville and Finegand. Our people have been embracing the new approach, and are feeling empowered to share their ideas for continuous improvement, nominating changes to our processes, and as a result, improvements are being implemented. STREAMLINE is a key enabler to our future performance.



PROTECTING OUR REPUTATION

Silver Fern Farms was recognised by the New Zealand public for the way we work in the Colmar Brunton Corporate Reputation index in 2018. This national survey of 1,000 New Zealanders gives a view on the reputation of New Zealand companies.

Silver Fern Farms was named in the top 20 New Zealand companies for the first time. We rose 21 places from 33rd to 12th.

We are in good company – Air New Zealand, TVNZ, Toyota, AA Insurance, Z Energy were the top 5. And while food retailers are in the top 20 we are the only food producer to make the cut.

The people surveyed rated us highly across questions on leadership, trust and responsibility. We were also rated highly for our outstanding products and experience we provide.

This is an important acknowledgement for the way we work here – right through our chain of care. Everyone shares in this achievement and should be very proud. It is clear that New Zealanders hold us in high regard and trust Silver Fern Farms. The onus is on us to grow and protect our reputation so we can continue to meet their expectations.



You can read the sustainability report on our website here:

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

The Silver Fern Farms brand is a powerful tool, and we are developing long-term additional value for our business through differentiated branded products, but just as importantly we want to reinforce the foundation that our business is built on. Our core business is also customer and consumer focused.

Natural grass-fed red meat is enjoyed and valued by a wide range of consumers. The high-volume items, from primal cuts to trim, produced every day efficiently and at scale, give us a strong base to build from. Whether we're supplying lamb racks to Shanghai, venison for goulash in Prague or our high-quality lean beef for burgers in New York, we need to be continuously focused on the expertise required to optimise our product and market mix.

How well we execute our high-end consumer strategy through differentiated branded products is an ongoing challenge, which is critical to the success of our plate to pasture strategy. To achieve sustained success, we need to deepen relationships with our customers and expand the understanding of our consumer's expectations, at the same time refining our products and processes to ensure we deliver.

In September we launched our first sustainability report. It covers the company's development of a sustainability programme at Silver Fern Farms. It aims to set out areas in our business, and across 'our chain of care', where we can raise our performance on areas of social, environmental and financial performance.

It is the first step in setting out our ambitions in this area. Sustainability is all encompassing. We went through a process to define our sustainability issues. For us, it covers our performance in the markets – by assisting in opening up trade access, - food safety, how we use resources (water & energy) efficiently, how we look after our people, how we create a sustainable future for farmers, and underpin it all with our financial viability. The goals we have set will help us to drive our performance. It is also a useful framework to help our customers better understand the diverse challenges we are managing on a day-to-day basis. We want them, and the public to know that when we're faced with difficult trade-offs we consider the things which really matter, and make the best, most responsible decisions we can.

Partnerships are crucial in this space. We are a member of the Sustainable Business Council of New Zealand. Through this group we joined the Climate Leaders Coalition a group of

like-minded businesses who want to use their scale to lower carbon emissions. We became a foundation member of the Aotearoa Circle. This group involves some of New Zealand's leading businesses as well as government agencies. Its purpose is to work collaboratively on sustainability initiatives at a national level. We are involved on current work in the area of biodiversity, and will be involved on a future workstream on sustainable resource management of soils. We need to lead in this space so that farmers' views are heard, and their stories are integrated into how we protect and promote the value of our country's resources.

To help tell the story across the range of food we produce, and the sustainable way we produce it, in October we launched our latest brand campaign – Delicious Starts Here. Delicious Starts Here highlights the respect, care and passion that is needed to create truly delicious red meat. We are playing to conscious consumers' needs for greater depth around the provenance of their natural, real food. We have started the campaign in New Zealand and will progressively introduce it to markets to support our marketing programmes. While the initial emphasis is around fresh, vibrant, tasty and delicious food where red meat is the hero, we then introduce consumers to the stories of our real farmers. Our's is a story that runs from plate to pasture.



**Respect. Care. Passion.
They change everything.**

It's amazing what an attitude can add to taste. It's been said you can taste the love in a meal.

And we believe that's true.

The effort you put in pays off when it comes to both the cultivating and the cooking of great food. When you think about it like that, we all possess a remarkable gift.

That's something Silver Fern Farms takes very seriously.

Whether that's our Silver Fern Farmers out in the paddock, our graders and butchers in the plant, or any one of us in our own kitchens. We understand that the ability to make delicious is in the way we approach our product, from start to finish.

We know it makes the difference.

**Delicious[®]
Starts Here.**



SILVER FERN FARMS PLATE TO PASTURE STRATEGY

In 2018 we began a process to review our strategy with a view to where we need to be in 2023 to meet the needs of customers. Consumers around the world have an enormous range of options when it comes to their food choices. They are thinking about product reliability, exceptional eating experiences, the health of their families, and how and where their food is produced. Essentially, they want trusted products which taste good, are good for them and are good for the planet – all attributes which we are extremely well placed to respond to.

In this environment our plate to pasture, market focused strategy is more relevant than ever.

We are able to respond to and shape the needs of those consumers who are wanting to understand more of the exceptional benefits of our natural, grass-fed red meat.

For us to be truly successful we must work even more closely with our customers globally to respond to those consumers who are seeking out our products and the Silver Fern Farms brand. This applies equally to our foundation business – primal cuts and manufacturing ingredients as it does in our customer specific chilled programmes through to our differentiated branded products in our foodservice and retail ranges.

A new vision:

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

We firmly believe this vision is what we should aspire to. It positions Silver Fern Farms as the world's most successful and sustainable grass-fed red meat company.

