TATUA

ANNUAL REPORT 2017

WELCOME TO TATUA

FINANCIAL STATEMENTS

Stephen Allen
Chairman

Brendhan Greaney
Chief Executive Officer

2017 The Year in Review

REPORT FROM THE CHAIRMAN & CHIEF EXECUTIVE OFFICER

Over the past 100 years Tatua has developed a deep understanding of the connection between land, people and utilisation of milk to create specialised dairy products.

This understanding inspires everything we do, from the production of high quality grass fed milk by our farmers, through to our enduring relationships with customers in more than 60 countries around the world.

LEADERSHIP TRANSITION

This year was one of leadership change with the departure of Chief Executive Officer Paul McGilvary in December 2016 and the appointment of Brendhan Greaney as Tatua's ninth CEO in the company's 103 year history. Prior to his appointment as Chief Executive Officer, Brendhan had been Tatua's General Manager Operations since 2010.

Following Brendhan's appointment, an extensive search process was initiated to find the next General Manager of Operations, leading to the recent appointment of Tim Keir to this role. Tim will join Tatua in January 2018.

YEAR IN REVIEW

Tatua's grass fed milk supply is influenced by local weather conditions, and the unusually cold and wet spring led to a 3.9% reduction in shareholder supplied milksolids to 15 million kilograms. Despite the difficult conditions, the quality of milk supplied remained at the very high level we have come to expect.

Our bulk ingredient product mix of caseinate, whey protein concentrate and anhydrous milkfat served the business well in a global market where anhydrous milkfat prices doubled through the course of the year.

Our more specialised products, which have been the focus of investment for some time, have increasingly contributed to the overall business and the annual result. These products are typically batch processed from dry ingredients, enabling us to support increased demand from our customers with minimal requirement for additional milk supply.

Increased utilisation of the specialty dryer that we commissioned in May 2015 has been positive and remains a key focus for the business.

Our subsidiaries in China and the USA completed their establishment activities during the year and are now positioned to grow Tatua's market presence. With our longstanding subsidiary in Japan, they provide an in-market commitment to work collaboratively with our customers so we are able to increasingly understand and deliver their specific product requirements.

A new Enterprise Resource Planning System (ERP) was implemented over the financial year-end period. The project was challenging and has taken longer than planned, but is expected to increasingly enable the business. Importantly, Tatua remained a reliable supplier to its customers through the implementation go-live period, which was one of our highest priorities.

On the back of record production volumes, increasing milkfat prices and growth in our specialty businesses, total revenue increased 13% to $328 million. After accounting for operating costs, this resulted in a 14% increase in earnings before payout, taxation and retentions to $114 million. Year-end gearing was 35% (debt divided by debt plus equity).

Tatua declared a payout to its shareholders of $7.10 per kilogram of milksolids supplied, and retained 50 cents per kilogram of milksolids before tax to support the capital investment program, including sustainability initiatives. We consider this to be a solid result.

We are increasingly focussed on sustainability as one of our main priorities. We acknowledge the importance of this to our people and future generations, our customers, our co-operative shareholders and suppliers, and our wider community.

An upgrade of our waste water treatment infrastructure was successfully commissioned during the year and we have earmarked significant capital to further invest in sustainability across our business.

We have also been working with our supplier shareholders on improving on-farm sustainability. This has previously focussed on fulfilling our obligations under the Sustainable Dairying: Water Accord but we have now commenced development of a responsible farming programme covering a broad range of farm activities.

COMMUNITY & ENVIRONMENTAL INITIATIVES

Over the past year we have undertaken the following initiatives aimed at achieving positive social and environmental outcomes, as well as economic success.

Social

- Partnering with schools, universities and Ngāti Hauā Mahi Trust to deliver an annual programme of site visits for school children and young people.
- Financial assistance to local schools to assist the purchasing of equipment, facilities and educational tools beyond their existing budgets.
- On farm visits for children of employees to improve their understanding of the farm environment and its link to dairy manufacturing.
- Professional development of potential future rural leaders through our Emerging Leaders programme.

Environmental

- Investment in a wastewater treatment plant that will result in up to 2000 tonnes of dairy solids being recovered and utilised as stockfeed.
- Transition of Tatua Farm 14 from dairying to a combination beef and cut & carry unit to improve nutrient management.
- Leadership of a Sustainable Farming Fund project to better understand the relationship between the intensity of dairy farming and a range of potential environmental impacts.
- Major upgrade of the processing site stormwater management infrastructure to minimise the risk of contaminant discharge and to moderate peak flows.
- Continuation of riparian enhancements on Tatua Farm 14 that will ultimately lead to the retirement and planting of around four hectares of Waiharakeke West Stream margin.

PEOPLE

Directors, the Hon. John Luxton and Dr Kevin Old retired by rotation during the year. Dr Old offered himself for re-election but the Hon. John Luxton decided to step down after three tenures and a total of 24 years as a Tatua Director. Five strong candidates were nominated for the two Director vacancies, resulting in the election of Dr Louise Cullen and re-election of Dr Old.

As the complexity and capacity of the company has grown, so too has our employee count. This extra resource ensures we remain well placed to meet our customers' increasing expectations for highly functional and well supported products, while ensuring that the highest standards of quality and safety are maintained.

The level of employee development activities has remained high with almost all participating in some form of training during the year. This covered a wide range of areas with the aim of providing a safe, productive and sustainable workplace.

Hosting of various community and educational groups throughout the year has assisted Tatua to share its history, future plans and the story of dairy more generally. We especially value the opportunity to interact with the next generation who are starting to consider their future careers and life in the workforce, and who are able to benefit from the knowledge and experience of our people at Tatua.

OUTLOOK

The year ahead will be one of modest capital investment. We see considerable potential within our existing plant and product mix for both volume and value growth.

We expect the market to remain volatile, particularly against a background of large intervention stocks, historically high fat pricing, and the looming possibility of a global financial correction.

But, as always, there will be opportunities. With our robust financial base, supportive Board and Shareholders, dedicated Employees and valued Customers, we maintain an overall positive outlook.

ACKNOWLEDGEMENTS

Firstly, we thank all of our employees at Tatua for your focus and dedication in a transition year, including the challenge of an ERP implementation, and ultimately delivering a strong financial result that positively reflects all of your efforts. We will continue to grow as a team.

Thank you to our shareholders. We remain a co-operative to the core and value the stability and inherent values this brings. Your continued supply of the highest quality milk as well as your full and continued support for the business and our people is appreciated and provides a foundation for our ongoing success.

Suppliers of our goods and services; you are a critical component of our ability to operate and to meet the requirements of our customers. We value the relationships we have with you and your willingness to work with us and to support our growth and sustainability.

Thank you to all of our customers in all of our markets. We value your business, the collaborative relationships we have with you and your trust in us as a supplier. We remain dedicated to working with you to meet your requirements.

Our sincere thanks to you all.

S.B. Allen

Stephen Allen Chairman

Brendhan Greaney Chief Executive Officer

Welcome
BRENDHAN GREANEY
CHIEF EXECUTIVE OFFICER

Brendhan Greaney was appointed to the position of Chief Executive Officer in December 2016. Prior to his appointment he was Tatua's GM Operations for six years. Brendhan replaced Mr. Paul McGilvary who retired in December after nine years at Tatua.

Brendhan is an experienced Senior Executive with extensive dairy industry experience. His previous career was with Fonterra where he held various roles, including commercial and operational leadership roles in the Middle East and SE Asia.

Brendhan is qualified with a Bachelor of Management Studies from The University of Waikato with majors in Accounting and Finance. Brendhan is Tatua's ninth CEO, or equivalent leader in its 103 year history.

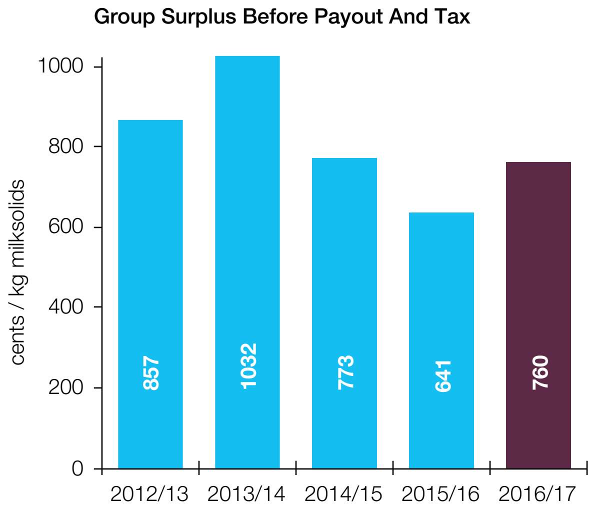
Welcome
DR. LOUISE CULLEN
DIRECTOR

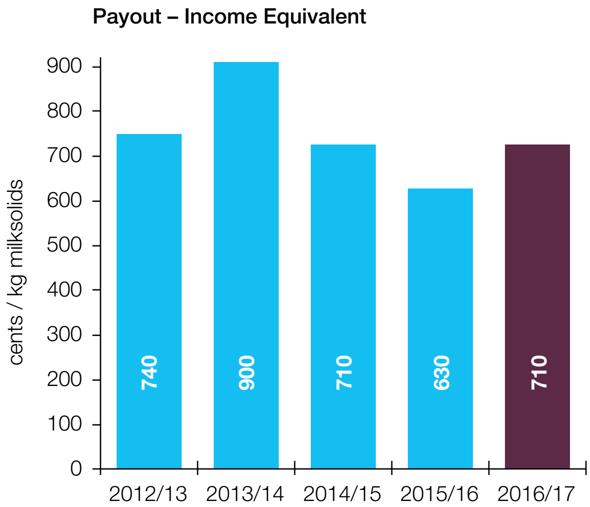
Louise joined the Tatua Board at the end of 2016. She has a strong environmental and ecological science background coupled with hands-on farming experience. Her educational background includes degrees in Ecology and Botany and a PhD in Forest Ecology from Lincoln University. Louise is currently a director of several family-owned dairy farming enterprises with her husband Richard, continuing their family farming legacy which began in 1924.

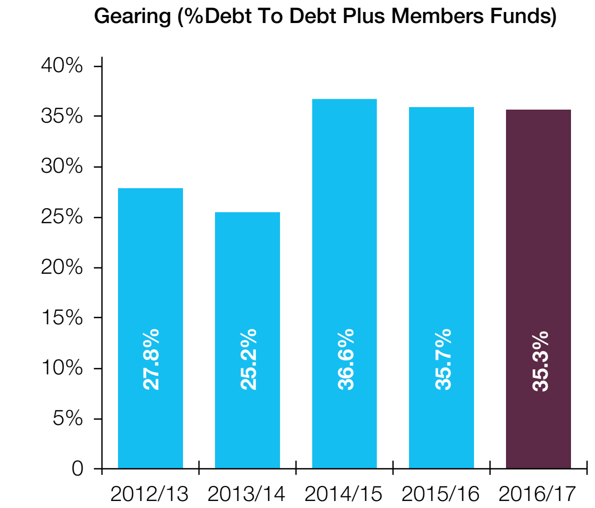
Louise has worked within a range of industries including research science, environmental consultancy, and not-for-profit and commercial management. She completed a Diploma in Management Studies in 2013. She is currently studying towards a NZ Diploma in Agribusiness Management. Louise is also a member of the Primary ITO Industry Partnership Group.

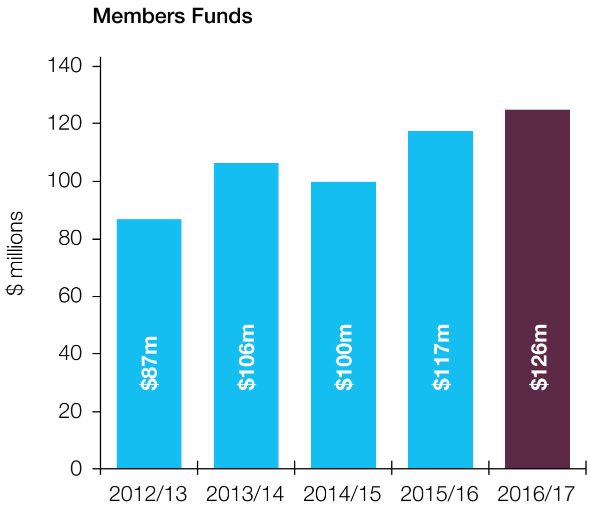
KEY FINANCIAL PERFORMANCE SUMMARY

Summary		2016/17	2015/16
Milk Received from Suppliers	litres	166,517,809	173,184,398
Milksolids Received from Suppliers	kgs	14,968,366	15,568,586
Group Revenue	$	$327,992,294	$289,337,045
Group Surplus Before Payout & Tax	cts/kg m'solids	760	641
Group Depreciation	cts/kg m'solids	75	71
Cash Payout to Suppliers	cts/kg m'solids	710	630
Capital Expenditure	$	$10,922,953	$8,163,723
Group Assets	$	$250,038,701	$238,810,564
Gearing: Debt to Debt + Equity	%	35%	36%









PRINCIPAL ACTIVITIES

The principal activity of the Group is the collection of milk from shareholders and processing this milk into a diverse range of products which are sold in domestic and international markets.

CO-OPERATIVE COMPANY

The Board of Directors resolved on the 2nd August 2017 that, in the opinion of the Board, the Company has been a co-operative company during the year ended 31st July 2017 because its principal activity has been processing and marketing products derived from milk supplied by its shareholders and because 100% of the voting rights in the Company are held by those shareholders.

ROLE OF THE BOARD

Tatua's Board of Directors is committed to managing the Group in an ethical and professional manner, and in the best interests of the company and its shareholders.

Key responsibilities of the Board include:

- Setting the strategic direction for Tatua and establishing policies to support the effective management of the company;
- Appointing and reviewing the performance of the CEO;
- Setting the terms of CEO and executive management employment;
- Monitoring the financial performance of the Company, and Tatua's risk management;
- Ensuring that Tatua has robust corporate governance practices;
- Ensuring Tatua's regulatory and legislative compliance; and
- Ensuring Tatua has robust health and safety processes which protect all people associated with the company.

The Board and Management are committed to continuous improvement and achieving governance practices which meet best practice.

FRAMEWORK

The Board delegates the day-to-day operations of the Company to the CEO through a framework of formal delegations.

The Company's corporate governance framework includes the Company's Constitution, Charter, Terms of Reference for the Board's Committees and a range of policies including Ethics, Risk Management, Environment, Health & Safety, and policies and procedures for employees.

BOARD COMPOSITION

Directors are elected or appointed. The total number of directors in office, including any appointed director, shall be no less than six, and no greater than ten. If there are only six directors, then at least five of those directors must be elected directors, elected from the Company's Supplying Shareholder base. The Company's Constitution provides that the Board may, from time to time, appoint any person to be an additional director to the elected directors. The Board may not use this power to increase the number of directors beyond the maximum number of ten, and there shall be no more than three appointed directors in office at any one time. One third of elected directors retire by rotation each year, while appointed directors are appointed for a term not longer than three years, after which they are eligible for re-appointment for a further three-year term. Elected directors, John Luxton and Kevin Old, retired by rotation during the year. John Luxton was not available for re-election, and Kevin Old and Louise Cullen were elected to the Board.

BOARD MEETINGS HELD DURING THE YEAR

	Meetings Attended
Stephen Allen (Chairman)	8
Louise Cullen	6
Mark Dewdney*	7
John Luxton	2
David Muggeridge	8
Kevin Old	8
Peter Schuyt	6
Ross Townshend	8
Bruce Wilton	8
Board Meetings Held	**8**

* One meeting not attended due to conflict of interest.

BOARD COMMITTEES

People and Remuneration Committee: Membership comprises Kevin Old (Chairman), Stephen Allen, Louise Cullen, Mark Dewdney, and Bruce Wilton. The function of the committee is to assist the Board in ensuring the organisation fulfils its remuneration, performance management and organisational development needs. It also assists with senior management appointments.

Finance, Audit and Risk Committee: Membership comprises Peter Schuyt (Chairman), Mark Dewdney, David Muggeridge, Kevin Old, and Ross Townshend. The function of the committee is to assist the Board in ensuring the organisation fulfils its audit, legal, financial and risk management obligations and responsibilities. Approval of the annual accounts is undertaken by the full Board.

Farm Advisory Committee: Membership comprises David Muggeridge (Chairman), Stephen Allen, Loiuse Cullen and Bruce Wilton. The function of the committee is to assist the Board in ensuring the company fulfils its governance and related responsibilities in regard to company owned land used for farming purposes.

DIRECTORS REMUNERATION

Directors' remuneration is approved by shareholder resolution at the Annual General Meeting based upon a recommendation from the Directors' Remuneration Committee, which is comprised of non-Director shareholders. The following persons held office as Director during the year and received the following remuneration:

Stephen Allen	$113,000
Louise Cullen	$29,127
Mark Dewdney	$45,000
John Luxton	$15,667
David Muggeridge	$60,000
Kevin Old	$60,000
Peter Schuyt	$60,000
Ross Townshend	$45,000
Bruce Wilton	$45,000
	$472,794

DIRECTORS' SHAREHOLDINGS

At 31 July 2017 Directors held the following shares in the company:

	Beneficially Held	Non-Beneficially Held	Held By Associated Persons
Stephen Allen	2,006,230	–	799,260
Mark Dewdney	1,330,340	–	–
Bruce Wilton	1,306,650	–	–
David Muggeridge	1,042,650	–	–
Kevin Old	1,202,370	–	2,704,020
Louise Cullen	3,204,990	–	–

DIRECTORS' INSURANCE

The company paid insurance premiums during the year for Directors and Officers Liability Insurance as permitted by the Constitution and the Companies Act 1993. This insurance provides cover against costs and expenses involved in defending legal actions and any resulting payments arising from a liability to persons (other than the company or related body corporate) incurred in their capacity as Director or executive employee unless the conduct involves a wilful breach of duty or an improper use of inside information or position to gain advantage.

DISCLOSURE OF INTERESTS

Directors have declared that they are to be regarded as having an interest in any contract that may be made with entities below by virtue of their directorship or membership of those entities.

All elected Directors, in their capacity as Supplying Shareholders, conduct business with the company. Directors who hold shares in the company do so on the basis that they are Supplying Shareholders.

Director	Position	Company
Stephen Allen	Director	RDGP Ltd
	Director	Mowata GP Ltd
	Director	Farmers' Mutual Group (FMG)
	Director, Shareholder	Claybrook Farms Ltd
	Director, Shareholder	Claybrook No 7 Ltd
	Director, Shareholder	Claybrook South Ltd
	Director, Shareholder	Cheadle Farms Ltd
	Director, Shareholder	Allen Children Ltd
	Shareholder	Bendigo Terrace GP Ltd
	Trustee	Sarah Ethne Allen Trust
	Trustee	SB & BL Allen Family Trust
	Trustee	Cheadle Trust
	Trustee	David Johnstone Charitable Trust
	Trustee	JES Allen Estate
Mark Dewdney	Director	Yanakie Farm Management Pty Ltd
	Director	PGG Wrightson Ltd Group, and subsidiaries
	Trustee/ Beneficiary	Dewdney Family Trust
	Trustee	Marvic Family Trust
	Trustee	Mark Dewdney Family Trust
	Trustee	Namaste Farming Pty Ltd
	Trustee	Namaste Land Pty Ltd
	Trustee	Vicki Dewdney Trust
Louise Cullen	Director, Shareholder	Cookson Trust Farms Ltd
	Director, Shareholder	Balachraggan Farms Ltd
	Director, Shareholder	Capra Farming Ltd
	Trustee	Te Aroha Free Kindergarten Assoc Inc

Director	Position	Company
David Muggeridge	Director, Shareholder	Muggeridge Farms Ltd
Kevin Old	Director, Shareholder	Kold Holdings Ltd
	Director, Shareholder	VGO Ltd
	Trustee	VGO Trust
	Trustee/ Beneficiary	CR & AL Old Family Trust
Ross Townshend	Chairman	MSC Consulting Group Ltd
	Chairman	Robert Monk Transport Ltd
	Chairman	Bector Automation RML Pvt Ltd (India)
	Executive Chairman	RML Engineering Ltd, and subsidiaries
	Director, Shareholder	Ranworth Farm Ltd
	Director, Shareholder	Townshend Holdings (2015) Ltd
	Director, Shareholder	Townshend Developments Ltd
	Director, Shareholder	Townshend Aviation Ltd
	Shareholder	Elanza Technologies Ltd
	Shareholder	Architectural Investments Ltd
	Consultant	Murray Goulburn Co-operative Company Ltd
Peter Schuyt	Director	TSB Bank Ltd
	Director	Dairy Investments Fund Ltd
	Director	Ex-PPL Ltd (in receivership & liquidation)
	Director	Tax Management NZ Ltd
	Director	Foodstuffs North Island Ltd
	Director	DairyNZ Ltd
	Director, Shareholder	Ahikouka Holdings Ltd
Bruce Wilton	Director, Shareholder	Brandmar Ltd
	Director, Shareholder	Fernwater Investments 2013 Ltd
	Director, Shareholder	Fernwater Investments 2017 Ltd
	Shareholder	Fernwater Investments Ltd

EMPLOYEES' REMUNERATION

During the year to 31 July 2017 the following number of employees of the Group received total remuneration of at least $100,000: Total remuneration includes salaries, bonus payments, and other benefits received in the capacity as an employee during the year, e.g. company vehicles, insurance and superannuation. Bonus payments may relate to multiple years, but paid in one lump sum.