We will measure ourselves through the satisfaction of our customers, the value we create for our suppliers and stakeholders, the positive environment that we create for our people, with a view to the legacy we are creating for our future generations.

This clear vision, combined with our customer focused strategy, also gives us our purpose – the reason why we are Silver Fern Farms:

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

In order to live up to our vision and purpose we have a new model to guide and measure our performance. It starts with the following three goals for us to achieve together by 2023:

- Aggregated profit over the 5-year period of over \$150m
- A level of 10% return on equity
- Industry leading safety, quality and sustainability outcomes.

These are goals that will stretch us.

They target a fundamental shift in the financial performance of the business. It will require that individually all Silver Fern Farms' staff understand the roles that they play, act cohesively and are all accountable for the outcomes. Given the solid platform that we now have these objectives are realistic and attainable within the next 5 years.

The model to deliver is based on six pillars of work:

1. Market and customer led
2. Efficient and aligned infrastructure
3. Capability
4. Differentiated livestock supply
5. Technical evolution
6. Commercial agility.

This is an exciting time for us. Silver Fern Farms is well placed for success. We want all stakeholders in Silver Fern Farms to feel appreciated for their contribution to our vision – playing a part in creating the world's most successful and sustainable grass-fed red meat company.



Simon Limmer
Chief Executive
Silver Fern Farms Limited



OUR VISION:



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



OUR PURPOSE:



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

100% MADE OF NEW ZEALAND



YOUR BOARD OF DIRECTORS



Rob Hewett
Chairman

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



Tony Balfour
Independent

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



Trevor Burt
Independent

Trevor joined the board in 2009 and is an experienced professional director who has been Chair of Ngai Tahu Holdings Ltd and Chair of Lyttelton Port Company Ltd. He is currently Chair of The Lamb Company in North America, deputy Chair of PGG Wrightson Ltd, and a director of Market Gardeners Ltd, Landpower Group Ltd, and Hossack Station Ltd, as well as a Trustee of Maia Health Foundation and Christs College.



Fiona Hancox

Fiona was first elected to the Board in 2015. Fiona is a Director on CBNZ (Cooperative Business NZ) and is a trustee of the Lincoln University Foundation, the Clutha Foundation and the West Otago Health Trust. A former South Island Farmer of the Year, Fiona is a Director of three farming companies, 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 22,000 stock unit pastoral farming company near Gisborne, as well as having investment in a 20ha horticultural business. He completed the 2014/15 Fonterra Governance Development Programme, is one of the three Farmer Elected Directors appointed to sit on the Silver Fern Farms Ltd Board and is a Silver Fern Farms Ltd appointed Director of Farm^Q Systems Ltd.



Tony O'Boyle

Tony O'Boyle was elected to the Silver Fern Farms Board in December 2015. He is a Wairarapa sheep and beef farmer. Tony is a past director of Farmlands and is a past Chairman of the Fonterra Shareholders Council. He is a member of both the Audit, Risk and Mitigation and the Remuneration and Appointments committee.



Jane Taylor
Independent

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



Richard Young

Richard operates a 300ha sheep and cropping property at Tapanui, West Otago. He was elected to the Board in 2013. He has a Bachelor of Commerce in Economics from Otago University. He is a Chartered member of the Institute of Directors and completed the Institute of Directors company director's 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.

GOVERNANCE

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

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

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

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

ROLE OF BOARD OF DIRECTORS

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

POLICIES

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

DIRECTOR INDEPENDENCE

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

BOARD COMPOSITION

The Co-operative's Constitution determines that:

- Silver Fern Farms Co-operative Limited will have a Board of between six and nine directors;
- up to five directors are to be elected by shareholders who are suppliers of livestock to the Company. Shareholder-elected Directors must also be an eligible person (supplying shareholder);
- up to four directors may be appointed by the Board ('Independent Directors'). If there are more than three Independent Directors, one must be an eligible person (supplying shareholder).

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

The Board at 31 December 2018 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 shareholder suppliers. The Director nominee process involves an independent evaluation of those nominated, against a range of skill set requirements for the business, with the independent evaluator advising shareholders of each candidate's fit against that framework.

The Board establishes the framework and appoints an independent evaluator. An independent director also chairs the candidate evaluation process. No other members of the Board are involved in this process. The Directors believe in encouraging the creation of a pool of director capability relevant to the business, particularly among the share-holder-elected constituents. In addition to working with organisations such as the Co-operative Business New Zealand and the Institute of Directors and Fonterra to encourage director training, during 2008/2009 the company established the Burnside-Hart Co-operative Education Trust to further such an outcome. Applications for funding should be addressed to: The Trustees, Burnside-Hart Co-operative Education Trust, c/o Shareholder Relations Manager, PO Box 941, Dunedin 9054.

COMMITTEES

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

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

OPERATION OF THE BOARD

The Silver Fern Farms Co-operative Board meets formally 4 times each year, and as otherwise required. The Board's Audit, Risk Assessment and Mitigation Committee is scheduled to meet three times a year or as otherwise required. The Remuneration and Appointments Committee meets at least once a year.

The Chairman and Shareholder Relations Manager establish the agenda for each Board meeting. The Shareholder Relations Manager prepares a quarterly management report that includes a summary of the company's activities together with financial and other reports.

The Board also receives regular briefings on key strategic issues from management.

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

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

AUDITOR INDEPENDENCE

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

DIRECTORS' FEES

The current total Directors' fee pool is \$703,955 per annum.