$1,000's	Group
100 - 110	66
110 - 120	25
120 - 130	17
130 - 140	8
140 - 150	4
150 - 160	5
160 - 170	1
170 - 180	6
180 - 190	4
190 - 200	4
200 - 210	3
220 - 230	1
230 - 240	2
240 - 250	1
280 - 290	1
290 - 300	1
320 - 330	1
330 - 340	1
340 - 350	1
430 - 440	1
560 - 570	1

DONATIONS & GRANTS

Donations and grants for the year ended 31 July 2017 were $24,558 (2016: $44,836).

BALANCE SHEET

As at 31 July 2017

		GROUP	
	Note	2017 ($)	2016 ($)
Current Assets			
Cash & Cash Equivalents	15	6,925,407	10,726,520
Derivatives	19	16,796,500	9,276,409
Receivables & Prepayments	14	43,520,709	37,124,340
Tax Receivable		30,029	132,453
Inventories	13	49,839,017	49,800,947
Biological Assets	11	137,125	898,497
Total Current Assets		**117,248,787**	**107,959,166**
Non Current Assets			
Property, Plant & Equipment	9	124,730,322	125,295,213
Investment Property	12	1,175,000	1,175,000
Intangible Assets	10	6,236,466	614,677
Deferred Tax Asset	8	-	3,076,409
Investments		648,126	690,099
Total Non Current Assets		**132,789,914**	**130,851,398**
Total Assets		**250,038,701**	**238,810,564**
Current Liabilities			
Loans & Borrowings	17	10,030,200	44,510,870
Derivatives	19	2,247,256	7,510,536
Accounts Payable & Accruals	18	23,970,221	20,491,974
Tax Payable		923,205	254,998
Owing to Suppliers		19,404,831	18,172,672
Total Current Liabilities		**56,575,713**	**90,941,050**
Non Current Liabilities			
Loans & Borrowings	17	66,000,000	31,000,000
Deferred Tax Liability	8	969,365	-
Total Non Current Liabilities		**66,969,365**	**31,000,000**
TOTAL Liabilities Excluding Co-operative Shares Classified as a Liability		**123,545,078**	**121,941,050**
PLUS Co-operative Shares		72,583,474	75,928,670
Total Liabilities		196,128,552	197,869,720
Net Assets		**53,910,149**	**40,940,844**
Retained Earnings		33,025,471	27,463,442
Reserves		20,884,678	13,477,402
Equity		**53,910,149**	**40,940,844**
Members Funds Memorandum Account:			
Co-operative Shares Classified as a Liability	16	72,583,474	75,928,670
Retained Earnings		33,025,471	27,463,442
Reserves		20,884,678	13,477,402
Total Members Funds		**126,493,623**	**116,869,514**

For and on behalf of the Board:

S.B. Allen

SB Allen
Chairman of Directors
20 November 2017

P.M. Schuyt

PM Schuyt
Chairman, Finance, Audit & Risk Committee
20 November 2017

The accompanying notes form part of and are to be read in conjunction with these financial statements.

STATEMENT OF COMPREHENSIVE INCOME

For the Year Ended 31 July 2017

	Note	GROUP Year Ended 31 July 2017 ($)	GROUP Year Ended 31 July 2016 ($)
Profit or Loss Items			
Total Operating Revenue		327,992,294	289,337,045
less Payments for Milk Supplied		(106,241,424)	(97,679,820)
less Other Cost of Sales		(185,956,125)	(147,482,221)
Gross Profit		**35,794,745**	**44,175,004**
plus Other Income	3	1,476,705	1,984,558
less Sales & Marketing Expenses		(21,073,612)	(20,010,048)
less Administration Expenses	4	(10,092,059)	(10,273,228)
Surplus from Operating Activities		**6,105,779**	**15,876,286**
Finance Income	6	5,319,583	4,383,272
less Finance Expenses	6	(3,860,015)	(18,188,583)
Net Finance Income		**1,459,568**	**(13,805,311)**
Surplus before Income Tax		**7,565,347**	**2,070,975**
less Income Tax (Expense)	7	(2,003,318)	(469,302)
Net Surplus		**5,562,029**	**1,601,673**
Other Comprehensive Income			
Movement in Land Revaluation Reserve		-	1,292,500
Change in Fair Value of Cash Flow Hedges Transferred to Income Statement		12,783,374	23,268,298
Effective Portion of Changes in the Fair Value of Cashflow Hedges		(1,469,477)	(4,328,812)
Movement in Foreign Exchange Translation Reserve		(738,730)	203,997
Income Tax on Other Comprehensive Income		(3,167,891)	(5,303,056)
Other Comprehensive Income for the Year		**7,407,276**	**15,132,927**
Total Comprehensive Income		**12,969,305**	**16,734,600**

The accompanying notes form part of and are to be read in conjunction with these financial statements.

STATEMENT OF CHANGES IN EQUITY

For the Year Ended 31 July 2017

GROUP	Translation Reserve ($)	Hedging Reserve ($)	Revaluation Reserve ($)	Retained Earnings ($)	Total Equity ($)
Balance at 1 August 2015	**32,783**	**(12,373,646)**	**10,685,338**	**25,861,769**	**24,206,244**
Other Comprehensive Income					
Movement in Foreign Exchange Reserve	203,997	-	-	-	203,997
Movement in Land Revaluation Reserve	-	-	1,292,500	-	1,292,500
Movement in Hedging Reserve, Net of Tax	-	13,636,430	-	-	13,636,430
Total Other Comprehensive Income	**203,997**	**13,636,430**	**1,292,500**	**-**	**15,132,927**
Tax Paid Surplus/(Deficit)	-	-	-	1,601,673	1,601,673
Total Comprehensive Income	**203,997**	**13,636,430**	**1,292,500**	**1,601,673**	**16,734,600**
Balance at 31 July 2016	**236,780**	**1,262,784**	**11,977,838**	**27,463,442**	**40,940,844**
Balance at 1 August 2016	236,780	1,262,784	11,977,838	27,463,442	40,940,844
Other Comprehensive Income					
Movement in Foreign Exchange Reserve	(738,730)	-	-	-	(738,730)
Movement in Land Revaluation Reserve	-	-	-	-	-
Movement in Hedging Reserve, Net of Tax	-	8,146,006	-	-	8,146,006
Total Other Comprehensive Income	**(738,730)**	**8,146,006**	**-**	**-**	**7,407,276**
Tax Paid Surplus/(Deficit)	-	-	-	5,562,029	5,562,029
Total Comprehensive Income	**(738,730)**	**8,146,006**	**-**	**5,562,029**	**12,969,305**
Balance at 31 July 2017	**(501,950)**	**9,408,790**	**11,977,838**	**33,025,471**	**53,910,149**

The accompanying notes form part of and are to be read in conjunction with these financial statements.

STATEMENT OF CASH FLOWS

For the Year Ended 31 July 2017

	Note	GROUP Year Ended 31 July 2017 ($)	Year Ended 31 July 2016 ($)
Cash Flows From Operating Activities			
Cash was provided from:			
Receipts from Customers		326,557,311	275,770,663
Dividends Received		-	912
Interest Received		105,500	54,460
		326,662,811	275,826,035
Cash was applied to:			
Payments for Milk		(106,297,631)	(96,802,589)
Payments to Creditors & Employees		(201,996,366)	(170,074,190)
Interest Paid		(3,829,358)	(3,986,554)
Taxation Paid		(354,804)	(3,585,106)
		(312,478,159)	(274,448,439)
Net Cash Flows From/(Applied To) Operating Activities	22	**14,184,652**	**1,377,596**
Cash Flows From Investing Activities			
Cash was provided from:			
Proceeds From Sale of Property, Plant & Equip.		241,261	207,788
Proceeds From Investments		41,973	277,914
		283,234	485,702
Cash was applied to:			
Acquisition of Property, Plant & Equipment		(10,848,305)	(8,164,108)
Acquisition of Intangible Assets		(5,883,194)	(334,758)
Purchase of Share Investments		-	-
		(16,731,499)	(8,498,866)
Net Cash Flows From / (Applied To) Investing Activities		**(16,448,265)**	**(8,013,164)**
Cash Flows From Financing Activities			
Cash was provided from:			
Increase in Co-operative Shares	16	1,136,735	2,290,797
Proceeds from Borrowings		519,330	22,972,000
		1,656,065	25,262,797
Cash was applied to:			
Decrease in Co-operative Shares		(3,193,565)	(2,527,075)
Repayment of Borrowings		-	(21,000,000)
		(3,193,565)	(23,527,075)
Net Cash Flows From / (Applied To) Financing Activities		**(1,537,500)**	**1,735,722**
Net Increase / (Decrease) in Cash & Cash Equivalents		(3,801,113)	(4,899,846)
Add: Opening Cash & Cash Equivalents Balance		10,726,520	15,626,366
Closing Cash & Cash Equivalents Balance	15	**6,925,407**	**10,726,520**

The accompanying notes form part of and are to be read in conjunction with these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1. REPORTING ENTITY

The Tatua Co-operative Dairy Company Limited (the parent company) is a co-operative company domiciled and incorporated in New Zealand, and registered under the Co-operative Companies Act 1996 and the Companies Act 1993. At 31 July 2017 the Group consists of The Tatua Co-operative Dairy Company Ltd and its subsidiaries Tatua Japan Co. Ltd, Tatua Dairy Products (Shanghai) Co., Ltd and Tatua USA Ltd.

Tatua became a FMC reporting entity in terms of the Financial Markets Conduct Act on 1 December 2016. This change had no material impact on the Group's obligation to prepare general purpose financial statements except that there is no longer a requirement to present separate parent company financial statements.

The Group is a producer and marketer of dairy products with sales to both domestic and export markets.

These financial statements are for the year ended 31 July 2017

2. BASIS OF PREPARATION

These financial statements were approved by the Board of Directors on 20 November 2017, and have been prepared in accordance with the New Zealand Companies Act 1993 and the Financial Reporting Act 2013.

The financial statements have been prepared on a going concern basis, and the accounting policies have been consistently applied throughout the period.

(a) Statement of Compliance and Basis of Preparation

The financial statements have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand (NZ GAAP). They comply with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) and other applicable Financial Reporting Standards, as appropriate for profit oriented entities. These financial statements also comply with International Financial Reporting Standards (IFRS).

These accounting policies have been applied consistently to all periods presented in these financial statements.

(b) Basis of Measurement

The financial statements are prepared on the historical cost basis except for the following:

- Land and improvements are valued at fair value. Refer to Note 9
- Biological assets are measured at fair value less point-of-sale costs. Refer to Note 11
- Investment property is measured at fair value. Refer to Note 12
- Derivative financial instruments are measured at fair value. Refer to Note 19

(c) Functional and Presentation Currency

The financial statements are presented in New Zealand dollars (NZD), which is the Company's functional currency. Monetary assets and liabilities denominated in foreign currencies at the reporting dates are retranslated to the functional currency at the exchange rate at that date. All financial information presented has been rounded to the nearest dollar.

(d) Use of Estimates and Judgement

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income, and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected. In particular, information about significant areas of estimation, uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in the following notes:

- Note 9. Property, Plant & Equipment - Revaluation of Land & Improvements
- Note 8. Deferred Tax Assets And Liabilities - Recognition of Deferred Tax Asset
- Note 20. Financial Risk Management - Determination of fair values

(e) Goods and Services Tax

The financial statements have been prepared on a GST exclusive basis, except for Accounts Receivable and Accounts Payable which are stated inclusive of GST.

2. BASIS OF PREPARATION (CONTINUED)

(f) New Standards and Interpretations

(i) New and amended standards adopted by the Group

No new or amended standards were adopted that had a material impact on the Group's financial statements.

(ii) New and amended standards issued but not yet effective

The Group has not early-adopted the following new and revised standards, amendments or interpretations that have been issued but are not yet effective:

(i) NZ IFRS 15 'Revenue from contracts with customers' (effective for the 2019 financial statements). This standard will replace the current revenue recognition guidance in NZ IAS 18 Revenue and NZ IAS 11 Construction contracts and is applicable to all entities with revenue. It sets out a 5 step model for revenue recognition to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The Group has yet to fully assess NZ IFRS 15's full impact however it is anticipated that the changes will not be significant.

(ii) NZ IFRS 9 `Financial instruments' (effective for the 2019 financial statements). NZ IFRS 9 will replace IAS 39 Financial instruments and will simplify the mixed measurement model as well as establish three primary measurement categories for financial assets: amortised cost, fair value through other comprehensive income and fair value through financial performance. The Group has yet to fully assess the impact of this amendment.

(iii) NZ IFRS 16 `Leases' (effective for the 2020 financial statements).This standard will replace all existing guidance on leases, including NZ IAS 17 Leases. The standard introduces a single, on balance sheet accounting model for leases that is similar to current financial lease accounting. The Group has yet to fully assess NZ IFRS 16's full impact.

There are a number of other standards and interpretations which are not yet effective and management consider they will have no impact on the Group.

3. OPERATING REVENUE AND OTHER INCOME

	GROUP	
	2017 ($)	2016 ($)
Operating Revenue	327,992,294	289,337,045
Other Income		
Sundry Asset Sales/Gain on Disposal of Property, Plant & Equipment	3,680	31,649
Rental Income from Investment Property	97,000	108,000
Rental Income from Farm Houses	38,781	38,148
Insurance Claim Proceeds	79,234	84,769
MilkTest NZ Ltd Income	244,684	280,491
Sundry Income	1,013,326	1,441,501
	1,476,705	1,984,558
Operating Revenue and Other Income	**329,468,999**	**291,321,603**

Policy

(a) Operating Revenue

Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates. Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, and there is no continuing management involvement with the goods. Transfers of risks and rewards vary depending on the individual terms of the contract of sale.

(b) Other Income

Rental income from investment property is recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives granted are recognised as an integral part of the total rental income, over the term of the lease. Sundry income is measured at the fair value of consideration received or receivable.

4. ADMINISTRATION EXPENSES

	GROUP 2017 ($)	GROUP 2016 ($)
The following items are included in administration expenses:		
Auditors Remuneration (KPMG)		
Audit of Financial Statements	129,851	127,022
Other Services	28,500	-
Directors' Fees	472,000	463,000
Directors' Expenses	4,383	5,441

Other services are in relation to advice on operational tax matters such as transfer pricing, as well as a share registry audit.

5. PERSONNEL EXPENSES

	GROUP 2017 ($)	GROUP 2016 ($)
Wages and Salaries	36,537,252	34,661,261
Superannuation Contributions and Other Employee Related Expenses	3,825,325	3,331,299
Increase in Liability for Short-term Employee Benefits (Annual Leave and Days in Lieu)	135,707	581,851
	40,498,284	**38,574,411**

Personnel expenses are included in cost of sales, sales & marketing expenses and administration expenses.

Policy
Employee Benefits

- Defined Contribution Plans
  Obligations for contributions to defined contribution pension plans are recognised as an expense in profit or loss when they are due.
- Short-term Benefits
  Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

6. FINANCE INCOME AND EXPENSE

	GROUP	
	2017 ($)	2016 ($)
Recognised in Profit or Loss		
Interest Income	105,500	54,460
Net Foreign Exchange Gain	3,744,606	-
Net Change in Fair Value of Derivatives	1,469,477	4,328,812
Total Finance Income	5,319,583	4,383,272
Net Foreign Exchange Loss	-	(14,165,286)
Financial Overheads	(30,657)	(36,743)
Net Change in Fair Value of Derivatives	-	-
Interest Expense on External Borrowings	(3,829,358)	(3,986,554)
Total Finance Expenses	(3,860,015)	(18,188,583)
Net Finance Income/(Expenses)	**1,459,568**	**(13,805,311)**

Policy

(a) Finance Income and Expenses

Interest income is recognised as it accrues, using the effective interest method.

All borrowing costs are recognised in profit or loss using the effective interest method, except for those that are directly attributable to the acquisition, construction or production of a qualifying asset, in which case they are capitalised as part of the cost of that asset.

(b) Foreign Currency Transactions

Transactions in foreign currencies are translated to NZD at exchange rates at the dates of the transactions. Foreign currency differences arising on translation are recognised in profit or loss.

7. INCOME TAX EXPENSE

	GROUP	
	2017 ($)	2016 ($)
Income Tax Recognised in Profit or Loss		
Current Tax Expense		
Current Period	1,222,019	918,841
Adjustment for Prior Periods	(96,584)	(203,043)
	1,125,435	715,798
Deferred Tax Expense		
Origination and Reversal of Temporary Differences	780,612	(287,845)
Adjustment for Prior Periods	97,271	41,349
	877,883	(246,496)
Total Income Tax Expense	**2,003,318**	**469,302**

7. INCOME TAX EXPENSE (CONTINUED)

	GROUP		GROUP	
	2017 (%)	2017 ($)	2016 (%)	2016 ($)
Reconciliation of Effective Tax Rate				
Profit for the Period		5,562,029		1,601,673
Total Income Tax Expense		2,003,318		469,302
Profit Excluding Income Tax		7,565,347		2,070,975
Income Tax Using the Group's Domestic Tax Rate	28.0%	2,118,298	28.0%	579,874
Impact of Tax Rate in Foreign Countries	(0.2%)	(18,740)	2.8%	57,123
Tax Exempt Income	(0.2%)	(16,800)	0.0%	-
Non-deductible Expenses	(1.1%)	(80,033)	(0.3%)	(5,745)
Tax Credits Converted to Losses	(0.0%)	(92)	(0.0%)	(255)
Under/(Over) Provided in Prior Periods	0.0%	685	(7.8%)	(161,695)
	26.5%	**2,003,318**	**22.7%**	**469,302**

	GROUP	
	2017 ($)	2016 ($)
Income Tax Recognised Directly in Other Comprehensive Income		
Derivatives	(3,167,891)	(5,303,056)
Total Income Tax Recognised Directly in Other Comprehensive Income	**(3,167,891)**	**(5,303,056)**

	GROUP	
	2017 ($)	2016 ($)
Imputation Credits		
Imputation Credits Available for use in Subsequent Reporting Periods	**22,620,804**	**22,003,716**

Policy

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly in equity or in other comprehensive income, in which case it is recognised in equity or in other comprehensive income.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