PUBLIC RELEASE OF MATERIAL INFORMATION

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

ATTENDANCE AT MEETINGS

During the year ended 31 December 2018, the Board met 4 times (plus 2 by telephone conference) as follows:

Director	Board*	Annual Meeting	Board Committee#
Rob Hewett	6	2	4
Trevor Burt	4	1	2
Tony Balfour	3	-	-
Jane Taylor	4	2	3
Dan Jex-Blake	6	2	3
Richard Young	6	2	2
Fiona Hancox	6	2	3
Tony O'Boyle	5	2	5

* Two teleconference meetings included in the total above

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

STATUTORY INFORMATION

DIRECTORS' STATEMENT

This Annual Report is dated 18 March 2019 and is signed on behalf of the Board by:



RJ Hewett
Chairman



DJ Taylor
Chairman – Audit, Risk Assessment
and Mitigation Committee

DIRECTORS

The Directors of Silver Fern Farms Co-operative Ltd as at 31 December 2018 are:

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

DIRECTORS' INTEREST IN TRANSACTIONS

For the period ended 31 December 2018, no Director caused to be entered in the company's interest register any transaction or proposed transaction with the company. Also, no director of any subsidiary of the company disclosed any such interest.

CO-OPERATIVE STATUS

The following resolution was unanimously passed by the Board on 31 January 2019:

"In the opinion of the Board, Silver Fern Farms Co-operative Limited has throughout the period ended 31 December 2018 been a "co-operative company" as defined in the Co-operative Companies Act 1996 ("Act") 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 Act."

INFORMATION DISCLOSURE

For the period ended 31 December 2018, no Director requested to use Company information received by them in their capacity as Directors.

REMUNERATION AND APPOINTMENTS COMMITTEE

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

AUDIT, RISK ASSESSMENT AND MITIGATION COMMITTEE

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

DIRECTORS' INSURANCE

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

DONATIONS

During the period ended 31 December 2018, Silver Fern Farms Co-operative made no donations (2017: \$nil).

AUDITOR

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

DIRECTORS' INTERESTS IN SILVER FERN FARMS SHARES

The shares held in Silver Fern Farms Co-operative Limited by each director as at 31 December 2018 are set out in the following table.

Director	Holding as at 31 December 2018
Tony Balfour	-
Trevor Burt	18,166
Fiona Hancox	212,646
Rob Hewett	70,000
Dan Jex-Blake	120,000
Tony O'Boyle	24,000
Jane Taylor	-
Richard Young	30,768

DIRECTORS' FEES

Consistent with the terms of the Shareholders' Agreement between the Co-operative, Maling and the operating company, the Co-operative Board appoints five directors to the Board of the operating company, including a Co-chair. The Co-operative is responsible for all remuneration of directors in connection with their appointments to the Board of the Co-operative, the Board of the operating company and to the Committees of those Boards. No Director of the Company has, since the end of the previous period, received or become entitled to receive a benefit other than Directors' fees and insurances. The total pool for directors' fees was \$703,955.

Director	Positions	Co-operative	Operating Company	Total
		Year ended 31 December 2018	Year ended 31 December 2018	Year ended 31 December 2018
Rob Hewett	Director of the Co-operative and operating company, Chair of the Co-operative and Co-chair of the operating company	43,975	185,500	229,475
Tony Balfour	Director of the Co-operative	22,150	-	22,150
Trevor Burt	Director of the Co-operative and operating company, Chair of Remuneration and Appointments Committee of the operating company	22,150	80,000	102,150
Fiona Hancox	Director of the Co-operative	22,150	-	22,150
Dan Jex-Blake	Director of the Co-operative and operating company	22,150	79,000	101,150
Tony O'Boyle	Director of the Co-operative	22,150	-	22,150
Jane Taylor	Director of the Co-operative and operating company, Chair of Audit, Risk Assessment and Mitigation Committee of the Co-operative	24,365	79,000	103,365
Richard Young	Director of the Co-operative and operating company, Chair of Remuneration and Appointments Committee of the Co-operative	24,365	77,000	101,365
Total Directors' fees		203,455	500,500	703,955

REMUNERATION OF EMPLOYEES

One employee of Silver Fern Farms Co-operative Limited received remuneration and other benefits in excess of \$100,000 in the year ended 31 December 2018 (\$140,000 – \$150,000).

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2018

NZD IN THOUSANDS (\$000)	Notes	Year ended 31 December 2018	15 months ended 31 December 2017
Share of earnings of Silver Fern Farms Limited	2(b)	2,912	8,028
Interest income		509	741
Total income		3,421	8,769
Operating expenditure		(977)	(930)
Profit before tax from continuing operations		2,444	7,839
Tax expense	3	(1,540)	-
Profit from continuing operations		904	7,839
Loss from discontinued operations		-	(13,421)
Profit/(loss) for the year/period		904	(5,582)
Other comprehensive income			
Other comprehensive income from discontinued operations		-	467
Share of Silver Fern Farms Limited other comprehensive income	2(b)	19	799
Total other comprehensive income		19	1,266
Total comprehensive income/(loss)		923	(4,316)
Earnings per share attributable to the shareholders of the parent		Cents	Cents
Attributable to continuing operations:			
Basic earnings per share	4	0.92	7.96
Diluted earnings per share	4	0.90	7.81
Attributable to discontinued operations:			
Basic earnings/(loss) per share	4	-	(13.63)
Diluted earnings/(loss) per share	4	-	(13.63)

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

CONSOLIDATED BALANCE SHEET

AS AT 31 DECEMBER 2018

NZD IN THOUSANDS (\$000)	Notes	2018	2017
ASSETS			
Current assets			
Cash and cash equivalents	8	3,113	1,641
Short term deposits	8	15,000	15,000
Trade and other receivables	5	31,230	28,979
Equity receivable	7	1,179	1,200
Total current assets		50,522	46,820
Non-current assets			
Equity-accounted investment in Silver Fern Farms Limited	2	265,790	268,859
Total non-current assets		265,790	268,859
TOTAL ASSETS		316,312	315,679
LIABILITIES			
Current liabilities			
Trade and other payables	6	31,421	28,729
Current tax payable	3	1,540	-
Total current liabilities		32,961	28,729
TOTAL LIABILITIES EXCLUDING MEMBERS' SHARES		32,961	28,729
NET ASSETS EXCLUDING MEMBERS' SHARES		283,351	286,950
Members' shares			
Members' rebate shares	7	14,212	14,711
NET ASSETS		269,139	272,239
EQUITY			
Ordinary shares	7	136,495	136,495
Foreign currency translation reserve		818	799
Retained earnings		131,826	134,945
TOTAL EQUITY		269,139	272,239

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

For and on behalf of the Board



ROB HEWETT
Chair

18 March 2019



JANE TAYLOR
Chair - Audit, Risk Assessment and Mitigation Committee

18 March 2019

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2018

NZD IN THOUSANDS (\$000)	Notes	Share capital	Asset revaluation reserve	Foreign currency translation reserve	Retained earnings	Total equity
Balance as at 1 October 2016		136,495	90,684	(7,478)	84,116	303,817
Loss for the period		-	-	-	(5,582)	(5,582)
Other comprehensive income						
Other comprehensive income from discontinued operations		-	-	467	-	467
Share of Silver Fern Farms Limited other comprehensive income		-	-	799	-	799
Total comprehensive loss		-	-	1,266	(5,582)	(4,316)
Transfer of foreign currency translation reserve to profit and loss for the period		-	-	7,011	-	7,011
Transfer of asset revaluation reserve to retained earnings		-	(90,684)	-	90,684	-
Total transfers on derecognition of subsidiary		-	(90,684)	7,011	90,684	7,011
Transactions with owners in their capacity as owners:						
Dividends paid	7	-	-	-	(34,273)	(34,273)
Balance as at 31 December 2017		136,495	-	799	134,945	272,239

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

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

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2018

NZD IN THOUSANDS (\$000)	Notes	Year ended 31 December 2018	15 months ended 31 December 2017
Cash flows from/(used in) operating activities			
Receipts from customers		-	210,688
Payments to suppliers and employees		(504)	(269,334)
Dividends received from Silver Fern Farms Limited	2	6,000	-
Interest received		477	741
Finance costs paid		-	(1,989)
Income taxes paid		-	(166)
Net cash flows from/(used in) operating activities	9	5,973	(60,060)
Cash flows from/(used in) investing activities			
Purchase of property, plant and equipment and intangibles		-	(3,415)
Cash received on completion of Maling transaction		-	57,000
Proceeds from sale of property, plant and equipment		-	4
Sales of short term deposits		15,000	-
Purchase of short term deposits		(15,000)	(15,000)
Net cash flows from investing activities		-	38,589
Cash flows from/(used in) financing activities			
Dividends paid	7	(4,023)	(34,272)
Proceeds from borrowings		-	68,820
Deferred proceeds from issue of ordinary shares	7	21	-
Supplier investment shares redeemed	7	-	(5,387)
Members' rebate shares redeemed	7	(499)	(505)
Net cash from/(used in) financing activities		(4,501)	28,656
Net increase in cash and cash equivalents		1,472	7,185
Cash and cash equivalents at the beginning of the financial year		1,641	1,403
Loss of accounting control of cash on derecognition of subsidiary		-	(6,947)
Cash and cash equivalents at end of year		3,113	1,641

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

1. SUMMARY OF ACCOUNTING POLICIES

The consolidated financial statements of Silver Fern Farms Co-operative Limited (the 'Co-operative'), for the 12 months ended 31 December 2018, comprise the Co-operative, its subsidiary and its equity-accounted investment in Silver Fern Farms Limited (the 'Operating Company'). The Co-operative is registered under the Companies Act 1993 and the Co-operative Companies Act 1996. The Co-operative is a reporting entity under the Financial Markets Conduct Act 2013 (FMC Act). Under the FMC Act, parent company numbers are not required to be presented in the consolidated financial statements.

Results are reported for the year ended 31 December 2018. However, the comparative period reports on the 15 months ended 31 December 2017. The Operating Company was required to change its balance date from 30 September to 31 December, with effect from 2017, in order to align with the balance date of Shanghai Maling Aquarius Co. Limited (Maling). As disclosed in note 2, Maling acquired a 50% interest in the Operating Company, and obtained control for accounting purposes on 6 December 2016. Since the Co-operative's equity accounted investment in the Operating Company remains so material to its financial position and financial performance, the Co-operative also elected to change its balance date to 31 December.

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

At 31 December 2018, the Co-operative had one dormant New Zealand subsidiary, SFFC Sub Limited.

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

The consolidated financial statements were authorised for issue by the directors on 18 March 2019.

a. Basis of preparation

The financial statements of the Co-operative have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand ('NZ GAAP'). The financial statements comply with New Zealand equivalents to International Financial Reporting Standards ('NZ IFRS') and other applicable Financial Reporting Standards, as appropriate for tier 1 for-profit entities. These financial statements also comply with International Financial Reporting Standards ('IFRS').

These financial statements are presented in New Zealand Dollars (\$), which is the Co-operative's functional currency. All amounts have been rounded to the nearest thousand, unless otherwise indicated.