8. DEFERRED TAX ASSETS AND LIABILITIES

Recognised Deferred Tax Assets and Liabilities – GROUP

	Assets		Liabilities		Net	
	2017 ($)	2016 ($)	2017 ($)	2016 ($)	2017 ($)	2016 ($)
Deferred tax assets and liabilities are attributable to the following:						
Property, Plant and Equipment	1,195,703	885,688	-	-	1,195,703	885,688
Investment Property	-	-	(81,014)	(81,014)	(81,014)	(81,014)
Derivatives	-	-	(3,658,974)	(491,083)	(3,658,974)	(491,083)
Inventory	443,907	1,243,159	-	-	443,907	1,243,159
Provisions & Accruals	1,134,750	1,514,925	-	-	1,134,750	1,514,925
Other items	-	4,734	(3,736)	-	(3,736)	4,734
Tax Assets /(Liabilities)	**2,774,360**	**3,648,506**	**(3,743,724)**	**(572,097)**	**(969,365)**	**3,076,409**

Movement in Temporary Differences During The Year

	Balance 1 August 2015 ($)	Recognised in Profit or Loss ($)	Recognised in Other Comprehensive Income ($)	Balance 31 July 2016 ($)	Recognised in Profit or Loss ($)	Recognised in Other Comprehensive Income ($)	Balance 31 July 2017 ($)
Deferred tax assets and liabilities are attributable to the following:							
Property, Plant and Equipment	822,951	62,737	-	885,688	310,015		1,195,703
Investment Property	(81,014)	-	-	(81,014)			(81,014)
Derivatives	4,811,973	-	(5,303,056)	(491,083)		(3,167,891)	(3,658,974)
Inventory	1,065,526	177,633	-	1,243,159	(799,252)		443,907
Provisions & Accruals	1,516,010	(1,085)	-	1,514,925	(380,175)		1,134,750
Other Items	(2,477)	7,211	-	4,734	(8,470)		(3,736)
Tax Assets /(Liabilities)	**8,132,969**	**246,496**	**(5,303,056)**	**3,076,409**	**(877,882)**	**(3,167,891)**	**(969,365)**

Policy

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which temporary differences can be utilised based on the ability of the company to record taxable profits through retentions or through the reclassification of payout. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

9. PROPERTY, PLANT & EQUIPMENT

GROUP	Land & Improvements ($)	Buildings ($)	Plant & Equipment ($)	Vehicles ($)	Capital Work In Progress ($)	Total ($)
Cost or Deemed Cost						
Balance at 1 August 2015	15,964,348	28,625,982	121,731,140	3,441,354	67,116,150	236,878,974
Additions	1,851,378	21,058,912	44,816,323	594,183	(60,157,073)	8,163,723
Revaluation of Land & Improvements to Fair Value	1,292,500	-	-	-	-	1,292,500
Disposals	-	-	(13,774)	(365,281)	-	(379,055)
Balance at 31 July 2016	19,108,226	49,684,894	166,533,689	3,670,256	6,959,077	245,956,142
Balance at 1 August 2016	19,108,226	49,684,894	166,533,689	3,670,256	6,959,077	245,956,142
Additions	82,435	177,961	3,841,310	102,251	6,718,996	10,922,953
Revaluation of Land & Improvements to Fair Value		-	-	-	-	-
Disposals	-	(20,014)	(701,691)	(471,084)	-	(1,192,789)
Effect of Movement in Exchange Rates	-	-	-	-	-	-
Balance at 31 July 2017	19,190,661	49,842,841	169,673,308	3,301,423	13,678,073	255,686,306
Depreciation and Impairment Losses						
Balance at 1 August 2015	1,025,544	12,039,677	93,934,958	2,851,658	-	109,851,837
Depreciation	205,542	1,316,042	9,268,924	200,440	-	10,990,948
Disposals	-	-	(803)	(181,053)	-	(181,856)
Balance at 31 July 2016	1,231,086	13,355,719	103,203,079	2,871,045	-	120,660,929
Balance at 1 August 2016	1,231,086	13,355,719	103,203,079	2,871,045	-	120,660,929
Depreciation	177,496	1,294,974	9,574,372	183,866	-	11,230,708
Disposals	-	(17,659)	(618,733)	(299,261)	-	(935,653)
Effect of Movement in Exchange Rates	-	-	-	-	-	-
Balance at 31 July 2017	1,408,582	14,633,034	112,158,718	2,755,650	-	130,955,984
Carrying Amounts						
At 1 August 2015	14,938,804	16,586,305	27,796,182	589,696	67,116,150	127,027,137
At 31 July 2016	**17,877,140**	**36,329,175**	**63,330,610**	**799,211**	**6,959,077**	**125,295,213**
At 1 August 2016	17,877,140	36,329,175	63,330,610	799,211	6,959,077	125,295,213
At 31 July 2017	**17,782,079**	**35,209,807**	**57,514,590**	**545,773**	**13,678,073**	**124,730,322**

Policy

(a) Recognition and Measurement for Assets at Cost

Items of property, plant and equipment (except land and improvements) are measured at cost less accumulated depreciation and impairment losses. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of the asset. Borrowing costs capitalised during the year were nil (2016: nil).

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

(b) Depreciation

Depreciation is recognised in profit and loss on a straight line basis over the estimated useful lives of the items of plant, property and equipment. Land is not depreciated. Depreciation is recognised as part of other cost of sales in the Profit or Loss. Depreciation methods, useful lives and residual values are reassessed at the reporting date.

The Group has established the following useful lives:

- Land improvements – 10 to 20 years
- Buildings – 3 to 40 years
- Plant and equipment – 2 to 20 years
- Vehicles – 3 to 5 years

9. PROPERTY, PLANT & EQUIPMENT (CONTINUED)

(c) Impairment

At each reporting date, the Group reviews its assets to determine whether there is any indication of impairment. If any such indication exists, the recoverable amount of the asset (or any cash generating unit it belongs to) is estimated in order to determine the extent of the impairment loss (if any).

Recoverable amount is the higher of fair value less costs to sell and value in use (estimated future cashflows).

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised in the Statement of Comprehensive Income immediately.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount (other than goodwill). An impairment loss is reversed only to the extent that the assets carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(d) Recognition and Measurement for Assets at Fair Value

Land and improvements are stated at their fair value. The fair value of land within property, plant and equipment is based on market values determined by an independent valuer.

The last revaluation was undertaken as at 31 July 2016 by Fergusson Lockwood and Associates Ltd, independent registered valuers. The land and improvements were valued at $15.374m, an increase of $1.292m from the 2015 year. The valuation established a market value and was undertaken in accordance with the Property Institute of New Zealand (PINZ) International Valuation Standards. Market value is the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arms length transaction.

The value of the land and improvements at cost is $5,305,121 (2016: $5,282,686).

Any gain on remeasurement is recognised in other comprehensive income and held in equity, any loss is recognised in profit and loss, unless there is a credit balance existing in the revaluation surplus.

The Board determined that a third party valuation of land and improvements as at 31 July 2017 was not required. This was after performing an analysis on current industry data which demonstrated that land prices had not changed materially. Therefore the current value of land and land improvements approximated fair value.

Capital Commitments

During the period ended 31 July 2017, the Group entered into contracts to purchase plant and equipment. The balance outstanding at balance date is $4,284,506 (2016: $3,057,840). These commitments are expected to be settled in the following financial year.

10. INTANGIBLE ASSETS

	GROUP
	Software ($)
Cost	
Balance at 1 August 2015	2,524,728
Additions	334,758
Disposals	-
Balance at 31 July 2016	2,859,486
Balance at 1 August 2016	2,859,486
Additions	5,883,194
Disposals	-
Balance at 31 July 2017	8,742,680
Amortisation and Impairment Losses	
Balance at 1 August 2015	2,040,106
Amortisation for the Year	204,703
Disposals	-
Balance at 31 July 2016	2,244,809
Balance at 1 August 2016	2,244,809
Amortisation for the Year	261,405
Disposals	-
Balance at 31 July 2017	2,506,214
Carrying Amounts	
At 1 August 2015	484,622
At 31 July 2016	**614,677**
At 1 August 2016	614,677
At 31 July 2017	**6,236,466**

Policy

(a) Recognition and Measurement

Intangible assets that are acquired by the Group which have finite useful lives are measured at cost less accumulated amortisation and accumulated impairment losses.

(b) Amortisation

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets from the date that they are available for use. The amortisation is recognised as part of administration expenses in the Profit or Loss. The estimated useful lives for the current and comparative periods are as follows:

- Software – 2.5 to 5 years
- Resource Consent – 15 years

11. BIOLOGICAL ASSETS

	GROUP 2017 ($)	GROUP 2016 ($)
Balance at 1 August	898,497	890,835
Increase due to Acquisitions	27,500	33,570
Decrease due to Sales	(747,360)	(205,190)
Net Increase due to Births/(Deaths)	3,625	(6,667)
Change in Fair Value due to Class Movements	(25,350)	156,813
Change in Fair Value less Estimated Point-of-sale Costs	(19,787)	29,136
Balance at 31 July	**137,125**	**898,497**
Non-current	-	-
Current	137,125	898,497
	137,125	**898,497**

As at 31 July 2017, livestock held comprised 143 cows, heifers and calves (2016: 760). This livestock is farmed on Tatua's dairy farm. Milk production from this farm was 163,113 kilograms milksolids (2016: 180,093).

The Group is exposed to a number of risks related to its livestock:

The Group's livestock and related milk production is exposed to the risk of damage from climatic changes, diseases and other natural forces. The Group has standard animal husbandry processes in place aimed at monitoring and mitigating those risks.

Livestock is categorised within level 2 of the fair value hierarchy.

Policy
Biological assets are measured at fair value less point-of-sale costs, with any change therein recognised in profit or loss. Point-of-sale costs include all costs that would be necessary to sell the assets. An independent valuation is used to obtain the fair value of these assets. The fair value of livestock is based on the market price of livestock of similar age, breed and genetic make-up, and is determined by NZ Farmers Livestock Ltd.

12. INVESTMENT PROPERTY

	GROUP 2017 ($)	GROUP 2016 ($)
Balance at 1 August	1,175,000	1,175,000
Change in Fair Value	-	-
Balance at 31 July	**1,175,000**	**1,175,000**

Policy
Investment property is held either to earn rental income or for capital appreciation or for both. Investment property is measured at fair value with any change therein recognised in profit or loss.