Significant accounting judgements, estimates and assumptions

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

Consideration of impairment of associate investment

The Co-operative considers whether its equity accounted investment in the Operating Company might be impaired at each reporting date, firstly, by understanding if there are indicators of impairment under NZ IAS 28. If indicators of impairment exist, an evaluation of the current fair value of the investment is required. As disclosed in note 2, the directors assessed that there were objective indicators of impairment at 31 December 2018, so an assessment of fair value has been performed. The fair value of the investment is calculated using discounted future cash flows of the Operating Company, based on cash flow projections for five years, incorporating a number of key estimates and assumptions, including:

- EBITDA forecast - due to the nature of the industry and various uncontrollable factors there is risk around actual results differing from projections;
- Capital expenditure based on 5 year projections;
- Tax losses carried forward will be utilised in the 5 year period resulting in tax to pay at 28% of taxable income;
- Working capital requirements for EBITDA growth have been estimated;
- A discount rate of 8.5% has been applied;
- A terminal growth rate of 2% per annum;
- Net debt has been adjusted for; and
- The market value of assets not currently utilised has been adjusted for.

The Group has completed sensitivity analysis in respect of the following key variables in the discounted cash flow calculation:

- EBITDA projections;
- Discount rate; and
- Terminal growth rate.

b. Standards, amendments, and interpretations effective in 2018

NZ IFRS 15 Revenue from Contracts with Customers

In the current year, the Co-operative has applied NZ IFRS 15 in line with the standard's effective date of 1 January 2018.

NZ IFRS 15 introduces a 5-step approach to revenue recognition and more prescriptive guidance has also been added in NZ IFRS 15 to deal with specific scenarios. As described in note 14, the Co-operative purchases all livestock supplied to Silver Fern Farms processing plants by shareholders of the Co-operative, and immediately on-sells this to the Operating Company at the same price. Under NZ IFRS 15, the Co-operative has concluded that this is an agency relationship. As a result, the amount received from the Operating Company for livestock is offset against the amount paid to shareholder suppliers. The Co-operative does not physically take control of the livestock and no commission is received on this transaction. The Co-operative has assessed that adoption of NZ IFRS 15 gives rise to no changes in its accounting for this contractual arrangement and, since no revenue is recognised by the Co-operative in this transaction, no additional disclosures are required.

The Co-operative's main source of income is equity accounted earnings from its associate, the Operating Company. NZ IFRS 15 does not directly impact the accounting for associate earnings, so the application of NZ IFRS 15 has not had a significant impact on the financial position and/or financial performance of the Co-operative. The Operating Company has made its own assessment of the impact of NZ IFRS 15. The assessment resulted in a relatively minor change in the measurement of revenue from contracts with customers, but this did not change overall profit for the year. This standard also resulted in additional disclosures in the financial statements of the Operating Company.

NZ IFRS 9 Measurement of Financial Instruments

In the current year, the Co-operative has applied NZ IFRS 9 Financial Instruments in line with the standard's effective date of 1 January 2018.

NZ IFRS 9 establishes the principles for hedge accounting and impairment of financial assets. Under NZ IFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting which are not currently applicable to the Co-operative. The standard includes enhanced disclosure requirements regarding an entity's risk management activities.

Further details on the financial instruments held by the Co-operative are provided below:

- **Receivables** - the standard introduces an 'expected credit loss model' for receivables which means it will no longer be necessary for a triggering event to occur before impairment loss is recognised. The Co-operative has receivables in respect of livestock procured from shareholders and onsold to the Operating Company. As a 50% shareholder, appointing half of the Operating Company board, the Co-operative has high visibility of the credit risk relating to receivables and expects no losses to arise.
- **Investment in associate** - NZ IAS 28 has updated the criteria for assessing impairment of the investment in the Operating Company. There has been no change in measurement as a result of this update. Refer to note 2 for the directors' assessment of impairment of the Co-operative's associate investment in the Operating Company.
- **Cash deposits** - there is no change in measurement of these deposits. They continue to be measured at amortised cost.
- **Equity receivable** - consistent with trade receivables detailed above, the expected loss from this receivable should be measured. There has been no change in measurement as a result of NZ IFRS 9 since any default on payments due would not be expected to impact the statement of comprehensive income.

2. EQUITY ACCOUNTED INVESTMENT IN SILVER FERN FARMS LIMITED

Background

On 6 December 2016 (in the prior period), Shanghai Maling (Hong Kong) Limited, a wholly owned subsidiary of Shanghai Maling Aquarius Co. Limited (Maling) acquired new shares, representing 50% of the shares of the Operating Company, a former subsidiary of the Co-operative. Under the terms of the transaction, the majority of decisions by the board of the Operating Company can be passed by a simple majority of the ten directors, five appointed by the Co-operative and five appointed by Maling. The board is co-chaired by one representative of the Co-operative and one representative of Maling. However, in the event of board deadlock, there are certain casting vote matters where the Maling appointed Co-Chairperson will have a casting vote, including: approval of the annual business plan, approval of the annual budget, approval of the annual financial statements, appointment or dismissal of the Chief Executive and dividend policy. Due to the dilution of its shareholding to 50% and the effect of these casting vote matters, the Co-operative ceased to have accounting control of the Operating Company, as defined by NZ IFRS 10 Consolidated Financial Statements, with effect from 6 December 2016. Accordingly, the Co-operative derecognised the assets and liabilities of its former subsidiary, the operating company, and the other group companies controlled by the operating company.

The consolidated statement of comprehensive income for the prior period shows a loss from discontinued operations of \$13,421,000, which represents a trading loss of \$18,705,000 incurred in the two months prior to derecognition, 1 October 2016 to 5 December 2016 (during which the results of the Operating Company were fully consolidated), which was partially offset by a gain of \$5,284,000 on derecognition.



Accounting policy

Significant influence

With effect from 6 December 2016, the Co-operative has equity accounted for its investment in the Operating Company as an associate. The directors have concluded that the Co-operative has significant influence over the company, due to its appointment of five of its ten directors, including a co-chairperson, and other terms of the Shareholders' Agreement. However, it does not control the Operating Company, as defined by NZ IFRS 10 Consolidated Financial Statements, due to the casting vote matters detailed above.

Measurement

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

Consideration of impairment

The directors consider whether any objective indicators of impairment exist in relation to its investment in the Operating Company, by reference to NZ IAS 28, at each reporting date. When indicators of impairment exist, an assessment of the fair value of the associate investment is required. An impairment loss in respect of an equity accounted investee is measured by comparing the recoverable amount of the investment with its carrying amount. An impairment loss is recognised in profit or loss, and is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. Goodwill was recognised by the Co-operative upon initial recognition of its associate investment.

a. Carrying amount of investment in Silver Fern Farms Limited

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

NZD IN THOUSANDS (\$000)	Notes	Year ended 31 December 2018	6 December 2016 – 31 December 2017
Opening balance		268,859	-
Initial recognition at fair value as at 6 December 2016		-	260,032
Share of profit after tax	2(b)	2,912	8,028
Share of other comprehensive income	2(b)	19	799
Dividend received		(6,000)	-
Closing balance		265,790	268,859

The directors have considered whether any objective indicators of impairment existed at 31 December 2018 in relation to the Co-operative's investment in the Operating Company, by reference to NZ IAS 28. They have observed that the financial performance of the Operating Company has fallen short of expectations. Although uncontrollable events and industry conditions have influenced financial performance, they have concluded that this is an objective indicator of impairment.

The directors have performed an assessment of fair value based on the assumptions outlined in note 1(a), and concluded that the estimated fair value of the investment is greater than its carrying value in the financial statements of the Co-operative. Therefore, no impairment is required.

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

NZD IN THOUSANDS (\$000)	Year ended 31 December 2018	6 December 2016 – 31 December 2017
Revenue	2,388,754	2,457,731
Share of profit of associates	7,074	9,181
Interest income	244	371
Raw materials and consumables used	(1,848,240)	(1,788,853)
Employee benefits expense	(349,336)	(369,812)
Finance costs	(3,783)	(3,853)
Other operating expenses	(166,128)	(264,497)
Depreciation and amortisation	(22,258)	(23,616)
Profit before tax (100%)	6,327	16,652
Income tax expense	(503)	(597)
Profit after tax (100%)	5,824	16,055
Other comprehensive income (100%)	39	1,598
Total comprehensive income (100%)	5,863	17,653
Co-operative's share (50%)		
Co-operative's share of profit after tax (50%)	2,912	8,028
Co-operative's share of other comprehensive income (50%)	19	799
Co-operative's share of total comprehensive income (50%)	2,931	8,827

Comparative figures are reported for the period from 6 December 2016, the date of initial recognition, to 31 December 2017.

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

Net assets of Silver Fern Farms Limited (100%)

NZD IN THOUSANDS (\$000)	2018	2017
ASSETS		
Current assets		
Cash and cash equivalents	2,506	4,174
Trade and other receivables	224,688	243,451
Derivative financial instruments	2,897	7,675
Inventories	199,748	202,775
Total current assets	429,839	458,075
Non-current assets		
Property, plant and equipment	308,744	302,884
Intangible assets	1,603	580
Investments in associates	17,587	18,811
Shares in unlisted companies	81	81
Total non-current assets	328,015	322,356
Total assets	757,854	780,431
LIABILITIES		
Current liabilities		
Trade and other payables	101,781	129,782
Interest bearing loans and borrowings	134,944	126,720
Tax provision	25	58
Provisions	5,247	4,679
Derivative financial instruments	5,406	2,111
Total current liabilities	247,403	263,350
Non-current liabilities		
Long term payables	-	603
Finance leases	-	55
Provisions	9,712	9,547
Total non-current liabilities	9,712	10,205
Total liabilities	257,115	273,555
Net assets of Silver Fern Farms Limited (100%)	500,739	506,876
Co-operative's share of net assets (50%)	250,369	253,438
Goodwill on initial recognition	15,421	15,421
Equity accounted investment in Silver fern Farms Limited	265,790	268,859

A copy of the financial statements of Silver Fern Farms Limited can be obtained from the Companies Register in New Zealand.

3. INCOME TAX



Accounting policy

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

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

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

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

NZD IN THOUSANDS (\$000)	Year ended 31 December 2018	15 months ended 31 December 2017
INCOME TAX EXPENSE		
Current tax		
Current tax on profits for the year	1,549	-
Benefit of previously unrecognised tax losses	(9)	-
Total current tax	1,540	-
Deferred tax		
Deferred tax in respect of the current year	-	52
Deferred tax assets not recognised	-	(52)
Total deferred tax	-	-
Income tax expense	1,540	-
Numerical reconciliation of prima facie tax payable to tax expense		
Profit from continuing operations before income tax expense	2,444	7,839
Income tax @ 28%	684	2,195
Tax effects of:		
• Non-assessable earnings from associate	(815)	(2,247)
• Share of dividends from associate	1,680	-
• Tax losses not recognised	-	52
• Adjustment in respect of prior years	43	-
• Benefit of tax losses for which no deferred income tax asset was previously recognised	(52)	-
Tax expense recognised in profit or loss	1,540	-

Imputation credit balance

The Co-operative has an imputation credit balance as at 31 December 2018 of \$438,000 (2017: \$nil).