Investment property comprises the AgCentral land and buildings that are leased to PGG Wrightsons Ltd. The lease was renegotiated in 2017 for a further three year term ending on 31st March 2020.

The fair values are based on market values, being the estimated amount for which a property could be exchanged on the date of the valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

The Investment Property was valued on 31 July 2017 by management. There was no material change in fair value.

Investment property is categorised within level 2 of the fair value hierarchy.

13. INVENTORIES

	GROUP	
	2017 ($)	2016 ($)
Finished Goods	36,898,556	38,190,705
Raw Materials	12,940,461	11,610,242
	49,839,017	**49,800,947**

Policy

Inventories are measured at the lower of cost or net realisable value. The cost of inventories is based on weighted average cost, and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. Shareholder supplied milk included within inventories is valued at the price determined under the Dairy Industry Restructuring Act 2001 (DIRA) .

Impairment

Inventories are reviewed for impairment based on their age and/or condition. If any impairment exists the asset is written down to its net realisable value (if any).

There was a write down of $421,569 during the period (2016: $0) relating to inventory that had a net realisable value less than its cost of manufacture.

	GROUP	
	2017	2016
Inventory valued at net realisable value included in finished goods above:	5,612,525	-

14. RECEIVABLES & PREPAYMENTS

	GROUP	
	2017 ($)	2016 ($)
Trade Receivables	40,576,258	34,890,721
Prepayments and Sundries	2,944,451	2,233,619
	43,520,709	**37,124,340**

GROUP					
Trade Receivables Denominated in Foreign Currencies	USD ($)	AUD ($)	JPY (¥)	EUR (€)	CNY (¥)
2017	12,391,795	3,819,245	738,528,619	126,400	32,847,405
2016	7,554,540	2,345,935	1,012,885,408	40,000	21,318,928

Policy

The recoverable amount of the Group's receivables carried at amortised cost is calculated as the present value of estimated future cashflows. Since all receivables are current they are not discounted.

Trade Receivables are classed as a loans and receivables financial asset.

15. CASH & CASH EQUIVALENTS

Cash and cash equivalents comprise cash balances. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Cash and cash equivalents are classified as loans and receivables or other non-derivative financial liabilities.

	GROUP	
	2017 ($)	2016 ($)
JPY Bank Deposits	2,215,628	1,897,297
USD Bank Deposits	1,687,269	639,143
CNY Bank Deposits	2,849,178	7,504,869
NZD Bank Deposits	212,601	685,211
Bank Deposits	6,964,676	10,726,520
Bank Overdrafts Used for Cash Management Purposes	(39,269)	-
Cash and Cash Equivalents in the Statement of Cash Flows	**6,925,407**	**10,726,520**

16. MEMBERS FUNDS

Voting Rights – Under the Company Constitution, voting may take place by show of hands, voice or poll. On a poll, one vote may be cast for every whole 1,000kg of qualifying milksolids supplied. No shareholder shall cast votes exceeding 5% of the total votes which could be cast if all shareholders were present and voting.

Redemption Features – Shares are redeemed at nominal value of 50 cents, or paid up value if lower.

Policy
Shares in the co-operative are held in proportion to the current or expected milk supply. The share standard is ten 50 cent shares for every kilogram of qualifying milksolids. Shares are issued or redeemed annually to ensure compliance with the share standard. Due to their redemption nature, shares are classified as a liability in the balance sheet. When the group performs a bonus share issue, with new shares issued at the same rate as existing shares, retained earnings is decreased to match the increase in co-operative shares.

Movements in the Company's Issued Shares were as follows:

	2017 Shares	2017 ($)	2016 Shares	2016 ($)
Shares at the beginning of the Year	151,837,339	75,918,670	152,309,895	76,154,948
Shares Issued	2,273,470	1,136,735	4,581,594	2,290,797
Shares Repurchased	(8,963,862)	(4,481,931)	(5,054,150)	(2,527,075)
Fully Paid Shares at the end of the Year	**145,146,947**	**72,573,474**	**151,837,339**	**75,918,670**
Treasury Stock	7,162,948		472,556	

Reserves

Translation Reserve
The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations.

Hedging Reserve
The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred.

Revaluation Reserve
The revaluation reserve relates to the revaluation of land and improvements.

Retained Earnings
All retained earnings are attributable to equity holders of the Company.

17. LOANS & BORROWINGS

Interest-bearing borrowings are classified as other non-derivative financial liabilities and are measured at amortised cost using the effective interest rate.

	GROUP	
	2017 ($)	2016 ($)
Current		
JPY Bank Loans	6,130,200	9,510,870
NZD Bank Loans	3,900,000	35,000,000
	10,030,200	**44,510,870**
Non Current		
JPY Bank Loans	-	-
NZD Bank Loans	66,000,000	31,000,000
	66,000,000	31,000,000
Total	**76,030,200**	**75,510,870**

2017	Currency	Nominal Interest Rate	Year of Maturity	Face Value	Carrying Amount (NZD)
Current Bank Loans	JPY	1.11%	2018	¥510,000,000	$6,130,200
	NZD	3.3%	2018	$3,900,000	$3,900,000
Non Current Bank Loans	NZD	2.72%	2019	$31,000,000	$31,000,000
	NZD	2.97%	2020	$35,000,000	$35,000,000

2016	Currency	Nominal Interest Rate	Year of Maturity	Face Value	Carrying Amount (NZD)
Current Bank Loans	JPY	1.00%	2017	¥700,000,000	$9,510,870
	NZD	3.12%	2017	$35,000,000	$35,000,000
Non Current Bank Loans	NZD	4.33%	2019	$31,000,000	$31,000,000

The Group's bank loans are secured by registered first mortgages, preferred security interest in all present and after acquired property, and an interlocking guarantee from companies within the Group. The Group's borrowings are subject to various covenants such as minimum equity, interest cover ratio and gearing ratio and the Group was in compliance with the various covenants.

The Group has committed (but undrawn) facilities with expiry dates through to 2020 of NZD $35.1 million, JPY ¥200 million.

18 ACCOUNTS PAYABLE & ACCRUALS

	GROUP	
	2017 ($)	2016 ($)
Trade Payables	10,786,142	5,495,816
Employee Entitlements	6,049,153	5,913,446
Income in Advance	-	381,016
Accruals	7,134,926	8,701,696
	23,970,221	**20,491,974**

Policy

Trade payables and accruals – Trade payables are recognised at cost and classed as other amortised cost financial liabilities.

Employee entitlements – Employee benefits which remain unused at balance date, and amounts expected to be paid under short-term cash bonus plans are accrued for.

19 DERIVATIVES

Interest Rate Hedges

The Group has a policy of monitoring interest rate movements and where appropriate taking out interest rate cover. The Group currently has a number of interest rate swaps in place.

	GROUP	
Interest Rate Swaps	2017 ($)	2016 ($)
Notional Contract Amount	47,000,000	54,000,000
Fair Value		
Assets	-	-
Liabilities	(1,175,295)	(2,163,434)
Net Fair Value	**(1,175,295)**	**(2,163,434)**

2017	Less than 12 Months	More than 12 Months	Total
Interest Rate Hedges	15,000,000	32,000,000	47,000,000

2016	Less than 12 Months	More than 12 Months	Total
Interest Rate Hedges	12,000,000	42,000,000	54,000,000

Foreign Currency Hedges

The Group and Parent's foreign exchange rate contracts and options notional amounts and fair values are presented below.

2017		Less than 12 Months	More than 12 Months	Total
Foreign Exchange Contracts:				
	Buy	106,779,711	28,801,887	135,581,598
	Sell	-	-	-
Option Contracts:				
	Call	62,992,206	33,446,889	96,439,095
	Put	(67,133,473)	(36,153,597)	(103,287,070)

2016		Less than 12 Months	More than 12 Months	Total
Foreign Exchange Contracts:				
	Buy	123,631,025	47,428,214	171,059,239
	Sell	-	-	-
Option Contracts:				
	Call	34,312,034	12,763,903	47,075,937
	Put	(36,896,519)	(13,853,081)	(50,749,600)

Fair Value	2017 ($)	2016 ($)
Assets	16,796,500	9,276,409
Liabilities	(1,071,961)	(5,347,102)
Net Fair Value	**15,724,539**	**3,929,307**

19 DERIVATIVES (CONTINUED)

Interest Rates Used for Determining Fair Value

The Group uses the government yield curve as of 31 July 2017 plus an appropriate credit spread to discount financial instruments. The interest rates for determining fair values are as described in note 17.

Policy

Derivatives are recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each balance sheet date. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

The groups derivatives are classified as being within Level 2 of the fair value hierachy. The fair value of forward exchange and option contracts is determined using forward exchange rates at balance sheet date, with the resulting value discounted back to present value. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves.

Hedge Accounting

All derivatives are classified as cash flow hedges.

The effective portion of changes in the fair value of the hedging instruments are recognised in other comprehensive income. The following are recognised in profit or loss:

- any gain or loss relating to the ineffective portion of the hedging instrument; and
- fair value changes in the hedging instrument previously accumulated in other comprehensive income, in the periods when the hedged item is recognised in profit or loss.

Once hedging is discontinued, any cumulative gain or loss previously recognised in other comprehensive income is recognised in profit or loss either:

- at the same time as the forecast transaction; or
- immediately if the transaction is no longer expected to occur

Offsetting of Financial Assets and Liabilities

The Group enters into derivative transactions under International Swaps and Derivatives Association (ISDA) master netting agreements. In certain circumstances – e.g. when a credit event such as a default occurs, all outstanding transactions under the agreement are terminated, the termination value is assessed and only a single net amount is payable in settlement of all transactions. The ISDA agreements do not meet the criteria for offsetting in the statement of financial position. This is because the Group does not have any currently legally enforceable right to offset recognised amounts, because the right to offset is enforceable only on the occurrence of future events such as a default on bank loans or other credit events. The following table sets out the carrying amounts of recognised financial instruments that are subject to the above agreements.