Deferred tax

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

Tax losses

The Co-operative has no tax losses to carry forward (2017: \$178,000)

4. EARNINGS PER SHARE

a. Earnings used in calculating earnings per share

NZD IN THOUSANDS (\$000)	Year ended 31 December 2018	15 months ended 31 December 2017
Profit from continuing operations	904	7,839
Loss from discontinued operations	-	(13,421)
Profit/(loss) attributable to the ordinary equity holders of the Co-operative used in calculating basic and diluted earnings per share	904	(5,582)

b. Weighted average number of shares

NZD IN THOUSANDS (\$000)	2018	2017
Weighted average number of ordinary shares for basic earnings per share	98,523	98,445
Effect of dilution - partly paid ordinary shares	1,856	1,934
Weighted average number of ordinary shares for diluted earnings per share	100,379	100,379

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

5. TRADE AND OTHER RECEIVABLES



Accounting policy

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

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

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

NZD IN THOUSANDS (\$000)	Notes	2018	2017
Livestock receivables from the Operating Company	14	31,149	28,697
Other receivables from the Operating Company		(1)	185
Other receivables		82	97
Total trade and other receivables		31,230	28,979

6. TRADE AND OTHER PAYABLES



Accounting policy

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

NZD IN THOUSANDS (\$000)	Notes	2018	2017
Livestock payables to shareholder suppliers	14	31,148	28,697
Other payables		26	32
Payables to the Operating Company	14	247	-
Total trade and other payables		31,421	28,729

7. MEMBERS' SHARES AND ORDINARY SHARES



Accounting policy

Ordinary shares are classified as equity.

Rebate shares are hybrid financial instruments as they have characteristics of both equity and financial liabilities. The equity component has a nominal value of \$nil. Since rebate shares are redeemable, a financial liability component is recognised, measured at fair value; fair value is the redemption amount of \$1 per share. Accordingly, a financial liability component of \$14,212,000 is recognised.

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

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

NZD IN THOUSANDS (\$000)	Supplier Investment Shares	Rebate Shares	New Ordinary Shares
At 30 September 2016	5,387	15,216	136,495
Shares redeemed	(5,387)	(505)	-
At 31 December 2017	-	14,711	136,495
Shares redeemed	-	(499)	-
At 31 December 2018	-	14,212	136,495

i. Members' shares

The Co-operative has one class of members' shares ('rebate shares'). All supplier investment shares were redeemed in full in the prior period. All members' shares have a nominal value of one dollar per share. Under the Co-operative Companies Act 1996, the Co-operative has a right to defer redemption but not to withhold payment.

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

The maximum shareholding for rebate shares is 17,500 (2017:17,500).

ii. Ordinary shares

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

The rights issue price per ordinary share of \$1.00 was payable either in full on application or under a deferred payment option, over a period of approximately three years by way of deduction from proceeds of the sale of livestock. Some shares remain partly paid and the balance receivable is \$1,179,000 (2017: \$1,200,000).

At 31 December 2018, there were 100,378,874 authorised and issued shares (2017: 100,378,874 shares).

During the period ended 31 December 2018, a fully imputed dividend of 2.8 cents per share (2017: 34.1 cents per share) was paid. In addition to the ordinary dividend paid, eligible shareholder suppliers were rewarded with a patronage reward of 2.9 cents per share.

8. OTHER ACCOUNTING POLICIES

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

a. Goods and Services Tax (GST)

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

b. Interest income

Interest income is recognised using the effective interest method.

c. Cash and cash equivalents

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

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

9. RECONCILIATION OF PROFIT/(LOSS) AFTER INCOME TAX TO NET CASH FLOW FROM OPERATING ACTIVITIES

NZD IN THOUSANDS (\$000)	Year ended 31 December 2018	15 months ended 31 December 2017
Profit/(loss) for the period	904	(5,582)
Share of earnings of Silver Fern Farms Limited	(2,912)	(8,028)
Gain on derecognition of subsidiary	-	(5,284)
Dividends received from Silver Fern Farms Limited	6,000	-
Movement in working capital		
Increase in receivables	(2,251)	(28,989)
Increase in tax payable	1,540	-
Increase in payables	2,692	28,729
Trading loss from discontinued operations	-	18,705
Operating cash used in discontinued operations	-	(59,611)
Net cash inflow/(outflow) from operating activities	5,973	(60,060)

10. RISK MANAGEMENT

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

Credit risk

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

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

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

Interest rate risk

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

Foreign currency risk

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

Liquidity risk

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

11. CONTINGENCIES

As at 31 December 2018, the Co-operative had no contingent liabilities or assets (2017: \$Nil).

12. COMMITMENTS

As at 31 December 2018, the Co-operative had no capital commitments (2017: \$Nil).

13. EVENTS OCCURRING AFTER THE REPORTING DATE

Subsequent to balance date, the board of the Operating Company resolved to pay a dividend in respect of the year ended 31 December 2018. The Co-operative expects to receive an unimputed dividend of \$873,600.

14. RELATED PARTY DISCLOSURES

Operating Company

With effect from 6 December 2016, under the terms of the Co-operation Memorandum between the Co-operative, Maling and the Operating Company, the Co-operative purchases all livestock supplied to Silver Fern Farms processing plants by shareholders of the Co-operative, and immediately on-sells this to the Operating Company at the same price. However, the Co-operative purchases no livestock from non-shareholder suppliers. All prices for both shareholder and non-shareholder supplies are determined by the Operating Company. No revenue is recognised by the Co-operative in connection with these transactions but the total amount of purchases from shareholder suppliers and the total amount invoiced to the Operating Company are disclosed below.

- During the year \$1,066,939,000 (2017: \$1,037,278,000) was invoiced to the Operating Company in respect of livestock. \$1,066,939,000 (2017: \$1,037,278,000) was invoiced from shareholder suppliers in connection with livestock supplied for the year.
- At 31 December 2018, \$31,148,000 (2017: \$28,697,000) was receivable from the Operating Company and \$31,148,000 (2017: \$28,697,000) was payable to shareholder suppliers in connection with livestock supplied.
- Other payables to the Operating Company amounted to \$247,000 (2017: \$185,000 was receivable from the Operating Company).