GROUP	Financial Assets / (Liabilities) Presented	Amounts Not Offset	Net
2017			
Derivative Financial Assets	16,796,500	(2,247,256)	14,549,244
Derivative Financial Liabilities	(2,247,256)	2,247,256	-
	14,549,244	**-**	**14,549,244**
2016			
Derivative Financial Assets	9,276,409	(7,510,536)	1,765,873
Derivative Financial Liabilities	(7,510,536)	7,510,536	-
	1,765,873	**-**	**1,765,873**

20 FINANCIAL RISK MANAGEMENT

Capital Management

The Group's members funds includes co-operative shares, reserves and retained earnings. The Group's policy is to maintain a strong members funds base so as to maintain shareholder, creditor and market confidence and to sustain future development of the business.

The Group's objective is to provide returns for shareholders and to maintain an optimal capital structure to reduce the cost of capital. The Group distributes its surplus by way of payout. However, in order to retain or modify the capital structure, the Group may decide to retain profits within the business.

The Board primarily monitors capital on the basis of the gearing ratio. For the period ending 31 July 2017 the gearing ratio was 35% (2016: 36%). This ratio is calculated as net interest bearing debt divided by total capital. Net interest bearing debt is calculated as total borrowings less cash and cash equivalents. Total capital is calculated as members' funds plus net interest bearing debt. Tatua is a co-operative company, and as such, members' funds change in proportion to milk supplied. Refer to Note 16. The Group is required to meet certain ratios under its bank covenants, which have been met, including a requirement that Group members funds be not less than $70,000,000 (2016:$70,000,000), but otherwise the Group is not subject to any externally imposed capital requirements.

There have been no material changes in the Group's management of capital during the period.

Quantitative Disclosures

Exposure to credit, liquidity, foreign currency and interest rate risks arises in the normal course of the Group's business.

(a) Credit Risk

The Group's exposure to credit risk is mainly influenced by its customer base. There is no risk concentration either geographically or by sector.

Tatua has a credit policy under which each customer is assessed for credit worthiness and assigned a credit limit. Where available the Group reviews external credit reports for both country and customer risk. Credit limits are reviewed on a regular basis. The Group's credit policy requires certain risk mitigations such as insurance, letters of credit or prepayment depending on the country and/or customer.

The Group does not require collateral for trade and other receivables. However, where practicable, purchase money security interests over New Zealand-based customers are registered on the Personal Property and Securities Register.

The carrying amount of financial assets represents the Group's maximum credit exposure. The Group has not renegotiated the terms of any financial assets which would result in the carrying amount no longer being past due or avoid a possible past due status. The Group's maximum exposure to credit risk for trade and other receivables, by geographic region, is as follows:

	GROUP	
	Carrying Amount 2017 ($)	Carrying Amount 2016 ($)
Australasia (NZ and AUS)	8,689,016	7,190,275
Asia/ Pacific	22,095,727	21,144,827
Americas/Europe	9,667,201	6,011,619
Other	124,314	544,000
	40,576,258	**34,890,721**

The status of Group trade receivables at the reporting date is as follows:

	Gross Receivable 2017 ($)	Impairment 2017 ($)	Gross Receivable 2016 ($)	Impairment 2016 ($)
Not Past Due	37,291,817	-	33,679,175	-
Past Due 0-30 days	3,128,120	-	1,092,800	-
Past Due 31-120 days	156,321	-	118,746	-
	40,576,258	**-**	**34,890,721**	**-**

20 FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Liquidity Risk

Liquidity risk represents the Group's ability to meet its contractual obligations. The Group evaluates its liquidity requirements on an ongoing basis. In general, the Group generates sufficient cash flows from its operating activities to meet its obligations arising from financial liabilities and has credit lines in place to cover any timing differences.

The following table sets out the contractual cash flows for all financial liabilities that are settled on a gross cash flow basis.

GROUP	2017 Balance Sheet ($)	Contractual Cash Flows ($)	Less than 6 Months ($)	6-12 Months ($)	1-2 Years ($)	More Than 2 Years ($)
Loans & Borrowings (note 17)	76,030,200	76,030,200	-	10,030,200	31,000,000	35,000,000
Accounts Payable & Accruals (note 18)	23,970,221	23,970,221	23,970,221	-	-	-
Owing to Suppliers	19,404,831	19,404,831	19,404,831	-	-	-
Co-operative Shares	72,583,474	72,583,474	-	72,583,474	-	-
Total Non-derivative Liabilities	**191,988,726**	**191,988,726**	**43,375,052**	**82,613,674**	**31,000,000**	**35,000,000**

GROUP	2016 Balance Sheet ($)	Contractual Cash Flows ($)	Less than 6 Months ($)	6-12 Months ($)	1-2 Years ($)	More Than 2 Years ($)
Loans & Borrowings (note 17)	75,510,870	75,510,870	2,717,392	41,793,478	-	31,000,000
Accounts Payable & Accruals (note 18)	20,491,974	20,491,974	20,491,974	-	-	-
Owing to Suppliers	18,172,672	18,172,672	18,172,672	-	-	-
Co-operative Shares	75,928,670	75,928,670	-	75,928,670	-	-
Total Non-derivative Liabilities	**190,104,186**	**190,104,186**	**41,382,038**	**117,722,148**	**-**	**31,000,000**

20 FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Foreign Currency Exchange Risk

The Group is exposed to foreign currency risk predominantly on sales that are denominated in a currency other than the Group's functional currency. The New Zealand dollar ($) is the presentation currency of the Group. The currencies in which transactions are primarily denominated are United States dollars, Japanese Yen and Australian dollars.

The Group has a policy of maintaining a level of foreign currency hedging that allows for a degree of certainty in its future cash flows and to help protect it against sudden increases in the value of the New Zealand dollar against the United States dollar, Japanese yen and Australian dollar.

The Group uses forward exchange contracts and currency options to hedge its foreign currency exposure. All of the forward exchange contracts and options have maturities of less than two years at balance date.

The Group classifies its forward exchange and option contracts, which are hedging forecast transactions, as cash flow hedges.

The Group's exposure to foreign currency risk can be summarised as follows:

2017	USD ($)	AUD ($)	JPY (¥)
Net Cash Flow Exposure Before Hedging	134,100,000	20,300,000	3,953,000,000
less Foreign Exchange Contracts and Options (next 12 months)	(82,500,000)	(9,000,000)	(3,100,000,000)
Net Unhedged Exposure	51,600,000	11,300,000	853,000,000

2016	USD ($)	AUD ($)	JPY (¥)
Net Cash Flow Exposure Before Hedging	106,500,000	20,600,000	3,612,000,000
less Foreign Exchange Contracts and Options (next 12 months)	(75,000,000)	(10,000,000)	(2,900,000,000)
Net Unhedged Exposure	31,500,000	10,600,000	712,000,000

(d) Interest Rate Risk – Repricing Analysis

Interest rate risk is the risk that the value of the Group's assets and liabilities will fluctuate due to changes in market interest rates. The Group is exposed to interest rate risk primarily through its cash balances and advances, bank overdraft and borrowings. Interest rate swaps have been entered into to achieve an appropriate mix of fixed and floating rate exposure within the Group's policy.

Variable Rate Instruments (also refer note 17).

2017	Total ($)	6 Months or Less ($)	6-12 Months ($)	1-2 Years ($)	More Than 2 Years ($)
Cash and Cash Equivalents	6,925,407	6,925,407	-	-	-
NZD Bank Loans	(69,900,000)	-	(3,900,000)	(31,000,000)	(35,000,000)
JPY Bank Loans	(6,130,200)		(6,130,200)	-	-
Total	**(69,104,793)**	**6,925,407**	**(10,030,200)**	**(31,000,000)**	**(35,000,000)**

2016	Total ($)	6 Months or Less ($)	6-12 Months ($)	1-2 Years ($)	More Than 2 Years ($)
Cash and Cash Equivalents	10,726,520	10,726,520	-	-	-
NZD Bank Loans	(66,000,000)	-	(35,000,000)	-	(31,000,000)
JPY Bank Loans	(9,510,870)	(2,717,392)	(6,793,478)	-	-
Total	**(64,784,350)**	**8,009,128**	**(41,793,478)**	**-**	**(31,000,000)**

20 FINANCIAL RISK MANAGEMENT (CONTINUED)

(e) Sensitivity Analysis

In managing interest rate and currency risks the Group aims to reduce the impact of short-term fluctuations on the Group's earnings. Over the longer-term, however, permanent changes in foreign exchange and interest rates will have an impact on profit.

Interest Rates:

At 31 July it is estimated that a general increase of one percentage point in NZ interest rates would decrease Group profit before income tax by approximately $503,000 (2016: $548,000). Interest rate swaps have been included in this calculation.

Foreign Exchange Rates:

The Group has a foreign exchange policy to mitigate the risk associated with the fluctuations in the value of the New Zealand Dollar. At 31 July it is estimated that a general increase of one cent in the NZD/USD exchange rate would decrease the Group's profit by $2,273,000 (2016: $695,000). Foreign exchange hedging has been included in this calculation.

21 LEASES

Operating Leases

Leases As Lessor

The Group leases out its investment property held under an operating lease. The future minimum lease payments under non-cancellable leases are as follows:

	GROUP	
	2017 ($)	2016 ($)
Less Than 1 Year	-	-
1 – 5 Years	(108,000)	(108,000)
More Than 5 Years	-	-
	(108,000)	**(108,000)**

During the year ended 31 July 2017, $135,781 was recognised as rental income in the income statement (2016: $146,148). Repairs and maintenance expenses, recognised in the cost of sales, was as follows:

	GROUP	
	Year Ended 31 July 2017	Year Ended 31 July 2016
Income Generating Property	7,407	14,404

22 RECONCILIATION OF CASH FLOWS FROM OPERATING ACTIVITIES

	GROUP	
	31 July 2017	31 July 2016
Profit / (Loss) For The Year	5,562,029	1,601,673
Adjustments for Non Cash Items:		
Depreciation	11,230,708	10,990,948
Amortisation of Intangible Assets	261,405	204,703
Movement in Deferred Tax	4,045,774	5,056,560
Movement in Investment	41,973	-
Movement in Livestock Valuation	14,012	(7,662)
	21,155,901	17,846,222
Movements in Working Capital:		
Trade and Other Receivables	(6,293,945)	(1,599,258)
Derivatives – Assets	(7,520,091)	(8,477,847)
Derivatives – Liabilities	(5,263,280)	(14,790,450)
Inventories	(38,070)	980,138
Biological Assets	747,375	-
Owing to Suppliers	1,232,159	877,231
Trade and Other Payables	4,146,454	(7,166,079)
	(12,989,398)	(30,176,265)
Items Classified as Investing / Financing Activities	6,018,149	13,707,639
Net Cash Flows From/(Applied to) Operating Activities	14,184,652	1,377,596

Items classified as Investing/Financing Activities relate to movements in the hedging reserve and translation reserve as well as amounts owing for the repurchase of shares.

23 RELATED PARTY TRANSACTIONS

Directors and Shareholders
Directors and Shareholders may conduct business with the Group in the normal course of their business.

Key Management Personnel

	GROUP	
Key management personnel compensation	Year Ended 31 July 2017	Year Ended 31 July 2016
Short Term Employee Benefits	1,875,507	1,923,639
Long Term Employee Benefits	-	-

Transactions and Balances with Key Management Personnel
Key management personnel may conduct business with the Group.

The aggregate value of transactions and outstanding balances relating to key management personnel and entities over which they have control or significant influence were as follows: Nil (2016: Nil).

Transactions and Balances with Other Related Parties
Elected directors conduct business with the Group in the normal course of their business activities.

The Group has paid directors fees of $473,000 (2016: $463,000) which is separately disclosed within the director's report.

The following entities are considered related parties because they have common directors:

- Tax Management NZ Ltd (Peter Schuyt) – During the year the group utilised the services of Tax Management Limited to make tax payments through to the IRD in the ordinary course of business.
- Foodstuffs North Island Ltd (Peter Schuyt) – Sales during the year (GST exclusive) $1,532,077 (2016: $1,405,694), Receivable at year end (GST inclusive) $252,107 (2016:$206,022).
- RML Engineering Ltd (Ross Townshend) – Amounts paid during the year (GST inclusive) $13,388 (2016: $5,239), Payable at year end (GST inclusive) $25,058 (2016:$Nil).

23 RELATED PARTY TRANSACTIONS (CONTINUED)

Directors Farm Supply (included in Owing to Suppliers)

	Value of Transactions 16/17	Balance Outstanding 31 July 2017	Value of Transactions 15/16	Balance Outstanding 31 July 2016
Directors' Farm Supply (including Owing to Suppliers)	6,908,412	1,071,293	6,911,808	1,205,667

24 GROUP ENTITIES

	Country Of Incorporation	Ownership Interest	
Subsidiaries		2017	2016
Tatua Japan Limited	Japan	100%	100%
Tatua USA Limited	USA	100%	100%
Tatua Dairy Products (Shanghai) Co., Ltd	China	100%	100%
Equity Accounted Investee			
Milktest New Zealand Limited	New Zealand	10%	10%

Policy

(a) Basis of Consolidation

Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power over the entity, exposure or rights to variable returns from its involvement with the entity, and the ability to use its power over the entity to affect the amount of the entity's return. In assessing control, potential voting rights are only considered if the rights are substantive. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Equity Accounted Investees (Joint Ventures)

Joint ventures are those arrangements in which the Group has contractually agreed to share control and where the Group has rights to the net assets rather than rights to the assets and obligations for the liabilities. Joint ventures are initially recognised at cost (including any goodwill identified on acquisition). Subsequent to initial recognition they are accounted for using the equity method in the consolidated financial statements.

The consolidated financial statements include the Group's share of the profit or loss after tax of joint ventures after adjustments to align the accounting policies of the Group, from the date that significant influence or joint control commences until the date that significant influence or joint control ceases.

Transactions Eliminated on Consolidation

Intra-group balances, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

(a) (b) Foreign Currency

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to New Zealand dollars at exchange rates at the reporting date. The income and expenses of foreign operations are translated to New Zealand dollars at exchange rates at the dates of the transactions.

Foreign currency differences are recognised in the foreign currency translation reserve (FCTR). When a foreign operation is disposed of, in part or in full, the relevant amount in the FCTR is transferred to profit or loss as part of the gain or loss on disposal.

25 SUBSEQUENT EVENTS

There were no material events subsequent to 31 July 2017 that would impact these financial statements.

TO THE SHAREHOLDERS OF THE TATUA CO-OPERATIVE DAIRY COMPANY LIMITED

Report on the consolidated financial statements

Opinion

In our opinion, the accompanying consolidated financial statements of The Tatua Co-operative Dairy Company Limited (the company) and its subsidiaries (the group) on pages 14 to 39:

i. present fairly in all material respects the Group's financial position as at 31 July 2017 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 July 2017;
- 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 other services to the group in relation to transfer pricing assistance and a share registry audit. 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.

Other information

The Directors, on behalf of the group, are responsible for the other information included in the entity's Annual Report. Other information includes the Chairman and Chief Executive Officer's report, Key Financial performance Summary 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.

In connection with our audit of the consolidated financial statements our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Use of this independent auditor's report

This 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 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:

https://www.xrb.govt.nz/Site/Auditing_Assurance_Standards/Current_Standards/Page5.aspx.

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

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

For and on behalf of

KPMG

KPMG
Hamilton
20 November 2017

STATISTICS

	2016/17	2015/16	2014/15	2013/14	2012/13
Milk Received from Suppliers					
Litres	166,517,809	173,184,398	173,353,171	147,647,758	140,723,652
Milksolids	14,968,366	15,568,586	15,663,949	13,223,427	12,523,609
Income Equivalent Payout (cents/kg ms)					
Made up of:					
Cash Payout	710.0	630.0	710.0	900.0	740.0
Imputation Credits	-	-	-	-	-
Total Income Equivalent Payout	**710.0**	**630.0**	**710.0**	**900.0**	**740.0**

Summary of Milk Payment Rates		2016/17 Cents / kg Fat	2016/17 Cents / kg Protein	2015/16 Cents / kg Fat	2015/16 Cents / kg Protein
Advance Rate	20 July	252.0	600.0	260.0	635.0
Retrospective Increase	20 December	27.0	64.0	-	-
Retrospective Increase	20 February	-	-	-	-
Retrospective Increase	20 March	19.0	46.0	9.0	22.0
Retrospective Increase	20 April	16.0	38.0	7.0	16.0
Retrospective Increase	20 May	16.0	38.0	6.0	16.0
Retrospective Increase	20 June	22.0	53.0	19.0	45.0
Retrospective Increase	20 July	22.0	52.0	19.0	45.0
Retrospective Increase	20 August	22.0	52.0	18.0	46.0
Retrospective Increase	20 September	22.0	53.0	19.0	45.0
Final Payment	20 October	25.2675	59.3988	30.5925	75.3475
Total Payout Averaged Over All Grades		**443.268**	**1,055.399**	**387.593**	**945.348**

PROGRESS

Year	No. of Suppliers	Milksolids From own Supply (Kg)	Payout Cents/kg ms (Income Equivalent)	Total Shareholders Funds $	Commodity Products (tonnes) Proteins	Powders	Cheese	AMF
2016/17	113	14,968,366	710.0	126,493,623	9,018			10,735
2015/16	113	15,568,586	630.0	116,869,514	9,645			10,194
2014/15	118	15,663,949	710.0	100,371,192	9,654			9,791
2013/14	109	13,223,427	900.0	106,167,944	7,408			9,535
2012/13	108	12,523,609	740.0	87,044,650	7,168			8,069
2011/12	109	13,186,565	750.0	76,825,363	8,037			9,469
2010/11	111	12,041,622	810.0	75,438,331	6,715			7,288
2005/06	121	12,237,952	459.1	50,988,615	6,718			8,364
2000/01	136	8,908,866	552.3	25,376,429	8,000			
1995/96	146	7,989,118	418.7	15,082,806	7,863			
1990/91	130	6,382,505	261.7	11,604,650	2,705			
1985/86	104	5,013,554	241.4	5,611,760	1,753			
1980/81	87	3,618,763	155.2	1,738,208	971	761		
1975/76	74	2,938,277	81.3	752,270	1,144	1,275		
1970/71	70	2,182,343	48.9	275,015	1,005	609		
1965/66	70	1,926,323	47.0	232,534	926			
1960/61	62	1,314,518	40.6	157,920	474			
1955/56	56	1,038,843	42.5	111,051	347			
1950/51	49	916,178	36.1	84,624	318			
1945/46	43	613,418	24.2	40,832		885		
1940/41	45	752,929	19.4	37,342		1,112		
1935/36	46	763,155	14.3	32,113			1,110	
1930/31	49	697,178	12.4	29,788			1,024	
1925/26	51	324,125	20.3	23,213			846	

Note: For the seasons to 1985/86 milkfat has been converted to “milksolids” using a factor of 1 kg milkfat = 1.74 kg milksolids

DIRECTORY

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Chairman	SB Allen, B.Com., Dip.P.E.
Directors	KM Old, B.M.S., M.B.A., Ph.D (Waikato) LE Cullen, B.Sc. (Hons), Ph.D (Lincoln), Dip. Man. DP Muggeridge PM Schuyt, B.Com., C.A., C.F. Inst.D. MBN Dewdney, B.M.S. RE Townshend, B.Tech (Massey), AMP (Harvard) BR Wilton, B.Agr.Sci.
Chief Executive Officer	BA Greaney, B.M.S.
General Manager Marketing & Sales	JT Powell, B.Sc., Dip. Dairy Sci. & Tech.
Acting General Manager Operations	G Russell, B.Soc.Sci
General Manager Finance & Corporate Administration	CJ Foster, B.M.S., C.A., Grad.Dip. Treas. & Fin. Mgmt.
Commercial and Technology Development Manager	Tim Winter
Human Resources Manager	Pier Pilkington, B.Soc.Sci
Supplier Services Manager	Paul van Boheemen, B.Sc., PG. Dip. Bus. Admin.
Company Secretary	JI Houghting
Auditors	KPMG (Hamilton)
Solicitors	Harkness Henry & Co
Bankers	Bank of New Zealand Ltd
Insurance Brokers	Willis Towers Watson Ltd

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