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

- Governance and administration costs totalled \$706,000 in the year ended 31 December 2018, of which the Co-operative is liable to repay \$206,000. This is part of the payable of \$247,000 disclosed above. Therefore, the net cost to the Operating Company was \$500,000 for the year ended 31 December 2018 (2017: \$454,000). The net cost to the Co-operative was \$206,000 for the year ended 31 December 2018 (2017: \$nil), which is recorded in operating expenditure in the statement of comprehensive income.

Directors and their trading entities

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

- During the year purchases totalled \$6,202,000 (2017: \$6,313,000).
- At 31 December 2018, \$184,000 was payable to directors and their trading entities (2017: \$139,000).

Key management personnel

Key management personnel of the Co-operative, as defined by NZ IAS 24, comprise the board of directors only. The Co-operative is responsible for paying fees to directors of the Co-operative and paying fees to directors of the Operating Company who have been appointed by the Co-operative. Fees for the year amounted to \$704,000 (2017: \$861,000).

15 AUDITOR'S REMUNERATION

NZD IN THOUSANDS (\$000)	Year ended 31 December 2018	15 months ended 31 December 2017
Audit fees	20	20
Non audit services – loan of non managerial staff	-	41
Total remuneration to auditors	20	61

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



Independent Auditor's Report

To the shareholders of Silver Fern Farms Co-operative Limited

Report on the consolidated financial statements

Opinion

In our opinion, the accompanying consolidated financial statements of Silver Fern Farms Co-operative Limited (the company) and its subsidiary (the group) on pages 28 to 42:

- i. present fairly in all material respects the group's financial position as at 31 December 2018 and its financial performance and cash flows for the year ended on that date; and
- ii. comply with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

We have audited the accompanying consolidated financial statements which comprise:

- the consolidated balance sheet as at 31 December 2018;
- the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended; and
- notes, including a summary of significant accounting policies and other explanatory information.



Basis for opinion

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

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

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

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



Materiality

The scope of our audit was influenced by our application of materiality. Materiality helped us to determine the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and on the consolidated financial statements as a whole. The materiality for the consolidated financial statements as a whole was set at \$3 million determined with reference to a benchmark of group total assets. We chose the benchmark because, in our view, the value of the investment in Silver Fern Farms Limited (which represents the majority of the Group's assets) and the movements in this investment are the most important indicators of the Co-operative's performance. Materiality represents approximately 1% of the selected benchmark.



Key audit matters

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

Key audit matters

How the matter was addressed in our audit

Equity accounted investment in Silver Fern Farms Limited

As disclosed in note 2 to the annual report, the group holds an equity accounted investment for its 50% share in Silver Fern Farms Limited which is valued at \$266 million having accounted for the Co-operative's share of profits made during the year (\$3 million) and distributions received (\$6 million).

The equity accounted investment is a Key Audit Matter because;

- The investment is significant to the group's position and performance (representing 84% of total assets and 85% of total earnings in the current year);
- The investee is operating in a highly competitive market which is subject to fluctuations in processing volumes, procurement prices for livestock and foreign exchange risk; and
- There are potential indicators of impairment, in particular the weak industry profitability in the current year, predominantly due to unusual weather conditions.

Our audit procedures included:

- Reconciling the movements in the investment in associates to the audited accounts of Silver Fern Farms Limited;
- Assessing whether the methodology adopted in managements impairment assessment is consistent with accepted valuation approaches for an equity accounted investment, including the evaluation of the discount rate and terminal growth rate using our own valuation specialists;
- Evaluating the future cash flow assumptions by considering the historical financial performance of the investment and obtaining an understanding of future plans and outlook; and
- Challenging the above assumptions and judgements by performing sensitivity analyses, considering a range of likely outcomes based on various scenarios.

We found the valuation most sensitive to Silver Fern Farms achieving its financial projections in future periods. These projections are based upon the strategic plan of Silver Fern Farms Limited. Overall we found the judgements and assumptions used in assessing the carrying value of the equity accounted investment to be balanced.



Other information

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

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



Use of this independent auditor's report

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



Responsibilities of the Directors for the consolidated financial statements

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

- the preparation and fair presentation of the consolidated financial statements in accordance with generally accepted accounting practice in New Zealand (being New Zealand Equivalents to International Financial Reporting Standards) and International Financial Reporting Standards;
- implementing necessary internal control to enable the preparation of a consolidated set of financial statements that is fairly presented and free from material misstatement, whether due to fraud or error; and
- assessing the ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate or to cease operations, or have no realistic alternative but to do so.



Auditor's responsibilities for the audit of the consolidated financial statements

Our objective is:

- to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error; and
- to issue an independent auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs NZ will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

A further description of our responsibilities for the audit of these consolidated financial statements is located at the External Reporting Board (XRB) website at:

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

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

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

For and on behalf of



KPMG
Auckland

18 March 2019

DIRECTORY

BOARD OF DIRECTORS

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

MANAGEMENT

Clark Taylor – Shareholder Relations
Manager

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SHAREHOLDER ENQUIRIES

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

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SHARE REGISTRAR

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PO Box 91976
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F: +64 9 375 5990

BANKERS

- Kiwibank Limited
- Westpac New Zealand Limited

AUDITOR

KPMG

TAX ADVISORS

PwC

LEGAL ADVISORS

Harmos Horton Lusk



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

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





DELICIOUS STARTS WITH
RESPECT

FOR THE LAND
AND ANIMALS.



100% MADE
OF
NEW ZEALAND



DELICIOUS STARTS WITH
CARE

FROM START
TO FINISH.





DELICIOUS STARTS WITH
PASSION

FOR THE VERY BEST
INGREDIENTS AND THE
DIFFERENCE THEY MAKE.



Delicious 
Starts Here.



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FERN
FARMS**

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